

# **Xerox earns soar following ACS buyout, shares pop**

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FILE - In this Jan. 24, 2008 file photo, Xerox Corporation headquarters in Norwalk, Conn. , is shown. Xerox said Thursday, July 22, 2010, second-quarter profit jumped 62 percent and revenue jumped 48 percent as the company benefited from its \$6 billion acquisition of outsourcer Affiliated Computer Services.(AP Photo/Douglas Healey, file).

(AP) -- Xerox Corp.'s net income jumped 62 percent in the second quarter as the company reaped the benefits of its \$6 billion acquisition of outsourcer Affiliated Computer Services and notched strong printer sales.

Shares leapt 6 percent after the company raised its 2010 guidance.

The numbers, reported Thursday, show the effects of Xerox's transformation with the ACS acquisition and underline the fact that companies are spending more on technology as their budgets mend. That trend has been illuminated in the past couple of weeks by other heavyweights such as Intel Corp., IBM Corp. and EMC Corp.

Yet the quarterly reports have largely been overshadowed by worries over the health of world markets and the possibility orders could evaporate as the year rolls on.

Xerox's CEO, Ursula Burns pointed to "some signs of life" in spending by large corporations. She said business in Europe is "pretty strong" despite the debt crisis and worries the governments of Greece, Portugal and Spain could default on loans.

The company's clients are still smarting from the nasty economic downturn, yet there are signs that the recovery has gained momentum in the right direction.

"Clearly, there's caution. Clearly, there are questions," she said on a conference call with analysts. "But what we see is continued investment in color, continued investment in the new technologies we're putting out and definitely continued investment in services."

The ACS acquisition played a big part in Xerox's performance. The deal was completed in February, so ACS's numbers were only included in this year's results.

The deal was part of a trend for big technology companies to focus on services. ACS does outsourcing of document and data management, which is particular interest to Xerox, as well as finance and accounting

and other tasks.

Stronger printer sales were also important for Xerox. They are critical for selling the long-term maintenance and other services contracts that make up more than 80 percent of Xerox's total revenue.

Xerox's profit beat Wall Street's forecasts but revenue fell just short of expectations.

Net income was \$227 million, or 16 cents per share, in the second quarter, versus \$140 million, or also 16 cents per share, in the year-ago period. The number of Xerox shares for the period ended June 30 was significantly higher than last year because the ACS deal included cash and stock.

Excluding items, Xerox Corp. would have earned 24 cents per share, which beat analysts' expectations of 21 cents per share.

Revenue was \$5.51 billion, up from \$3.73 billion, but slightly less than most analysts expected.

One potential concern is the fact Xerox saw a drop in demand for its technical services, which include equipment maintenance. That is a sign that businesses bruised during the recession remain wary, and are holding back on some types of spending.

Xerox blames "a continued but moderating decline" in the number of pages being printed. Revenue in Xerox's biggest category - which includes services, outsourcing and equipment rentals - rose 82 percent but would have fallen 1 percent if ACS's results had been included in last year's results. The company noted that outsourcing revenue grew.

Sales of new equipment were strong, rising 12 percent to \$930 million.

That should eventually translate to more pages being printed, but Xerox noted that change doesn't happen immediately.

For 2010, the company now expects net income of 88 cents to 92 cents per share, versus the earlier forecast for 75 cents to 85 cents per share.

In midday trading, Xerox shares rose 51 cents to \$8.92.

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