

FINAL TRANSCRIPT

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XRX - Q1 2008 Xerox Corporation Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Xerox Corporation's first-quarter 2008 earnings release conference call, hosted by Anne Mulcahy, Chairman and Chief Executive Officer. She is joined by Ursula Burns, President, and Larry Zimmerman, Executive Vice President and Chief Financial Officer.

During this call, Xerox executives will refer to slides that are available on the website at www.Xerox.com/investor. At the request of Xerox Corporation, today's conference call will be tape recorded. Other taping and/or rebroadcasting of this call are prohibited without express permission of Xerox.

After the presentation, there will be a question-and-answer session. (OPERATOR INSTRUCTIONS) During this conference call, Xerox executives will make comments that contain forward-looking statements which, by their nature, address matters that are in the future and are uncertain. Actual future financial results may be materially different than those expressed herein.

At this time, I would like to turn the meeting over to Mrs. Mulcahy. Mrs. Mulcahy, you may begin.

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

Thank you. And thanks, everyone, for joining us today. If you will turn to slide 4, we will provide a summary of our first-quarter performance.

As you know, we settled the securities lawsuit last month and took the \$0.54 charge in the first quarter. Excluding this charge, we delivered earnings of \$0.27 per share, up from \$0.24 in the prior year.

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Total revenue including the benefit of acquisitions was up 13% this quarter to \$4.3 billion. Wholesale revenue grew by 11%, led by a steady pace of activity, color, and services. Currency gave us a 4-point benefit.

During the quarter, we increased our investments in marketing, distribution and pricing, resulting in improved install activity across the board. It is this activity that fuels our annuity stream and long-term growth. While these actions paid off in activity gains, the investments as well as the mix of business put pressure on our earnings this quarter.

The decline in gross margin was offset by a lower tax rate, delivering EPS in line with our expectations. But we know we can improve our overall operational performance, balancing investments in the business with costs to bring margin back in line with our model.

We are operating in a tougher economy, and we are competing more aggressively to win share. At the same time, our commitment to earnings expansion is not wavering. We plan to continue investing in key marketing and sales initiatives, while taking actions that will reduce costs.

As a result, we believe it is prudent to take a \$0.05 restructuring charge in the second quarter that helps us accelerate cost actions. We will walk you through how this affects Q2 and full-year guidance after we review the first-quarter results.

During the first quarter, color revenue grew 13% and now represents 40% of total revenue, an increase of 3 points from prior year. In the Office and Production markets, install activity ramped up, the benefit of new products, expanded distribution, and more aggressive positioning in the marketplace.

Our focus on leading with services continued to fuel our annuity with 8% growth in Q1. I will take a deeper dive on revenue in a moment.

Q1 is typically our lightest quarter on cash flow, yet we are on track to deliver full-year expectations, excluding the cash impact from the securities litigation settlement. As important, we are continuing to build shareholder value through \$334 million in stock buyback during the first quarter. Larry is going to provide you more details on our financial position in a few minutes.

So, netting out the quarter and looking ahead to the balance of the year, we believe with the Q2 restructuring actions, focused marketing investments, and continued progress driving activity and annuity, we can deliver solid operational earnings expansion this year. We will provide detail on what we expect for GAAP and adjusted EPS before we open it up for your questions.

If you will turn to slide 5, we will review Q1 revenue. With the addition of Global Imaging to our core business, we're competing aggressively to increase placements of Xerox systems through new products and expanded distribution. This chart shows the year-over-year compare in actual constant currency. The adjusted column on the right assumes that Global's revenue for Q1 '07 is included in our results for the same period. Again, total revenue was up 13% in the quarter to \$4.3 billion. When we adjust the compare for Global Imaging, revenue was up 5% with 4 points of positive currency.

Equipment sales were up 2% in the quarter, adjusted for Global Imaging, and down 2% in constant currency.

Post sale, which represents more than 70% of total revenue, was up 11% in the quarter. Adjusting for Global and the benefits from currency post sale was up 2% in Q1.

So I know you are wondering if and where we are seeing the impact of the economy, so this is a good place to provide a brief explanation. As we said last quarter, we operate a global business with more than half of our revenue generated from customers outside of the US. We serve a wide range of markets, giving us diversification globally as well as in market scope.

We are feeling the impact on the corporate environment in the US with delayed decisionmaking on bigger equipment deals. We've made some pricing investments, especially in production mono, to drive more activity; and the strategy is working,

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generating more profit and more revenue. As importantly, we're seeing steady improvements from our operations in Europe and in key developing markets like Russia, Eastern Europe, and India.

The real benefit to our business in tough economic times is our healthy annuity stream. We generated \$3.2 billion in post sale this quarter, \$300 million more than Q1 of last year.

We did see more conservative purchasing of supplies by our North American distributors, reflecting their cautious approach to managing inventory in this economy. But we remain very confident in the continued strength of our annuity.

More of the business from our customers is moving to rental or operating leases rather than capital acquisitions, especially in our production business. With operating leases we don't see the revenue in equipment sales; it flows through to post sale over time.

Building off a strong 2007, Xerox Global Services generated \$859 million in annuity revenue, up 8%. By targeting more vertical markets like healthcare, legal and education, we're bringing our technology and expertise to areas that can decrease costs by simplifying their document-intensive work. It is really an attractive proposition in any economy.

So, summing it up, it's a challenging market in US corporate environment. Fortunately, we are global and diverse. Our annuity stream drives profitable revenue growth, and we are stepping up marketing investments to win the installs and service deals that fuels our long-term success.

And color is part of this success, so if you will turn to slide 6 we will take a look at color. Last year, more than 40 billion pages were printed on Xerox color systems, significantly more than any competitor. Most important, pages remain the best source of our double-digit color annuity growth. Color page volume was up again this quarter, growing 32%. Color now represents 14% of total pages, 3 points more than Q1 of last year.

Revenue from color this quarter was up 13%, which includes a 6-point currency benefit. Color equipment revenue was down 1% in constant currency, largely due to the mix of products sold and the pricing investments that are driving activity.

The leverage here is in the annuity, with post sale from color up 16% in the quarter. That is without factoring in any benefit from Global Imaging. Color now accounts for 40% of our total revenue, but only 14% of our total pages, indicating a tremendous growth opportunity for Xerox going forward.

So we will turn to slide 7 for a review of the Production business. But before we get started, let me explain one change in the reporting on the Production and Office segments. Results from our Developing Markets Operations are now included in the revenue, providing a global perspective on our performance in these areas. We will still show you total DMO results so you too can track progress in this growth area. But know that numbers here include Developing Markets' results as well.

Total production revenue grew 6% including a 5-point benefit from currency. Equipment sale revenue was down 1%. Again, the focus here is on post sale and where we see the benefit of tremendous page volume. Direct production systems generate more than half of the total digital color pages in the entire industry. That is fueling the 9% growth in our Production annuity and is the leading indicator for stronger Production revenue growth going forward.

We saw solid install growth in Q1, reflecting demand for new products and the benefit of pricing investments in the Production mono business that drove strong activity. While color is certainly a key growth area in this business, black and white remains a big, profitable business for us. With continuous feed, high-volume cutsheet, and light production systems, we fully intend to remain the industry leader here.

In color we had continued strong demand for the DocuColor 7000, 8000 and 260 series. Increasingly, developing markets are ramping up in digital production printing; and this quarter was no exception, with DMO production revenue up 28%.

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Next month is drupa, the industry's largest tradeshow and held every four years. We will be the strongest force at the show in digital printing, highlighting the competitive advances of our technology, workflow, services, and applications. We will also make news with new technology and industry breakthroughs that will further strengthen our leadership. And there is more to come on that.

So if you turn to slide 8, we will review the Office segment. With the benefit of Global Imaging in our results, total Office revenue was up 16% in the quarter and 12% in constant currency. Our competitive play to install more and more Xerox units helps to boost post sale, which was up 13% in the quarter; and equipment sales were up 25%.

Our continued success in this market is led by expanding distribution, bringing the quality of our brands and extensive portfolio to more businesses of any size. We're doing that through Global Imaging, which continues to expand their business, acquiring five more companies in the short time they've been part of us. And we're doing it through stronger partnerships with our resellers, agents, and dealers.

Building on the strategy to grow channels regionally, we just announced our pending purchase of Veenman, the largest office technology distributor in the Netherlands. This acquisition gives us access to more than 4,000 new, small, and medium-sized customers and more than doubles our sales force in this region.

We're going to continue on this path -- great technology and services, more ways to sell the Xerox brand, and a strengthened competitive position that gives us more marketplace momentum. We're seeing that progress through increased install activity. 35% increase in black and white MFPs, and 40% increase in color multifunction. Installs of color printers were up 35%.

Developing markets continued to contribute to growth in the Office segment with equipment sales growth up 21% and total revenue up 12%. In the second quarter, we will add to what is already the industry's broadest portfolio of offerings, so expect to see news about several product launches aimed at businesses small to large, priced right, with features that make it easier to get work done.

So if you will turn to slide 9, we will take a closer look at our Developing Markets performance. While the results from our Developing Markets are reflected in the Office and Production segments, here is a look at overall performance.

Revenue from DMO was up 17%, with post sale up 16% and equipment sale revenue up 21%. Growth is driven from our strong presence in Eurasia, in India, Central and Eastern Europe, and Latin America.

While our install activity is weighted towards products for small and midsize businesses, we are seeing increased growth for our production devices and higher-end multifunction systems. In all, it was a very good quarter for DMO across the board.

Just a quick summary before I hand it over to Larry. Our revenue story is consistent -- annuity, activity, acquisitions, color, and services were all key drivers of growth. Our earnings were impacted by the combination of marketing investments, channel mix, and some negative currency that resulted in lower margins. But we're taking actions in Q2 to get the model back on track.

Our investments in expanded distribution drove stronger activity, fueling the annuity stream that supports our long-term profitable growth. That is a good place for me to hand it over to Larry. I will be back to wrap up and discuss our second-quarter expectations; and then Larry, Ursula, and I will take your questions. Larry?

Larry Zimmerman - Xerox Corporation - EVP, CFO

Thank you, Anne, and good morning. While we delivered \$0.27 of adjusted EPS and met the middle of our guidance range, we had some external and internal elements that impacted the way we achieved it. I will go into more detail on the next few slides, but my key messages are -- consistent revenue trend but skewed to lower-margin channels; lower total gross profit margin,

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down 1.3 points, driven by a sales margin decline of 2 points. The decline is due to product and channel mix, price investments, as well as rapid weakening of the dollar to the yen. Growth in selling expense as we invest in coverage and distribution. A tax settlement that will yield cash this year that offset the gross margin decline. Adjusted earnings of \$0.27. GAAP earnings per share were lower by \$0.54 as we took a \$491 million after-tax litigation charge.

Now, let's be more specific. Slide 11. Anne covered revenue, so I won't repeat it. But I want to reiterate that in this economic environment, we were quite pleased with the revenue results this quarter.

Channel mix, product mix, pricing, as well as a 12% weakening of the dollar versus the yen in the quarter gave us 39.3% gross margin, 1.3 points down year-over-year and below our model of 40% to 41%.

Given the dynamics of the market, we decided to accelerate cost actions and think it is prudent to assume we will be in the low end of the 40% to 41% range. We have successfully done this before and know how to adjust our business model so that it continues to deliver expanded earnings. The focus of our actions is on technical service and supply chain costs, G&A, and other infrastructure.

We expect this to be in the \$60 million range. Although as we always do, we will make every effort to offset it, we believe that we need to adjust our full-year guidance to contemplate this approximately \$0.05 of restructuring action.

RD&A continues with consistent investment. SAG increases are primarily related to coverage and marketing investments of \$21 million around the world. We believe our R&D investments and distribution investments will drive future growth. In SAG, \$38 million is due to currency, and \$98 million is due to Global.

Other net was up \$23 million year-over-year and is driven by currency losses, primarily due to the rapid change in the yen to the dollar relationship in the quarter. We do a certain amount of hedging, but when you have this significant kind of change in 90 days, it is hard to offset.

Equity income was up due to last year's restructuring at Fuji Xerox. Our adjusted tax rate was 21%, excluding our litigation charge, and was improved due to the settlement of a tax audit that will yield cash this year.

So adjusted earnings without the litigation charge were \$0.27. GAAP earnings with the \$491 million litigation charge were a loss of \$0.27.

Slide 12. Cash flow from core operations was \$5 million, and cash from Ops was \$52 million. This is consistent with what we achieved in the first quarter of '07 with the exception of a \$100 million swing in Accounts Payable, which is just a timing issue as to when cash leaves to pay bills.

First, fourth quarter had a particularly strong source of cash from Accounts Payable. Inventory grew as it does each first quarter to build up for the year. So I think the results are on a path for good cash flow performance for the year.

Our guidance was \$1.8 billion to \$2 billion before the litigation charge. Now we will be in the range of \$1 billion to \$1.2 billion just adjusting for the \$795 million before-tax litigation reserve.

CapEx was \$71 million for the quarter, on target; and debt increased slightly.

Our share repurchase for the quarter was \$334 million, as we said we would accelerate share repurchase after last year's acquisition of Global Imaging. As of today, we have purchased \$354 million or 23 million shares this year, for a total of \$2.5 billion and 161 million shares since the inception of the program. We have approximately \$1 billion remaining under our January 2008 Board authorization.

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Slide 13. Our business model is driven by annuity. As Anne mentioned, even in times of economic uncertainty this provides us a stable revenue stream and good source of cash flow. The leading indicators for our annuity continue to be positive. As we go through this scorecard, keep in mind that machines in the field, MIF, as well as page data do not include printers, developing market countries, and Global Imaging Systems. And all revenue measures exclude Global. Including these items would only improve the results.

Looking first at the top left box, digital revenue in the quarter was up 8%. MIF was up 7% and digital pages flat. Color continues to drive digital growth, with 16% revenue, 39% MIF, and 32% page growth. This growth, along with the positive impact of color on price per page continues to provide us a great opportunity, as color represents only 20% of the MIF and 14% of the pages. Color also increases price per page.

Black and white digital pages and MIF is stable, with declines in pages being driven in part by the transition of pages on to color and color-capable devices. Black and white MIF does continue to grow, which along with our strong color growth is a positive indicator for future annuity.

We also continue to see strong growth in services, which is another key post sale indicator and an important element of our growth strategy. Services annuity is up 8% in the first quarter. We see this growth continuing as more and more customers look to Xerox to help them reduce their costs by optimizing and simplifying their document process infrastructure.

These leading indicators as well as the strong install performance that Anne reviewed with you will reflect well as -- well on the continued annuity performance.

So in summary, we delivered consistent revenue performance. We understand and have actions in place to improve our gross profit margin, are confident in our investments in coverage and distribution, and cash is on track and allows us to move forward on our share repurchase program and continue to deliver shareholder value. Now I will give it back to Anne.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Thank you, Larry. So if you will turn to slide 15, we'll view our earnings expectations going forward. You're going to see here the adjustment to the litigation charge in both our Q1 results and full-year guidance. In the second quarter, we expect earnings in the range of \$0.23 to \$0.25, and that includes \$0.05 of restructuring. As Larry mentioned, we will work hard to offset this \$0.05 impact during the balance of the year.

So for the full year, we are confident we will deliver another year of earnings expansion, with adjusted EPS in the range of \$1.26 to \$1.30.

So if you will turn to slide 16 for a summary, and then we will open it up to your questions. Our results this quarter are a good indication that our growth strategy is working, yielding profitable revenue to growth and activity, annuity, color, and services. We are not letting up at all in any of these areas. In fact, our marketing initiatives are strengthening our competitive position in all areas.

The compounding effect of marketing investment, business mix, and the impact of the yen could not be offset by our traditional cost productivity. We understand the issue; we know how to fix it; and we are already executing on the required actions.

At the same time, we remain focused on building shareholder value through share repurchase, dividends, and acquisitions. We remain quite confident in our ability to deliver on our commitment, build value, and win in the marketplace. So thank you for your attention. And now Larry, Ursula, and I will take your questions.

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QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Jay Vleeschhouwer with Merrill Lynch.

Jay Vleeschhouwer - Merrill Lynch - Analyst

, Thanks. Good morning. Anne, Larry, Ursula, could you comment on the two sides of the cost and expense coin? On the one hand, could you be more specific about the restructuring that you're going to be taking, particularly in terms of supply chain?

This is not really a new issue. You have seemed to have had an ongoing focus anyway for some time on procurement, cost of manufacturing, ESR, gross margin. So what is incremental here in terms of what you're going to be doing?

On the other hand, could you be a little bit more specific in terms of the nature of the investments you have been making in coverage and marketing. Would you expect that to be ongoing, incremental spending as we saw in Q1?

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Okay, Jay, thanks. I will start and certainly turn it over to Ursula as it relates to the supply chain restructuring. But let me start with the expense side.

As we said in the call, the vast majority of SAG growth was really due to Global and currency. It was about \$128 million of the growth. The remaining \$42 million, half of that was with regard to compensation increases year-over-year.

The other half was all incremental coverage and marketing. It came in the form of incremental territories as it relates to things like continuous feed, and packaging and photo opportunities, as well as just pure coverage investments in more feet on the street. Marketing, particularly as it relates to low-end demand, which is yielding already in the short term, so quite intentional as it relates to those marketing investments.

We do view those investments as continuing, although we believe that the growth will moderate in absolute spend, and the ratios will get better for the balance of the year as it relates to SAG. So I think that kind of gives you a sense of where we are headed.

On the cost side, there is no question that a combination of elements -- currency, pricing, channel mix, the fact that we have very strong growth in developing markets and services, which have lower margins, with relative weakness in the US, all played out there.

That is why we decided -- we think it is really smart to do the restructuring now. These are things that we have been doing and continue to plan doing over the next four to six quarters. But we know what to do so we can accelerate it and clearly drive improvement quicker to offset some of the other pressures that we are seeing.

So the vast majority of the restructuring is aimed at cost; and it is going to be driven by technical services, supply chain, and for specifics on that, Ursula, you may want to comment.

Ursula Burns - Xerox Corporation - President

Jay, you are correct. We have been speaking about making sure that we keep ahead of ourselves on supply chain excellence, particularly in the area of costs. As we broaden our channels, we have to look at that just to keep effective and efficient.

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What Anne said, we just to actually accelerate some of the actions. The two areas that we are going to focus on which will have an ancillary third area affect are warehousing, for sure; some manufacturing; and as we restructure and look at our warehousing and manufacturing differently, it will drive some improvement in transportation cost as well. So broad infrastructural areas, but focused on warehousing, manufacturing, and some transportation.

Jay Vleeschhouwer - Merrill Lynch - Analyst

The next question has to do with pricing. You seem to have been at the wrong end of the pricing investment range we've talked about for some time. Could you foresee that it might go even beyond the minus 5% to 10% that we have typically seen in any or all areas?

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Jay, I wouldn't necessarily say it is the wrong end. It was the high end in the sense that we say it's a 5% to 10% range, and our pricing investments clearly were in the 10% range.

Selectively, we really focused on two areas. One was the mono production area. You will see from the activity that it worked and it will continue to drive mono production activity, which is a great profit driver for us in terms of pages.

The other is to continue the acceleration of color adoption. So really being aggressive and making sure that it's attractive to acquire color-enabled technology in this. You saw the activity levels in color, which were 40% in multifunction, 35% in color printing, a little bit more modest, 5% or 6% range, in production color. But still good activity growth where there is so many -- at the high end where the pages are.

So I think we certainly intentionally did that. We -- this is more about us than it is about the competition. Clearly, we think we can manage it going forward so that we don't see additional spikes in pricing.

I think our intent is to actually deal with the cost side of the equation so that we can continue to be aggressive in pricing and get the benefits of the activity, but not see the hit in margin that we did this quarter.

Jay Vleeschhouwer - Merrill Lynch - Analyst

All right. Finally, you mentioned your view of US corporate business conditions. How would you describe your other key markets like public sector, graphic arts, transactional, financial, and so forth?

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Yes, I think public sector is fine. We are seeing good, continued activity in public sector. SMB fine. Actually in financial services we're doing very well, because we are providing a lot of document services to optimize infrastructure that are helping kind of rationalize and size costs in the financial services industry.

So, you know, we singled out kind of the general corporate enterprise environment just because there is a level of caution and anxiety in terms of decision-making that clearly is delaying. It is primarily on big equipment deals, though, because we were really pleased -- our services signings were double-digit growth in the quarter. So we felt good about that.

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Ursula Burns - Xerox Corporation - President

In graphic arts, Jay, this is Ursula. It remained strong for us as well. That is where we are seeing the growth in our high-end cutsheet and production color devices.

Jay Vleeschhouwer - Merrill Lynch - Analyst

Thank you.

Operator

Carol Sabbagha with Lehman Brothers.

Carol Sabbagha - Lehman Brothers - Analyst

Thanks. Just a couple of quick questions. Sticking with the economy question, have you seen any of the weakness, the economic weakness in the US move overseas, Europe or anything? Well, you're not big in Asia, but anything you're seeing through Fuji Xerox in Asia.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

I think the answer would be no. Our Europe results we kind of highlighted as being strong. You know, clearly, Developing Markets as you saw was extraordinarily strong from a growth and a profitability perspective. So, we have not seen any downturn either in Europe or anyplace else.

Carol Sabbagha - Lehman Brothers - Analyst

Okay. Then on color, color equipment sales, not installs, but looked relatively weak in the Production business. Can you just provide a few more details on what went on there? Was it a trading down? Was it pricing in color production? Or are you seeing a little bit of slowdown because of the economy there?

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Well, I would say it is not economy, because activity was quite strong. Even though certainly pricing certainly is a factor, I would say that in color, it is a continuing trend for us. There wasn't really any major shift in color pricing investments.

Where we really shifted was on the mono production side. If you look at color ESR, operating leases and rentals are really becoming a much bigger factor, particularly in the Production environment. In the world of iGen and DocuColor we are seeing a lot more operating lease activity.

If you actually looked at the year-over-year impact, it cost us 2 points of the equipment sales. So that would actually keep us, quite frankly, very much on trend on the equipment sales side, with good activity that actually was as strong or stronger in most areas of the color portfolio.

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Carol Sabbagha - *Lehman Brothers - Analyst*

With more competition coming into that market as the year progresses, what is your view around the competitive threats in color production?

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

Ursula?

Ursula Burns - *Xerox Corporation - President*

I think that we have seen very little near-term impact, hardly any. I think that the product that's come to market already, the Canon 7000, we are very comfortable with our performance of our 7000AP device that we launched last year and our 8000AP device. Those two devices performed very well in the marketplace, and face off against the Canon 7000 very effectively.

HP is talking about coming with a color device. If you look at our entire portfolio, entry production color and production color are comfortable as well there.

I think the only other competitor that has talked in this space is probably Ricoh, and we see absolutely no impact on our activity from Ricoh.

So I think that while the competitors are speaking about being there, we are there today and performing very well in EPC and production color.

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

I would add we will have a lot more out there in the future, too. So we are not standing still by any means.

Carol Sabbagha - *Lehman Brothers - Analyst*

Is the pricing on the derivatives of the 7000, the 16 to 65 page per minute, what do you think about the pricing structures of those two products, I guess?

Ursula Burns - *Xerox Corporation - President*

I think as Anne spoke about, our equipment pricing are in line with pricing declines, are in line with what we expect in the marketplace. No special activity.

I think that this breadth of our portfolio allows us to hold pretty well to tight pricing activity in our segment. So 50, 60, 70, 80, 90, and 110, we can actually hold prices in those product lines because we have such a broad product line.

Carol Sabbagha - *Lehman Brothers - Analyst*

Thank you very much.

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Operator

Ananda Baruah with Banc of America.

Ananda Baruah - *Banc of America Securities - Analyst*

Thanks for the question. I guess the first one is, it sounds like the restructuring charge that you are taking this quarter is onetime in nature. It sounds non-recurring in nature. So I guess I'm just [interested] in getting your view on why it is being included in the '08 outlook.

Then I guess next question would be, just didn't see the iGen pointed to in the Production segment comments. Just wondering what is going on with the iGen.

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

Well, let me just begin by saying we didn't highlight iGen because, quite frankly, the 7000/8000 activity was the highlight, if you will, in terms of growth. But iGen absolute installs we are quite pleased with, and the trends have been very positive.

We did have a very, very strong performance a year ago in iGen that muted the performance a little bit. But in absolute numbers it is on trend and we are pleased. So you shouldn't read anything negative into the iGen performance.

Pages continue to look great in iGen, driving very, very strong post sale growth from the iGen product line.

You know, on the restructuring charge, I think we looked at as we clearly -- these are cost actions that we had anticipated taking over the next four to six quarters. We are accelerating them. We think it as the right thing to do in light of all that we know right now.

I think as a team we feel very committed that we really have an accountability to offset those. Although we are not prepared today to tell you how, that is going to be a big focus of ours going forward, so that we can remain -- really keep the integrity of our outlook as we delivered expectations to the market.

So I know that there's different companies do it different ways, but we actually think this is the right way to do it.

Ananda Baruah - *Banc of America Securities - Analyst*

Okay, I appreciate the commentary. Just I guess more of a clarification around pricing. It sounds like you are not seeing anything in the general marketplace -- or correct me, I guess, maybe you can just answer this question, I suppose. But what are you seeing in terms of pricing in the general marketplace? Sort of away from the specific actions that you guys have been taking to accelerate product placement.

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

You know, I just don't think there is anything that we would look at that we would say is really outside of the trends we have been seeing. If anything, I think there is a level of consciousness about profitable revenue growth in the industry. So we are not seeing anything that really is out of the ordinary.

As I said, we did decide that accelerating the mono production business was a very wise thing to do in terms of the size of that market and the breadth of our portfolio; and it is working.

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Obviously, we didn't anticipate some of the currency impacts and from a yen perspective that we had to absorb during the quarter. But I think that overall there is nothing. Ursula, from your perspective?

Ursula Burns - Xerox Corporation - President

No, I think that you said it all. In the high-end cutsheet area, we took actions to drive placement, but in color across the board, Office and Production, we see nothing out of the ordinary.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

And Global, which has a great pulse, if you will, on the marketplace in terms of the SMB market, really hasn't seen anything from a pricing perspective that has impacted their margins.

Ananda Baruah - Banc of America Securities - Analyst

Thank you. Then just one last one, going back, circling back to the demand comments, if I could. It does seem from a broader IT hardware perspective demand has certainly softened in the US some. It sounds like based on our checks, this is just broader hardware, that Europe is kind of following a couple months behind.

So, do you get any sense that -- it sounds like you not seeing an impact to your European demand yet. But do you get any sense that something could be coming up over the next couple months, based on conversations you are having with customers? I guess that is the first part.

The second part, it sounds like you're saying Global is holding up. Sounded relatively well, maybe in line, putting up the kind of growth that they have been putting up in SMB in the US. Which has been -- which is pretty impressive given that sort of SMB in the US has been slowing markedly for kind of general IT products.

Do you get a sense that Global will be able to kind of continue putting up those kinds of growth numbers as we move sort of through the middle of the year here?

Anne Mulcahy - Xerox Corporation - Chairman, CEO

So, Europe, first. I think one of the things about Europe is that we actually have, if you looked at the portfolio in Europe, there is more of a services content in terms of contracts in Europe than there is anywhere else in the world. So very big services deals; very big portfolio of pipeline for services opportunities.

I do think that the services business is more resilient than the hardware business. So we actually get a relatively stable and even bullish outlook from Europe in terms of the impacts that our services offerings are having in Europe. So I think that really is a help. So we are not as concerned about a downturn in Europe in general.

On Global, from a trends perspective, we are really pleased. I think it is important to note that first quarter of last year was their last fiscal quarter. They were on a different cycle than we were. It was their strongest quarter. So the compare clearly put pressure on their equipment sale performance. Their post sale was great.

We are not at all concerned about the trend that Global is on. We think they have got just an extraordinary discipline in delivering results. So although the compare was a really tough one based upon the fiscal cycle, everything else looks great.

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Ananda Baruah - *Banc of America Securities - Analyst*

Thanks a lot. Very helpful.

Operator

Chris Whitmore with Deutsche Bank.

Chris Whitmore - *Deutsche Bank - Analyst*

Thanks very much. You mentioned some of your channel partners are reducing inventories. Can you give us some color where channel inventory levels are and the magnitude of the impact in the quarter?

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

You know, I can give you some general numbers here. But you know, I would look at it and say just year-over-year the impact to us was about, I would say, about an \$8 million profit impact, which you would translate into something like a \$15 million to \$20 million revenue impact for inventory levels in the channel.

Which is substantial, but not unusual. We have been in these areas before, and I do believe that it is cyclical. They do come back. Clearly this is one that we think will come back as it relates to channel inventory.

So the difficult part of it is that because of the flowthrough of profit from consumables it really does have a big hit in terms of the profit perspective. So. But there is no question it will come back.

If you look at the equipment sales, I mean, look at the 35% growth in color printers. There is nowhere to go but up in terms of catching up on the supplies perspective. So we do think it was kind of a tactical move in the quarter that has to repair itself over time.

Chris Whitmore - *Deutsche Bank - Analyst*

Do you have a sense as to where those channel inventories are now? Are they going to continue to work them lower, do you think, over the next couple quarters? Or is that behind us at this point?

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

I don't think I want to share the specifics on channel inventory levels. But I think that the strength of equipment sales would suggest to you that it would be difficult to actually manage the inventories any lower.

Chris Whitmore - *Deutsche Bank - Analyst*

Okay. Second question relates to just printing volumes overall in conjunction with the economy. Are you seeing your customers -- any pressure there on volumes?

And related, are corporates printing in color last on some of the color-capable devices? Are you seeing any usage pattern changes in color printing? Thanks.

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Anne Mulcahy - Xerox Corporation - Chairman, CEO

I think the answer is no. The color pages were up 32% in the quarter. The average for all of last year was 31%. So we think color pages would indicate we've got a really consistent level of color printing.

I do think it is fair to say that there is more printing on color-enabled devices. So that some of those may be kind of more black and white in nature, just based upon what color-enabled does. But the overall pages coming from color devices is staying quite robust, which we're quite pleased with.

Chris Whitmore - Deutsche Bank - Analyst

One final question for Larry. Larry, bad debt was up slightly in the quarter. You sold about \$200 million in receivables. Can you talk just generally about your customers' credit quality, and your DSOs, etc., and payment, and the general health of that book? Thanks.

Larry Zimmerman - Xerox Corporation - EVP, CFO

Generally speaking, we were quite pleased with the aging and payment and the way AR is going. I mean, I think there are always areas in AR where you can improve DSOs, but we've had really good improvement in DSOs over the last couple years. We don't see any real pattern, negative pattern at all on receivables.

I think you get these onesies and twosies of ups or downs adjusting the reserve. But we are comfortable with where it is right now. Don't see any real change.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Okay, I think there is time for another question.

Operator

Shannon Cross with Cross Research.

Shannon Cross - Cross Research - Analyst

Good morning. Just a couple of final questions. Anne, maybe you could talk with regard to what's been going on in your equipment sales. Obviously you've had substantial growth in terms of shipments, very strong placements this quarter, sort of I think accelerating but continuing a trend you have seen over the last few quarters.

How should we think about what is going on within your MIF, when we are going to start seeing it more reflected in post sale? Just your thoughts on sort of how this trends and how we think should be thinking about the year as we go forward, so that we do start to see, again, a reacceleration on the post sale line.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Well, I think, as we look at it and that chart that Larry shows which is really the indicators for annuity, gives us a lot of confidence with regard to post sale. You can have an anomaly in a quarter just because 90 days you can have some shift in terms of whether it's billing or supplies or that kind of thing. But those indicators really are the key to post sale acceleration.

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The real keys are color, and with 32% page growth and we're seeing digital MIF growing, we are seeing color MIF growing very nicely. You know, so services growing at 8%. I mean, all of those clearly are the way we look at what the future is going to bring in post sale. I think we do believe that over the course of the year, as we look back, you will see very good progress in post sale.

It is why we keep focusing so much on activity and making sure that we report activity growth, because it truly is the best indicator for drivers of annuity.

Shannon Cross - *Cross Research - Analyst*

Okay. I'm sorry if I missed it, but did you give what your total MIF has done?

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

I didn't. I can. Total MIF has grown 3%. That includes everything, Shannon, so it is light lens included, all digital MIF growth 7%, and our color MIF grew 39%.

So if you look at the trends, you know, as we looked at full-year 2007, MIF was growing at 2%; in the first quarter of '08 it is 3%. Digital MIF is stable. And color growth went from 35% full-year '07 to 39% in the first quarter.

So there is nothing that doesn't look good in terms of install activity and MIF trend.

Shannon Cross - *Cross Research - Analyst*

Okay, great. Then if you could just talk a little bit -- there's obviously been a lot of things going on on the distribution side with Danka and Konica and with what Ricoh is doing and with IBM.

If you could just talk a bit about what you are seeing from the competition, how you are viewing it. Obviously, Ursula talked a bit about on the color side with the Canon product. But just in general how you sort of see the copy world shape going I guess through 2008.

Anne Mulcahy - *Xerox Corporation - Chairman, CEO*

Okay, you know, a good indication is Ursula and I were actually down with Global last weekend, and we talked a lot about what is happening in the marketplace and kind of the channel perspective. I mean, I think we see consolidation out of weakness versus out of strength. That positions us well to gain share in that environment.

So we're actually looking at it and targeting it, whether it is the Ricoh acquisition of the IBM continuous feed or the Konica Minolta acquisition of Danka -- all of that, we believe, creates an opportunity for us to gain share in this market.

Which is one of the reasons why we thought it is time to be somewhat aggressive on the marketing and coverage side, because we think we are best positioned right now to gain share. Obviously, we are taking a similar strategy in Europe with the acquisition of Veenman, which is a Global-like well-run company, great returns, that sold no Xerox technology, that will now be integrating Xerox technology into great customer relationships.

So I think we are real clear on this one. We know where we are going, and we think we're advantaged from a distribution perspective, and it just keeps getting better.

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Shannon Cross - Cross Research - Analyst

Okay, great. Thank you.

Anne Mulcahy - Xerox Corporation - Chairman, CEO

Okay. Thank you very much for your participation and your interest. Have a great day.

Operator

Thank you for your participation in today's conference. This concludes the presentation and you may now disconnect. Good day.

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