

- (4) Flextronics: We outsource certain manufacturing activities to Flextronics and are currently in the third year of the Master Supply Agreement. The term of this agreement is three years, with two additional one year extension periods at our option. The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
- (5) Fuji Xerox: The amount included in the table reflects our estimate of purchases over the next year and is not a contractual commitment.
- (6) EDS contract: We have an information management contract with Electronic Data Systems Corp. ("EDS") through March 2014. Services to be provided under this contract include support for European and Brazilian mainframe system processing and application maintenance through June 2010, as well as workplace and service desk and voice and data network management through March 2014. There are no minimum payments required under this contract. The amounts disclosed in the table reflect our estimate of probable minimum payments for the periods shown. We can terminate the contract for convenience with six months prior notice, as defined in the contract, with no termination fee and with payment to EDS for costs incurred as of the termination date. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the EDS contract.
- (7) IM (Information Management) services: During 2009 we terminated several agreements with EDS for information management services and entered into new agreements for similar services with several providers. Services to be provided under these contracts include support for data network transport; mainframe application processing, development and support; and mid-range applications processing and support. These contracts have various terms through 2015. Some of the contracts require minimum payments and include termination penalties. The amounts disclosed in this table reflect our estimate of probable minimum payments.

Pension and Other Post-retirement Benefit Plans

We sponsor pension and other post-retirement benefit plans that may require periodic cash contributions. Our 2009 contributions for these plans were \$122 million for pensions and \$107 million for our retiree health plans. We expect to make contributions of approximately \$260 million to our worldwide defined benefit pension plans and \$103 million to our retiree health benefit plans in 2010. Once the January 1, 2010 actuarial valuations are finalized for our U.S. qualified pension plans, we will reassess the need for additional contributions for these plans. No additional contributions were made in 2009, due to the ERISA funded status of our U.S. qualified pension plans and the availability of a credit balance that had resulted from funding in prior periods in excess of minimum requirements. In 2008, we made additional contributions above what was disclosed in the 2007 Annual Report of \$165 million to our U.S. qualified pension plans.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. Cash contributions are made each year to cover medical claims costs incurred in that year. The amounts reported in the above table as retiree health payments represent our estimated future benefit payments.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling \$1.6 billion, \$2.1 billion and \$1.9 billion in 2009, 2008 and 2007, respectively. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. Related party transactions with Fuji Xerox are discussed in Note 7 - Investments in Affiliates, at Equity in the Consolidated Financial Statements.

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Brazil Tax and Labor Contingencies

Our Brazilian operations were involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of December 31, 2009, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately \$1,225 million, with the increase from the December 31, 2008 balance of \$839 million primarily related to currency and current year interest indexation. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2009 we had \$240 million of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of \$19 million and additional letters of credit of approximately \$137 million. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 16 – Contingencies in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company. 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. Should developments in any of these areas 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.

Unrecognized Tax Benefits

As of December 31, 2009, we had \$148 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards, as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off-Balance Sheet Arrangements

Although we rarely utilize off-balance sheet arrangements in our operations, we enter into operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 6 - Land, Buildings and Equipment, Net in the Consolidated Financial Statements. In addition, we have facilities in the U.S., Canada and several countries in Europe that enable us to sell, on an on-going basis, certain short-term accounts receivable without recourse to third parties. Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further information.

Refer to Note 16 – Contingencies in the Consolidated Financial Statements for further information regarding our guarantees, indemnifications and warranty liabilities.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures, as well as reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for further discussion on our financial risk management.

Foreign Exchange Risk Management

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2009, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would not be significant because all material currency asset and liability exposures were economically hedged as of December 31, 2009. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2009 would have a \$689 million impact on our cumulative translation adjustment portion of equity. The net amount invested in foreign subsidiaries and affiliates primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox do Brasil, and translated into Dollars using the year-end exchange rates, was \$6.9 billion at December 31, 2009.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our total debt and liability to subsidiary trust issuing preferred securities for 2009, 2008 and 2007 approximated 6.1%, 6.6%, and 7.1%, respectively. Interest expense includes the impact of our interest rate derivatives.

Virtually all customer-financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2009, \$2.4 billion of our total debt carried variable interest rates, including the effect of pay variable interest rate swaps we are utilizing with the intent to reduce the effective interest rate on our fixed coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2009, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$274 million.

Non-GAAP Financial Measures

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

Adjusted Revenue

We discussed the revenue growth for the year ended December 31, 2008 using non-GAAP financial measures. To understand trends in the business, we believe that it is helpful to adjust the revenue growth rates to illustrate the impact of the acquisition of GIS by including their estimated revenue for the comparable 2007 period. We refer to this adjusted revenue as "As Adjusted" in the following reconciliation table. Revenue "As Adjusted" adds GIS's revenues from January 1, 2007 to May 8, 2007 to our 2007 reported revenue. Management believes these measures give investors an additional perspective on revenue trends, as well as the impact to the Company of the acquisition of GIS that was completed in May 2007.

	December 31,			
(in millions)	2008	2007		Change
Equipment Sales Revenue:				
As Reported	\$ 4,679	\$ 4,753		(2)%
As Adjusted	\$ 4,679	\$ 4,938		(5)%
Post Sale Revenue:				
As Reported	\$ 12,929	\$ 12,475		4%
As Adjusted	\$ 12,929	\$ 12,681		2%
Total Revenues:				
As Reported	\$ 17,608	\$ 17,228		2%
As Adjusted	\$ 17,608	\$ 17,619		—

Adjusted Effective Tax Rate

The effective tax rate for the year ended December 31, 2008 is discussed using a non-GAAP financial measure that excludes the effect of charges associated with an equipment write-off; restructuring and asset impairments; certain litigation matters and the settlement of certain previously unrecognized tax benefits. Management believes that it is helpful to exclude these effects to better understand, analyze and compare 2008's income tax expense and effective tax rate to the 2007 amounts given the discrete nature and size of these items in 2008.

(in millions)	Year Ended December 31, 2008		
	Pre-Tax Income	Income Taxes	Effective Tax Rate
As Reported	\$ (79)	\$ (231)	292.4%
Restructuring and asset impairment charges	426	134	
Equipment write-off	39	15	
Provision for securities litigation matters	774	283	
Tax settlements	—	41	
As Adjusted	\$ 1,160	\$ 242	20.9%

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current period results against the corresponding prior period results. However, non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Forward-Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). We do not intend to update these forward-looking statements, except as required by law.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per-share data)

	Year Ended December 31,		
	2009	2008	2007
Revenues			
Sales	\$ 6,646	\$ 8,325	\$ 8,192
Service, outsourcing and rentals	7,820	8,485	8,214
Finance income	713	798	822
Total Revenues	15,179	17,608	17,228
Costs and Expenses			
Cost of sales	4,395	5,519	5,254
Cost of service, outsourcing and rentals	4,488	4,929	4,707
Equipment financing interest	271	305	316
Research, development and engineering expenses	840	884	912
Selling, administrative and general expenses	4,149	4,534	4,312
Restructuring and asset impairment charges	(8)	429	(6)
Acquisition-related costs	72	—	—
Other expenses, net	345	1,087	265
Total Costs and Expenses	14,552	17,687	15,760
Income (Loss) before Income Taxes and Equity Income	627	(79)	1,468
Income tax expense (benefit)	152	(231)	400
Equity in net income of unconsolidated affiliates	41	113	97
Net Income	516	265	1,165
Less: Net income attributable to noncontrolling interests	31	35	30
Net Income Attributable to Xerox	\$ 485	\$ 230	\$ 1,135
Basic Earnings per Share	\$ 0.56	\$ 0.26	\$ 1.21
Diluted Earnings per Share	\$ 0.55	\$ 0.26	\$ 1.19

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

XEROX CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data in thousands)	December 31,	
	2009	2008
Assets		
Cash and cash equivalents	\$ 3,799	\$ 1,229
Accounts receivable, net	1,702	2,184
Billed portion of finance receivables, net	226	254
Finance receivables, net	2,396	2,461
Inventories	900	1,232
Other current assets	708	790
Total current assets	9,731	8,150
Finance receivables due after one year, net	4,405	4,563
Equipment on operating leases, net	551	594
Land, buildings and equipment, net	1,309	1,419
Investments in affiliates, at equity	1,056	1,080
Intangible assets, net	598	610
Goodwill	3,422	3,182
Deferred tax assets, long-term	1,640	1,692
Other long-term assets	1,320	1,157
Total Assets	\$ 24,032	\$ 22,447
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 988	\$ 1,610
Accounts payable	1,451	1,446
Accrued compensation and benefits costs	695	625
Other current liabilities	1,327	1,769
Total current liabilities	4,461	5,450
Long-term debt	8,276	6,774
Liability to subsidiary trust issuing preferred securities	649	648
Pension and other benefit liabilities	1,884	1,747
Post-retirement medical benefits	999	896
Other long-term liabilities	572	574
Total Liabilities	16,841	16,089
Common stock	871	866
Additional paid-in capital	2,493	2,447
Retained earnings	5,674	5,341
Accumulated other comprehensive loss	(1,988)	(2,416)
Xerox Shareholders' Equity	7,050	6,238
Noncontrolling interests	141	120
Total Equity	7,191	6,358
Total Liabilities and Equity	\$ 24,032	\$ 22,447
Shares of Common Stock Issued and Outstanding	869,381	864,777

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

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year Ended December 31,		
	2009	2008	2007
Cash Flows from Operating Activities:			
Net income	\$ 516	\$ 265	\$ 1,165
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	698	669	656
Provision for receivables	289	199	131
Provision for inventory	52	115	66
Deferred tax expense (benefit)	120	(324)	224
Net gain on sales of businesses and assets	(16)	(21)	(7)
Undistributed equity in net income of unconsolidated affiliates	(25)	(53)	(60)
Stock-based compensation	85	85	89
Provision for litigation, net	—	781	—
Payments for securities litigation, net	(28)	(615)	—
Restructuring and asset impairment charges	(8)	429	(6)
Payments for restructurings	(270)	(131)	(235)
Contributions to pension benefit plans	(122)	(299)	(298)
Decrease (increase) in accounts receivable and billed portion of finance receivables	467	57	(79)
Decrease (increase) in inventories	319	(114)	(43)
Increase in equipment on operating leases	(267)	(331)	(331)
Decrease in finance receivables	248	164	119
Decrease (increase) in other current and long-term assets	129	(8)	130
Increase in accounts payable and accrued compensation	157	211	285
(Decrease) increase in other current and long-term liabilities	(100)	(174)	38
Net change in income tax assets and liabilities	(18)	(92)	73
Net change in derivative assets and liabilities	(56)	230	(10)
Other operating, net	38	(104)	(36)
Net cash provided by operating activities	2,208	939	1,871
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(95)	(206)	(236)
Proceeds from sales of land, buildings and equipment	17	38	25
Cost of additions to internal use software	(98)	(129)	(123)
Acquisitions, net of cash acquired	(163)	(155)	(1,615)
Net change in escrow and other restricted investments	(6)	8	200
Other investing, net	2	3	137
Net cash used in investing activities	(343)	(441)	(1,612)
Cash Flows from Financing Activities:			
Net payments on secured financings	(57)	(227)	(1,869)
Net proceeds on other debt	923	926	1,814
Common stock dividends	(149)	(154)	—
Proceeds from issuances of common stock	1	6	65
Excess tax benefits from stock-based compensation	—	2	22
Payments to acquire treasury stock, including fees	—	(812)	(632)
Repurchases related to stock-based compensation	(12)	(33)	—
Other financing	(14)	(19)	(19)
Net cash provided by (used in) financing activities	692	(311)	(619)
Effect of exchange rate changes on cash and cash equivalents	13	(57)	60
Increase (decrease) in cash and cash equivalents	2,570	130	(300)
Cash and cash equivalents at beginning of year	1,229	1,099	1,399
Cash and Cash Equivalents at End of Year	\$ 3,799	\$ 1,229	\$ 1,099

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

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in millions)	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽¹⁾	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
Balance at December 31, 2006	\$ 956	\$ 3,710	\$ (141)	\$ 4,202	\$ (1,647)	\$ 7,080	\$ 108	\$ 7,188
Net income	—	—	—	1,135	—	1,135	30	1,165
Translation adjustments	—	—	—	—	501	501	1	502
Cumulative effect of change in accounting principles	—	—	—	(9)	—	(9)	—	(9)
Changes in defined benefit plans ⁽²⁾	—	—	—	—	382	382	—	382
Other unrealized losses	—	—	—	—	(1)	(1)	—	(1)
Comprehensive Income						\$ 2,008	\$ 31	\$ 2,039
Cash dividends declared on common stock ⁽³⁾	—	—	—	(40)	—	(40)	—	(40)
Stock option and incentive plans, net	7	165	—	—	—	172	—	172
Payments to acquire treasury stock	—	—	(632)	—	—	(632)	—	(632)
Cancellation of treasury stock	(43)	(699)	742	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(19)	(19)
Purchase of noncontrolling interests ⁽⁴⁾	—	—	—	—	—	—	(17)	(17)
Balance at December 31, 2007	\$ 920	\$ 3,176	\$ (31)	\$ 5,288	\$ (765)	\$ 8,588	\$ 103	\$ 8,691
Net income	—	—	—	230	—	230	35	265
Translation adjustments	—	—	—	—	(1,364)	(1,364)	(3)	(1,367)
Cumulative effect of change in accounting principles	—	—	—	(25)	—	(25)	—	(25)
Changes in defined benefit plans ⁽²⁾	—	—	—	—	(286)	(286)	—	(286)
Other unrealized losses, net	—	—	—	—	(1)	(1)	—	(1)
Comprehensive (Loss) Income						\$ (1,446)	\$ 32	\$ (1,414)
Cash dividends declared on common stock ⁽³⁾	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans, net	5	55	—	—	—	60	—	60
Payments to acquire treasury stock	—	—	(812)	—	—	(812)	—	(812)
Cancellation of treasury stock	(59)	(784)	843	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(15)	(15)
Balance at December 31, 2008	\$ 866	\$ 2,447	\$ —	\$ 5,341	\$ (2,416)	\$ 6,238	\$ 120	\$ 6,358
Net income	—	—	—	485	—	485	31	516
Translation adjustments	—	—	—	—	595	595	1	596
Changes in defined benefit plans ⁽²⁾	—	—	—	—	(169)	(169)	—	(169)
Other unrealized gains	—	—	—	—	2	2	—	2
Comprehensive Income						\$ 913	\$ 32	\$ 945
Cash dividends declared on common stock ⁽³⁾	—	—	—	(152)	—	(152)	—	(152)
Stock option and incentive plans, net	5	67	—	—	—	72	—	72
Tax loss on stock option and incentive plans, net	—	(21)	—	—	—	(21)	—	(21)
Distributions to noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Balance at December 31, 2009	\$ 871	\$ 2,493	\$ —	\$ 5,674	\$ (1,988)	\$ 7,050	\$ 141	\$ 7,191

(1) Refer to Note 1 "Accumulated Other Comprehensive Loss (AOCL)" section for additional information.

(2) Refer to Note 14 - Employee Benefit Plans for additional information.

(3) Cash dividends declared of \$0.0425 in the fourth quarter 2007 and in each of the four quarters in 2008 and 2009.

(4) Represents purchase of De Lage Landen's 51% ownership interest in our lease finance joint venture in the Netherlands.

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

Notes to the Consolidated Financial Statements

Dollars in millions, except per share data and unless otherwise indicated.

Note 1 – Summary of Significant Accounting Policies

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

Description of Business and Basis of Presentation

We are a technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income from the date such determination is made.

For convenience and ease of reference, we refer to the financial statement caption “Income (Loss) before Income Taxes and Equity Income” as “Pre-tax Income” or “Pre-tax Loss” throughout the Notes to the Consolidated Financial Statements.

In 2009, we changed the presentation of our financial statements for noncontrolling (minority) interests. Refer to “Business Combinations and Noncontrolling Interests” below for additional information.

Use of Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States of America, requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in leases and other multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) allowance for doubtful accounts; (v) inventory valuation; (vi) restructuring and related charges; (vii) asset impairments; (viii) depreciable lives of assets; (ix) useful lives of intangible assets; (x) pension and post-retirement benefit plans; (xi) income tax reserves and valuation allowances; and (xii) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

The following table summarizes certain significant charges that require management estimates:

	Year Ended December 31,		
	2009	2008	2007
Restructuring provisions and asset impairments	\$ (8)	\$429	\$ (6)
Amortization of acquired intangible assets ⁽¹⁾	64	58	46
Provisions for receivables	289	199	131
Provisions for obsolete and excess inventory	52	115	66
Provisions for litigation and regulatory matters	9	781	(6)
Depreciation and obsolescence of equipment on operating leases	329	298	269
Depreciation of buildings and equipment	247	257	262
Amortization of internal use and product software	58	56	79
Defined pension benefits – net periodic benefit cost	232	174	235
Other post-retirement benefits – net periodic benefit cost	26	77	102
Deferred tax asset valuation allowance provisions	(11)	17	14

⁽¹⁾ Note this includes amortization of \$4 for patents which is included in cost of sales.

Changes in Estimates

In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

New Accounting Standards and Accounting Changes

FASB Establishes Accounting Standards Codification™

In 2009, the FASB issued Accounting Standards Update No. 2009-01, “Generally Accepted Accounting Principles” (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASU”) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification was effective for our third-quarter 2009 financial statements and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

Fair Value Accounting

In 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (ASC Topic 820) which defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value

measurements. This guidance is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. It does not expand or require any new fair value measures; however the application of this statement may change current practice. We adopted this guidance for financial assets and liabilities effective January 1, 2008 and for non-financial assets and liabilities effective January 1, 2009. The adoption of this guidance, which primarily affected the valuation of our derivative contracts, did not have a material effect on our financial condition or results of operations.

In 2009, the FASB issued the following updates that provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities:

- FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" (ASC Topic 820-10-65).
- FSP FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments" (ASC Topic 320-10-65).
- FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" (ASC Topic 320-10-65).

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

In 2009, the FASB issued ASU No. 2009-05 which amends Fair Value Measurements and Disclosures – Overall (ASC Topic 820-10) to provide guidance on the fair value measurement of liabilities. This update provides clarification for circumstances in which a quoted price in an active market for the identical liability is not available. This update was effective October 1, 2009 (our fourth quarter) and did not have a material effect on our financial condition or results of operations.

In 2010, the FASB issued ASU No. 2010-06 which amends Fair Value Measurements and Disclosures – Overall (ASC Topic 820-10). This update requires a gross presentation of activities within the Level 3 roll forward and adds a new requirement to disclose transfers in and out of Level 1 and 2 measurements. The update also clarifies the following existing disclosure requirements in ASC 820-10 regarding: i) the level of disaggregation of fair value measurements; and ii) the disclosures regarding inputs and valuation techniques. This update is effective for our fiscal year beginning January 1, 2010 except for the gross presentation of the Level 3 roll forward information, which is effective for our fiscal year beginning January 1, 2011. The principle impact from this update will be expanded disclosures regarding our fair value measurements.

Business Combinations and Noncontrolling Interests

In 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (ASC Topic 805). This guidance requires the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose the information needed to evaluate and understand the nature and financial effect of the business combination. We adopted this guidance effective January 1, 2009 and have applied it to all business combinations prospectively from that date. The impact of ASC Topic 805 on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate in the future.

In 2009, the FASB issued Staff Position No. FSP FAS 141(R)-1; "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies" (ASC Topic 805-20). This updated guidance amended the accounting treatment for assets and liabilities arising from contingencies in a business combination and requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined. If fair value cannot be reasonably determined, measurement should be based on the best estimate in accordance with SFAS No. 5, "Accounting for Contingencies" (ASC Topic 405). This updated guidance was effective January 1, 2009.

In 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51" (ASC Topic 810-10-65). This guidance requires companies to present noncontrolling (minority) interests as equity (as opposed to a liability) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. In addition, it requires companies to report a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests. We adopted this guidance effective January 1, 2009, and have applied it to noncontrolling interests prospectively from that date. The presentation and disclosure requirements were applied retrospectively for all periods presented. As a result of this adoption, we reclassified noncontrolling interests in the amount of \$120 from Other long-term liabilities to equity in the December 31, 2008 balance sheet.

Revenue Recognition

In 2009, the FASB issued the following ASUs:

- ASU No. 2009-13, Revenue Recognition (ASC Topic 605) - Multiple-Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the fair value requirements of ASC subtopic 605-25 Revenue Recognition-Multiple Element Arrangements by allowing the use of the "best estimate of selling price" in addition to VSOE and VOE (now referred to as TPE standing for third-party evidence) for determining the selling price of a deliverable. A vendor is now required to use its best estimate of the selling price when VSOE or TPE of the selling price cannot be determined. In addition, the residual method of allocating arrangement consideration is no longer permitted.
- ASU No. 2009-14, Software (ASC Topic 985) - Certain Revenue Arrangements That Include Software Elements, a consensus of the FASB Emerging Issues Task Force. This guidance modifies the scope of ASC subtopic 985-605 Software-Revenue Recognition to exclude from its requirements (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality.

These updates require expanded qualitative and quantitative disclosures and are effective for fiscal years beginning on or after June 15, 2010. We have elected to adopt these updates effective for our fiscal year beginning January 1, 2010 and we will apply them prospectively from that date for new or materially modified arrangements. We do not believe adoption of these updates will have a material effect on our financial condition or results of operations.

Benefit Plans Accounting

In 2008, the FASB issued Staff Position No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets" (ASC Topic 715-20-65). This guidance expands disclosure by requiring the following new disclosures: 1) how investment allocation decisions are made by management; 2) major categories of plan assets; 3) a roll-forward of assets valued with non-observable market inputs; and 4) significant concentrations of risk. Additionally, ASC 715-20-65 requires an employer to disclose information about the valuation of plan assets similar to that required in ASC Topic 820 Fair Value Measurements and Disclosures. This guidance was effective for our fiscal year ending December 31, 2009. The only impact from this standard was to require us to expand disclosures regarding our benefit plan assets. Refer to Note 14-Employee Benefit Plans for expanded disclosures.

Other Accounting Changes

In January 2010, the FASB issued the following Codification updates:

- ASU 2010-01 which amends Equity (ASC Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force. This update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying ASC Topics 505 and 260 (Equity and Earnings Per Share). This update was effective October 1, 2009 (our fourth quarter) and did not have a material effect on our financial condition or results of operations.

- ASU 2010-02 which amends Consolidation (ASC Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification. This update provides amendments to ASC Topic 810 to clarify the scope of the decrease in ownership provisions of the topic and related guidance. This update was effective October 1, 2009 (our fourth quarter) and did not have a material effect on our financial condition or results of operations.

In 2009, the FASB issued the following codification updates:

- ASU 2009-16 which amends Transfers and Servicing (ASC Topic 860): Accounting for Transfers of Financial Assets. This update removed the concept of a qualifying special-purpose entity and removed the exception from applying consolidation guidance to these entities. This update also clarified the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. We adopted this update effective for our fiscal year beginning January 1, 2010. We have certain accounts receivable sale arrangements that will require modification in order to qualify for sale accounting under this updated guidance. Assuming those arrangements are modified, we do not believe adoption of this update will have a material effect on our financial condition or results of operations.
- ASU 2009-17 which amends Consolidations (ASC Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This update requires an analysis to determine whether a variable interest gives the entity a controlling financial interest in a variable interest entity. It also requires an ongoing reassessment and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. We adopted this update effective for our fiscal year beginning January 1, 2010 and we do not believe adoption of this update will have a material effect on our financial condition or results of operations.
- In 2009, the FASB issued SFAS No. 165, “Subsequent Events” (ASC Topic 855). This guidance is intended to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance was effective for our second quarter ended June 30, 2009.

During 2009 and early 2010, the FASB has issued several ASUs – ASU No. 2009-02 through ASU No. 2009-17 and ASU No. 2010-01 through ASU No. 2010-08. Except for ASUs No. 2009-05, 2009-13, 2009-14, 2009-16, 2009-17, 2010-01, 2010-02 and 2010-06 discussed above, the remaining ASUs entail technical corrections to existing guidance or affect guidance related to specialized industries or entities and therefore have minimal, if any, impact on the Company.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through the sale and rental of equipment, service and supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to sales of our products and services is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer’s shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Service: Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products in the Office segment, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Revenues associated with outsourcing services, as well as professional and value-added services are generally recognized as such services are performed. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Costs associated with service arrangements are generally recognized as incurred. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period. Long-lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract. Losses on service arrangements are recognized in the period that the contractual loss becomes probable and estimable.

Sales to distributors and resellers: We utilize distributors and resellers to sell certain of our products to end-users. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales terms.

Software: Software included within our equipment and services is generally considered incidental and is therefore accounted for as part of the equipment sales or services revenues. Software accessories sold in connection with our equipment sales, as well as free-standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is based on the price charged when the deliverable is sold separately by us on a regular basis and not as part of the multiple-element arrangement. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Leases: Our accounting for leases involves specific determinations regarding complex accounting provisions, as well as significant judgments. The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: 1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Our leases in our Latin America operations have historically been recorded as operating leases given the cancellable nature of the contract or because the recoverability of the lease investment is deemed not to be predictable at lease inception.

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 have original terms longer than five years. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values, if any, are established at lease inception using estimates of fair value at the end of the lease term.

The vast majority of our leases that qualify as sales-type are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. A portion of our business involves sales to governmental units. Governmental units are those entities that have statutorily defined funding or annual budgets that are determined by their legislative bodies. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependant on fiscal funding outside of a governmental unit's control, 2) those that can be cancelled if deemed in the best interest of the governmental unit's taxpayers or 3) those that must be renewed each fiscal year, given limitations that may exist on entering into multi-year contracts that are imposed by statute. In these circumstances, we carefully evaluate these contracts to assess whether cancellation is remote. The evaluation of a lease agreement with a renewal option includes an assessment as to whether the renewal is reasonably assured based on the apparent intent and our experience of such governmental unit. We further ensure that the contract provisions described above are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancelable and account for the lease as an operating lease.

After the initial lease of equipment to our customers, we may enter subsequent transactions with the same customer whereby we extend the term. Revenue from such lease extensions is typically recognized over the extension period.

Bundled Arrangements: We sell 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 fixed minimum monthly payment for all elements over the contractual lease term. These arrangements also typically 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. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). The minimum contractual committed page volumes are typically negotiated to equal the customer's estimated page volume at lease inception. In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are inherently uncertain and therefore are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract. Revenues under bundled 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 the supplies and non-maintenance services. Our revenue allocation for the 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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money-market funds, and investments with original maturities of three months or less.

Restricted Cash and Investments

As more fully discussed in Note 16 - Contingencies, various litigation matters in Brazil require us to make cash deposits as a condition of continuing the litigation. In addition, several of our secured financing arrangements and other contracts require us to post cash collateral or maintain minimum cash balances in escrow. These cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released (refer to Note 10-Supplementary Financial Information for classification of amounts). At December 31, 2009 and 2008, such restricted cash amounts were as follows:

	December 31,	
	2009	2008
Tax and other litigation deposits in Brazil	\$ 240	\$ 167
Escrow and cash collections related to receivable sales and secured borrowing arrangements	29	16
Other restricted cash	20	20
Total Restricted Cash and Investments	\$ 289	\$ 203

Provisions for Losses on Uncollectible Receivables

The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of our receivables and evaluations of the default risks of repayment.

Allowances for doubtful accounts as of December 31, 2009 and 2008 were as follows:

	December 31,	
	2009	2008
Allowance for doubtful accounts receivables	\$ 148	\$ 131
Allowance for doubtful finance receivables	\$ 222	\$ 198

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value. Salvage value consists of the estimated market value (generally determined based on replacement cost) of the salvageable component parts, which are expected to be used in the remanufacturing process. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 5 - Inventories and Equipment on Operating Leases, Net and Note 6 - Land, Buildings and Equipment, Net for further discussion.

Internal Use Software

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented. Useful lives of the software generally vary from three to seven years. Amortization expense was \$53, \$50, and \$76 for the years ended December 31, 2009, 2008 and 2007, respectively. Capitalized costs were \$354 and \$288 as of December 31, 2009 and 2008, respectively.

Goodwill and Other Intangible Assets

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 and relevant market data.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company. Refer to Note 8 – Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal-use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of our Common shareholders' equity. Retirement of Treasury stock is recorded as a reduction of Common stock and Additional paid-in-capital at the time such retirement is approved by our Board of Directors.

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

Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Our RD&E expense for the three years ended December 31, 2009 was as follows:

	December 31,		
	2009	2008	2007
R&D	\$ 713	\$ 750	\$ 764
Sustaining engineering	127	134	148
Total RD&E Expense	\$ 840	\$ 884	\$ 912

Restructuring Charges

Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, plant closing or other activity, are recognized when they are incurred. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize severance costs when they are both probable and reasonably estimable. Refer to Note 9 – Restructuring and Asset Impairment Charges for further information.

Pension and Post-Retirement Benefit Obligations

We sponsor pension plans in various forms in several countries covering substantially all employees who meet eligibility requirements. Post-retirement benefit plans cover U.S. and Canadian employees for retirement medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated other comprehensive loss, net of tax.

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 among others. Actual returns on plan assets are not immediately recognized in our income statement, due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return to the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

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 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 results from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. In estimating our discount rate, we consider rates of return on high quality fixed-income investments included in various published bond indexes, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds, as well as the expected timing of pension and other benefit payments. In the U.S. and the U.K., which comprise approximately 80% of our projected benefit obligation, 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. Refer to Note 14 - Employee Benefit Plans for further information.

Each year, the difference between the actual return on plan assets and the expected return on plan assets, as well as increases or decreases in the benefit obligation as a result of changes in the discount rate are added to or subtracted from any cumulative actuarial gain or loss that arose in prior years. This resultant amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss and is subject to subsequent amortization to net periodic pension cost in future periods over the remaining service lives of the employees participating in the pension plan.

Foreign Currency Translation and Re-measurement

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain subsidiaries that conduct their business in U.S. Dollars. A combination of current and historical exchange rates is used in re-measuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income.

Foreign currency losses were \$26, \$34 and \$8 in 2009, 2008 and 2007, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income.

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 in the first quarter of 2010 for the re-measurement of our net Bolivar-denominated monetary assets.

Accumulated Other Comprehensive Loss ("AOCL")

AOCL is composed of the following for the three years ending December 31, 2009:

	December 31,		
	2009	2008	2007
Cumulative translation adjustments	\$ (800)	\$ (1,395)	\$ (31)
Benefit plans net actuarial losses and prior service credits ⁽¹⁾	(1,190)	(1,021)	(735)
Other unrealized (losses) gains, net	2	—	1
Total Accumulated Other Comprehensive Loss	\$ (1,988)	\$ (2,416)	\$ (765)

⁽¹⁾ Includes our share of Fuji Xerox.

Note 2 – Segment Reporting

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

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

The Office segment includes black-and-white products which operate at speeds up to 95 ppm and color devices up to 85 ppm. Products include our family of ColorQube™, WorkCentre® multifunction printers, Phaser® desktop printers and digital multifunction printers., DocuColor color multifunction products, color laser, solid ink color printers and multifunction devices, monochrome laser desktop printers, digital and light-lens copiers and facsimile products and non-Xerox branded products with similar specifications. These products are sold through direct and indirect sales channels to global, national and mid-size commercial customers, as well as government, education and other public sector customers.

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

Selected financial information for our Operating segments for each of the years ended December 31, 2009, 2008 and 2007, respectively, was as follows:

	Production	Office	Other	Total
2009⁽¹⁾				
Revenues	\$ 4,287	\$ 8,135	\$ 2,044	\$ 14,466
Finance income	258	441	14	713
Total Segment Revenues	\$ 4,545	\$ 8,576	\$ 2,058	\$ 15,179
Interest expense	\$ 101	\$ 165	\$ 261	\$ 527
Segment profit (loss) ⁽²⁾	\$ 217	\$ 835	\$ (274)	\$ 778
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 41	\$ 41
2008⁽¹⁾				
Revenues	\$ 4,937	\$ 9,347	\$ 2,526	\$ 16,810
Finance income	300	481	17	798
Total Segment Revenues	\$ 5,237	\$ 9,828	\$ 2,543	\$ 17,608
Interest expense	\$ 117	\$ 181	\$ 269	\$ 567
Segment profit (loss) ⁽²⁾	\$ 394	\$ 1,062	\$ (165)	\$ 1,291
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 113	\$ 113
2007⁽¹⁾				
Revenues	\$ 5,001	\$ 8,980	\$ 2,425	\$ 16,406
Finance income	314	493	15	822
Total Segment Revenues	\$ 5,315	\$ 9,473	\$ 2,440	\$ 17,228
Interest expense	\$ 123	\$ 186	\$ 270	\$ 579
Segment profit (loss) ⁽²⁾	\$ 562	\$ 1,115	\$ (89)	\$ 1,588
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 97	\$ 97

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our chief executive officer.

(2) Depreciation and amortization expense, which is recorded in cost of sales, RD&E and SAG are included in segment profit above. This information is neither identified nor internally reported to our chief executive officer. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

The following is a reconciliation of segment profit to pre-tax income (loss):

	Year Ended December 31,		
	2009	2008	2007
Total Segment profit	\$ 778	\$ 1,291	\$ 1,588
Reconciling items:			
Restructuring and asset impairment charges	8	(429)	6
Restructuring charges of Fuji Xerox	(46)	(16)	(30)
Litigation matters ⁽¹⁾	—	(774)	—
Equipment write-off	—	(39)	—
ACS acquisition-related costs	(72)	—	—
Equity in net income of unconsolidated affiliates	(41)	(113)	(97)
Other	—	1	1
Pre-tax Income (Loss)	\$ 627	\$ (79)	\$ 1,468

(1) The 2008 provision for litigation represents \$670 for the *Carlson v. Xerox Corporation* court approved settlement, as well as provisions for other litigation matters including \$36 for the probable loss related to the Brazil labor related contingencies. Refer to Note 16 – Contingencies for further discussion.

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows:

	Revenues			Long-Lived Assets ⁽¹⁾		
	2009	2008	2007	2009	2008	2007
United States	\$ 8,156	\$ 9,122	\$ 9,078	\$ 1,245	\$ 1,386	\$ 1,375
Europe	4,971	6,011	5,888	717	680	746
Other Areas	2,052	2,475	2,262	260	248	341
Total Revenues and Long-Lived Assets	\$ 15,179	\$ 17,608	\$ 17,228	\$ 2,222	\$ 2,314	\$ 2,462

⁽¹⁾ Long-lived assets are comprised of (i) land, buildings and equipment, net, (ii) equipment on operating leases, net, (iii) internal use software, net and (iv) capitalized software costs, net.

Note 3 – Acquisitions

Affiliated Computer Services, Inc.

In September 2009, we entered into a definitive agreement to acquire Affiliated Computer Services, Inc. (“ACS”) in a cash and stock transaction. The acquisition closed on February 5, 2010, at which time 100% of the outstanding shares of ACS common stock were converted into a combination of 4.935 shares of Xerox common stock and \$18.60 in cash for a combined value of \$60.40 per share, or approximately \$6.0 billion based on the closing price of Xerox common stock of \$8.47 on date of closing. Approximately 489,800 thousand shares of common stock were issued to holders of ACS Class A and Class B common stock.

Xerox assumed all outstanding ACS stock options at closing. Each assumed ACS option became exercisable for 7.085289 Xerox common shares for a total of approximately 96,700 thousand shares at a weighted average exercise price of \$6.79 per option. The estimated fair value associated with the Xerox options issued in exchange for the ACS options was approximately \$222 based on a Black-Scholes valuation model. Approximately \$168 of the estimated fair value is expected to be recorded as part of the acquisition fair value and \$54 will be expensed over the remaining vesting period which is estimated to be approximately 3.9 years.

As part of the closing, we repaid \$1.7 billion of ACS's debt and assumed an additional \$0.6 billion. We also issued convertible preferred stock with a liquidation value of \$300 to ACS's Class B shareholder (see Note 17 – Shareholders' Equity for further information). The cash portion of the acquisition, as well as the repayment of ACS's debt, was funded through a combination of cash-on-hand, borrowing under our existing Credit Facility and the issuance of senior notes in the capital markets. (Refer to Note 11 – Debt for further information).

ACS provides business process outsourcing (“BPO”) and information technology (“IT”) services and solutions to commercial and government clients worldwide. ACS delivers a full range of BPO and IT services, as well as end-to-end solutions to the public and private sectors and supports a variety of industries including education, energy, financial, government, healthcare, retail and transportation. 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.

All information regarding the fair values of the assets acquired and liabilities assumed, including assets and liabilities arising from contingencies, is not yet available. However, the purchase price is expected to be primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates which have not yet been finalized.

The unaudited pro forma results presented below include the effects of the ACS acquisition as if it had been consummated as of January 1, 2008. The pro-forma results include the amortization associated with a preliminary estimate for the acquired intangible assets and interest expense associated with debt used to fund the acquisition. However, pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2008:

	Year Ended December 31,	
	2009	2008
Revenue	\$ 21,802	\$ 23,941
Net income attributable to Xerox	700	359
Basic earnings per share	0.50	0.24
Diluted earnings per share	0.49	0.24

We are still evaluating and assessing the impact of the ACS acquisition on our internal organizational and reporting structure as well as its related impact on our reportable segment disclosures. Accordingly, in the first quarter 2010, we currently expect to report ACS as a separate reportable segment, pending completion of that evaluation and assessment.

Veenman B.V.

In 2008, we acquired Veenman B.V. ("Veenman"), expanding our reach into the small and mid-sized business market in Europe, for approximately \$69 (€44 million) in cash, including transaction costs. Veenman is the Netherlands' leading independent distributor of office printers, copiers and multifunction devices serving small and mid-size businesses. The operating results of Veenman are not material to our financial statements, and are included within our Office segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

Global Imaging Systems, Inc.

In 2007, we acquired GIS, a provider of office technology for small and mid-size businesses in the United States. The acquisition of GIS expanded our access to the U.S. small and mid-size business market. The aggregate purchase price was approximately \$1.5 billion. In addition, in connection with the closing, we also repaid \$200 of GIS's then outstanding bank debt. The results of operations for GIS are included in our Consolidated Statements of Income as of May 9, 2007.

The total cost of the acquisition was allocated to the assets acquired and the liabilities assumed based on their respective estimated fair values. Goodwill of \$1,335 and intangible assets of \$363 were recorded in connection with the acquisition based on third-party valuations and management's estimates for those acquired intangible assets. The majority of the goodwill is not deductible for tax purposes and the primary elements that generated goodwill are the value of the acquired assembled workforce, specialized processes and procedures and operating synergies, none of which qualify as a separate intangible asset. Intangible assets included customer relationships of \$189 with a 12-year weighted average useful life and trade names of \$174 with a 20-year weighted average useful life.

The unaudited pro forma results presented below include the effects of the GIS acquisition as if it had been consummated as of January 1, 2007.

	Year Ended December 31, 2007
Revenue	\$ 17,619
Net income attributable to Xerox	1,139
Basic earnings per share	1.22
Diluted earnings per share	1.20

GIS Acquisitions

In February 2009, GIS acquired ComDoc, Inc. ("ComDoc") for approximately \$145 in cash. ComDoc is one of the larger independent office technology dealers in the U.S. and expands GIS's coverage in Ohio, Pennsylvania, New York and West Virginia. GIS also acquired another business in 2009 for \$18 in cash. In 2008, GIS acquired Saxon Business Systems, an office equipment supplier in Florida, for approximately \$69 in cash, including transaction costs. GIS acquired three other similar businesses in 2008 for a total of \$17 in cash. In 2007, GIS acquired four businesses that provide office-imaging solutions and related services for \$39 in cash.

These acquisitions continue the development of GIS's national network of office technology suppliers to serve its expanding base of small and mid-size businesses. The operating results of these acquired entities are not material to our financial statements and are included within our Office segment from the dates of acquisition. The purchase prices were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

Advectis, Inc.

In 2007, we acquired Advectis, Inc. ("Advectis"), a privately-owned provider of a web-based solution to electronically manage the process needed to underwrite, audit, collaborate, deliver and archive mortgage loan documents, for \$30 in cash. The operating results of Advectis are not material to our financial statements, and are included within our Other segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on management's estimates.

Note 4 – Receivables, Net

Finance Receivables

Finance receivables result from installment arrangements and sales-type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net at December 31, 2009 and 2008 were as follows:

	2009	2008
Gross receivables	\$ 8,427	\$ 8,718
Unearned income	(1,197)	(1,273)
Residual values	19	31
Allowance for doubtful accounts	(222)	(198)
Finance receivables, net	\$ 7,027	\$ 7,278
Less: Billed portion of finance receivables, net	(226)	(254)
Less: Current portion of finance receivables not billed, net	(2,396)	(2,461)
Finance Receivables Due After One Year, net	\$ 4,405	\$ 4,563

Contractual maturities of our gross finance receivables as of December 31, 2009 were as follows (including those already billed of \$226):

2010	2011	2012	2013	2014	Thereafter	Total
\$ 3,191	\$ 2,334	\$ 1,622	\$ 910	\$ 327	\$ 43	\$ 8,427

Accounts Receivable Sales Arrangements

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell, on an on-going basis, certain accounts receivable without recourse to third-parties. The accounts receivables sold are generally short-term trade receivables with a payment due date of less than 60 days. In some of the agreements we continue to service the sold receivables and hold beneficial interests. When applicable, a servicing liability is recorded for the estimated fair value of

the servicing. Beneficial interests are included in the caption "Other current assets" in the accompanying Consolidated Balance Sheets and are recorded at estimated fair value. The amounts associated with the servicing liability and beneficial interests were not material at December 31, 2009 and 2008, respectively. Accounts receivables sales for the three years ended December 31, 2009 were as follows:

	2009	2008	2007
Accounts receivables sales	\$ 1,566	\$ 717	\$ 326
Fees associated with sales	13	4	2
Estimated impact of sales on operating cash flows	309	51	147

Note 5 – Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2009 and 2008 were as follows:

	2009	2008
Finished goods	\$ 772	\$ 1,044
Work-in-process	43	80
Raw materials	85	108
Total Inventories	\$ 900	\$ 1,232

Cost of sales in 2008 included a charge of \$39 associated with an Office segment product line equipment and residual value write-off. The write-off was the result of a 2008 change in strategy reflecting our decision to discontinue the remanufacture of end-of-lease returned inventory from a certain Office segment product line following an assessment of the current and expected market for these products.

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non-cash adjustment. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. We recorded \$52, \$115 and \$66 in inventory write-down charges for the years ended December 31, 2009, 2008 and 2007, respectively.

Equipment on operating leases and the related accumulated depreciation at December 31, 2009 and 2008 were as follows:

	2009	2008
Equipment on operating leases	\$ 1,583	\$ 1,507
Accumulated depreciation	(1,032)	(913)
Equipment on Operating Leases, net	\$ 551	\$ 594

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense for equipment on operating leases was \$329, \$298 and \$269 for the years ended December 31, 2009, 2008 and 2007, respectively. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2010	2011	2012	2013	2014	Thereafter
\$ 385	\$ 281	\$ 181	\$ 94	\$ 46	\$ 45

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2009, 2008 and 2007 amounted to \$125, \$117 and \$117, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net at December 31, 2009 and 2008 were as follows:

	Estimated Useful Lives (Years)	2009	2008
Land	—	\$ 45	\$ 45
Buildings and building equipment	25 to 50	1,192	1,156
Leasehold improvements	Varies	328	372
Plant machinery	5 to 12	1,686	1,597
Office furniture and equipment	3 to 15	994	973
Other	4 to 20	100	100
Construction in progress	—	33	95
Subtotal		4,378	4,338
Accumulated depreciation		(3,069)	(2,919)
Land, Buildings and Equipment, net		\$ 1,309	\$ 1,419

Depreciation expense and operating lease rent expense for the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009	2008	2007
Depreciation expense	\$ 247	\$ 257	\$ 262
Operating lease rent expense ⁽¹⁾	\$ 267	\$ 252	\$ 286

⁽¹⁾ We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2009 were as follows:

2010	2011	2012	2013	2014	Thereafter
\$ 224	\$ 181	\$ 128	\$ 99	\$ 70	\$ 80

We have an information management contract with Electronic Data Systems Corp. (“EDS”) through March 2014. Services to be provided under this contract include support for European and Brazilian mainframe system processing and application maintenance through mid-2010, as well as workplace and service desk and voice and data network management through March 2014. There are no minimum payments required under this contract. We can terminate the contract for convenience with six months notice, as defined in the contract, with no termination fee and with payment to EDS for costs incurred as of the termination date. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the EDS contract. Payments to EDS, which are primarily recorded in selling, administrative and general expenses, were \$198, \$279 and \$294 for the years ended December 31, 2009, 2008 and 2007, respectively.

During 2009 we terminated several agreements with EDS for information management services and entered into new agreements for similar services with several providers. Services to be provided under these contracts include support for data network transport; mainframe application processing, development and support; and mid-range applications processing and support. These contracts have various terms through 2015. Some of the contracts require minimum payments and include termination penalties. Payments for information management services, which are primarily recorded in selling, administrative and general expenses were \$26 for the year ended December 31, 2009.

Note 7 – Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest at December 31, 2009 and 2008 were as follows:

	2009	2008
Fuji Xerox	\$ 998	\$ 1,028
All other equity investments	58	52
Investments in Affiliates, at Equity	\$ 1,056	\$ 1,080

Our equity in net income of our unconsolidated affiliates for the three years ended December 31, 2009 was as follows:

	2009	2008	2007
Fuji Xerox	\$ 30	\$ 101	\$ 89
Other investments	11	12	8
Total Equity in Unconsolidated Affiliates	\$ 41	\$ 113	\$ 97

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand and other areas of the Pacific Rim. Our investment in Fuji Xerox of \$998 at December 31, 2009, differs from our implied 25% interest in the underlying net assets, or \$1,108, due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox, partially offset by goodwill related to the Fuji Xerox investment established at the time we acquired our remaining 20% of Xerox Limited from The Rank Group plc.

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different than that implied by our 25% ownership interest. Equity income for 2009 and 2008 includes after-tax restructuring charges of \$46 and \$16, respectively, primarily reflecting employee related costs as part of Fuji Xerox's continued cost-reduction actions to improve its competitive position.

Yen/U.S. Dollar exchange rates used to translate are as follows:

	Exchange Basis	2009	2008	2007
Summary of Operations	Weighted Average Rate	93.51	103.31	117.53
Balance Sheet	Year-End Rate	92.46	90.28	112.55

Condensed financial data of Fuji Xerox for the three calendar years ended December 31, 2009 was as follows:

	2009	2008	2007
Summary of Operations			
Revenues	\$ 9,998	\$ 11,190	\$ 10,218
Costs and expenses	9,781	10,451	9,565
Income before income taxes	217	739	653
Income tax expense	67	287	252
Net Income	\$ 150	\$ 452	\$ 401
Less: Net income attributable to noncontrolling interests	1	7	6
Net Income Attributable to Fuji Xerox	\$ 149	\$ 445	\$ 395

Balance Sheet**Assets:**

Current assets	\$ 4,111	\$ 4,734	\$ 4,242
Long-term assets	5,457	5,470	4,639
Total Assets	\$ 9,568	\$ 10,204	\$ 8,881

Liabilities and Equity:

Current liabilities	\$ 2,643	\$ 3,534	\$ 3,322
Long-term debt	1,368	996	900
Other long-term liabilities	1,104	1,095	746
Fuji Xerox Shareholders' equity	4,434	4,556	3,888
Noncontrolling interests	19	23	25
Total Liabilities and Equity	\$ 9,568	\$ 10,204	\$ 8,881

Other Transactions with Fuji Xerox

We receive **dividends** from Fuji Xerox which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive **royalty** payments for their use of our Xerox brand trademark, as well as rights to access their patent portfolio in exchange for access to our patent portfolio. These payments are included in Service, outsourcing and rental revenues in the Consolidated Statements of Income. We also have arrangements with Fuji Xerox whereby we **purchase inventory** from and **sell inventory** to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be conducted at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique **research and development** costs.

Other transactions with Fuji Xerox for the three years ended December 31, 2009 were as follows:

	2009	2008	2007
Dividends received from Fuji Xerox	\$ 10	\$ 56	\$ 37
Royalty revenue earned	106	112	108
Inventory purchases from Fuji Xerox	1,590	2,150	1,946
Inventory sales to Fuji Xerox	133	162	186
R&D payments received from Fuji Xerox	3	5	3
R&D payments paid to Fuji Xerox	33	34	30

As of December 31, 2009 and 2008, amounts due to Fuji Xerox were \$114 and \$194, respectively.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment, for the three years ended December 31, 2009:

	Production	Office	Other	Total
Balance at December 31, 2006 ⁽¹⁾	\$ 892	\$ 986	\$ 146	\$ 2,024
Foreign currency translation	21	17	—	38
Acquisition of GIS	—	1,218	105	1,323
Acquisition of Advectis, Inc.	—	—	26	26
GIS Acquisitions	—	30	3	33
Other	—	—	4	4
Balance at December 31, 2007	\$ 913	\$ 2,251	\$ 284	\$ 3,448
Foreign currency translation	(233)	(161)	(1)	(395)
Acquisition of Veenman B.V.	—	44	—	44
GIS acquisitions	—	73	—	73
Purchase Price allocation adjustment – GIS ⁽²⁾	—	120	(108)	12
Balance at December 31, 2008	\$ 680	\$ 2,327	\$ 175	\$ 3,182
Foreign currency translation	71	50	1	122
GIS acquisitions	—	118	—	118
Balance at December 31, 2009	\$ 751	\$ 2,495	\$ 176	\$ 3,422

⁽¹⁾ Includes adjustment of \$110 from the Other segment to the Office segment related to the goodwill associated with our 1998 acquisition of XL Connect Solutions, Inc.

⁽²⁾ In 2008, we finalized the GIS purchase price allocation. As a result, the \$108 of goodwill reflected in our Other segment in 2007 was reallocated to our Office segment. This adjustment aligned goodwill to the reporting unit benefiting from the synergies of the purchase.

Intangible Assets, Net

Intangible assets primarily relate to the Office operating segment. Intangible assets were comprised of the following as of December 31, 2009 and 2008:

	Weighted Average Amortization Period	December 31, 2009			December 31, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	14 years	\$ 525	\$ 198	\$ 327	\$ 492	\$ 155	\$ 337
Distribution network	25 years	123	49	74	123	44	79
Trademarks	20 years	210	25	185	191	15	176
Technology, patents and non-compete	6 years	40	28	12	40	22	18
Total Intangible Assets		\$ 898	\$ 300	\$ 598	\$ 846	\$ 236	\$ 610

Amortization expense related to intangible assets was \$64, \$58, and \$46 for the years ended December 31, 2009, 2008 and 2007, respectively, and excluding the impact of additional acquisitions, is expected to approximate \$64 annually from 2010 through 2012 and \$55 annually through 2014. Amortization expense is primarily recorded in Other expenses, net with the exception of amortization expense associated with licensed technology, which is recorded in Cost of sales.

Note 9 – Restructuring and Asset Impairment Charges

The net restructuring and asset impairment (credits) charges in the Consolidated Statements of Income totaled \$(8), \$429 and \$(6) in 2009, 2008 and 2007, respectively. Detailed information related to restructuring program activity during the three years ended December 31, 2009 is outlined below:

Restructuring Activity	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance December 31, 2006	\$ 293	\$ 44	\$ —	\$ 337
Restructuring provision	27	7	1	35
Reversals of prior accruals	(38)	(3)	—	(41)
Net current year charges ⁽²⁾	(11)	4	1	(6)
Charges against reserve and currency	(211)	(10)	(1)	(222)
Balance December 31, 2007	\$ 71	\$ 38	\$ —	\$ 109
Restructuring provision	363	20	53	436
Reversals of prior accruals	(6)	(1)	—	(7)
Net current year charges ⁽²⁾	357	19	53	429
Charges against reserve and currency	(108)	(25)	(53)	(186)
Balance December 31, 2008	\$ 320	\$ 32	\$ —	\$ 352
Restructuring provision	28	9	—	37
Reversals of prior accruals	(39)	(6)	—	(45)
Net current year charges ⁽²⁾	(11)	3	—	(8)
Charges against reserve and currency	(255)	(15)	—	(270)
Balance December 31, 2009⁽³⁾	\$ 54	\$ 20	\$ —	\$ 74

(1) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

(2) Represents amount recognized within the Consolidated Statements of Income for the years shown.

(3) We expect to utilize the majority of the remaining December 31, 2009 restructuring balance in 2010.

The following table summarizes the reconciliation to the Consolidated Statements of Cash Flows:

	Year Ended December 31,		
	2009	2008	2007
Charges to reserve	\$ (270)	\$ (186)	\$ (222)
Asset impairments	—	53	1
Effects of foreign currency and other non-cash items	—	2	(14)
Cash Payments for Restructurings	\$ (270)	\$ (131)	\$ (235)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment for the three years ended December 31, 2009:

	2009	2008	2007
Production	\$ (4)	\$ 190	\$ (6)
Office	(3)	200	3
Other	(1)	39	(3)
Total Net Restructuring Charges	\$ (8)	\$ 429	\$ (6)

Over the past several years, we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily include severance actions and impact all major geographies and segments. Management continues to evaluate our business and, therefore, there may be additional provisions for new plan initiatives, as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets made obsolete as a result of these programs.

2010 Plan

We expect to record pre-tax restructuring charges of approximately \$280 in 2010, of which \$250 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.

2009 Activity

Restructuring activity was minimal in 2009 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2008 Activity

During 2008, we recorded \$357 of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in both North America and Europe. Focus areas for the actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources & training.
- Capturing efficiencies in technical services, managed services and supply chain and manufacturing infrastructure.
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of \$19 and asset impairment charges of \$53. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

2007 Activity

Restructuring activity was minimal in 2007 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

Note 10 – Supplementary Financial Information

The components of other current assets and other current liabilities at December 31, 2009 and 2008 were as follows:

	2009	2008
Other Current Assets		
Deferred taxes	\$ 290	\$ 305
Restricted cash	31	20
Prepaid expenses	111	119
Financial derivative instruments	16	39
Advances and deposits	19	26
Income taxes receivable	38	42
Other	203	239
Total Other Current Assets	\$ 708	\$ 790

Other Current Liabilities		
Income taxes payable	\$ 27	\$ 47
Other taxes payable	161	173
Interest payable	114	141
Restructuring reserves	64	325
Unearned income	201	203
Financial derivative instruments	15	134
Product warranties	19	25
Dividends payable	41	38
Distributor and reseller rebates/commissions	127	131
Other	558	552
Total Other Current Liabilities	\$ 1,327	\$ 1,769

The components of other long-term assets and other long-term liabilities at December 31, 2009 and 2008 were as follows:

	2009	2008
Other Long-term Assets		
Prepaid pension costs	\$ 155	\$ 61
Net investment in discontinued operations ⁽¹⁾	240	259
Internal use software, net	354	288
Restricted cash	258	183
Debt issuance costs, net	62	48
Financial derivative instruments	10	53
Other	241	265
Total Other Long-term Assets	\$ 1,320	\$ 1,157
Other Long-term Liabilities		
Deferred and other tax liabilities	\$ 167	\$ 182
Financial derivative instruments	9	—
Environmental reserves	23	29
Restructuring reserves	10	27
Other	363	336
Total Other Long-term Liabilities	\$ 572	\$ 574

⁽¹⁾ At December 31, 2009, our net investment in discontinued operations primarily consists of a \$265 performance-based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of \$25. The recovery of the performance-based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017.

Note 11 – Debt

Short-term borrowings at December 31, 2009 and 2008 were as follows:

	2009	2008
Current maturities of long-term debt	\$ 988	\$ 1,549
Notes payable	—	7
Italy Credit Facility due 2009	—	54
Total Short-term Debt	\$ 988	\$ 1,610

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income.

Long-term debt at December 31, 2009 and 2008 was as follows:

	Weighted Average Interest Rates at December 31, 2009 ⁽³⁾	2009	2008
U.S. Operations			
Xerox Corporation			
Euro Senior Notes due 2009	— %	\$ —	\$ 317
Senior Notes due 2009	— %	—	583
Floating Senior Notes due 2009	— %	—	150
Senior Notes due 2010	7.13%	700	700
Notes due 2011	0.08%	1	1
Notes due 2011	7.01%	50	50
Senior Notes due 2011	6.59%	750	750
Credit Facility due 2012	— %	—	246
Senior Notes due 2012	5.59%	1,100	1,100
Senior Notes due 2013	5.65%	400	400
Senior Notes due 2013	7.63%	550	550
Convertible Notes due 2014	9.00%	19	19
Senior Notes due 2014	8.25%	750	—
Senior Notes due 2015	4.25%	1,000	—
Notes due 2016	7.20%	250	250
Senior Notes due 2016	6.48%	700	700
Senior Notes due 2017	6.83%	500	500
Senior Notes due 2018	6.37%	1,000	1,000
Senior Notes due 2019	5.63%	650	—
Zero Coupon Notes due 2022	— %	—	433
Zero Coupon Notes due 2023	5.41%	267	253
Senior Notes due 2039	6.75%	350	—
Subtotal		\$ 9,037	\$ 8,002
Xerox Credit Corporation			
Notes due 2013	6.42%	10	10
Notes due 2014	6.06%	50	50
Subtotal		\$ 60	\$ 60
Other U.S. Operations			
Borrowings secured by finance receivables ⁽¹⁾	5.87%	2	56
Borrowings secured by other assets	11.35%	5	6
Subtotal		\$ 7	\$ 62
Total U.S. Operations		\$ 9,104	\$ 8,124
International Operations			
Other debt due 2009-2010	2.89%	\$ 18	\$ 16
Total International Operations		\$ 18	\$ 16
Principal Debt Balance		9,122	8,140
Unamortized discount		(11)	(6)
Fair value adjustments ⁽²⁾		153	189
Total Debt		\$ 9,264	\$ 8,323
Less: current maturities		(988)	(1,549)
Total Long-term Debt		\$ 8,276	\$ 6,774

⁽¹⁾ As of December 31, 2009 and 2008, the associated net encumbered finance receivables were \$17 and \$104, respectively. This secured loan agreement will terminate in 2010. Refer to Note 19 – Subsequent Events for additional information.

- (2) Fair value adjustments represent changes in the fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported at an amount equal to the sum of their carrying value (principal value plus/minus premiums/discounts) and any fair value adjustment.
- (3) Represents weighted average effective interest rate which includes the effect of discounts and premiums on issued debt.

Scheduled payments due on our principal long-term debt for the next five years and thereafter are as follows:

2010	2011	2012	2013	2014	Thereafter	Total
\$ 988 ⁽¹⁾	\$ 802	\$ 1,101	\$ 961	\$ 819	\$ 4,451	\$ 9,122

(1) Quarterly total debt maturities for 2010 are \$17, \$702, \$268 and \$1 for the first, second, third and fourth quarters, respectively.

The zero coupon note of \$267 due 2023 is included in the above maturity schedule based on the year of its first potential put date of 2010.

Credit Facility

The Credit Facility is a \$2.0 billion unsecured revolving credit facility including a \$300 letter of credit subfacility. At December 31, 2009 we had no outstanding borrowings or letters of credit.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries and includes provisions that would allow us to increase the overall size of the Credit Facility up to an aggregate amount of \$2.5 billion. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than \$100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility as well. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

In October 2009, in connection with the acquisition of ACS, we amended the Credit Facility as follows:

- The definition of "principal debt" was changed such that prior to the closing of the ACS acquisition, it was calculated 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 Credit Facility. Accordingly, after the amendment, approximately \$1.6 billion, or approximately 80% of the Credit Facility, has a maturity date of April 30, 2013. The remaining portion of the Credit Facility continues to have a maturity date of April 30, 2012.
- Extended the permitted leverage ratios to current levels noted below.

Borrowings under the Credit Facility bear interest at LIBOR plus an all-in spread that varies between 2.5% and 4.5% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2009, the applicable all-in spread for the Credit Facility would be 3.50%.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

- (a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, as defined) of 4.25x through September 30, 2010, 4.00x thereafter through December 31, 2010 and 3.75x thereafter to maturity of the facility.
- (b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00x.
- (c) Limitations on (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in a termination by the lenders and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Senior Notes Offerings

In December 2009, we issued a total of \$2.0 billion of Senior Notes. Debt issuance costs of approximately \$15 were deferred. The Senior Notes rank equally with our other existing senior unsecured indebtedness. The net proceeds from these Senior Notes were used to repay ACS's senior credit facility upon completion of the acquisition and to fund a portion of the cash consideration and certain fees and expenses relating to the acquisition of ACS (Refer to Note 3 – Acquisitions for further information). Prior to the closing of the acquisition, the net proceeds from the Senior Notes were invested in cash and cash equivalents.

The following is a summary of our December 2009 Senior Note offerings:

	Rates	% of Par	Principal	Net Proceeds	Weighted Average Effective Interest Rate
Senior Notes due 2015	4.250%	99.808%	\$ 1,000	\$ 991	4.25%
Senior Notes due 2019	5.625%	99.725%	650	643	5.63%
Senior Notes due 2039	6.750%	99.588%	350	346	6.75%
Total			<u>\$ 2,000</u>	<u>\$ 1,980</u>	

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

Bridge Loan Facility Commitment

In connection with the agreement to acquire ACS, we entered into a syndicated \$3.0 billion Bridge Loan Facility commitment with several banks that was to be used for funding of 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. As a result of the successful December Senior Note offering, we reduced the size of the commitment to \$500 in December 2009 and as a result of sufficient cash balances as of December 31, 2009, we elected to terminate the remainder of the commitment in January 2010. The Debt issuance costs of \$58 were written off to earnings and are included in Acquisition-related costs.

Zero Coupon Notes

In 2009, we repaid \$400 in Zero Coupon Notes. The total repayment of \$448 included accreted interest of \$48. These Notes were repaid when the holders exercised a put option to redeem the bond prior to their scheduled maturity in 2022.

Guarantees

At December 31, 2009, we have issued guarantees of \$123 on behalf of our foreign subsidiaries. Of this amount, \$13 is related to indebtedness of our foreign subsidiaries and is included in our Consolidated Balance Sheet as of December 31, 2009 with the remainder primarily representing letters of credit. In addition, as of December 31, 2009, \$56 of letters of credit have been issued in connection with insurance guarantees.

Interest

Interest paid on our short-term debt, long-term debt and liability to subsidiary trust issuing preferred securities amounted to \$531, \$527 and \$552 for the years ended December 31, 2009, 2008 and 2007, respectively.

Interest expense and interest income for the three years ended December 31, 2009 was as follows:

	2009	2008	2007
Interest expense ⁽¹⁾	\$ 527	\$ 567	\$ 579
Interest income ⁽²⁾	\$ 734	\$ 833	\$ 877

(1) Includes Equipment financing interest expense, as well as non-financing interest expense included in Other expenses, net in the Consolidated Statements of Income.

(2) Includes Finance income, as well as other interest income that is included in Other expenses, net in the Consolidated Statements of Income.

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on a blended rate for term and duration comparable to available borrowing rates for a BBB rated company, which are reviewed at the end of each period. The estimated level of debt is based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net cash proceeds on debt other than secured borrowings as shown on the Consolidated Statements of Cash Flows for the three years ended December 31, 2009 was as follows:

	2009	2008	2007
Cash payments on notes payable, net	\$ (1,331)	\$ (238)	\$ (143)
Net cash proceeds from issuance of long-term debt	2,702	1,883	2,254
Cash payments on long-term debt	(448)	(719)	(297)
Net Cash Proceeds on Other Debt	\$ 923	\$ 926	\$ 1,814

Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities

The Liability to Subsidiary Trust Issuing Preferred Securities included in our Consolidated Balance Sheets of \$649 and \$648 as of December 31, 2009 and 2008, respectively, reflects our obligations to Xerox Capital Trust I ("Trust I") as a result of their loans to us from proceeds related to their issuance of preferred securities. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust.

In 1997, Trust I issued 650 thousand of 8.0% preferred securities (the "Preferred Securities") to investors for \$644 (\$650 liquidation value) and 20,103 shares of common securities to us for \$20. With the proceeds from these securities, Trust I purchased \$670 principal amount of 8.0% Junior Subordinated Debentures due 2027 of the Company ("the Debentures"). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of \$637 which was net of fees and discounts of \$13. Interest expense, together with the amortization of debt issuance costs and discounts, was \$54 in 2009, 2008 and 2007. We have guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities. The guarantee, our obligations under the Debentures, the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8% per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

Note 13 – Financial Instruments

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

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

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

Interest Rate Risk Management

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

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. As of December 31, 2009 and 2008, pay variable/receive fixed interest rate swaps with notional amounts of \$2,350 and \$675 with a net asset fair value of \$1 and \$53, respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2009, 2008, or 2007.

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

Debt Instrument	Year First Designated as Hedge	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2012	2009	\$ 1,100	\$ (2)	4.05%	5.50%	Libor	2012
Senior Notes due 2013	2009	400	—	3.92%	5.65%	Libor	2013
Senior Notes due 2014	2009	750	3	5.51%	8.25%	Libor	2014
Senior Notes due 2016	2009	100	—	3.11%	6.40%	Libor	2016
Total Fair Value Hedges		\$ 2,350	\$ 1				

Cash Flow Hedges

As of December 31, 2008, a pay fixed/receive variable interest rate swap that was designated and accounted for as a cash flow hedge had a notional amount of \$150 and a net liability fair value of \$2. The swap was structured to hedge the LIBOR interest rate of the floating Senior Notes due 2009 by converting it from a variable rate instrument to a fixed rate instrument. The swap matured in conjunction with the repayment of the Senior Notes in December 2009. No ineffective portion was recorded to earnings during 2009, 2008 or 2007 and all components of the derivative gain or loss was included in the assessment of hedged effectiveness.

Terminated Swaps

During the period from 2004 to 2009, we early terminated several interest rate swaps which had been designated as fair value hedges of certain debt instruments. These terminated interest rate swaps had an aggregate notional value of \$4.0 billion. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2009, 2008 and 2007, the amortization of these fair value adjustments reduced interest expense by \$17, \$12 and \$9, respectively, and we expect to record a net decrease in interest expense of \$133 in future years through 2027.

Foreign Exchange Risk Management

We are a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts, to hedge certain foreign currency exposures thereby reducing volatility of earnings or protecting fair values of assets and liabilities.

Foreign Currency Denominated Assets and Liabilities

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

Forecasted Purchases and Sales in Foreign Currency

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