UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 2006

OR

" TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from

to

Commission File Number 1-4471

XEROX CORPORATION

(Exact Name of Registrant as specified in its charter)

New York (State or other jurisdiction of

incorporation or organization)

P.O. Box 1600

16-0468020 (IRS Employer

Identification No.)

06904-1600

Edgar Filing: XEROX CORP - Form 10-Q

Stamford, Connecticut

(Address of principal executive offices)

(Zip Code)

(203) 968-3000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No $\ddot{}$

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act Rule

Large accelerated filer: x Accelerated filer: " Non-accelerated filer: "

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class Common Stock, \$1 par value Outstanding at September 30, 2006 965,277,511 shares

Forward-Looking Statements

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Quarterly Report on Form 10-Q, and any exhibits to this Form 10-Q, that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 (the Litigation Reform Act). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words anticipate, believe, estimate, expect, intend, will, should and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Quarterly Report on Form 10-Q, any exhibits to this Form 10-Q and other public statements we make. Such factors include, but are not limited to the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to maintain and improve cost efficiency of operations; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other risks that are set forth in the Risk Factors section, the Legal Proceedings section, the Management s Discussion and Analysis of Results of Operations and Financial Condition section and other sections of this Quarterly Report on Form 10-Q as well as in our Quarterly Report on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006 and our Annual Report on Form 10-K for the year ended December 31, 2005 filed with the Securities and Exchange Commission (SEC).

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XEROX CORPORATION

Form 10-Q

September 30, 2006

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Restated Certificate of Incorporation of Registrant filed with the Department of State of the State of New York on November 7, 2003 as	40
amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19,	
2004.	
By-Laws of Registrant, as amended through December 10, 2003.	
Amendment No. 1 to Registrant s 1991 Long-Term Incentive Plan.	
rinonoment (10, 1 to Registrant 5 1771 Dong Termi meentive Fiun,	

Registrant s 2004 Equity Compensation Plan for Non-Employee Directors, as amended through October 12, 2006.

Amendment No. 1 to the Restatement of Registrant s 2004 Performance Incentive Plan.

Amendment No. 4 to the 2004 Restatement of the Registrant s Unfunded Supplemental Executive Retirement Plan.

Amendment No. 3 to Registrant s Universal Life Plan.

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

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

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

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

For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our World-Wide Web site at www.xerox.com/investor. Any information on or linked from the Web site is not incorporated by reference into this Form 10-Q.

Item 1

PART I FINANCIAL INFORMATION

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended			Nine Months Ended						
(in millions, except per-share data)	September 30, 2006 2005			30, 2005	September 2006			oer 30, 2005		
Revenues	4	2000		2005	-	2000	4	2003		
Sales	\$	1,736	\$	1,721	\$	5,284	\$	5,242		
Service, outsourcing and rentals		1,900		1,822		5,600		5,545		
Finance income		208		216		632		664		
Total Revenues		3,844		3,759	1	1,516	1	1,451		
Costs and Expenses										
Cost of sales		1,142		1,108		3,417		3,325		
Cost of service, outsourcing and rentals		1,083		1,017		3,211		3,162		
Equipment financing interest		75		81		227		250		
Research, development and engineering expenses		230		242		685		709		
Selling, administrative and general expenses		985		1,011		2,988		3,066		
Restructuring and asset impairment charges		110		17		146		296		
Other expenses, net		128		206		278		160		
Total Cost and Expenses		3,753		3,682	1	0,952	1	0,968		
Income from Continuing Operations before Income Taxes, Equity Income, Discontinued										
Operations and Cumulative Effect of Change in Accounting Principle		91		77		564		483		
Income tax (benefits) expenses		(416)		29		(347)		(88)		
Equity in net income of unconsolidated affiliates		29		23		85		80		
Income from Continuing Operations before Discontinued Operations and Cumulative										
Effect of Change in Accounting Principle		536		71		996		651		
Income from Discontinued Operations, net of tax								53		
Cumulative Effect of Change in Accounting Principle, net of tax				(8)				(8)		
Net Income	\$	536	\$	63	\$	996	\$	696		
Less: Preferred stock dividends, net				(14)		(29)		(43)		
Income Available to Common Shareholders	\$	536	\$	49	\$	967	\$	653		
Basic Earnings per Share										
Earnings from Continuing Operations	\$	0.55	\$	0.06	\$	1.03	\$	0.63		
Earnings from Discontinued Operations								0.06		
Loss from Cumulative Effect of Change in Accounting Principle				(0.01)				(0.01)		
Basic Earnings per Share	\$	0.55	\$	0.05	\$	1.03	\$	0.68		
Diluted Earnings per Share										
Earnings from Continuing Operations	\$	0.54	\$	0.06	\$	0.99	\$	0.62		
Earnings from Discontinued Operations								0.05		

Loss from Cumulative Effect of Change in Accounting Principle		(0.01)		(0.01)
Diluted Earnings per Share	\$ 0.54	\$ 0.05	\$ 0.99	\$ 0.66

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

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XEROX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

unillons, except share data in thousands) 206 2095 Assets S 1,336 \$ 1,322 Short-term investments 1 120 244 Total cash, cash equivalents and short-term investments 1 120 244 Accounts receivable, net 2.233 2.037 Billed portion of finance receivables, net 2.2378 2.2604 Inventories 1.397 1.201 Other current assets 9.035 8.736 Finance receivables, net 4.852 4.102 Total current assets 9.035 8.736 Finance receivables due after one year, net 4.802 4.949 Equipment on operating leases, net 4.852 1.621 Investments in affiliates, at equity 8.62 7.82 Intragible assets, net 1.829 1.527 Other long-term assets 1.990 1.921 Total Assets 5 2.2,360 \$ 2.1953 Liabilities and Equity 1.525 1.139 1.521 Other current babilities <th></th> <th>September 30,</th> <th colspan="4">December 31,</th>		September 30,	December 31,			
Cash and cash equivalents \$ 1,336 \$ 1,326 \$ 1,220 Short-term investments 120 244 Total cash, cash equivalents and short-term investments 1,456 1,566 Accounts receivables, net 2,233 2,037 Billed portion of finance receivables, net 2,578 2,604 Inventories 1,397 1,201 Other current assets 9,035 8,736 Finance receivables, net 4,802 4,949 Equipment on operating leases, net 4,852 1,627 Total current assets 9,035 8,736 Finance receivables due after one year, net 4,802 4,949 Equipment on operating leases, net 1,652 1,627 Investments in affiliates, at equity 862 782 Intragible assets, net 1,529 1,547 Other long-term assets 1,590 1,547 Other long-term assets 1,590 1,547 Other long-term debt 5 2,496 Accounts payle 1,126 1,433 Accounts payleb	(in millions, except share data in thousands)	2006	2005			
Short-term investments 120 244 Total cash, cash equivalents and short-term investments 1,456 1.566 Accounts receivable, net 2,233 2,037 Bildel portion of finance receivables, net 2,578 2,604 Inventories 1,397 1,201 Other current assets 9,035 8,736 Finance receivables due after one year, net 4,802 4,4949 Equipment on operating leases, ent 4,85 4,31 Land, buildings and equipment, net 1,582 1,627 Investories 1,397 1,611 Deferred tax assets, long-term 1,529 1,547 Other long-term assets 1,890 1,921 Total Assets \$ 2,360 \$ 2,1953 Labilities and Equipty 5 1,499 \$ 1,139 Accounts payle 1,126 1,491 \$ 1,139 Account payle 1,126 1,493 \$ 1,139 Acting tax assets, long-term 5 1,499 \$ 1,139		* 1.227	¢ 1.000			
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Accounts receivable, net 2.233 2.037 Bilde portion of finance receivables, net 2.77 296 Finance receivables, net 2.578 2.604 Inventories 1.397 1.201 Other current assets 9.035 8.736 Finance receivables due after one year, net 4.802 4.949 Equipment on operating leases, net 4.55 4.31 Land, buildings and equipment, net 1.582 1.627 Intragible assets, net 2.88 289 Goodwill 1.917 1.611 Deferred tax assets, long-term 1.529 1.547 Other long-term assets 1.890 1.921 Total Assets \$ 2.2,360 \$ 2.1,953 Liabilities and Equity \$ 1.499 \$ 1.139 Accounts payable 1.216 1.043 1.043 Accounts payable 1.216 1.043 Accounts payable 5.904 6.20 6.26 6.20 6.26 Other current liabilitites 1.040 1.515 <td>Short-term investments</td> <td>120</td> <td>244</td>	Short-term investments	120	244			
Billed portion of finance receivables, net 277 296 Finance receivables, net 2.578 2.604 Inventories 1.397 1.201 Other current assets 9.035 8.736 Finance receivables due after one year, net 4.802 4.949 Equipment on operating leases, net 4.85 1.031 Land, buildings and equipment, net 1.582 1.627 Investments in affiliates, at equip 862 782 Goodwill 1.917 1.671 Defrered tax assets, long-term 1.529 1.547 Other long-term assets 1.890 1.921 Total Assets \$ 22,360 \$ 21,953 Liabilities and Equity \$ 1.265 1.043 Accrued compensation and benefits costs 570 621 1.043 Accrued compensation and benefits costs 570 621 1.043 Accrued tormer medical benefits 5.904 6,139 1.397 Liabilities to subsidiary trust issuing preferred securities 620 626 620 Pension and other denefit liabilities 1.207 1.188		1,456				
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Total current assets 9,035 8,736 Finance receivables due after one year, net 4,802 4,949 Equipment on operating leases, net 4,55 431 Land, buildings and equipment, net 1,582 1,627 Investments in affiliates, at equity 862 782 Intargible assets, net 288 289 Goodwill 1,917 1,671 Deferred tax assets, long-term 1,529 1,547 Other long-term assets 1,890 1,221 Total Assets \$ 22,360 \$ 21,953 Liabilities and Equity S 1,499 \$ 1,139 Accounts payable 1,126 1,043 1,216 Accounts payable 1,216 1,352 1,319 Accure compensation and benefits costs 570 621 1,446 Long-term debt \$ 1,499 \$ 1,139 Accure compensation and benefits costs 570 621 Unearmed income 195 191 0ther current liabilities 1,026 1,352 Total Assets 600						
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Other long-term assets1,8901,921Total Assets\$22,360\$21,953Liabilities and EquityS1,139Short-term debt and current portion of long-term debt\$1,499\$1,139Accounts payable1,1261,04346621Unearned income195191191195191Other current liabilities4,6064,3461,2161,352Total current liabilities4,6064,3461,041,151Liabilities to subsidiary trusts issuing preferred securities620626626Pension and other benefit liabilities1,2071,1881,2071,188Other long-term liabilities1,2071,1881,25514,39914,745Series C mandatory convertible preferred stock88920038883,021Total Liabilities and Equity\$22,360\$21,953Total Liabilities and Equity\$22,360\$21,953Shares of common stock issued980,626945,106945,106	Deferred tax assets, long-term	1,529	1,547			
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Short-term debt and current portion of long-term debt\$1,499\$1,139Accounts payable1,1261,043Accrued compensation and benefits costs570621Unearned income195191Other current liabilities1,2161,352Total current liabilities4,6064,346Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities1,2071,188Other long-term liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$22,360\$Shares of common stock issued980,626945,106						
Accounts payable1,1261,043Accrued compensation and benefits costs570621Unearned income195191Other current liabilities1,2161,352Total current liabilities4,6064,346Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities5,0694,741Treasury stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106		¢ 1.400	¢ 1.120			
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Unearned income195191Other current liabilities1,2161,352Total current liabilities4,6064,346Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106		· · · · · · · · · · · · · · · · · · ·				
Other current liabilities1,2161,352Total current liabilities4,6064,346Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106						
Total current liabilities4,6064,346Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106						
Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Oner current natimites	1,210	1,332			
Long-term debt5,9046,139Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Total current liabilities	4,606	4,346			
Liabilities to subsidiary trusts issuing preferred securities620626Pension and other benefit liabilities1,1041,151Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Long-term debt	5,904				
Post-retirement medical benefits1,2071,188Other long-term liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Liabilities to subsidiary trusts issuing preferred securities	620	626			
Other long-term liabilities9581,295Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Pension and other benefit liabilities	1,104	1,151			
Total liabilities14,39914,745Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Post-retirement medical benefits	1,207	1,188			
Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Other long-term liabilities	958	1,295			
Series C mandatory convertible preferred stock889Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106	Total liabilities	14 399	14.745			
Common stock, including additional paid-in-capital5,0694,741Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106		17,377				
Treasury stock, at cost(225)(203)Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106		5 069				
Retained earnings3,9883,021Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106						
Accumulated other comprehensive loss(871)(1,240)Total Liabilities and Equity\$ 22,360\$ 21,953Shares of common stock issued980,626945,106						
Shares of common stock issued 980,626 945,106						
	Total Liabilities and Equity	\$ 22,360	\$ 21,953			
	Shares of common stock issued	980.626	945.106			

Shares of common stock outstanding

965,278

931,189

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

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended		Nine Months Ended					
	September 30,				September 30,			
(in millions)	2006 2005			2006		2005		
Cash Flows from Operating Activities:								
Net income	\$	536	\$	63	\$	996	\$	696
Adjustments required to reconcile net income to cash flows from operating activities:								
Depreciation and amortization		163		157		481		483
Provisions for receivables and inventory		38		30		104		75