

Thank you so much, Vernon, and probably the nicest introduction that I have ever had and Vernon is a tough act to follow even when he is introducing you. I want to tell you what a pleasure it is to be here with you today. I really don't get a chance to be on a podium and have a chance to thank Vernon Jordan very often. You all know him, what a hell of a stand-up guy. I have to tell you he did play a very special role at Xerox. He has been a director of Xerox for more than thirty years. When the going got tough at Xerox, he could have run for the exit, he didn't, he rolled up his sleeves and helped. At a time when it was, I have to tell you my phone wasn't ringing. I could always count on that at least one call a week from Vernon Jordan giving me advice and support. So, a huge thank you from me and from the people of Xerox for being there when the going got tough and really helping us through those times in a company that pioneered copying, this man is one of a kind. So, thank you, Vernon Jordan.

So, he gave me very specific requirements as to what to talk about today, a little bit about the Xerox turn-around. More importantly what we have learned after having gone through this for the last few years. Also, if there are lessons translatable, not only for business but even as we think of the state of our nation today. So it is a tall order and I need to do that quickly so there is plenty of time for questions as well.

Let me talk a little bit about the Xerox turn-around as Vernon said that no one missed the stories of the Xerox crisis. I think the interesting part of it is really how we got into trouble and how we got out. If you think back to the nineties our company was really on a roll and no one would have anticipated certainly the trouble that really followed into

1999 and 2000. But, things really began to unravel quickly. They never happened that quickly, but they unravel quickly and it seems you can hit a wall very quickly. Certainly competition had become a lot stiffer. The economy was beginning to weaken here and abroad. We had discovered some accounting improprieties in Mexico. It ended up in a full-fledged FCC investigation that clearly sucked up a ton of management time. And I think as we reflect back on it we know that we took some actions that in the broad daylight of hindsight were just simply dumb. So, we kind of thought we had coined the phrase “The perfect storm” at that time. But, others have followed. We probably could have managed to work our way through a few of these issues, but the compounding effect really put the company back on its heels. So, by May of 2000 we were in deep trouble. It was exactly as Vernon described. We were in the first loss situation in our history. Revenue was declining double digits. Our debt has grown to just under nineteen billion. Cash had just about disappeared. As you can imagine our customers and employees and shareholders were not exactly excited about what was happening in the company. Our shareholders had seen the value of their stock cut in half and it was continuing to head south. That was just about the day that I was named President and Chief Operating Officer of the company. So, not necessarily the moment that had fulfilled your life-long dream, but a company I loved. I have to say that this was a role that I took on with equal parts pride and dread. But, I knew that this company had extraordinary assets, two in particular. One was an incredible customer base that actually wanted Xerox to survive, that really wanted the Xerox brand to thrive in the future, and a work force who loved Xerox and would do just about anything to save the company. So, we rolled up our sleeves and went to work. We talked to employees, to customers, to industry experts and

most of that time was spent listening. Customers told us they loved our technology, but that we have really forgot that they should be the center of the universe and we had lost our responsiveness. The industry experts told us that our industry was world-class but we better make some choices of who we were and focus because we had spread ourselves too thin. Our employees told us they would do damn near anything to save the company but we better provide some very clear direction going forward.

We really laid out a pretty ambitious plan. Obviously the first was to get out of the liquidity crisis, raise cash quickly. By the way, at that point in time, it was kind of the time when cash was kind out of out of vogue, it was all about growth and revenue and profits. We really had to build back a fundamental focus on cash as the number one priority. We had to take a billion and then the next billion out of our cost base so that we focused on competitiveness. We were in a tough industry and we had lost our way. Most importantly we had to really strengthen our core business. We had to invest for the future. We had to kind of do all of those things simultaneously. Fortunately we had this incredible set of assets, Xerox employees, who did an unbelievable job and the results really were pretty significant both in magnitude and swiftness. We have actually cut our debt more than in half. We cut ten billion dollars in debt. The only debt we have now is the financing business at Xerox. We have more than doubled our equity or created or restored six billion dollars of shareholder value. We have taken two billion out of our cost base and we are working on the third billion to really become best in class, working with best in class partners as well with a relentless focus on productivity. We have increased our earnings every quarter for the last three years. Four years ago we lost two

hundred seventy-three million dollars. Last year we made eight hundred fifty-nine million dollars. And this year we have already exceeded that. This really has been the opportunity of a lifetime and I would say it would be the understatement of all times to say we've really leaned as a team a lot along the way.

Here are a few pretty fundamental lessons. But when it all comes down to it, the fundamentals are really what drives great businesses and I think these are the ones we lost sight of. **The first truly is about listening, staying connected to really both to your people and to the market place.** I have to say I came into the job and a lot of people told me that I had to look before I leapt. I had grown up at Xerox. I had been there almost thirty years, so I knew everybody and thought I knew everything. I never met a decision I didn't like. I'm not shy about making decisions and I got some great counsel to take a step back and not act very quickly. I actually just spent the first three months just on planes. Talking to customers and employees about really what had gone wrong in the company. And what I found out that a lot the more obvious kinds of problems were really masking some very underlying deep problems. While we were all trying to put out a fire that was burning, we weren't necessarily fixing the fuel leak that was causing the fire. We did take the time; we really built an understanding that really identified a lot of the causes that were quite different than they appeared on the surface.

The second is following instincts. We are a fact based company. We love facts at Xerox. But, certainly instincts do play a role in making the right decisions in a company and sometimes plays that look good on the chalkboard, don't necessarily work in the

field. So during the nineties we brought in hosts of consultants about organizational effectiveness and we wound up organizing our company around geography, around product, around industry, around segment. There was a very complex matrix that made it difficult for anybody to know what they were cleanly accountable for. It didn't make sense to me logically, but given the opportunity, I unwound it and there is no organizational structure that is perfect. But the one we have today is really clear. We can look across the table and know what everybody is accountable for. So, we aired on the side of clarity and accountability. I have to say it has been really instrumental in turning the company around.

The third is really import and something I didn't get. I used to call it the vision thing. Joe Kahalen, who is here with me today who runs our communications would remind me that, even while Rome was burning, people wanted to know what the city of the future was going to look like. And I would plead guilty that I didn't get that for a period of time. And we would go around and we would do these town meetings and the most frequently asked question should have been are we going to make it? It wasn't. It was, what are we going to look like when we come through all this? It was this amazing vote of confidence that I took as a very good sign. But, I am not really very good with strategic vision statements or a lot of round words or slides. So we decided to do something a little different and make it relevant to all of our seventy thousand people. We wrote an article, a fictitious article dated 2005 in the Wall Street Journal and the Wall Street Journal had been a particularly harsh critic of Xerox during 2000 and 2001. So it is particularly meaningful to see this article in 2005. We really focused on where we

wanted Xerox to be in 2005, built matrix, built comments and really tried to characterize the company that we could be. It really focused us on expressing our vision in really simple English. It turned out to be just a rallying point in the company. People got it. It built a scent of optimism and it provided a road map for where we could take the company. It was a really important part of giving people a goal post to go after.

Next is about investment, even in the worst of times, investing in the best of times. The turn-around story gets told at Xerox and it is mostly about the financial matrix. But the thing that, I think, we all feel best about at Xerox is that we invested in our future. We made decisions about where we wanted the company to go. And we put resources and money behind them. Even as we were radically reducing our cost base, we actually did not take a dime out of research and development. Which, I would have to tell you was not a very popular decision with our financial advisors and certainly we owed a lot of money at the time so we had a lot of input. This was not one that was universally applauded. But, the fact is, is that it is so critical to the passion we had about the company. It wasn't about a short-term turn-around. It really was about long-term sustainability. I think our people had it right and nobody wanted to fix a financial crisis and wind up with a technological drought two years down the road. We continued to invest. I have to say that we have brought to market just a fabulous set of technologies and document related services that are really winning in the market place. Probably the best proof point is just about three quarters of our revenues today come from products and services we have brought to the market place in the last two years. I am hard pressed to think where we would be had we not done that.

Next is something we all know and we talk about it. It is about communications. It is just so fundamental to building alignment and I got some great advice. Somebody said that when the going gets tough, really tough, you have to talk about what is possible, what is good. And when things are good, you should use it as a time to talk about what needs to be improved. I have to say there were times when I must admit the challenges seemed pretty insurmountable. Certainly those that got vote on our potential survival were pretty negative. In public, and particularly with employees, I was also very candid about the nature of our problems and quite explicit about what they are. But, also, I was totally confident that we could overcome them. We are a company that, like all of you, we do voice mail, we do e-mail, we do video conferencing, but nothing is as important as face to face communications. I kind of lived on planes and logged in a lot of miles just meeting with our operations face to face. Not just communicating, but also taking the tough questions and really hearing what was on their minds. It was always consistent by telling them what the issues were, what the compelling reason was for change, what the strategy was. Most importantly translating it into what they could do to help. Even if it was an audience that could save a buck and make a contribution to the bottom line that way. I always ended each communications session with the choice that you had to make a conscious choice about whether you wanted to be with the company or not. So, if you don't have an appetite for it, leave. If you do, roll up your sleeves and get to work. I have to say, people really rallied. It really was the critical element of the turn around when people asked me how we accomplished so much so quickly. I don't even have to think about the answer, this was all about the alignment of people. The strategy was

okay, roughly right. The implementation plan was okay. But I would say that the people really aligned themselves around a common set of objectives and that really was the magic if there was any. And if there is one thing I have learned, the only benefit of being good and big is being aligned. That is the only power to being big is using the scale in an aligned way to have an impact in the market place.

Next is something that I think is also pretty fundamental but one that we all struggle with at times, and that is keeping our focus on our customers. They are the reason companies exist. But, when your bankers are calling and your shareholders are really unhappy sometimes it is easy to lose your focus on your number one constituency. I have to say, our team was pretty relentless about not letting our customers pay the price for the turbulence that existed within the company. We all really focused on getting out there and spending a lot of time with customers. I spend at least a quarter of my time with customers today. I'd say our executives have an equally aggressive schedule. We actually have a program called Focus 500. Each executive, our chief accountant, our head of human resources all own customers that they are responsible for communication solving problems, aligning resources, and literally get measured on their role of focused executives.

The next, is surrounding yourself with good critics. I certainly like to think that I am a very approachable person, but something does change when you move into the corner office and it gets tougher and tougher to get the direct feedback. It gets tougher and tougher to get it in a really timely way. People just generally want to please and they are

just more respectful and a little bit more intimidated. I think you have to work at insuring that you surround yourself with some honest critics and treasuring their input and making sure that you actually schedule time for that expressed purpose. It doesn't happen by chance. The gift of having people who have the courage to criticize is that you get to address problems long before they turn into crisis.

The next one is about this alignment and creating just a few priorities. I visited a CEO back in 2001, and he told me that his guild for streamlining costs in his company was really simple and that was, he always asked the question if the customer would pay for it. It was just great guidance because it sort of pointed you in a direction where you could clearly streamline cost and also improve your customer focus, so that kind of win-win proposition. Today I would say that the vast majority of our people are in customer interfaced jobs, so they really have that sense of connection. Twelve thousand of our people actually reside on customer sights and our whole role is to be able to represent their aspirations and really delight their expectations with regard to our ability to respond.

Next is surrounding yourself with the right people, making sure they are in the right jobs. In the words of Jim Collins, kind of the right people on the bus in the right seats. So it sort of doesn't matter what the challenge is so that you have to be able to get the best talent available. And that means really being able to select people and attracting people from the widest possible pool of talent out there. I am gifted at Xerox to have inherited a company that actually embraces inclusiveness. A company that has built a reputation for diversity and the luxury of being able to have that broad a pool to pick talent from both

inside and outside the company has just been an extraordinary asset. It really means that choosing people that do give you a different point of view, people who challenge you and ultimately people that are smarter than you, and people that have skills that you don't have and that is just so critical. I recently heard an interview that Doris Kerns Goodwin was doing on her new book on Lincoln. Her theory is that Lincoln held the Union together because of the caliber of his cabinet many of whom happen to have been his rivals. One in particular, Secretary of War Staunton had repeatedly snubbed Lincoln and had a very difficult relationship, they became the best of friends, great allies, and they saved the Union. This context of bringing in the best capability and skills is one that is really important. It is reinforced as I mentioned before this that this book, Good to Great which many of you, I am sure have read, but I love it because it looks at companies that have delivered great results but over the long-term. He looks at companies that delivered actually stock appreciation three times better than the general market for a fifteen year period of time. So really it was a great testimonial to sustainable results. Then he looked what are all the things that drove that great performance. The not so surprising answer is that caliber of the leadership. But, what is surprising is that even really good leaders are different than great leaders and one of the differences is that great leaders have this paradoxical blend of personal humility and incredible professional will. So it is just not about them, it is about their teams. They are real comfortable giving credit. But yet, on the other hand, they have this incredible stoic resolve to do whatever is required to make their companies great. But, at the end of the day it is not about them, it is about the company and if you read the names of the people that he has identified, you wouldn't recognize them in the room. So, it wasn't about the individuals personalities, it was

about the companies that they lead. If personal fame was a by-product so be it, but it was never the point.

I am going to move to the third request you made and say okay as you look at this set of experiences that we have had at Xerox is there some translation not just to other businesses, but is there some translation to just problems our government faces today as well? I often think back. My first big operational job was running New York City and it was about three hundred people and I actually don't believe that my management style today is any different than it was then. Bottom line is that people are people and good leadership is good leadership and a lot of those fundamental principles don't change from sector to sector or business to business. So maybe it is not such a stretch to say that those fundamentals apply everywhere. There is no question that we have just an extraordinary amount of challenges in our country today. You begin with the deficit that certainly appears to be going out of control an economic supremacy that is being threatened on multiple fronts. Whatever your view is on the war in Iraq, I don't think anybody feels great about the progress that we have made. And after two decades of really investing both government and business in our public education system, it is not improving at the pace it needs to. I would say that public confidence, and this goes for both business as well as government, is pretty much at an all-time low. You could probably add to that list, but I would say that despite all those challenges, I feel the sense of optimism when faced with those kinds of challenges particularly if you think about that this is a country that is filled with just unbelievable talent and mind-boggling resources.

Here's the translatable pieces that very simply may apply in general. I would say the first is this thing about listening really understanding the heart beat. Not, quite frankly spinning the polls for partisan reasons but really listening directly to the feedback.

Generally people that are closest to the problems have the best focus on basic practical solutions. I think like the people at Xerox everybody needs a clear picture of where we are heading and the priorities that need to be addressed and what you are asking of people. Part of that is to be consistent, be honest and be clear and that has to happen over a long period of time. Also investing our resources and aligning our people around a set of priorities that can rally our nation and also motivate our people through hope for a better day. I don't think there is any question that hope always trumps fear, but there has to be a vision and a foundation and alignment around that possibility. Communications are hugely important to communicate progress equally important to communicate lack of progress consistently and candidly. People always know when things are not going well. When they don't hear that described accurately, people lose confidence and undermine your credibility. If you confront problems you inspire confidence. I think that is one that is really critical. I think like a business that serves its customer base, I think we need a government that focuses on serving its citizenry and thinking about investing and making decisions in light of would the citizenry approve. Although fundamental that has been a disconnect. The surrounding yourself with honest critics. Our national problems will not be solved by mediocre minds. We have to have the best and the brightest and leading in the interest of the country and being less focused in the legacy that will follow. As a matter of fact, if you lead in the interest of the country, I think the legacy takes care of its self.

Finally, we chatted about this a little bit at our table, over the past decade this focus on bitter partisanship has really seeped into our politics. It actually threatens to immobilize our government at a time when we need leadership the most. You can't wish it aside. As a matter of fact it has a pretty fundamental and important purpose in government, but it has also hardened us, it has made our interest and our instincts narrow in at a time when they need to be broad and open. So, I guess I think about that old Chinese proverb that a thousand miles begins with a single step and this is a time when I think that our national problems require it and deserve it. I would thank you so much for your attention and just be delighted to take a few questions. Thank you very much.

Questions and Answers

Vernon Jordan: There is a great deal of uneasiness in our country as companies including technology companies like Xerox shift more and more of their employment over seas. What would you say to those who are concerned about this steady loss of American manufacturing and technology jobs?

Anne Mulcahy: It's certainly a contentious issue and I think in some forms really misrepresented as well. Xerox is a global company. Over fifty percent of our revenues come from outside the United States, so we have operations every where in the world and should as it relates to the composite of our business. We are also a business that almost

went out of business because we lost our focus on competitiveness and making decisions that are focuses on best in class from both an economic and a skills perspective is hugely important. I think what I worry about more than the off-shoring is quite frankly the lack of investment and attention we have about some of the core capabilities that we should be focused on in this country. And that has a lot to do with research and development. It is one of the reasons I felt so strongly. We have four research labs across the world that Xerox operates. It clearly would have been the first and the easiest thing to cut when we got into trouble, but that is the source of new jobs for this country is really building and the innovation that is required to build new businesses and new opportunities. I would like to spend a lot less time defending the economics of staying in business, because our role has to be best in class from a competitive perspective and spend a lot more time talking about how we actually invest in some of the core capabilities and opportunities to ensure that we are a country of innovation that creates new businesses and new jobs in this country. I think we have kind of lost our perspective a little bit there.

Vernon Jordan: Talk more about instincts and the decision making process. Can you give an example? Do women make better CEO's based on being more attuned to instincts?

Anne Mulcahy: I said when I talked about instincts that instincts aren't replacing facts and research and input, but there are times when I think instincts are critical to making decisions at the right time. One of the things I talk about, uses of power is, is that I have learned in this job is it we used to be very much of a consensus company. Everybody had

a vote and everybody got to say yes and that somehow that those decisions were the ones that represented power. Actually it's the time when you don't have clarity, it's the time when you don't have consensus that actually decisions become most important. A lot of time those are the ones that get grounded in your experience and your value system. I think that is what you get paid to do. I am a big believer that instincts and gut needs to play a role in making decisions at the right time and the right place particularly in the absence of things that aren't going to yield to consensus and voting. Interesting question about a woman CEO and the answer is, no. I don't believe that women make better CEO's than men and I hope that some day women have a chance to make mediocre and bad CEO's as often as men do as well and we have our fair share of.....(laughter, applause). It is a slippery slope when you start making generalizations even if they appear to be positive. I have a lot of people who say to me well women are better team players and women are more sensitive. And some are, and some times that is great in business, but you know what, I think good leadership is good leadership. I don't think it really has as much to do with gender as it does with values and other more fundamental things. There was an article in *USA Today* about two years and there were at the time three women CEO's in the Fortune 500 and they tracked our performance for the last two years. Our performance over those two years out-paced the performance of the rest of the Fortune 500 CEO's, so they reached this conclusion that we should be thinking about the fact that women had out-performed and therefore was there this premise, and people were congratulating me and saying, "Oh my God, isn't that great, you got that great visibility in *USA Today*". I said to them, "What happens when it goes the other way?" I think it is really important that people get judged as individuals. They get judged on the

performance of their companies and that we don't fall into that pit of things that women do well and men do well and we focus on what good leaders do.

Vernon Jordan: How do you suggest business respond to the internet based on your experiences at Xerox in a pre and past internet age?

Anne Mulcahy: I think we have all learned a lot about the internet. We have all invested in areas that haven't gotten us great returns. What I would call a mature company that struggled with what the right role is. Initially it was all about the internet as a channel and how do you market through the internet, how do you reach customers through the internet. And that is still very important, but what I think we have learned is that the web is really most useful when it is your infrastructure and that really starting to manage your business in an environment that has a web based infrastructure is the real advantage of the internet. That creates kind of the backbone for efficiency, quick response, connectivity with all of your constituencies and that that's not easy to do. We are all on that journey right now to convert our legacies to being a web-based infrastructure that is flexible and adaptable. But, I think that is the key to quite frankly a mature business taking advantage of all of the advantages that the internet can offer in terms of running our businesses. Certainly that is our focus at Xerox and fortunately we are making a lot of progress there. Today, over fifty percent of our customer transactions are either conducted through or supported by the web at some point in time. We may have a personal relationship, but a lot of what we do with our customers really gets done on the web versus more traditional opportunities. So it is very much an integrated focus

that you have to have in terms of how you interface with your constituency. And the web has to be a big part of it.

Vernon Jordan: Would you speak more on “unwinding the matrix”?

Anne Mulcahy: It’s clearly a point that could be debated. Having been at Xerox for thirty years, you have a lot of knowledge and history. I know that we have organized the company every possible way that it could be organized over those thirty years. I mean we have done it by function, by T&L, by customer segment, by global product, by geography. There is none that we haven’t tried over thirty years. My conclusion is that the organizational structure really isn’t the power or the way the company can excel. All it is is an enabler and a support system to how you run the company. So, that is where we made a decision. At the time it was based on two factors. It was based on accountability. There at a time when a company is really needs very clear performance matrix, you need clear accountability. So, for me, clarity and accountability were huge. The other piece of it was cost. There is just a ton of cost wrapped up in running a matrix organization, the duplication of efforts, the distribution of energy and resources, and the amount of time it takes to get decisions made. So there is this huge price that we were paying on the efficiency and the cost front as well. When you are looking for a couple billion dollars, there is a lot of it that gets wrapped up in a matrix organization. So, I stopped having the debate as to what exactly the perfect organizational structure and just said, “We are going to pick one. We are going to align against it. We are going to run the company that way and we are going to make it work.” I don’t think that will be the critical reason the

company succeeds or fails, but I do know that if I don't have people accountable for delivering very clear improvement and that we have ways of measuring the success of the business that will be a way to fail. We trust our P&L's by geography, very clean cut, very clear, one place to go. We do have product development that is global. We have research that is global. We have global manufacturing. So, we have a lot of global functions in the company, but they support P&L's that are driven through the geography. It is not perfect, but I think it works and so I think this is one more about being decisive and making sure that you have an efficient organizational structure.

Vernon Jordan: Is Xerox considering expanding its business beyond the document company? Is there a new profit opportunity?

Anne Mulcahy: One of the things we spend a lot of time talking is that documents don't equal paper. I finally let go of the document company thing because documents in most people's minds are the equivalent of paper. The fact is, is that all documents mean are they are containers for information and they are digital, they are on your screens. It is not necessarily to be tied to paper output. We are in the document business, but less and less of that is necessarily tied to traditional output. It is all about content management. It is about storage, and retrieval, access to information that when you need it, how you need it. We are supporting all sorts of imaging requirements for company's that are trying to move from a very much of a paper based technology to a digital economy. We host imaging centers around the world where we will help you digitize your, this is starting to sound like a sales pitch, and it may be, but in any case, so part of the sweet spot is that we

are hoping to help customers convert into the digital world. And most of us, quite frankly, still live in a paper based world. In addition we do tons of work with new and emerging kinds of medias. So, paper with digital properties that isn't captive to just an inflexible screen. A lot of what we do now is services helping customers unwind very complex document based processes and providing a lot more efficiency to their infrastructure. Yes, we are ready to move in a direction that says that we've got a great business out there even if paper goes away, but I can assure you that it won't be going away for a long time. Many thanks again for the invitation and the opportunity to be with you this afternoon.