FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)
(X) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the fiscal year ended: December 31, 1999

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from: ______ to ______

XEROX CORPORATION
(Exact name of registrant as specified in its charter)

1-4471
(Commission file number)

New York	16-0468020
(State of incorporation)	(I.R.S. Employer Identification No.)
P.O. Box 1600, Stamford, Connecticut	06904
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (203) 968-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $1 par value	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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: ( )

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

( )

The aggregate market value of the voting stock of the registrant held by non-affiliates as of February 29, 2000 was: $15,841,867,246.

(Cover Page Continued)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Class	Outstanding at February 29, 2000
Common Stock, $1 Par Value	665,869,596 Shares

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference:

Document	Part of 10-K in Which Incorporated
Xerox Corporation 1999 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2000 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10-K).	III

Forward-Looking Statements

From time to time Xerox Corporation (the Registrant or the Company) and its representatives may provide information, whether orally or in writing, including certain statements in this Form 10-K under "Management's Discussion and Analysis of Results of Operations and Financial Condition," which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Litigation Reform Act"). These forward-looking statements and other information relating to the Company are based on the beliefs of management as well as assumptions made by and information currently available to management.

The words "anticipate," "believe," "estimate," "expect," "intend," "will," and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Registrant 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 or expected. The Registrant does not intend to update these forward-looking statements.

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 which could cause actual results to differ materially from those contained in the "forward-looking" statements. Such factors include but are not limited to the following:

Competition - the Registrant operates in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. There are a number of companies worldwide with significant financial resources which compete with the Registrant to provide document processing products and services in each of the markets served by the Registrant, some of whom operate on a global basis. The Registrant's success in its future performance is largely dependent upon its ability to compete successfully in its currently-served markets and to expand into additional market segments.

Transition to Digital - presently black and white light-lens copiers represent approximately 30% of the Registrant's revenues. This segment of the general office market is mature with anticipated declining industry revenues as the market transitions to digital technology. Some of the Registrant's new digital products replace or compete with the Registrant's current light-lens equipment. Changes in the mix of products from light-lens to digital, and the pace of that change as well as competitive developments could cause actual results to vary from those expected.

Pricing - the Registrant's ability to succeed is dependent upon its ability to obtain adequate pricing for its products and services which provide a reasonable return to shareholders. Depending on competitive market factors, future prices the Registrant can obtain for its products and services may vary from historical levels. In addition, pricing actions to offset currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition.

Financing Business - a significant portion of the Registrant's profits arise

from the financing of its customers' purchases of the Registrant's equipment. On average, 75 to 80 percent of equipment sales are financed through the Registrant. The Registrant's ability to provide such financing at competitive rates and realize profitable spreads is highly dependent upon its own costs of borrowing which, in turn, depend upon its credit ratings. The Registrant's present credit ratings permit ready access to the credit markets. There is no assurance that these credit ratings can be maintained and/or ready access to the credit markets can be assured. In December 1999, Moody's Investors Service, Inc. announced that the long and short term credit ratings of the Company and its financially supported subsidiaries are under review for possible downgrade, Standard & Poor's announced a negative outlook for the Company's and Xerox Credit Corporation's ratings and Fitch IBCA, Inc. placed the Company's and its subsidiaries' debt ratings on "RatingAlert-Negative". A downgrade or lowering in such ratings could reduce the profitability of such financing business and/or make the Registrant's financing less attractive to customers thus reducing the volume of financing business done.

Productivity - the Registrant's ability to sustain and improve its profit margins is largely dependent on its ability to maintain an efficient, cost-effective operation. Productivity improvements through process reengineering, design efficiency and supplier cost improvements are required to offset labor cost inflation and potential materials cost changes and competitive price pressures.

International Operations - the Registrant derives approximately half its revenue from operations outside of the United States. In addition, the Registrant manufactures many of its products and/or their components outside the United States. The Registrant's future revenue, cost and profit results could be affected by a number of factors, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements and local tax issues.

New Products/Research and Development - the process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. The Registrant must then make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide anticipated returns from these investments.

Restructuring - the Registrant's ability to ultimately reduce pre-tax annual expenditures by approximately $1 billion is dependent upon its ability to successfully implement the 1998 restructuring program including the elimination of 9,000 net jobs worldwide, the closing and consolidation of facilities, and the successful implementation of process and systems changes. Furthermore, the Registrant's ability to realize additional cost savings and productivity improvements above those identified in the 1998 restructuring program are dependant on successful identification and implementation of initiatives for the 2000 restructuring program, which is expected to be announced in the first quarter of 2000.

Revenue Growth - the Registrant's ability to attain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of its equipment sales worldwide. The ability to achieve equipment sales growth is subject to the successful implementation of our initiatives to provide industry-oriented global solutions for major customers and expansion of our distribution channels in the face of global competition and pricing pressures. Our inability to attain a consistent trend of revenue growth could materially affect the trend of our actual results.

PART I

Item 1. Business

Overview

Xerox Corporation (Xerox or the Company) is The Document Company and a leader in the global document market, providing document solutions that enhance business productivity. References herein to "us" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically requires otherwise. We distribute our products in the Western Hemisphere through divisions and wholly-owned subsidiaries. In Europe, Africa, the Middle East and parts of Asia including Hong Kong, India and China, we distribute through Xerox Limited and related companies (collectively Xerox Limited). Fuji Xerox Co., Limited, an unconsolidated entity jointly owned by Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia and New Zealand, except for China. Japan represents approximately 90 percent of Fuji Xerox revenues, and Australia, New Zealand, Singapore, Malaysia, Korea, Thailand and Philippines represent the remaining 10 percent. Fuji Xerox conducts business in other Pacific Rim countries through joint ventures and distributors.

Our Document Processing activities encompass developing, manufacturing, marketing, servicing and financing a complete range of document processing products and solutions designed to make organizations around the world more productive. We believe that the document is a tool for productivity, and that documents - both electronic and paper - are at the heart of most business processes. Documents are the means for storing, managing, and sharing business knowledge. Document technology is key to improving productivity through information sharing and knowledge management and we believe no one knows the document - paper to digital, digital to paper - better than we do. The financing of Xerox equipment is generally carried out by Xerox Credit Corporation (XCC) in the United States and internationally by foreign financing subsidiaries and divisions in most countries. Xerox had 94,600 employees at year-end 1999.

Document Processing revenues of $19.2 billion in 1999 were flat on a pre-currency basis with 1998. Excluding Brazil, where revenues declined very substantially due to the currency devaluation and subsequent economic weakness, pre-currency revenues grew by 4 percent. Revenues increased 8 percent on a pre-currency basis to $19.4 billion in 1998 and 7 percent on a pre-currency basis to $18.1 billion in 1997.

The Document Processing Strategy

We believe that documents represent the knowledge base of an organization and play a dynamic and central role in business, government, education and other organizations.

Increasingly, documents are being created and stored in digital electronic form. In addition, the Internet is increasing the amount of information that can be accessed in the form of electronic documents. Accordingly, the total number of electronic and paper documents is expected to grow very significantly. While the percentage of documents which are printed or copied will decline, we expect that the total number of documents which are printed or copied will grow significantly.

As The Document Company, we believe that by helping our customers navigate and manage the world of documents, we can help them improve their productivity and grow their businesses. We help customers make documents better, make better documents, and work better with documents.

We create customer value by providing innovative document technologies, products, systems, services and solutions that allow our customers to:

- Move easily within and between the electronic and paper forms of documents.

- Scan, store, retrieve, view, revise and distribute documents electronically anywhere in the world.

- Print or publish documents on demand, at the point closest to the need,

including those locations of our customers' customers.

- Integrate the currently separate modes of producing documents, such as the data center, production publishing and office environments into a seamless, user-friendly enterprise-wide document systems network - with technology acting as an enabler.

We have formed alliances to bring together the diverse infrastructures that currently exist and to nurture the development of an open document services and solutions environment to support complementary products from our partners and customers. We are working with more than 100 companies and industry organizations to make office and production electronic printing an integrated, seamless part of today's digital work place.

During 1999, we formed the Internet Business Group to accelerate a number of the company's Web-based business activities and maximize the value of our portfolio of Internet-related technologies. The new organization will also pull together a suite of Xerox knowledge tools and technologies and make those tools available to partner companies, and raise outside capital with the intent of creating greater shareholder value.

Market Overview

We estimate that the global document market that we serve, excluding Japan and the Pacific Rim countries served by Fuji Xerox, was approximately $161 billion in 1998 and is estimated to grow to about $255 billion in 2002. With our many new product introductions during this decade and in particular, the transition from light-lens to digital technology, our participation in the global document market has been considerably broadened from the slower growing segments of the market to the faster growing segments of the market. Our revenue mix has traditionally been concentrated in the slower growing market segments with a lower proportion of our revenue in the faster growing segments like office and production color, professional services, document outsourcing and desktop color. Our focus on solutions and expanding indirect sales channels as well as a large portion of our R&D effort are aimed at these faster growing segments.

We are leading the transition in our industry from light-lens to digital technology, from standalone devices to network-connected systems, from black and white to color capable devices, and from box sales to services and solutions that enhance customer productivity and solve customer problems. Xerox growth will be driven by the transition to digital copying and printing in the office, the transfer of document production from offset printing to digital publishing, the increase in customer requirements for network and distributed printing, the accelerating demand for color documents, and increasingly, our participation in the small office/home office/personal document processing market.

We have traditionally had a strong position in the general office document market, the largest segment, which is projected to reach $77 billion in 2002. Growth in this market is driven by the transition to the use of digital and color documents. The production market, which includes production publishing and production printing, is expected to reach $41 billion in 2002. The small office/home office/personal document processing market is expected to grow to $47 billion by 2002 due to increases in the number of home offices and small businesses. This market segment acquires product primarily through indirect distribution channels. We expect that our growth prospects in the networked office and small businesses will be enhanced by the January 2000 acquisition of the Color Printing and Imaging Division of Tektronix, which manufactures and sells color printers, ink and related products, and supplies. The acquisition moves us into a strong number two market share position in office color printers and provides us with the industry's broadest portfolio of color laser and solid ink printers with advantaged color technology. The Document Outsourcing market is projected to grow approximately 35 percent annually, reaching $19 billion by 2002, as customers increasingly focus on their core competencies and outsource their document processing requirements. Finally, the portion of the professional and internet services market in which we participate is also growing very rapidly, to an estimated $48 billion by 2002.

Xerox Focus

During 1999, we realigned our operations to capitalize on new growth opportunities in the digital marketplace and better align the company to serve its diverse customers, increase the effectiveness, efficiency and breadth of our distribution channels and provide an industry-oriented focus for global document services and solutions. The Industry Solutions Operations (ISO) are organized around key industries and focused on providing our largest customers with document solutions consisting of hardware, software and services, including document outsourcing, systems integration and document consulting. ISO has responsibility for the direct sales and service organizations in the U.S., Europe and Canada. The General Markets Operations (GMO) are responsible for increasing penetration of the general market space, including small office solutions, products for networked work group environments and personal/home office products. In addition to indirect distribution channel responsibilities such as retail and resellers, GMO has responsibility for sales agents and concessionaires, and our expanding Internet sales and telebusiness. In addition, it has responsibility for product development and acquisition for its markets, providing customer- and channel-ready products and solutions. The Developing Markets Operations (DMO) takes advantage of growth opportunities in emerging markets/countries around the world, building on the leadership Xerox has already established in a number of those markets, most notably Brazil. DMO covers Latin America, the Middle East, Africa, the Eurasian countries, China, Hong Kong, India and Russia.

The realignment of the organization as described above, including the realignment of the direct sales force to an industry solutions basis, was not fully completed until 2000. Accordingly, our Segment Reporting as disclosed in footnote 9 on pages 50 and 51 of the 1999 Annual Report to Shareholders reflected the organization as it existed in the 1999 reporting period. As we are entering 2000, we have attempted to analytically estimate how the new organization would have been portrayed if fully implemented in 1999. This basis of Segment Reporting will be used in our first quarter 2000 Form 10-Q.

1999 Pro Forma Segment Data:

	Industry Solutions	General Markets	Developing Markets	Corporate and Other	Total
Total segment revenues	$10,196	$4,663	$2,721	$1,648	$19,228
Segment profit (loss)	1,755	172	285	(176)	2,036

We believe that our competitive advantages lie in our ability to continually develop technologically innovative document processing products, services and solutions based on demonstrated customer needs; the unparalleled breadth and depth of our product offerings, from the small office/home office/personal market segment to the production market; competitive pricing; our excellent reputation for performance and global sales and service; our substantial on-going investment in research and development; expanded sales coverage through our global direct sales force, agents and concessionaires; our leadership position in the rapidly growing document outsourcing business; our strong market position in emerging markets; and, building on the strength of the Xerox brand, our expanded presence in the burgeoning small office/home office/personal document processing market through expansion of retail channels, value added resellers and systems integrators, and increasingly telesales and e-commerce. As a result, we believe we are well positioned to participate in the anticipated growth in the market segments in which we compete.

Digital Products

Our digital products consist of five categories: black-and-white digital multifunction products (Document Centre products), black-and-white production publishing (DocuTech products), black-and-white production printing, color

copying and printing, and black-and-white laser printers/other. On a pre-currency basis, digital product revenues grew 18 percent in 1999 (22 percent excluding Brazil), 36 percent in 1998 and 25 percent in 1997. The combination of excellent digital product revenue growth on a larger proportion of our revenues partially offset by declines on an ever-smaller percentage of light-lens revenues has resulted in 1999 digital revenues representing more than half of our total revenues for the first time. Revenues from digital products were 53 percent of total revenues in 1999, 45 percent in 1998 and 35 percent in 1997.

In 2000 we will be introducing important new products in each of these digital product categories.

Black and White Digital Multifunction Products

Revenue from the Document Centre family grew 60 percent pre-currency in 1999, reaching $2.6 billion.

The volume of paper documents used in the office continues to grow. Pages per worker per day in the U.S. have doubled in the last decade and productivity has been impaired by the need to manage documents on computer monitors and as hard-copy originals.

We intend to help customers improve productivity by controlling their documents from a common interface; managing from the desktop; eliminating gaps, steps and devices in the work process; and moving smoothly from digital to paper and back.

In April 1997, we introduced the Document Centre family of black and white digital multifunction products at speeds ranging from 20 to 65 pages per minute, that are better quality, more reliable, and more feature rich than light-lens copiers and are priced at a modest premium over comparable light-lens copiers. This family is truly multifunctional and is modular in design, offering the capability of upgrading the standalone copier to full network connectivity when the customer is ready. Xerox CentreWare software, which provides full control over the operation of a network printer, allows Document Centre users the ability to manage network print and fax functions from their personal computers, without leaving their offices or workstations.

Beginning in 1998, we began connecting the digital multifunction products to customers' networks so that their digital copiers can also be used as robust, high-speed network printers to gain incremental volume from printing and ultimately to replace desktop printers and single-purpose copiers and faxes. The fax option and network upgrades have compelling economics versus the alternative of purchasing comparable printers and faxes since the print engine, output mechanics and most of the software required are part of the base digital copier. All of our Document Centre products have IP (Internet Protocol) addresses, which permits them to be accessed via the Internet from anywhere in the world.

During 1999, we introduced our new, third generation Document Centre models, at 32 and 40 pages per minute, which bring a higher level of price-performance value and offer best in class productivity, and advanced network scanning and fax capabilities. Paper documents can be captured and converted directly into the popular PDF (Portable Document Format) file format for universal viewing, as well as posting to the Web using Adobe Capture software. They also support the multi-page TIFF (Tagged Image File Format) format for efficient scanning and handling of multi-page documents in a single image file. The new models also include a Super G3 modem that can send and receive documents at 33.6 kbps, as well as two phone lines for simultaneous transmission and/or reception.

The proportion of digital copiers installed with network connectivity continued to grow to over 50 percent installed with network connectivity during 1999. As a result, almost 40 percent of the total installed population of Document Centre products have network capability. We believe that enabling network connectivity and training our customers to optimize the power of these products will lead ultimately to the page incrementality we expect.

Production Publishing

The era of production publishing was launched in 1990 when we announced the DocuTech Production Publishing family which was a major step beyond our traditional reprographics market into the publishing industry. Having installed to date approximately 25,000 DocuTech systems around the world, our production publishing revenues grew 5 percent pre-currency in 1999 to $2.3 billion. Excluding Brazil, the 1999 growth of 9 percent was impacted by the preparations for the January 2000 final phase of the realignment of the sales organization to an industry focus and customer Y2K mitigation efforts and network lockdowns during the latter part of the year.

Digital production publishing technology is increasingly replacing traditional short-run offset printing as customers seek improved productivity and cost savings, faster turnaround of document preparation, and the ability to print documents "on demand." The market is substantial, as digital production publishing has only achieved an 18% market share of the available page volume that could be converted to this technology. We offer the widest range of solutions available in the marketplace - from dial-up lines through the Internet to state-of-the-art networks - and we are committed to expanding these print-on-demand solutions as new technology and applications are developed.

The DocuTech family of digital production publishers scans hard copy and converts it into digital documents, or accepts digital documents directly from networked personal computers or workstations. A user-friendly electronic cut-and-paste workstation allows the manipulation of images or the creation of new documents. For example, in only a few minutes, a page of word-processed text, received over a network, can be combined with a photograph scanned from hard copy and enhanced electronically: cropped, positioned precisely, rotated, brightened or sharpened. Digital masters can be prepared in a fraction of the time necessary to prepare offset printing plates, thereby allowing fast turnaround time. Additional time can be saved, and significant inventory and shipping costs can be reduced, by transmitting electronically and printing where and when the documents are required. In 1998, we introduced DigiPath Production Software, a major productivity tool, which allows a printer's customers to use the World Wide Web to streamline print job submission and subsequent archiving, preparation, proofing, and reprinting.

DocuTech prints high-resolution (600 dots per inch) pages at up to 180 impressions per minute. The in-line finisher staples completed sets or finishes booklets with covers and thermal-adhesive bindings. Because the finished document can be stored as a digital document, hard copy documents can be printed on demand, or only as required, thus avoiding the long production runs and high storage and obsolescence costs associated with offset printing. The concept of print-on-demand took another major step in 1995 when we introduced the DocuTech 6135. It makes print-for-one publishing practical; personalized publishing runs can be as short as one or two prints. Further steps forward were taken in 1997 when the DocuTech 6180 was introduced, increasing output speed to 180 cut-sheet pages per minute and again in 1998 with the introduction of DocuTech 65 (65 pages per minute) and DocuTech 6100, (96 pages per minute) making the technology affordable for much smaller customers. In February 2000, we introduced the DocuTech 6155 (155 pages per minute) as well as a new, significantly improved version of DigiPath Production Software, including enhanced Internet connectivity.

In 1999, we formed a partnership with Bertelsmann AG, the world's largest publisher, to deploy books-on-demand digital publishing technology worldwide. The technology makes possible the cost-effective production of high quality books in runs as small as a single copy. A new title arrives either electronically over the Internet or as a hard copy. If hard copy, the pages are digitized using the Xerox DocuImage 620 scanner. The electronic book is indexed and stored using DigiPath Production Software. The interior pages are printed using a DocuTech digital publishing system. Color covers are printed on a Xerox DocuColor printer, and then bound with the book pages.

Production Printing

Revenue from monochrome production printing was $2.1 billion in 1999, a decline

of 2 percent. Excluding Brazil the 1999 growth of 1 percent was impacted by the preparations for the January 2000 final phase of the realignment of the sales organization to an industry focus and customer Y2K mitigation efforts and network lockdowns during the latter part of the year.

This market has largely consisted of high-end host-connected printers. We expect future growth for robust, fully featured printers serving multiple users on networks. This growth will be driven by the increase in personal computers and workstations on networks, client-server processing, accelerating growth in the demand for enterprise-wide distributed printing, and declining electronics costs. These faster, more reliable printers print collated multiple sets on both sides of the paper, insert covers and tabs, and staple or bind, but without the labor-intensive steps of printing an original and manually preparing the documents on copiers. In addition, documents can be printed on these printers from remote data center computers, enabling the efficiencies of distributing electronically and then printing, rather than printing paper documents and then distributing them.

We have had the leading position in the production, high-volume computer printing market segment since 1977. We are well positioned to capitalize on the growth in the computer printing market because of our innovative technologies and our understanding of customer requirements for distributed printing from desktop and host computers. Our goal is to integrate office, production and data-center computer printing into a single, seamless, user-friendly network.

Xerox pioneered and continues to be a worldwide leader in computer laser printing, which combines computer, laser, communications and xerographic technologies. We market a broad line of robust printers with speeds up to the industry's fastest cut-sheet printer at 180 pages per minute, and continuous-feed production printers at speeds up to 1300 images per minute. Many of these printers have simultaneous interfaces that can be connected to multiple host computers as well as local area networks.

Breakthrough technology in our highlight color printers allows printing, in a single pass, black-and-white plus one customer-changeable color (as well as shades, tints, textures and mixtures of each) at production speeds up to 184 pages per minute. Other manufacturers' highlight color printers require additional passes to add variable color, which increase cost, reduce speed and reliability and introduce the possibility of color misalignment.

Productivity-enhancing features include printing collated multiple sets on both sides of the paper, inserting covers and tabs, printing checks with magnetic ink character recognition (MICR), and stapling or finishing with a thermal adhesive binding; all on cut sheet plain paper, with sizes up to 11 by 17 inches. Optional finishing equipment that can be integrated with the DocuTech system includes a signature booklet maker and a perfect binder.

In 1995, we significantly expanded our opportunities with the introduction of two major new printer series that redefine our role in the electronic production printing industry. With the DocuPrint CF Series family, we entered the market for very high-volume, continuous-feed printers at speeds up to 420 pages per minute. The DocuPrint IPS Series makes the IBM Advanced Function Presentation (AFP) architecture directly available to our production printing customers.

In 1997, we introduced the DocuPrint 180 which prints on one or both sides of a page, on a wide variety of paper sizes and weights, and at 180 pages per minute. We also introduced the DocuPrint 184 hc (highlight color) which pairs two 92 page-per-minute Xerox highlight color laser printers with one print server for cut-sheet, highlight color production speeds up to 184 pages per minute.

In 1998, we demonstrated the DocuPrint 900 and the DocuPrint 1300 models, the first in a new class of ultra high-speed continuous feed production printing systems. Printing at up to 900 and 1300 duplex impressions per minute (200 and 300 feet per minute, respectively), the DocuPrint 900 and 1300 combine the high reliability and throughput of web printing with the flexibility of electronic

printing for unsurpassed productivity. The Xerox DocuPrint 900 and 1300 offer a number of in-line finishing options, including cut-sheet, fanfold, or roll and are compatible with many third party post processing devices.

Color Copying and Printing

Our revenues from color copying and printing grew 8 percent pre-currency (14 percent excluding Brazil) in 1999 to $2.0 billion.

The use of color originals in the office is accelerating. Independent studies have concluded that color documents are more effective at communicating information and that decision-making performance improves with the use of color documents.

The color market has largely consisted of ink-jet and laser copiers and printers. Laser copiers and printers offer near-offset image quality, excellent printing speeds, and the accessories necessary to produce finished sets.

We entered the color laser market in 1991 with the introduction of a color laser copier/printer and a color laser printer, each of which printed at 7.5 pages per minute. More recent product introductions include the DocuColor 40, introduced in early 1996, which copies and prints at 40 full-color pages per minute and has been the industry's fastest and most affordable digital color document production system. In 1997, we introduced the DocuColor 70, a continuous feed full-color digital press, based on a print engine from Xeikon with Xerox-exclusive digital front-ends, that produces 70 high-quality, full-color impressions per minute and in 1998, we introduced the DocuColor 100 Digital Color Press, also based on a Xeikon print engine with Xerox-exclusive digital front-ends, that produces 100 high-quality full-color impressions per minute.

In February 2000, we introduced the DocuColor 2060 Digital Color Press and the DocuColor 2045 Digital Color Press. The DocuColor 2060, which produces 60 full-color prints per minute, is the industry's fastest cut-sheet color reproduction machine, and both products establish an industry standard by producing near-offset quality, full-color prints at an unprecedented operating cost of less than 10 cents per page, depending on monthly volumes.

We've had numerous recent color product introductions for the general office. In 1998, we introduced the DocuColor Office 6, a networked color copier/printer for the office that operates at twice the speed of most desktop color laser printers at the price of a mid-volume black and white copier. Also in 1998, we expanded the DocuColor 40 line, adding the DocuColor 40 CP, a network-connected color copier/printer equipped with a newly designed digital controller, designed to provide digital walk up copying as well as network printing for lower-volume environments. In 1999, we introduced the DocuColor 30 Pro and the DocuColor 30 CP, which are 30 page-per-minute digital color copier/printers intended for entry-level production environments such as print-for-pay and quick-print shops, corporate reproduction departments, and high-end color intensive offices.

In 1999, we introduced the DocuColor 12, which produces 12.5 full-color pages and 50 black-and-white pages per minute, designed for professionals in graphic arts environments such as quick printers, commercial printers and in-plant corporate reprographics departments. We also introduced the Document Centre Series 50, the first color-enabled Document Centre that produces 12.5 full-color pages and 50 black-and-white pages per minute, that includes a Xerox network controller built into every machine. The Document Centre Color Series 50 combines the advantages of a relatively low equipment price, the production of color pages at operating costs significantly lower than other color copier/printers in this class, and, unlike other color products, the operating cost of producing black and white prints is similar to that of monochrome digital products.

In January 2000, we completed the acquisition of the Color Printing and Imaging Division of Tektronix (CPID), which results in our having a very strong number two market share position in the office color market. This division, whose

operations have now been consolidated with our office printing operations, manufactures and markets Phaser workgroup color printers that use either color laser or solid ink printing technology and markets a complete line of ink and related products and supplies. In January 2000, we introduced the Phaser 850 solid ink color printer, which prints truer colors and livelier images than any color laser printer in its class, and, at 14 pages per minute, is more than three times faster than similarly-priced competitive models.

In March 2000, we announced a major inkjet printing initiative in an alliance with Sharp Corporation and Fuji Xerox. The alliance leverages our strong brand and inkjet patent portfolio with Sharp's product development and manufacturing expertise and Fuji Xerox' technological know-how. Over the next five years, Xerox, Sharp and Fuji Xerox together will invest more than $2 billion in inkjet research, development, manufacturing, advertising and marketing. Later this year we will launch low-cost inkjet printers, copiers and multifunction machines in North America, Europe and developing markets which will be sold primarily through retail stores and e-commerce web-sites. We expect these new products will be at least 50 percent faster than comparable products from other vendors with up to 20 percent in ink savings.

Black and White Laser Printers and Other Products

Revenues in this category totaled $1.2 billion in 1999, growing 44 percent pre-currency and reflecting primarily network black and white laser printers sold through indirect sales channels.

Significant market growth in the small office/home office and networked office is represented by customers who typically acquire product through indirect sales channels such as value added resellers, dealers and retail. We launched in September, 1997 the DocuPrint family of monochrome network laser printers which initially included 24 and 32 page per minute laser printers and which were faster, more advanced and less expensive than competitive models, offering "copier-like" features such as multiple-set printing, stapling and collating. In 1998, we expanded the DocuPrint line to include monochrome laser printers at speeds ranging from 8 to 40 pages per minute.

In February 2000, we introduced the new DocuPrint N Series printers, a family of five network laser printers ranging from 20 to 40 pages per minute that offer faster speeds, better paper-handling and productivity, and more value than printers available from other vendors. The Tektronix CPID acquisition accelerated our objective of increasing the number of resellers who market our black and white laser printers. The acquisition more than doubled the number of channel partners and nearly doubled the distribution capacity and channel coverage to more than 16,000 resellers and dealers worldwide.

Light-lens Copying

Our revenues from black and white light-lens copiers declined 21 percent (18 percent excluding Brazil) pre-currency in 1999 to $5.8 billion. The decline in light-lens copier revenues reflects customer transition to our new digital black-and-white products and increasing price pressures. We believe that the trend over the past few years will continue and that digital product revenues will represent an increasing share of total revenues. Revenues from light-lens copiers represented 30 percent of total revenues in 1999, 38 percent in 1998 and 47 percent in 1997.

We market the broadest line of light-lens copiers and duplicators in the industry, ranging from a three copies-per-minute personal copier to a 135 copies-per-minute fully-featured duplicator. Many of our state-of-the-art products have improved ease of use, reliability, copy quality, job recovery and ergonomics as well as productivity-enhancing features, including zoom enlargement and reduction, highlight color, copying on both sides of the paper, and collating and stapling which allow the preparation of completed document sets.

We have a strong position with major accounts who demand a consistently high level of service worldwide. Our competitive advantages include a focus on customer call response times, diagnostic equipment that is state-of-the-art and

availability of 24-hour-a-day, seven-day-a-week service.

We expect that light-lens copiers will increasingly be replaced by digital copiers. However, some portions of the market will continue to use light-lens copiers for many years, such as customers who care principally about price or whose work processes do not require digital products.

Other Products

We also sell cut-sheet paper to our customers for use in their document processing products. Revenues from our Print and Media segment, which includes the sale of paper, declined 1% in 1999 to $1.1 billion from $1.2 billion in 1998. The market for cut-sheet paper is highly competitive and revenue growth is significantly affected by pricing. Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor.

We also offer a wide range of other document processing products including devices designed to reproduce large engineering and architectural drawings up to 3 feet by 4 feet in size, facsimile products, scanners, and personal computer and workstation software.

Summary of Revenues by Product Category

The following table summarizes our revenues by major product category. The revenues for digital products and light-lens copiers include equipment and supplies sales, service, rental and document outsourcing revenues, and finance income. These revenues exclude the impact of foreign currency exchange rate fluctuations which are shown combined with the revenues from paper and other products.

Year ended December 31 (in billions)	1999	1998	1997
Digital products	$10.2	$ 8.6	$ 6.3
Light-lens copiers	5.8	7.4	8.3
Paper, other products, currency	3.2	3.4	3.5
Total revenues	$ 19.2	$19.4	$18.1

Xerox Competitive Advantages

Customer Satisfaction

Our most important priority is customer satisfaction. Our research shows that satisfied customers are far more likely to repurchase products and that the cost of selling a replacement product to a satisfied customer is far less than selling to a "new" customer. We regularly survey customers on their satisfaction, measure the results, analyze the root causes of dissatisfaction, and take steps to correct any problems.

Because of our emphasis on customer satisfaction, we offer a Total Satisfaction Guarantee, one of the simplest and most comprehensive offered in any industry: "If you are not satisfied with our equipment, we will replace it without charge with an identical model or a machine with comparable features and capabilities." This guarantee applies for at least three years to equipment acquired from and continuously maintained by Xerox or its authorized agents.

Quality

We were an early pioneer in total quality management and are the only company to have won all three of the following prestigious quality awards: the Malcolm Baldrige National Quality Award in the United States in 1989 and Xerox Business Services, our document outsourcing division, won the award in the services category in 1997; the European Quality Award in 1992; and the Deming Prize in Japan, won by Fuji Xerox in 1980. Since 1980 Xerox and Fuji Xerox have won 25 national quality awards in 20 countries, including Argentina, Australia, Belgium, Brazil, Canada, China (Shanghai), Colombia, France, Germany, Hong Kong, India, Ireland, Mexico, the Netherlands, Norway, Portugal, the United Kingdom, and Uruguay. Our "Leadership Through Quality" program has enabled us to improve productivity, accelerate the introduction of new products, improve customer satisfaction and increase market share. Xerox products have been

consistently rated among the world's best by independent testing organizations. In 1997, Xerox reinforced its position as an environmental leader among Fortune 500 companies by receiving ISO 14001 certification for all its major manufacturing sites worldwide, as set by the International Standards Organization.

Research and Development

Xerox research and development (R&D) is directed toward the development of new products and capabilities in support of our document processing strategy. Our research scientists are deeply involved in the formulation of corporate strategy and key business decisions. They regularly meet with customers and have dialogues with our business divisions to ensure they understand customer requirements and are focused on products and solutions that can be commercialized.

In 1999, R&D expense was $979 million compared with $1,040 million in 1998 and $1,065 million in 1997. The 1999 reduction is largely due to substantially lower management and employee bonuses and profit sharing and lower overhead. We continue to invest in technological development to maintain our premier position in the rapidly changing document processing market with a heightened focus on increasing the effectiveness of our R&D investment as well as time to market. Xerox R&D is strategically coordinated with Fuji Xerox, which invested $555 million in R&D in 1999 for a combined total of $1.5 billion. We expect that 2000 R&D spending will be higher than 1999.

Marketing

Xerox document processing products are principally sold directly to customers by our worldwide sales force, a source of competitive advantage, totaling approximately 15,000 employees, and through a network of independent agents, dealers, retail chains, value-added resellers and systems integrators. Our worldwide sales force is organized around key industries on a global basis and is focused on providing our largest customers with replicable document solutions consisting of hardware, software services, including document outsourcing, systems integration and document consulting. We expect that this shift from a traditional equipment sale involving the placement of the equipment and the recurring revenue stream that follows, reflecting service, supplies and financing, will result in higher revenue per transaction. A typical solution sale includes the consulting services to define and design the solution, systems integration to implement the solution within the customer's infrastructure, and finally in many cases, the management of the solution for the customer. This produces more revenue for Xerox and typically results in a more loyal customer. The key industry segments our sales force is focused on are as follows: Public Sector/Education, Industrial, Financial Services/Healthcare, Graphic Arts, Retail/Wholesale and Professional Services.

To market laser and inkjet printers, multi-function devices and low-end copiers, we are significantly expanding our indirect distribution channels. We currently have arrangements with U.S. retail marketing channels including Office Depot, OfficeMax, Staples and Best Buy, and non-U.S. retail marketing channels including Carrefour, Media Markt and Merisel. We also have arrangements with office channels that include distributors and value-added resellers like Ingram Micro, Tech Data, CHS and Computer 2000. Our products are now available in seven of the ten largest computer equipment retailers and in more than 7,000 storefronts worldwide. In addition to web sites of several of our retail marketing partners, we have arrangements with several e-commerce web sites, including Amazon.com, Value America and CompUSA.com, for the sale of our equipment and supplies. Furthermore, as a result of the acquisition of the Tektronix Computer Printing and Imaging Division, completed in January 2000, we have more than doubled the number of channel partners and nearly doubled the distribution capacity and channel coverage to more than 16,000 resellers and dealers worldwide.

Our strategy is to target high-growth markets through high-volume distribution of laser, solid ink and ink-jet printers, multi-function products, personal copiers, fax machines, and supplies for both Xerox and competitive equipment, with a goal to be the fastest growing source of personal and networked document

solutions in retail and reseller channels worldwide. In 1999, we completed a major redesign of our Internet site to make it a more powerful tool for electronic commerce to sell Xerox equipment and supplies over the Internet. We have also significantly expanded our telebusiness capacity, including the opening of new telebusiness centers in North America and Europe, and we have increased our advertising spending.

In 1991, Xerox International Partners (XIP), a 51 percent-owned partnership, was formed between Xerox and Fuji Xerox to supply printer engines to original equipment manufacturers. XIP has also contracted to supply printer engines to resellers.

Service

We have a worldwide service force of approximately 23,000 employees and a network of independent service agents. In our opinion, this service force represents a significant competitive advantage: the service force is continually trained on our new products and its diagnostic equipment is state-of-the-art. 24-hour-a-day, seven-day-a-week service is available in most metropolitan areas in the United States. As a result, we are able to guarantee a consistent level of service nationwide and worldwide.

Revenues

Our total document processing revenues were $19.2 billion in 1999, of which 54 percent were generated in the United States, 28 percent in Europe, and 18 percent in the remainder of the world, principally Brazil, the rest of Latin America, Canada, and China (excluding the unconsolidated $7.8 billion of Fuji Xerox revenues in Japan and much of the Pacific Rim).

Revenues from supplies, paper, service, rentals, document outsourcing and other revenues, and income from customer financing represented 63 percent of total revenues in 1999, 62 percent in 1998 and 63 percent in 1997. Because these revenues are derived from the installed base of equipment and are therefore less volatile than equipment sales revenues, they provide significant stability to overall revenues. Growth in these revenues is primarily a function of our installed population of equipment, usage levels, pricing and interest rates. The balance of our revenues is derived from equipment sales. These sales, which drive the non-equipment revenues, depend on the flow of new products and are more affected by economic cycles.

Most of our customers have their equipment serviced by and use supplies sold by us. The market for cut-sheet paper is highly competitive and revenue growth is significantly affected by pricing. Our strategy is to charge a spread over mill wholesale prices.

Our document outsourcing business provides printing, publishing, duplicating and related services to more than 5,000 client companies in more than 50 countries, including legal and accounting firms, financial institutions, insurance agencies and manufacturing companies. Revenues from our document outsourcing business increased 26 percent pre-currency to $3.4 billion in 1999. Document outsourcing revenues are split between equipment sales and document outsourcing. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included in equipment sales on the income statement. At the end of 1999, the estimated future minimum value of document outsourcing revenue under contract is over $8 billion, representing an approximate 25 percent increase from 1998.

We offer our document processing customers financing of their purchases of Xerox equipment primarily through Xerox Credit Corporation (XCC) in the United States, largely by wholly-owned financing subsidiaries in Europe, and through divisions in Canada and Latin America. While competition for this business from banks and other finance companies remains extensive, we actively market our equipment financing services on the basis of customer service, convenience and competitive rates. On average, 75 to 80 percent of equipment sales are financed by Xerox, primarily through sales-type leases.

Additional disclosure regarding revenues by stream are presented on pages 31

and 32 of the Company's 1999 Annual Report to Shareholders and is hereby incorporated by reference in this document.

International Operations

Our international operations account for 46 percent of Document Processing revenues. Our largest interest outside the United States is Xerox Limited, which operates predominantly in Europe. Marketing and manufacturing in Latin America are conducted through subsidiaries or distributors in over 35 countries. Fuji Xerox develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia and New Zealand.

Our financial results by geographical area for 1999, 1998 and 1997, which are presented on pages 30, 31, and 52 of the Company's 1999 Annual Report to Shareholders, are hereby incorporated by reference in this document in partial answer to this item.

1998 Restructuring Charge

In April 1998, we announced a worldwide restructuring program intended to enhance our competitive position and lower our overall cost structure. In connection with this program, in the second quarter of 1998 we recorded a pre-tax provision of $1,644 million ($1,107 million after taxes and including our $18 million share of a restructuring charge recorded by Fuji Xerox). The program includes the elimination of approximately 9,000 jobs, net, worldwide, the closing and consolidation of facilities, and the write-down of certain assets.

As of December 31, 1999, approximately 10,000 employees have left the Company under the 1998 restructuring program. Pre-tax savings from the implementation through the end of 1999 are approximately $0.6 billion annually, resulting primarily in lower selling, administrative and general expenses. The majority of the annual savings to date have been reinvested to implement process and systems changes in order to enable the restructuring, and to sustain ongoing efforts to broaden and strengthen marketing programs and distribution channels to enhance revenue growth. When the 1998 restructuring program initiatives are fully implemented, the ongoing pre-tax savings before reinvestments will be approximately $1.0 billion annually.

Our restructuring disclosure, presented on pages 34, 35, 47 and 48 of the Company's 1999 Annual Report to Shareholders, is hereby incorporated by reference in this document.

2000 Restructuring Charge

Management is currently performing a comprehensive review to identify additional operational productivity and cost-saving opportunities above those previously taken in connection with the 1998 restructuring program. We anticipate that a substantial restructuring charge, although less than the 1998 restructuring charge, will be recorded most likely in the first quarter of 2000. The ultimate restructuring charge is expected to include employee termination expenses and closure costs related to the initiatives identified as part of the comprehensive review.

Acquisition of the Color Printing and Imaging Division of Tektronix

In January 2000, we acquired the Color Printing and Imaging Division of Tektronix (CPID) for $925 million in cash including $75 million paid by Fuji Xerox for the Asia/Pacific operations of CPID. CPID manufactures and sells color printers, ink and related products and supplies. This transaction will result in goodwill and other identifiable intangible assets of approximately $575 million, which will be amortized over their useful lives, predominantly 20 years. In addition, we will also recognize a charge in the first quarter of 2000 for acquired in-process research and development of approximately $25 million associated with this acquisition.

Discontinued Operations - Insurance and Other

The discussion under the caption "Discontinued Operations - Insurance and Other" on pages 40 and 41 set forth under the caption "Results of Operations and Financial Condition" and the information set forth under Note 10 "Discontinued Operations" on pages 52 and 53 in the Company's 1999 Annual Report to Shareholders are hereby incorporated by reference in this document in partial answer to this item.

As discussed in the incorporated sections referenced in the preceding paragraph, in 1998, the last remaining Talegen Holdings, Inc. insurance companies were sold and an additional after-tax charge of $190 million was recorded. At the end of 1999, our sole remaining Insurance operation is the Ridge Reinsurance Limited reinsurance business. Our other discontinued businesses, consisting of Other Financial Services and Third Party Financing and Real Estate, are primarily in asset and liability run-off.

Item 2. Properties

The Company owns a total of fourteen principal manufacturing and engineering facilities and leases an additional such facility. The domestic facilities are located in California, New York and Oklahoma, while the international facilities are located in Brazil, Canada, England, France, Holland, Mexico, India and China. The Company also has four principal research facilities; two are owned facilities in New York and Canada, and two are leased facilities in California and France.

In addition, within the Company, there are numerous facilities, which encompass general offices, sales offices, service locations and distribution centers. The principal owned facilities are located in the United States, England, and Mexico. The principal leased facilities are located in the United States, Brazil, Canada, England, Mexico, France, Germany and Italy.

The Company's Corporate Headquarters facility, located in Connecticut, is leased. The Company also owns a training facility, located in Virginia.

In connection with our purchase of CPID, the Company acquired a number of facilities that encompass administration, manufacturing, distribution centers, general offices, sales offices and service locations. The principal administration and manufacturing facilities, which are owned, are located in the United States (Wilsonville, OR) and Malaysia (Penang). The principal distribution facilities are located in Wilsonville and the Netherlands (Heerenveen). The facility in the Netherlands is leased. The remaining facilities acquired are leased and are located primarily in the United States, England and Canada. The leased CPID properties are currently being reviewed for opportunities for consolidation and integration with existing Company properties.

In the opinion of Xerox management, its properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform the Company's functions.

Item 3. Legal Proceedings

The information set forth under Note 15 "Litigation" on pages 61 and 62 of the Company's 1999 Annual Report to Shareholders is incorporated by reference in this document in answer to this item.

In the Accuscan Corp. case against the Company referred to in the second paragraph of such Note, the Company's motion to set aside the verdict or, in the alternative, to grant a new trial was denied by the Court.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

Market Information, Holders and Dividends

The information set forth under the following captions on the indicated pages of the Company's 1999 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item:

Caption	Page No.
Stock Listed and Traded	72
Xerox Common Stock Prices and Dividends	72
Eleven Years in Review - Common Shareholders of Record at Year-End	68 and 69

Recent Sales of Unregistered Securities

During the quarter ended December 31, 1999, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

(a) Securities Sold: On October 1, 1999, Registrant issued 4,465 shares of Common stock, par value $1 per share.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: B.R. Inman, A.A. Johnson, V.E. Jordan, Jr., Y. Kobayashi, H. Kopper, R.S. Larsen, G.J. Mitchell, N.J. Nicholas, Jr., J.E. Pepper, P. F. Russo, M.R. Seger and T.C.Theobald.

(c) The shares were issued at a deemed purchase price of $22.6875 per share (aggregate price $101,125), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan for Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Item 6. Selected Financial Data

The following information, as of and for the five years ended December 31, 1999, as set forth and included under the caption "Eleven Years in Review" on pages 68 and 69 of the Company's 1999 Annual Report to Shareholders, is hereby incorporated by reference in this document in answer to this Item:

Revenues
Income (loss) from continuing operations
Per-Share Data - Earnings (loss) from continuing operations
Total assets
Long-term debt
Preferred stock
Per-Share Data - Dividends declared

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information set forth under the caption "Results of Operations and Financial Condition" on pages 28 through 41 of the Company's 1999 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item.

The following is being added to the disclosures as set forth under the caption "Capital Resources and Liquidity" on pages 36 through 40 of the Company's 1999 Annual Report to Shareholders:

The Company's present credit ratings permit ready access to the credit markets. There is no assurance that these credit ratings can be maintained and/or ready access to the credit markets can be assured. In December 1999, Moody's Investors Service, Inc. announced that the long and short term credit ratings of the Company and its financially supported subsidiaries are under review for possible downgrade, Standard & Poor's announced a negative outlook for the Company's and Xerox Credit Corporation's ratings and Fitch IBCA, Inc. placed the Company's and its subsidiaries' debt ratings on "RatingAlert-Negative". A downgrade or lowering in such ratings could result in higher borrowing costs in future periods.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information set forth under the caption "Risk Management" on pages 39 through 40 of the Company's 1999 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of Xerox Corporation and subsidiaries and the notes thereto and the report thereon of KPMG LLP, independent auditors, which appear on pages 42 through 65 and page 67 of the Company's 1999 Annual Report to Shareholders, are hereby incorporated by reference in this document in answer to this Item. In addition, also included is the quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" on page 66 of the Company's 1999 Annual Report to Shareholders.

The financial statement schedule required herein is filed as "Financial Statement Schedules" pursuant to Item 14 of this Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

The information set forth in "Proposal 1--Election of Directors" in the Company's Notice of the 2000 Annual Meeting of Shareholders and Proxy Statement, to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year covered by this report on Form 10-K, is hereby incorporated by reference in this document in answer to this Part III.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. There are no family relationships between any of the executive officers named.

Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Officer Since_
Paul A. Allaire*	61	Chairman of the Board and Chairman of the Executive Committee	1991	1983
G. Richard Thoman*	55	President and Chief Executive Officer	1999	1997
William F. Buehler*	60	Vice Chairman and President, Industry Solutions Operations	1999	1991

Barry D. Romeril*	56	Vice Chairman and Chief Financial Officer	1999	1993
Allan E. Dugan	59	Executive Vice President President, Worldwide Business Services	2000	1990
Anne M. Mulcahy	47	Executive Vice President President, General Markets Operations	1999	1992
Carlos Pascual	54	Executive Vice President President, Developing Markets Operations	2000	1994
Herve J. Gallaire	55	Senior Vice President Xerox Research and Technology	2000	1997
Patrick J. Martin	59	Senior Vice President President, North American Solutions Group	2000	1992
Michael Miron	44	Senior Vice President President, Internet Business Group	2000	1998

* Member of Xerox Board of Directors.

Executive Officers of Xerox, Continued

Name	Age	Present Position	Year Appointed to Present Position	Officer Since_
Hector J. Motroni	56	Senior Vice President and Chief Staff Officer	1999	1994
Mark B. Myers	61	Senior Vice President	1992	1989
Richard S. Paul	58	Senior Vice President and General Counsel	1992	1989
Eunice M. Filter	59	Vice President, Treasurer and Secretary	1990	1984
Philip D. Fishbach	58	Vice President and Controller(1)	1995	1990
Rafik O. Loutfy	57	Vice President Corporate Business Strategy	2000	1997
Gregory B. Tayler	42	Vice President and Controller(1)	2000	2000

(1) Mr. Fishbach is retiring in April 2000 and Mr. Tayler will become Controller effective April 1, 2000.

Each officer named above, with the exception of G. Richard Thoman and Michael Miron, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 1997, Mr. Thoman had been with International Business Machines Corporation (IBM) where he was Senior Vice President and Chief Financial Officer from 1995 to 1997, and Group Executive for the Personal Systems Group from 1994 to 1995. He was President and CEO of Nabisco International from 1992 to 1994. He was Chairman and Co-CEO of Travel Related

Services for American Express from 1989 to 1992.

Prior to joining Xerox in 1998, Mr. Miron had been with Airtouch Communications where he was Vice President, Corporate Strategy and Development from 1996 to 1998. Prior to this he was with Salomon Brothers Inc. where he was Managing Director, Strategic Planning and Analysis from 1994 to 1996, and Director, Strategy and Consulting Group from 1990 to 1993.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) (1) and (2) The financial statements, independent auditors' reports and Item 8 financial statement schedules being filed herewith or incorporated herein by reference are set forth in the Index to Financial Statements and Schedule included herein.

(3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.

(b) Current Reports on Form 8-K dated December 9, 1999 and December 10, 1999 reporting Item 5 "Other Events" were filed during the last quarter of the period covered by this Report.

(c) The management contracts or compensatory plans or arrangements listed in the Index of Exhibits that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2000 Proxy Statement are preceded by an asterisk (*).

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XEROX CORPORATION

By: /s/ Barry D. Romeril_________
Vice Chairman and
Chief Financial Officer

March 27, 2000

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

March 27, 2000

Signature	Title
Principal Executive Officer:	
G. Richard Thoman	/s/ G. Richard Thoman____________
	Chief Executive Officer and
Director	
Principal Financial Officer:	
Barry D. Romeril	/s/ Barry D. Romeril_____________
	Vice Chairman and Chief Financial Officer and
Director	

Principal Accounting Officer:

Philip D. Fishbach	/s/ Philip D. Fishbach___________
	Vice President and Controller

Directors:

/s/ Paul A. Allaire	Director
/s/ William F. Buehler	Director
/s/ B. R. Inman	Director
/s/ Vernon E. Jordan, Jr.	Director
/s/ Yotaro Kobayashi	Director
/s/ Hilmar Kopper	Director
/s/ Ralph S. Larsen	Director
/s/ N. J. Nicholas, Jr.	Director
/s/ John E. Pepper	Director
/s/ Patricia F. Russo	Director
/s/ Martha R. Seger	Director
/s/ Thomas C. Theobald	Director

Report of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

Under date of January 25, 2000, we reported on the consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 1999, as contained in the Xerox Corporation 1999 Annual Report to Shareholders on pages 42 through 65. These consolidated financial statements and our report thereon are incorporated by reference in the 1999 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedule listed in the accompanying index. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Stamford, Connecticut
January 25, 2000

Index to Financial Statements and Schedule

Financial Statements:

Consolidated statements of income of Xerox Corporation and subsidiaries for each of the years in the three-year period ended December 31, 1999

Consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1999 and 1998

Consolidated statements of cash flows of Xerox Corporation and subsidiaries for each of the years in the three-year period ended December 31, 1999

Consolidated statements of shareholders' equity of Xerox Corporation and subsidiaries for each of the years in the three-year period ended December 31, 1999

Notes to consolidated financial statements

Report of Independent Auditors

Quarterly Results of Operations (unaudited)

The above consolidated financial statements, related notes, report thereon and the quarterly results of operations which appear on pages 42 through 65, 67, and 66 of the Company's 1999 Annual Report to Shareholders are hereby incorporated by reference in this document.

Commercial and Industrial (Article 5) Schedule:

II - Valuation and qualifying accounts

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

SCHEDULE II

Valuation and Qualifying Accounts
Year ended December 31, 1999, 1998 and 1997

(in millions)	Balance at beginning of period	Additions charged to costs and expenses	Deductions, net of recoveries	Balance at end of period
1999				
Allowance for Losses on:				
Accounts Receivable	$102	$168	$133	$137
Finance Receivables	441	191	209	423
	$543	$359	$342	$560
1998				

Allowance for Losses on:				
Accounts Receivable	$ 92	$ 78	$ 68	$102
Finance Receivables	389	223	171	441
	$481	$301	$239	$543
1997				
Allowance for Losses on:				
Accounts Receivable	$ 92	$ 84	$ 84	$ 92
Finance Receivables	347	181	139	389
	$439	$265	$223	$481

Index of Exhibits

Document and Location

(3) (a) Restated Certificate of Incorporation of Registrant filed by the Department of State of New York on October 29, 1996, as amended by Certificate of Amendment of the Certificate of Incorporation of Registrant filed by the Department of State of New York on May 21, 1999.

Incorporated by reference to Exhibit 3(a) to Amendment No. 5 to Registrant's Form 8-A Registration Statement dated February 8, 2000.

(b) By-Laws of Registrant, as amended through April 6, 1999.

Incorporated by reference to Exhibit 3(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

(4) (a) Indenture dated as of January 15, 1990 between Registrant and U.S. Bank Trust National Association (as successor in interest to BankAmerica National Trust Company, which is a successor in interest to Security Pacific National Trust Company (New York)) relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration No. 33-33150.

(b) Indenture dated as of December 1, 1991 between Registrant and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration Nos. 33-44597, 33-49177 and 33-54629.

(c) Indenture dated as of September 20, 1996 between Registrant and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration Statement No. 333-13179.

(d) Indenture dated as of October 1, 1997 among Registrant, Xerox Overseas Holding Limited (formerly Xerox Overseas Holding PLC), Xerox Capital (Europe) plc (formerly Xerox Capital (Europe) plc) and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant and

unlimited amounts of guaranteed debt securities which may be issued from time to time by the other issuers when and as authorized by or pursuant to a resolution or resolutions of the Board of Directors of Registrant or the other issuers, as applicable.

Incorporated by reference to Exhibit 4(b) to Registration Statement Nos. 333-34333, 333-34333-01 and 333-34333-02.

(e) Indenture dated as of April 21, 1998 between Registrant and The First National Bank of Chicago relating to $1,012,198,000 principal amount at maturity of Registrant's Convertible Subordinated Debentures due 2018.

Incorporated by reference to Exhibit 4(b) to Registration Statement No. 333-59355.

(f) Indenture dated as of March 1, 1988, as supplemented by the First Supplemental Indenture dated as of July 1, 1988, between Xerox Credit Corporation (XCC) and The First National Bank of Chicago relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or the Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-20640 and to Exhibit 4(a)(2) to XCC's Current Report on Form 8-K dated July 13, 1988.

(g) Indenture dated as of October 2, 1995, between XCC and State Street Bank and Trust Company relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement Nos. 33-61481 and 333-29677.

(h) Indenture dated as of April 1, 1999, between XCC and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-61481.

(i) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis have not been filed. The Registrant agrees to furnish to the Commission a copy of each such instrument upon request.

(10) The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2000 Proxy Statement are preceded by an asterisk (*).

*(a) Registrant's 1976 Executive Long-Term Incentive Plan, as amended through February 4, 1991.

Incorporated by reference to Exhibit (10)(a) to the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 1991.

*(b) Registrant's 1991 Long-Term Incentive Plan, as amended through May 20, 1999.

Incorporated by reference to Registrant's Notice of the 1999 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

(c) Registrant's 1996 Non-Employee Director Stock Option Plan, as amended through May 20, 1999.

Incorporated by reference to Registrant's Notice of the 1999 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(d) Description of Registrant's Annual Performance Incentive Plan.

*(e)(1) 1997 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan.

Incorporated by reference to Exhibit 10(e) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(e)(2) Amendment No. 1 to Restatement of Registrant's Unfunded Retirement Income Guarantee Plan.

*(f)(1) 1997 Restatement of Registrant's Unfunded Supplemental Retirement Plan.

Incorporated by reference to Exhibit 10(f) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(f)(2) Amendment No. 1 to 1997 Restatement of Registrant's Unfunded Supplemental Retirement Plan.

(g) Registrant's 1981 Deferred Compensation Plan, 1985 Restatement, as amended through April 2, 1990.

Incorporated by reference to Exhibit 10(h) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1990.

(h) 1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors.

Incorporated by reference to Registrant's Notice of the 1996 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(i) Form of severance agreement entered into with various executive officers.

Incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1989.

*(j) Registrant's Contributory Life Insurance Program, as amended as of January 1, 1999.

(k)(1) Registrant's Deferred Compensation Plan for Directors, 1997 Amendment and Restatement.

Incorporated by reference to Exhibit 10(k) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

(k)(2) Amendment No. 1 to Registrant's Deferred Compensation Plan for Directors, 1997 Amendment and Restatement, dated as of January 1, 1998.

*(l) Registrant's Deferred Compensation Plan for Executives, 1997 Amendment and Restatement.

Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1997.

*(m) Executive Performance Incentive Plan.

Incorporated by reference to Registrant's Notice of the 1995 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(n) Registrant's 1998 Employee Stock Option Plan.

Incorporated by reference to Registrant's Notice of the 1998 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

*(o) Letter Agreement dated June 4, 1997 between the Registrant and G. Richard Thoman, President and Chief Executive Officer of Registrant.

Incorporated by reference to Exhibit 10(m) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1997.

(11) Statement re computation of per share earnings.

(12) Computation of Ratio of Earnings to Fixed charges.

(13) Pages 28 through 69 and 72 of Registrant's 1999 Annual Report to Shareholders.**

(21) Subsidiaries of the Registrant.

(23) Consent of KPMG LLP.

(27) Financial Data Schedule (in electronic form only).

**This document has been filed with the Securities and Exchange Commission and is available upon request from Xerox Corporation.

EXHIBIT 10(d)

Annual Performance Incentive Plan

Under the Annual Performance Incentive Plan, executive officers of the Company may be entitled to receive performance related cash payments provided that annual, Executive Compensation and Benefits Committee-established performance objectives are met. At the beginning of the year, the Committee approves for each officer not participating in the Executive Performance Incentive Plan, an annual incentive target and maximum opportunity expressed as a percentage of annual base salary. The Committee also establishes overall Document Processing threshold, target and maximum measures of performance and associated payment schedules. For 1999, the performance measures were earnings per share (35%), revenue growth (25%), cash conversion cycle (20%) and customer satisfaction (20%). Additional goals are also established for each officer that include business unit specific and/or individual performance goals and objectives. The weights associated with each business unit specific or individual performance goal and objective used vary and range from 20 percent to 50 percent of the total. Actual performance payments are subject to approval by the Committee following the end of the year. As a result of the Company's performance during 1999, no cash bonuses were paid to officers with respect to 1999 performance.

EXHIBIT 10(e)(2)

AMENDMENT NO 1
TO
1997 RESTATEMENT
OF
XEROX CORPORATION
UNFUNDED RETIREMENT INCOME GUARANTEE PLAN

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the "Company") has adopted the Unfunded Retirement Income Guarantee Plan, which is presently set forth in the "1997 Restatement of Xerox Corporation Unfunded Retirement Income Guarantee Plan," (the "Plan")

WHEREAS, the Company desires to amend the Plan,

NOW THEREFORE, the Plan is hereby amended as follows:

1. Section 1.2 is hereby amended to read in its entirety as follows:

"SECTION 1.2. AVERAGE MONTHLY COMPENSATION. Shall be determined under Article 1 of the Funded Plan, without regard to the dollar limitation contained therein; and, notwithstanding the above, shall also include any compensation provided under the Xerox Corporation CEO Challenge Bonus Program."

The effective date of this amendment is as of the date hereof. In all other respects the Plan shall remain unchanged.

IN WITNESS WHEREOFF, the Company has caused this Amendment to be executed and its corporate seal duly affixed this 17th day of March, 2000.

XEROX CORPORATION

BY: /s/ Patricia M. Nazemetz
Vice President

ATTEST:

/s/ Martin S. Wagner
Assistant Secretary

EXHIBIT 10(f)(2)

AMENDMENT NO 1 TO 1997 RESTATEMENT OF XEROX CORPORATION UNFUNDED SUPPLEMENTAL RETIREMENT PLAN

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the "Company") has adopted the Unfunded Supplemental Retirement Plan, which is presently set forth in the "1997 Restatement of Xerox Corporation Unfunded Supplemental Retirement Plan," (the "Plan")

WHEREAS, the Company desires to amend the Plan,

NOW, THEREFORE, the Plan is hereby amended as follows:

The first full paragraph in Section 6. A. following subsection (b) is hereby amended to read in its entirety as follows:

1. "'Average Monthly Compensation' shall be determined under RIGP without regard to the dollar limitation contained in the Plan as required by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, or any successor thereto; and, notwithstanding the above, shall also include any compensation provided under the Xerox Corporation CEO Challenge Bonus Program."

The effective date of this amendment is as of the date hereof. In all other respects the Plan shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be executed and its corporate seal affixed this 17th day of March, 2000.

XEROX CORPORATION

BY: /s/ Patricia M. Nazemetz

Vice President

ATTEST:

/s/ Martin S. Wagner

Assistant Secretary

EXHIBIT 10(J)

XEROX CORPORATION

CONTRIBUTORY LIFE INSURANCE PROGRAM

AS AMENDED
AS OF JANUARY 1, 1999

The purpose of the Contributory Life Insurance Program is to provide life insurance benefits to a select group of management employees who contribute materially to the continued growth, development, and future business of Xerox Corporation.

Article I

Definitions

For the purposes hereof, unless otherwise required by the context, the following phrases or terms shall have the following meanings:

1.0 "Administrator" shall mean the Vice President of the Company having responsibility for human resource matters or his or her designee. The Administrator will manage and administer the Plan in accordance with the provisions of Article IX of this Plan.

1.1 "Beneficiary" shall mean the person(s), trust(s), or the estate of a Participant, entitled to receive any benefits under this Plan upon the death of a Participant.

1.2 "Beneficiary Designation" shall mean the form approved by the Insurer which shall be utilized by a Participant to designate a Beneficiary under the Insurance Policy.

1.3 "Change of Beneficiary" shall mean the form adopted from time to time by the Administrator for use under this Plan, acceptable to the Insurer, which shall be utilized by a Participant to change his or her Beneficiary.

1.4 "Company" shall mean Xerox Corporation.

1.5 "Employee" shall mean any person who is in the regular full time employment of the Company as determined by the personnel policies of the Company.

1.6 "Insurer" shall mean the insurance company selected by the Administrator to which both the Participant and the Company will apply for insurance on the Participant's life.

1.7 "Insurance Policy" shall mean a life insurance contract issued by the Insurer on the life of the Participant.

1.8 "Participant" shall mean an Employee who is eligible to participate and elects to participate in this Plan as provided in Article II hereof.

1 9 "Plan" shall mean the Contributory Life Insurance Program of Xerox Corporation, which shall be evidenced by this instrument and by each Plan Agreement.

1.10 "Plan Agreement" shall mean the form of written agreement, adopted from time to time by the Administrator for use under this Plan, which is entered into by and between the Company and a Participant.

1.11 "Termination Date" shall mean the later of (i) the date a Participant attains age 65, or (ii) the date a Participant has participated in the Plan for fifteen (15) years except as otherwise provided in Section 5.

Article II

Eligibility and Membership

2.0 The following Employees in executive pay groups of the Company shall be eligible to participate in the Plan if:

(a) they are actively employed by the Company on or after July 1, 1989; or

(b) they were actively employed by the Company on January 1, 1989 and retired on or before July 1, 1989; or

(c) they were actively employed by the Company on January 1, 1989, are receiving salary continuance as of July 1, 1989, and became eligible for retirement under the terms of the Company's Retirement Income Guarantee Plan between January 1, 1989 and July 1, 1989.

Eligible individuals may elect to participate in this Plan but are not required to do so.

2.1 Inpatriates and foreign nationals are not eligible for participation in the Plan.

2.2 Participants who met the requirements for eligibility at the time they elected to participate and who subsequently remain as active employees but do not remain in executive pay groups are still eligible to participate in the Plan.

2.3 As a condition of participation, each eligible individual shall complete, execute, and return to the Administrator a Plan Agreement in the form approved by the Administrator and will comply with such further conditions as may be established by and in the sole discretion of the Administrator.

2.4 Once a Participant has terminated participation in the Plan, he or she may not again become eligible to participate in the Plan.

Article Ill

Procurement of Insurance Policy

3.0 The Company and the Participant shall apply to the Insurer for an Insurance Policy on such Participant's life in the amount approved by the Administrator and specified in the Participant's Plan Agreement. The Participant shall:

(A) furnish such information as the Insurer may require,

(B) take such physical examinations as may be requested, and

(C) do any other act to comply with the underwriting and policy issuance requirements which may reasonably be requested by the Insurer.

3.1 If a Participant does not cooperate in the securing of such insurance, or if he or she is for any reason unable to obtain insurance in the specified amount on his or her life, the Company shall have no further obligation to Participant under the Plan and such Participant's Plan Agreement shall terminate.

3.2 The Company and the Participant shall be the owners of any Insurance Policy acquired on Participant's life. Their respective interests in the Insurance Policy shall be as they are set forth in this Plan, the Participant's Plan Agreement and the Insurance Policy.

3.3 The Company shall have no obligation of any nature whatsoever to a Participant under this Plan or Plan Agreement, if the circumstances of the Participant's death preclude payment of death proceeds under the Insurance Policy.

3.4 The amount of premium due annually from the Participant hereunder shall be an amount equal to the Insurer's current published premium rate for annually renewable term insurance for standard risks based on the Participant's age multiplied by the Participant's amount of coverage. Participants then currently actively employed by the Company shall pay such required premium to the Company through equal after-tax payroll deductions withheld from each Participant's compensation during the applicable tax year. A Participant not actively employed by the Company at the date a premium payment is due but who have elected under Section 5.0 hereof to continue participation in the Plan shall pay his or her premium directly to the Company. On or before the due date of each Insurance Policy premium, or within the grace period provided therein, the Company shall forward to the Insurer the Participant's premium as well as the balance of the premium then due.

Article IV

Beneficiary

4.0 The Participant shall designate his or her Beneficiary to receive benefits under the Plan in a separate Beneficiary Designation form approved by the Insurer. If more than one Beneficiary is named, the shares and the preference of each shall be indicated.

4.1 The Company and the Participant shall execute a Beneficiary Designation on forms approved by the Administrator. It shall limit the rights of the Participant's designated Beneficiary to the amount of the death benefit proceeds specified in Schedule B of his or her Plan Agreement with the balance payable to the Company. Such Beneficiary Designation shall not be terminated, altered or amended by the Company, without the express written consent of the Participant. The Company and the Participant shall take all action necessary to cause such Beneficiary Designation to conform to the provisions of this Plan and Plan Agreement.

4.2 Participants shall have the right to change their Beneficiary(s) at any time by submitting a new Beneficiary Designation form to the Company. In order to become effective such new form shall be executed by both the Participant and the Company.

No change in Beneficiary shall be effective until acknowledged in writing by the Insurer.

4.4 Any payment made by the Insurer in accordance with the most recent Beneficiary Designation form filed with the Company and the Insurer shall fully discharge the Insurer from all further obligations with respect to such payment.

4.5 The Beneficiary may elect any settlement option under the Insurance Policy of his or her portion of the death benefit proceeds and the Company agrees to coexecute and deliver to the Insurer the necessary forms to elect the requested settlement options.

Article V

Interest of Company and the Participant in the Insurance Policy

During the Participant's Lifetime

5.0 Unless otherwise extended by mutual consent of the Company and the Participant, a Participant's Plan Agreement shall terminate at the Termination Date. In the event the Participant's employment with the Company terminates prior to the Termination Date, Participants who are eligible to retire under the Company's Retirement Income Guarantee Plan shall have the right to continue the Plan Agreement until the Termination Date, provided that the Participant continues to make his or her required premiums under Section 3.4. In the event that the Participant's employment with the Company terminates prior to the Termination Date and the Participant is not eligible to retire under the Company's Retirement Income Guarantee Plan, the Participant's Plan Agreement shall terminate.

5.1 At the termination of the Plan Agreement, the Company shall have the unqualified right to the cash surrender value of an Insurance Policy in an amount equal to the amount of cumulative premiums paid by the Company with respect to such Insurance Policy. The Company shall also be entitled to an amount equal to one-half of the cash surrender value of the Insurance Policy in excess of the cumulative premiums paid as of December 31, 1998 (the "Excess Amount"). The Excess Amount shall not exceed the amount specified in accordance with Schedule A hereto.

5.2 At the termination of the Plan Agreement, the Participant shall be entitled to the cash surrender value of the Insurance Policy in excess of the amount payable to the Company in accordance with Section 5.1 above, and all other policy rights not otherwise ceded to the Company. The Participant agrees that he or she will not deal with the Insurance Policy other than in a manner expressly provided for in this Plan and the Participant's Plan Agreement until after the Participant's Plan Agreement is terminated.

5.3 While the Plan Agreement is in force, the Company may borrow either directly or indirectly against each Insurance Policy or repledge its collateral security interest in it for an amount not exceeding its interest. While the Plan Agreement is in force, the Participant may not borrow either directly or indirectly against his or her Insurance Policy or pledge his or her interest in the Insurance Policy.

Article VI

Retention of Services

6.0 Nothing contained in this Plan or the Plan Agreement shall be construed as a contract of employment between the Company and a Participant, or as a right of any Participant to be continued in the employment of the Company, or as a limitation of the right of the Company to discharge any of its employees, with or without cause.

Article VII

Termination. Amendment. Modification or Supplement of Plan

7.0 The Company reserves the right to terminate this Plan.

7.1 The Company reserves the right to totally or partially amend, modify or supplement this Plan at any time. Any amendment, modification or supplement shall be in writing signed by the Vice President of the Company having responsibility for human resources.

7.2 The Company reserves the right to terminate the Plan and the Plan Agreements thereunder, provided, however, no such termination shall adversely impact a Participant's right to continue insurance coverage at the Participant's own expense in accordance with the terms of the Insurance Policy.

7.3 No action to amend, modify or supplement the Plan, which would adversely

impact participant's rights, or terminate the Plan or any Plan Agreement shall be taken except upon 30 days' prior written notice to each affected Participant.

7.4 If a termination of the Plan occurs, the obligation of the Company to make any premium payments shall cease and the rights of the Company and the Participant shall be controlled by Article VIII.

7.5 In the event of a Participant's disability as defined under the Xerox Long-Term Disability Income Plan, premium payments will be waived.

Article VIII

Release of Company's Ownership Interest

8.0 If the Participant's Plan Agreement is terminated prior to the Participant's death, the Company shall be entitled to withdraw funds from the Insurance Policy equal to the amount provided for in Article V reduced by all indebtedness and interest incurred by it that is owed to the Insurer as a lien against such policy or in its discretion it may apply said net funds to exercise any other option provided by the Insurance Policy, but said application of funds shall not impact the death benefit interest of the Participant's Beneficiary.

8.1 After the Company has exercised its election under Subsection 8.0, it will no longer have any interest in the remaining Insurance Policy which thereafter shall be solely owned by the Participant or his or her assignee. The Company and the Participant shall execute whatever documents that are required by the Insurer to cause this change to occur.

Article IX

Administration of the Plan

9.0 The sole right of construction, interpretation and general administration of the Plan shall be vested in the Administrator. The Administrator shall be deemed the Named Administrator of this Plan.

9.1 The Administrator shall establish rules, forms and procedures for the administration of the Plan from time to time, including a claims procedure. The Administrator shall have the exclusive right to interpret the Plan, determine eligibility hereunder, and to decide any and all matters arising thereunder or in connection with the administration of the Plan.

Article X

Participant's Assignment

10.0 Approval of the Administrator is required for any assignment by a Participant of his or her interest in the Insurance Policy at any time to any person or persons. Approved assignments shall be implemented by use of a form or forms approved from time to time by the Insurer and the Administrator. Assignments will be irrevocable. Upon delivery of a signed copy of the assignment to the Company, all of the rights, obligations and duties of the Participant under this Plan and under the Participant's Plan Agreement shall inure to and be binding upon such assignee (including the right to make further assignments) and the Participant shall have no further interest in this Plan or the Insurance Policy.

Article XI

Insurer's Liability

11.0 If this Plan is still in existence at the death of a Participant, the

Insurer shall be discharged from all liability under the Insurance Policy upon payment of the proceeds in the manner following:

(A) The amount provided for in Article IV, Section 4.1 shall be paid in accordance with both the Participant's final Beneficiary Designation and any optional method of settlement election filed with it.

(B) The balance of the proceeds shall be paid to the Company.

Article XII

Miscellaneous

12.0 Any notice which shall or may be given under this Plan or an assignment shall be in writing and shall be mailed by United States Mail, postage prepaid. If notice is to be given to the Company, such notice shall be addressed to the Company at its general offices:

Xerox Corporation
800 Long Ridge Road
Stamford CT 06904-1600

marked for the attention of the Administrator, Contributory Life Insurance Program; or if notice to a Participant, addressed to the most recent address shown on the Company's personnel records.

12.1 Any party may change the address to which notices shall be mailed from time to time by giving written notice of such new address.

12.2 The Plan shall be binding upon the Company and its successors and assigns, and upon a Participant, his or her beneficiary, heirs, executors and administrators.

12.3 This Plan shall be construed and governed in all respects under and by the laws of the State of New York. If any provision of this Plan shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

12.4 Headings and subheadings in this Plan are inserted for convenience and reference only and to not constitute any part of this Plan.

Article XIII

Effective Date

The original effective date of the Plan was July 1, 1989. The effective date of this amended Plan shall be as of January 1, 1999.

IN WITNESS WHEREOF, Xerox Corporation has caused this Amended Plan to be executed this 23rd day of June 1999 effective as of January 1, 1999.

XEROX CORPORATION

BY: /s/ Patricia M. Nazemetz

Vice President

Schedule A
To
Xerox Contributory Life Insurance Program

Age at Birthday Nearest to July 1, 1989	Officer Participant*	Non-Officer Participant*
30	568,105	284,052
31	516,459	258,230
32	469,508	234,754
33	426,826	213,413
34	388,023	194,012
35	352,748	176,374
36	320,680	160,340
37	291,528	145,764
38	265,025	132,513
39	240,932	120,466
40	219,029	109,515
41	199,117	99,559
42	181,016	90,508
43	164,560	82,280
44	149,600	74,800
45	136,000	68,000
46	123,636	61,818
47	112,397	56,198
48	102,179	51,089
49	92,890	46,445
50	84,445	42,223
51	76,768	38,384
52	69,789	34,895
53	63,445	31,722
54	57,677	28,839
55	52,434	26,217
56	47,667	23,834
57	43,841	21,921
58	40,085	20,043
59	36,398	18,199
60	32,777	16,388
61	29,222	14,611
62	25,732	12,866
63	22,305	11,153
64	18,941	9,470
65	15,637	7,819
66	12,394	6,197
67	9,210	4,605
68	6,083	3,042
69	3,014	1,507

* Status as of date participation in the Plan commenced.

EXHIBIT 10(K)(2)

AMENDMENT NO. 1
TO
XEROX CORPORATION
DEFERRED COMPENSATION PLAN FOR DIRECTORS
1997 AMENDMENT AND RESTATEMENT

WITNESSETH:

WHEREAS, Xerox Corporation (the "Company") has adopted the Xerox Corporation Deferred Compensation Plan For Directors, 1997 Amendment and Restatement (the "Plan");

WHEREAS, the Company has determined to amend the Plan to allow Participants to select beneficiary(s) in the event of their death either during service on the Board of Directors or following retirement from the Board and to permit the selection of any beneficiary(ies) selected by the Participant without limitation; and

WHEREAS, pursuant to Section 18 of the Plan the Vice President responsible for human resources of the Company is authorized to amend the Plan;

NOW, THEREFORE, subsections (d), (e) and (f) of Section 9 of the Plan be and hereby are amended to read in their entirety as follows:

"(d) Upon termination of service on the Board of Directors, other than termination resulting from death, prior to retirement, the total value of the Participant's Accounts under the Plan shall be paid to the Participant as soon as administratively possible after his or her date of termination.

(e) Upon the death of a Participant either before or after retirement the total value of the Participant's Accounts under the Plan shall be paid in accordance with an election made by such Participant in a lump sum or in installments, as appropriate, from the Accounts established under Section 8 to the beneficiary(ies) designated by the Participant.

(f) If a Participant dies either before or after retirement without having made such an election, the total value of his or her Accounts under the Plan shall be paid in a single payment to the Participant's estate as soon as administratively possible after notice of his or her date of death has been received by the Administrator."

This amendment is effective as of the date hereof. In all other respects the Plan shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of the 1st day of January 1998.

XEROX CORPORATION

By: /s/ Hector Motroni
Vice President

Attest:

By: Martin S. Wagner
Assistant Secretary

EXHIBIT 10(L)

(As amended through 11/16/98)

XEROX CORPORATION

DEFERRED COMPENSATION PLAN FOR EXECUTIVES
(Formerly 1989 Deferred Compensation Plan For Executives)

1997 AMENDMENT AND RESTATEMENT

PREAMBLE. This Deferred Compensation Plan For Executives, 1997 Amendment and Restatement (the "Plan") is a private unfunded nonqualified deferred compensation arrangement for executives and all rights shall be governed by and construed in accordance with the laws of New York, except where preempted by federal law. It is intended to provide a vehicle for setting aside funds for retirement.

SECTION 1. EFFECTIVE DATE. The original effective date of the Plan is January 1, 1989. The effective date of this amendment and restatement is October 13, 1997.

SECTION 2. ELIGIBILITY. Any employee of Xerox Corporation (the "Company"), and any employee of a wholly owned subsidiary of the Company which has adopted this Plan with the approval of the Company's Board of Directors or the Committee (as hereinafter defined) ("Participating Subsidiary"), who is in Corporate B and A (or its equivalent) or above, and such additional group or groups of employees of the Company or of a Participating Subsidiary as designated from time to time by the Administrator, are eligible to participate in the Plan (an individual who has so elected to participate is hereinafter referred to as a "Participant"). A Participant who terminates an election to defer receipt of compensation is not eligible to make deferrals again in the Plan until twelve months after the effective date of such termination.

SECTION 3. DEFERRED COMPENSATION ACCOUNT. There shall be established for each Participant one or more deferred compensation Accounts (as hereinafter defined).

SECTION 4. AMOUNT OF DEFERRAL. A Participant may elect to defer receipt of compensation for services (up to 50% in the case of base salary and up to 100% in the case of any other long or short term compensation that is eligible for deferral) as an employee of the Company or a Participating Subsidiary otherwise payable to the Participant in the form of cash. Any amount deferred is credited to the Participant's Accounts on the date such amount is otherwise payable.

To adjust for the reduced contribution otherwise payable in cash, if applicable, to a Participant's account under the Xerox Corporation Profit Sharing and Savings Plan (the 'Profit Sharing Plan') because of the deferral of compensation under the Plan at the time of each annual employer contribution to the Participant's account under the Profit Sharing Plan, the deferred compensation account of each active Participant shall be credited with an additional hypothetical amount equal to the product of (a) the amount of deferred compensation under the Plan which would have been included in the calculation of such profit sharing contribution if such compensation had not been deferred (b) by the contribution percentage payable in cash under the Profit Sharing Plan for the relevant calendar year.

SECTION 5. TIME OF ELECTION OF DEFERRAL. An election to defer compensation must be made by a Participant prior to the year in which the Participant would otherwise have an unrestricted right to such compensation. When an employee first becomes eligible to participate in the Plan, he or she may elect to defer any compensation to which he or she has yet to have an unrestricted right to payment. An election to totally terminate future

deferrals may be made at any time prior to the relevant payment date.

SECTION 6. HYPOTHETICAL INVESTMENT. Deferred compensation is assumed to be invested, without charge, in (a) the Balanced Fund, Income Fund, U. S. Stock Fund, International Stock Fund, Small Company Stock Fund or Xerox Stock Fund (or the successors thereto) established from time to time under the Profit Sharing Plan, (b) a fund with a variable fixed rate of return based upon the prime or base rate charged by one or more banks ("Prime Rate Investment") and (c) such other fixed income return investments ("Fixed Return Investment"), all as shall be made available from time by the Administrator in his or her administrative discretion ("Investments"), as elected by the Participant.

It is anticipated that the Administrator will substitute the Prime Rate Investment for the Income Fund effective January 1, 1998. Amounts deferred prior to January 1, 1998 shall have a rate of return at the Income Fund or the Prime Rate Investment as elected by Participants on forms provided by the Administrator in connection with the implementation of the Prime Investment Rate.

Elections to make hypothetical investments in any one or more of the Investments shall be subject to administrative rules adopted by the Administrator from time to time.

No shares of Xerox stock will ever actually be issued to a Participant under the Plan.

SECTION 7. VALUE OF DEFERRED COMPENSATION ACCOUNTS AND INSTALLMENT PAYMENTS. The value of each Participant's Accounts shall reflect all amounts deferred, gains, losses and rates of return from the Investments, and shall be determined at the close of business on each day on which securities are traded on the New York Stock Exchange. Hypothetical investments in the Profit Sharing Plan shall be valued on each business day based upon the value of such hypothetical investment as determined under such Plan on the valuation date under such Plan coincident with or last preceding such business day. The value of Investments not made under the Profit Sharing Plan shall be determined from such available source or sources as the Administrator in his or her sole discretion shall from time to time determine. The date as of which investments are valued pursuant to the foregoing sentences are referred to herein as a Valuation Date.

SECTION 8. MANNER OF ELECTING DEFERRAL. A Participant may elect to defer compensation by giving written notice to the Administrator on a form provided by the Company, which notice shall include (1) the percentage to be deferred; (2) if more than one is offered under the Plan, the Investment applicable to the amount deferred; and (3) the payment method that will apply to the deferred compensation. A Participant may elect up to a maximum of four separate payment methods during his or her participation in the Plan ("Accounts"). Such payment methods once made may never be changed. Each election to defer compensation under the Plan shall specify an Account from which payment will be made. The Accounts available under the Plan shall be:

ACCOUNT 1 which shall be payable beginning the July 15 of a calendar year that follows the calendar year of retirement by the number of years elected by the Participant (0, 1, 2, 3, 4, or 5 years). The last payment shall be on the July 15 of the year in which the Participant attains a certain age elected by the Participant.

ACCOUNT 2 which shall be payable beginning the July 15 of a calendar year that follows the calendar year of retirement by the number of years elected by the Participant (0, 1, 2, 3, 4, or 5 years) and is payable on each subsequent July 15 until the number of payments elected by the Participant have been made.

ACCOUNT 3 which shall be payable on the July 15 of a calendar year that follows the calendar year of retirement by the number of years elected by the Participant (0, 1, 2, 3, 4, or 5 years) and is payable as a single sum.

ACCOUNT 4 shall be available with respect to amounts deferred during 1998 and later years. This account is payable beginning on the July 15 of a

specified year whether before or after retirement. In addition to this payment date, the Participant must elect the number of payments that are to commence on this date. The payment(s) from this account can be as a single sum or payable in up to four annual installments. Once Account 4 is established (an election is made to defer and the payment date is defined), deferrals to Account 4 shall cease for any calendar year in which a payment is scheduled to be made from this Account. The full account balance shall be distributed by the end of the installment period. Once the final payment is made from this Account, the Participant may elect to create a new Account 4. The initial election or any subsequent election to use this Account must be made by December 31 of the year preceding the calendar year in which deferrals will be allocated to this Account. The first payment date that can be elected is the July 15 of the calendar year that follows the calendar year of election (calendar year containing the December 31 due date for election) by three years.

Not later than December 31, 1997, participants who are currently employed by the Company may change their payment elections previously made under the Plan which specified payment dates relating to termination, retirement, death, or disability, by selecting payments pursuant to the methods described in Accounts 1 through 3 above. Such change shall be effected by the Participant filing with the Administrator a change of election on a form or forms established by the Administrator for such purpose. Such change shall be effective only with respect to payments in 1999 or later for participants who are employed by Xerox as of December 31, 1998.

The Administrator may adopt rules of general applicability for administration of payments under the Plan which may be elected by participants, including without limitation, fixing the maximum age selected for payments to terminate and the maximum number of payments.

SECTION 9. PAYMENT OF DEFERRED COMPENSATION.

(a) No withdrawal may be made from the Participant's Account, except as provided under this Section and Sections 10 and 11.

(b) Payments from a Participant's Account are made in cash in accordance with the elections made under Section 8 of the Plan based on the value of the Participant's deferred compensation Accounts as of the Valuation Date immediately preceding the date of payment.

(c) Unless otherwise elected by a Participant with the written approval of the Administrator, payments of deferred compensation shall be made pursuant to the following formula: the amount of the first payment shall be a fraction of the value of the Participant's deferred compensation account on the preceding Valuation Date, the numerator of which is one and the denominator of which is the total number of installments elected, and the amount of each subsequent payment shall be a fraction of the value on the Valuation Date preceding each subsequent payment date, the numerator of which is one and the denominator of which is the total number of installments elected minus the number of installments previously paid. Any other payment method selected with the written approval of the Administrator must in all events provide for payments in substantially equal installments.

(d) Upon termination of employment, including termination resulting from death, prior to retirement, the total value of the participants Accounts under the Plan shall be paid to the Participant, or his or her estate, as the case may be, as soon as administratively possible after his or her date of termination.

(e) Upon the death of a Participant following retirement the total value of the Participant's Accounts under the Plan shall be paid in accordance with a one-time, irrevocable election made by such Participant as follows:

1. The total value shall be paid to the Participant's estate as soon as administratively possible after the death of a Participant, or

2. Payments shall continue under the election made by the Participant to the Participant's surviving spouse until the surviving spouse's death. Any

remaining payments shall be paid as a single sum to the surviving spouse's estate.

(f) If a Participant dies after retirement without having made such irrevocable election, the total value of his or her Accounts under the Plan shall be paid in a single payment to the participant's estate as soon as administratively possible after notice of his or her date of death has been received by the Administrator.

SECTION 10. ACCELERATION OF PAYMENT.

(a) FOR HARDSHIP. Upon written approval from the Company's Chief Executive Officer (the Company's Board of Directors, in the case of a request from the Chief Executive Officer), a Participant may be permitted to receive all or part of his accumulated benefits if, in the discretion of the Chief Executive Officer (or the Board, if applicable), it is determined that an emergency event beyond the Participant's control exists and which would cause such Participant severe financial hardship if the payment of his benefits were not approved. Any such distribution for hardship shall be limited to the amount needed to meet such emergency. A Participant who makes a hardship withdrawal cannot reenter the Plan for twelve months after the date of withdrawal.

(b) UPON A CHANGE IN CONTROL. Within 5 days following the occurrence of a change in control of the Company (as hereinafter defined), each Participant shall receive a lump sum payment equal to the value of his Account.

For purposes hereof, a "change in control of the Company" shall be deemed to have occurred if (A) any "person", as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the Company's then outstanding securities; or (B) during any period of two consecutive years, individuals who at the beginning of such period constitute the Board, including for this purpose any new director (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in this Section) whose election or nomination for election by the Company's shareholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof.

SECTION 11. OTHER PENALIZED WITHDRAWALS. Notwithstanding the provisions of Sections 9 and 10, a Participant may be permitted to receive all or part of his accumulated benefits at any time provided that (A) the Administrator approves such distribution in his or her sole discretion, and (B) the Participant forfeits a portion of his account balance equal to a percentage of the amount distributed. The percentage reduction shall be the greater of (A) six percent, or (B) a percentage equal to one-half of the prime interest rate, as determined by the Administrator.

SECTION 12. TIME OF INVESTMENT. Amounts deferred under the Plan shall begin to be credited with gains, losses and rates of return from Investments commencing on the date credited to the Participant's Accounts.

SECTION 13. PARTICIPANT'S RIGHTS UNSECURED. The benefits payable under this Plan shall be unfunded. Consequently, no assets shall be segregated for purposes of this Plan and placed beyond the reach of the Company's general creditors. The right of any Participant to receive future installments under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

SECTION 14. STATEMENT OF ACCOUNT. Statements will be sent to each

Participant by February and August and more frequently if the Administrator so determines as to the value of their deferred compensation accounts as of the end of December and June, respectively.

SECTION 15. ASSIGNABILITY. No right to receive payments hereunder shall be transferable or assignable by a Participant, except by will or by the laws of descent and distribution or except as provided under Section 9.

SECTION 16. BUSINESS DAYS. In the event any date specified herein falls on a Saturday, Sunday or legal holiday, such date shall be deemed to refer to the next business day thereafter.

SECTION 17. ADMINISTRATION. The Plan shall be administered by the Vice President of the Company having responsibility for human resources (the "Administrator"). The Administrator shall have the authority to adopt rules and regulations for carrying out the plan, and interpret, construe and implement the provisions of the Plan.

SECTION 18. AMENDMENT. The Company expressly reserves the right to amend the Plan at any time and in any particular manner. Such amendments, other than amendments relating to termination of the Plan or relating to Investments under Section 6 of the Plan, may be effected by (i) the Board of Directors, (ii) a duly constituted committee of the Board of Directors ("Committee"), or (iii) the Vice President of the Company responsible for human resources or a representative thereof. In the event such office is vacant at the time the amendment is to be made, the Chief Executive Officer of the Company shall approve such amendment or appoint a representative. Amendments relating to termination of the Plan or relating to Investments under Section 6 of the Plan shall be effected pursuant to a resolution duly adopted by the Board of Directors of the Company, or a duly constituted committee of the Board of Directors of the Company, in accordance with the Business Corporation Law of the State of New York.

Any amendment, alteration, modification or suspension under subsection (iii) of the preceding paragraph shall be set forth in a written instrument executed by any Vice President of the Company and by the Secretary or an Assistant Secretary of the Company.

Upon termination the Administrator in his or her sole discretion may pay out account balances to participants. No amendment, modification or termination shall, without the consent of a Participant, adversely affect such Participant's accruals in his/her Accounts.

EXHIBIT 11

Computation of Net Income Per Common Share

(Dollars in millions, except per-share data; shares in thousands)

I. Basic Net Income (Loss) Per Common Share	1999	1998	1997	1996	1995
Income from continuing operations	$ 1,424	$ 585	$ 1,452	$ 1,206	$ 1,174
Accrued dividends on ESOP preferred stock, net	(38)	(46)	(44)	(43)	(42)
Accrued dividends on redeemable preferred stock	-	-	-	(1)	(3)
Adjusted income from continuing operations	1,386	539	1,408	1,162	1,129
Discontinued operations	-	(190)	-	-	(1,646)
Adjusted net income (loss)	$ 1,386	$ 349	$ 1,408	$ 1,162	$ (517)
Average common shares outstanding during the period	661,917	655,676	649,608	648,924	644,174
Common shares issuable with respect to exchangeable shares	1,576	3,280	3,763	5,464	7,854
Adjusted average shares outstanding for the period	663,493	658,956	653,371	654,388	652,028
Basic earnings (loss) per share:					
Continuing operations	$ 2.09	$ .82	$ 2.16	$ 1.78	$ 1.73
Discontinued operations	-	(.29)	-	-	(2.53)
Basic earnings (loss) per share	$ 2.09	$ .53	$ 2.16	$ 1.78	$ (.80)

II. Diluted Net Income (Loss) Per Common Share

Income from continuing operations
Accrued dividends on ESOP preferred stock, net
Accrued dividends on redeemable preferred stock
ESOP expense adjustment, net of tax
Interest on convertible debt, net of tax
Adjusted income from continuing operations
Discontinued operations
Adjusted net income (loss)

Average common shares outstanding during the period
Common shares issuable with respect to:
Stock options, incentive and exchangeable shares
Convertible debt
ESOP preferred stock
Adjusted average shares outstanding for the period

Diluted earnings (loss) per share:
Continuing operations
Discontinued operations
Diluted earnings (loss) per share

$ 1,424	$ 585	$ 1,452	$ 1,206	$ 1,174
-	(46)	-	-	-
-	-	-	(1)	(3)
5	-	-	(3)	(9)
17	3	3	3	4
1,446	542	1,455	1,205	1,166
-	(190)	-	-	(1,646)
$ 1,446	$ 352	$ 1,455	$ 1,205	$ (480)
661,917	655,676	649,608	648,924	644,174
10,303	13,091	11,691	16,106	19,206
13,191	5,287	5,287	5,288	5,287
51,989	-	54,687	55,962	57,325
737,400	674,054	721,273	726,280	725,992
$ 1.96	$ .80	$ 2.02	$ 1.66	$ 1.61
-	(.28)	-	-	(2.27)
$ 1.96	$ .52	$ 2.02	$ 1.66	$ (.66)

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

Year ended December 31 (in millions)	1999	1998*	1997	1996	1995
Fixed Charges:					
Interest expense	$ 803	$ 749	$ 617	$ 592	$ 603
Rental expense	132	145	140	140	142
Total fixed charges before capitalized interest and preferred stock dividend of subsidiary	935	894	757	732	745
Capitalized interest	8	-	-	-	-
Preferred stock dividend of subsidiary	55	55	50	-	-
Total fixed charges	$ 998	$ 949	$ 807	$ 732	$ 745
Earnings available for fixed charges:					
Earnings**	$2,104	$ 837	$2,268	$2,067	$1,980
Less undistributed income in minority owned companies	(68)	(27)	(84)	(84)	(90)
Add fixed charges before capitalized interest and preferred stock dividend of subsidiary	935	894	757	732	745
Total earnings available for fixed charges	$2,971	$1,704	$2,941	$2,715	$2,635
Ratio of earnings to fixed charges (1)(2)	2.98	1.80	3.64	3.71	3.54

(1) The ratio of earnings to fixed charges has been computed based on the Company's continuing operations by dividing total earnings available for fixed charges, excluding capitalized interest, by total fixed charges. Fixed charges consist of interest, including capitalized interest and preferred stock dividend requirements of subsidiaries, and one-third of rent expense as representative of the interest portion of rentals. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Discontinued operations consist of the Company's Insurance, Other Financial Services, and Third Party Financing and Real Estate businesses.

(2) The Company's ratio of earnings to fixed charges includes the effect of the Company's finance subsidiaries, which primarily finance Xerox equipment. Financing businesses are more highly leveraged and, therefore, tend to operate at lower earnings to fixed charges ratio levels than do non-financial businesses.

* Excluding the effects of the charges recorded in connection with the 1998 restructuring plan, the ratio of earnings to fixed charges would be 3.55.

** Sum of "Income before Income Taxes, Equity Income and Minorities' Interests" and "Equity in Net Income of Unconsolidated Affiliates."

Results of Operations and Financial Condition

Summary of Total Company Results

Document Processing revenues of $19.2 billion in 1999 were flat on a pre-currency basis with 1998. Excluding Brazil, where revenues declined very substantially due to the currency devaluation and subsequent economic weakness, pre-currency revenues grew 4 percent driven by 5 percent growth in equipment sales and 3 percent growth in recurring revenues. Revenues increased 8 percent on a pre-currency basis to $19.4 billion in 1998 and 7 percent on a pre-currency basis to $18.1 billion in 1997.

The following table summarizes net income and diluted earnings per share (EPS):

(In millions, except per-share data)	1999	1998	1997
Document Processing before restructuring charge	$1,424	$ 1,692	$1,452
Restructuring Charge	-	(1,107)	-
Continuing operations	1,424	585	1,452
Discontinued operations	-	(190)	-
Net income	$1,424	$ 395	$1,452
EPS			
Document Processing before restructuring charge	$ 1.96	$ 2.33	$ 2.02
Restructuring charge	-	(1.53)	-
Continuing operations	$ 1.96	$ 0.80	$ 2.02
Discontinued operations	-	(0.28)	-
Diluted EPS	$ 1.96	$ 0.52	$ 2.02

Excluding the 1998 restructuring charge, income from continuing operations decreased 16 percent in 1999 and increased 17 percent in 1998.

Excluding the 1998 restructuring charge, diluted earnings per share from continuing operations decreased 16 percent in 1999 and increased 16 percent in 1998.

Since 1995, the results of our Insurance operations have been accounted for as discontinued operations. Discontinued operations results for 1997 through 1999 were charged to previously established reserves and did not affect reported net income. For 1998, results include a $190 million after-tax charge in connection with the final disposition of the insurance businesses.

[The following data was represented by a chart]

Diluted EPS from Continuing Operations

1999	1998	1997
$1.96	$2.33*	$2.02

* Before 1998 Restructuring

Document Processing

Pre-Currency Growth

To understand the trends in the business, we believe that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted growth as "pre-currency growth." Latin American currencies are shown at actual exchange rates for both pre-currency and post-currency reporting, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation.

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency. When compared with the average of the major European currencies on a

revenue-weighted basis, the U.S. dollar was approximately 4 percent stronger in 1999, 1 percent stronger in 1998 and 8 percent stronger in 1997. As a result, foreign currency translation unfavorably impacted revenue growth by approximately 1 percentage point in 1999, 1 percentage point in 1998 and 3 percentage points in 1997.

In the early part of 1999, the Brazilian real devalued substantially against the U.S.dollar. For the full year, the average real exchange rate declined 36 per cent to 1.80 in 1999 from 1.16 in 1998. The unfavorable impact of our Brazilian operation on our total revenue growth was approximately 4 percentage points in 1999. This included the impact of the currency devaluation and the subsequent weak economic environment.

We do not hedge the translation effect of revenues denominated in currencies where the local currency is the functional currency.

Revenues by Product Category

For the major product categories, the pre-currency revenue growth rates were:

Pre-Currency Growth	1999		1998	1997
	Excluding Brazil	Total		
Total Revenues	4%	-%	8%	7%
Digital Products	22	18	36	25
Light-lens copiers	(18)	(21)	(11)	(2)
Paper and other products	2	1	1	3

The digital product portfolio includes production publishing, production printing, color copying and printing, our expanding family of black-and-white Document Centre digital multi-function products and network laser printers sold through indirect channels. Excluding Brazil, digital product revenues grew 22 percent in 1999, driven by outstanding revenue growth from our expanding Document Centre family of products, excellent laser printer revenue growth, strong color copying and printing growth, good production publishing growth and relatively flat production printing revenue.

Our expanding family of black-and-white Document Centre digital multifunction

products now includes models at speeds ranging from 20 to 65 pages per minute, all available with optional network connectivity. During 1999, the proportion of devices installed with network capability was over 50 percent. As result, almost 40 percent of the total installed population of Document Centre products have network capability. We believe that enabling network connectivity and training our customers to optimize the power of the product will lead ultimately to the page volume incrementality we expect. Document Centre revenues were $2.6 billion in 1999, $1.7 billion in 1998 and $0.4 billion in 1997.

Revenues from the DocuTech family of production publishing products grew 5 percent to $2.3 billion in 1999 and 15 percent in 1998. Growth slowed in 1999, reflecting the currency devaluation and subsequent economic weakness in Brazil, preparations for the January 2000 final phase of the realignment of the sales organization to an industry focus, and customer Y2K mitigation efforts and network lockdowns during the latter part of the year.

In 1999, color product revenues grew 8 percent. Excluding Brazil, revenues from color products grew 14 percent in 1999. Office color revenues grew modestly as unit volume increases were more than offset by pricing pressure and a continued shift to lower speed, lower

[The following data was represented by a chart]

Color Copying & Printing Revenue

(constant currency, in billions)

1999	1998	1997
$2.0	$1.8	$1.5

priced models including our recently introduced DocuColor 12 and Document Centre ColorSeries 50, the first color-enabled digital multifunction product. While indirect channels color laser and inkjet placements grew significantly, inkjet revenue growth was moderated by equipment price declines. Production color unit and equipment sales growth was excellent, reflecting the success of the DocuColor 100 Digital Color Press, the fastest, most productive digital color device now on the market.

Production printing revenues declined modestly in 1999, reflecting significant declines in Brazil due to the currency weakness and subsequent weak economic environment. Customer Y2K mitigation efforts and network lockdowns in the latter part of the year also impacted results. Total production printing revenues were $2.1 billion in 1999, $2.2 billion in 1998 and $2.2 billion in 1997.

Revenue growth from our DocuPrint N Series of monochrome network laser printers and expanding line of monochrome digital copiers sold through indirect sales channels was excellent, including digital copiers from 6 to 16 pages per minute and laser printers at speeds of 8 to 40 pages per minute.

The light-lens copier revenue decline reflects customer transition to our new digital black-and-white products and increasing price pressures. We believe that the trend over the past few years will continue and that digital product revenues will represent an increasing share of total revenues.

Fluctuations in paper and other products revenue growth were principally due to swings in paper prices a nd OEM sales.

The proportion of our revenues for the major product categories was:

	1999	1998	1997

Digital products	53%	45%	35%
Light-lens copiers	30	38	47
Paper and other products	17	17	18

The combination of excellent digital product revenue growth on a larger proportion of our revenues partially offset by declines on an ever-smaller percentage of light-lens revenues has resulted in 1999 digital revenues representing more than half of the Company's revenues for the first time.

Revenues by Geography

Geographically, the pre-currency revenue growth rates were:

Pre-Currency Growth	1999	1998	1997
Total Revenues	-%	8%	7%
United States	3	10	7
Europe	4	9	7
Other Areas	(11)	1	8
Memo: Fuji Xerox	1	(3)	3

Revenues in the United States were 54 percent of total revenues in 1999 compared with 52 percent of revenues in 1998 and 51 percent in 1997. European revenues represented 28 percent of total revenues in 1999, compared with 27 percent in 1998 and 1997. Other Areas, which includes operations in Latin America, Canada, China, Russia, India, the Middle East and Africa, contributed 18 percent of total revenues in 1999 compared with 21 percent in 1998 and 22 percent in 1997.

U.S. revenue growth in 1999 and 1998 was driven primarily by digital products and document outsourcing. 1999 U.S. revenue growth was significantly affected by the ongoing disruptive impacts of the customer administration reorganization, preparations for the January 2000 final phase of the realignment of the sales organization to an industry approach and increased competition. In addition, customer Y2K mitigation efforts and network lockdowns significantly impacted production publishing and printing equipment sales in the latter part of the year.

1999 and 1998 revenue growth in Europe was driven primarily by digital products and document outsourcing. Competitive and pricing pressures were evident in 1999, particularly in large bid and tender transactions. Customer Y2K mitigation efforts in Europe were less pronounced than in the U.S. 1999 revenues in Other Areas include a 40 percent decline in Brazil due to the very significant currency devaluation and subsequent economic weakness. Revenues in Brazil were $1.0 billion in 1999, $1.6 billion in 1998 and $1.8 billion in 1997. Brazil represented 5 percent

of Xerox revenues in 1999, 8 percent in 1998 and 10 percent in 1997.

Excluding Brazil, revenue in Other Areas grew 8 percent in 1999, reflecting excellent growth in Mexico and Central America and modest growth in Canada. In 1998, revenues in Brazil declined 7 percent due to the difficult economic environment, and although our operations in Russia are relatively small, with revenue of less than $100 million, revenues declined very significantly due to the weak economy in that country. Growth in Canada and Mexico was strong in 1998. 1997 revenue growth reflects good growth in Brazil and China, modest growth in Canada and excellent growth in Mexico.

Fuji Xerox Co., Ltd. (Fuji Xerox), an unconsolidated entity jointly owned by Xerox Limited and Fuji Photo Film Co., Ltd., develops, manufactures and distributes document processing products in Japan and the Pacific Rim.

Approximately 90 percent of Fuji Xerox revenues are generated in Japan, with Australia, New Zealand, Singapore, Malaysia, Korea, Thailand and the Philippines representing the remaining 10 percent. Fuji Xerox conducts business in other Pacific Rim countries through joint ventures and distributors. Xerox' exposure to economic turmoil in Asia is mitigated by our joint ownership of Fuji Xerox. Fuji Xerox revenues grew 1 percent in 1999, reflecting flat revenues in Japan and modest growth in Fuji Xerox' other Asia Pacific territories as economic conditions in the region improved. Revenues declined by 3 percent in 1998, reflecting a modest decline in Japan and a double-digit decline in the Asia Pacific countries due to difficult economic conditions. Conversely, modest revenue growth in 1997 reflected good growth in the Asia Pacific countries and only modest growth in Japan due to difficult economic conditions.

[The following data was represented by a pie chart]

Worldwide Revenues
(billions)

US	$10.4
Europe	$ 5.3
Other	$ 3.5
Total	$19.2
Fuji Xerox	$ 7.8

Revenues by Stream

The pre-currency growth rates by type of revenue were:

Pre-Currency Growth	1999		1998	1997
	Excluding Brazil	Total		
Equipment Sales	5%	(2)%	12%	14%
Recurring Revenues	3	1	5	3
Total Revenues	4	-	8	7
Memo: Document Outsourcing*	28%	26%	38%	58%

* Includes equipment accounted for as equipment sales.

Equipment Sales: Equipment Sales declined 2 percent in 1999, impacted very significantly by the currency devaluation and weak economic environment in Brazil. Excluding Brazil, Equipment Sales growth slowed to 5 percent, reflecting the unfavorable impacts of the U.S. customer administration reorganization and sales organization realignment in Europe and the U.S., increased competition, and the impact of customer Y2K mitigation and network lockdowns on production publishing and production printing equipment sales in the U.S. in the latter part of the year. Equipment Sales in 1998 grew 12 percent despite declines in Brazil and Russia due to their weak economies. Excluding Brazil and Russia, Equipment Sales grew 17 percent. We have introduced a continuing stream of state-of-the-art digital products since 1997. Approximately half of 1999 Equipment Sales were attributable to products introduced since 1997, including our expanding family of Document Centre digital multifunction products, the DocuColor 12, 30, 70 and 100, the Document Centre ColorSeries 50, the

DocuTech 6180 Production Publisher, and the network monochrome laser printers

and digital copiers sold through indirect channels. Digital product equipment sales grew 16 percent in 1999, 46 percent in 1998 and 40 percent in 1997, and represented 71 percent of 1999 Equipment Sales, 62 percent in 1998 and 47 percent in 1997.

Recurring Revenues: Recurring Revenues include revenues from service, Document Outsourcing, rentals, supplies, paper and income from customer financing. Recurring Revenues represented 63 percent of total revenues in 1999, 62 percent in 1998 and 63 percent in 1997. These revenues are primarily a function of our installed population of equipment, usage levels, pricing and interest rates. Slowing overall recurring revenue growth reflects lower equipment sales growth. 1999 recurring revenue growth was strong in production publishing and color, reflecting primarily the favorable impacts of earlier equipment sales growth. Lower overall service revenues reflect lower equipment sales and lower page volume growth, as pages diverted from light-lens copiers to printers have not yet been fully offset by page volume increases on network-connected Document Centre multi-function products. During 1999, the Company securitized $1,495 million of finance receivables. This resulted in a net increase in finance income of approximately $17 million in 1999, which includes the unfavorable flow through impacts. The unfavorable flow through of these securitizations will continue to impact finance income in 2000 and 2001. Proceeds from the securitizations were used to repay debt, which has resulted in lower equipment financing interest expense.

Document Outsourcing: Document Outsourcing revenues are split between Equipment Sales and Document Outsourcing. Where document out-sourcing contracts include revenues accounted for as equipment sales, this revenue is included in Equipment Sales on the income statement. All other document outsourcing revenues, including service, equipment rental, supplies, paper and labor are included in Document Outsourcing.

This has the effect of diverting some revenues from supplies, paper, service and rental. The excellent overall Document Outsourcing growth reflects the trend of customers focusing on their core businesses and outsourcing their document processing requirements to Xerox. Slowing total document outsourcing growth in 1999 was due primarily to reduced fourth quarter production publishing and printing equipment sales associated with U.S. customer Y2K mitigation efforts and network lockdowns. At the end of 1999, the estimated future minimum value of document outsourcing revenue under contract is over $8 billion, representing an approximate 25 percent increase from 1998.

[The following data was represented by a chart]

Document Outsourcing Revenues
(billions)

1999	1998	1997
$3.4	$2.7	$2.0

Cost and Expenses

The trend in key ratios was as follows:

	1999	1998	1997
Gross Margin	44.0%	46.3%	46.9%
SAG % Revenue	26.8	27.3	28.7

The 2.3 percentage point 1999 gross margin decline was due primarily to higher revenue growth in the lower margin document outsourcing and channels businesses and the significant

revenue decline in the higher margin Brazilian operation together with a lower gross margin in Brazil compared with the prior year. In addition, the gross margin was adversely impacted by unfavorable product mix, unfavorable currency and a decline in service gross margins as service revenue declines have not been accompanied by corresponding cost reductions. Substantial competitive price pressures were offset by manufacturing and other productivity improvements. The modest 1998 gross margin decline was due to the increasing proportion of lower margin channel product sales, the growing Document Outsourcing business, and continued competitive price pressure partially offset by manufacturing and service productivity. Including the inventory charges resulting from the restructuring, the 1998 gross margin was 45.8 percent.

[The following data was represented by a chart]

Manufacturing Productivity

(percentage decline in per unit equipment manufacturing cost)

1999	1998	1997
12.0%	10.4%	8.6%

[The following data was represented by a chart]

SAG as a Percentage Of Revenue

1999	1998	1997
26.8%	27.3%	28.7%

The improved ratio of selling, administrative and general expenses (SAG) to revenue in 1999 reflected significant declines in general and administrative expenses due to restructuring, expense controls, substantially lower management and employee bonuses and profit sharing, and the beneficial currency translation impact, including the devaluation of the Brazilian currency partially offset by the unfavorable impact of U.S. customer administration issues. The improvement in 1998 reflected declines in general and administrative expenses due to continuing productivity initiatives, restructuring and expense control, partially offset by increased sales coverage and advertising investments. SAG, on a pre-currency basis, declined 2 percent in 1999 and increased 3 percent in 1998 and 5 percent in 1997.

Research and development (R&D) expense declined 6 percent in 1999 and 2 percent in 1998 and increased 3 percent in 1997. The 1999 reduction is largely due to substantially lower management and employee bonuses and profit sharing and lower overhead. The modest reduction in 1998 reflected a reprioritization of our spending to focus on areas intended to produce significant growth, such as digital, color and solutions. We continue to invest in technological development to maintain our position in the rapidly changing document processing market with an added focus on increasing the effectiveness and value of our R&D investment. Xerox R&D is strategically coordinated with Fuji Xerox, which invested $555 million in R&D in 1999 for a combined total of $1.5 billion. We expect R&D spending in 2000 will be higher than 1999.

Worldwide employment increased by 1,900 in 1999 to 94,600 primarily as a result of hiring 2,000 employees to support our fast-growing Document Outsourcing business, 2,000 associated with our acquisition of majority ownership in India, 600 associated with acquisition of the Omnifax business and the net hiring of 2,000 employees for the centralized European customer care and shared services operations in Ireland, direct sales and R&D skills enhancement. These increases were partially offset by 4,700 employees leaving the Company under the worldwide restructuring program.

Other expenses, net, were $297 million in 1999, $242 million in 1998 and $98

million in 1997. The increase of $55 million for 1999 primarily reflected increased non-financing interest expense and goodwill amortization associated with our $45 million 1999 acquisition of Omnifax, our $62 million 1999 acquisition of majority ownership in India and our May 1998 acquisition of XLConnect Solutions; higher non-financing interest expense related to an increase in working capital; and increased environmental expense provisions following an updated review of our environmental liabilities. These increases were partially offset by lower Year 2000 remediation spending and net gains from several small asset sales. The increase of $144 million for 1998 reflected increased non-financing interest expense and goodwill amortization associated with our June 1997 acquisition of The Rank Group's remaining interest in Xerox Limited and our May 1998 acquisition of XLConnect Solutions; non-financing interest expense related to an increase in working capital; and increased Year 2000 remediation spending, partially offset by reduced currency losses from balance sheet translation.

Income Taxes and Equity in Net Income of Unconsolidated Affiliates

Income before income taxes and the 1998 restructuring charge was $2,036 million in 1999, $2,407 million in 1998 and $2,141 million in 1997.

The effective tax rates were 31.0 percent in 1999, 31.6 percent in 1998 before the restructuring charge, and 34.0 percent in 1997. The 1999 and 1998 rate benefited from increases in foreign tax credits and refunds of foreign taxes, as well as shifts in the mix of our worldwide profits.

Equity in Net Income of Unconsolidated Affiliates is principally Xerox Limited's share of Fuji Xerox income. Total equity in income declined to $68 million in 1999, reflecting difficult economic conditions in Japan and other Asia Pacific countries and reductions in income from several smaller investments partially offset by favorable currency translation due to the strengthening of the yen compared with the U.S. dollar. The 1998 decline in total equity income to $74 million was due principally to our share, $18 million, of a restructuring charge recorded by Fuji Xerox; a reduction in Fuji Xerox income, reflecting difficult economic conditions in Japan and other Asia Pacific countries; adverse currency translation due to the weakening of the Japanese yen compared with the U.S. dollar for most of the year; and reductions in income from several smaller investments. The Xerox Limited 50 percent share of Fuji Xerox income was $55 million in 1999, $72 million (before our $18 million share of a restructuring charge recorded by Fuji Xerox) in 1998 and $119 million in 1997.

1998 Restructuring Charge

In April 1998, we announced a worldwide restructuring program intended to enhance our competitive position and lower our overall cost structure. In connection with this program, in the second quarter of 1998 we recorded a pre-tax provision of $1,644 million ($1,107 million after taxes and including our $18 million share of a restructuring charge recorded by Fuji Xerox). The program includes the elimination of approximately 9,000 jobs, net, worldwide, the closing and consolidation of facilities, and the write-down of certain assets.

The following table summarizes the status of the restructuring reserve:

	Total Reserve	Charges Against Reserve	Dec. 31 1999 Balance
Severance and related costs	$1,017	$ 717	$300
Asset impairment	316	316	-

Lease cancellation and other costs	198	104	94
Inventory charges	113	113	-
Total	$1,644	$ 1,250	$394

As of December 31, 1999, approximately 10,000 employees have left the Company under the 1998 restructuring program. Pre-tax savings from the implementation through the end of 1999 are approximately $0.6 billion annually, resulting primarily in lower selling, administrative and general expenses. The majority of the annual savings to date have been reinvested to implement process and systems changes in order to enable the restructuring, and to sustain ongoing efforts to broaden and strengthen marketing programs and distribution channels to enhance revenue growth. When the 1998 restructuring program initiatives are fully implemented, the ongoing pre-tax savings before reinvestments will be approximately $1.0 billion annually.

The restructuring reserve is reviewed quarterly and there have been no material changes to the program since its announcement in April 1998. The remaining reserve will be primarily utilized during 2000 for certain European initiatives that extended beyond 1999 due to local regulatory issues as they relate to the workforce.

2000 Restructuring Charge

Management is currently performing a comprehensive review to identify additional operational productivity and cost-saving opportunities above those previously taken in connection with the 1998 restructuring program. We anticipate that a substantial restructuring charge, although less than the 1998 restructuring charge, will be recorded most likely in the first quarter of 2000. The ultimate restructuring charge is expected to include employee termination expenses and closure costs related to the initiatives identified as part of the comprehensive review.

Share Repurchase

In April 1998, we announced that we were reactivating our $1 billion stock repurchase program, which was suspended in April 1997 when we acquired the remaining financial interest in Xerox Limited. Although we did not repurchase any shares during 1999, since inception of the program we have repurchased 20.6 million shares for $594 million. We have no current plans to activate the program in 2000.

Year 2000

The Year 2000 (Y2K) problem is the result of computer programs written in two digits, rather than four, to define the applicable year. As a result, many information systems and related interfaces are unable to properly recognize and process date-sensitive information beyond December 31, 1999. As with all major companies, certain of our information systems, products and other technology interfaces required remediation or replacement in order to render these items Year 2000 compliant. As of December 31, 1999, remediation and replacement work on all required mission critical and non-mission critical information systems, technology interfaces, facilities and products was completed as planned. As a result of these efforts, we did not experience any Y2K-related business disruptions.

During 1999, 1998 and 1997, we spent $47 million, $92 million and $28 million, respectively, on Y2K remediation efforts, exclusive of software and systems that were being upgraded or replaced in the normal course of business.

Acquisition of the Color Printing and Imaging Division of Tektronix

In January 2000, we acquired the Color Printing and Imaging Division of Tektronix (CPID) for $925 million in cash including $75 million paid by Fuji Xerox for the Asia Pacific operations of CPID. CPID manufactures and sells color printers, ink and related products, and supplies. This transaction will result in goodwill and other identifiable intangible assets of approximately $575 million, which will be amortized over their useful lives, predominantly 20 years. In addition, we will also recognize a charge in the first quarter of 2000 for acquired in-process research and development of approximately $25 million associated with this acquisition.

New Accounting Standards

In 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No.133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivatives as assets or liabilities measured at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We will adopt SFAS No. 133, as amended, beginning January 1, 2001. We do not expect this Statement to have a material impact on our consolidated financial statements.

Capital Resources and Liquidity

We manage the capital structure of our non-financing operations separately from that of our captive finance companies, which employ a more highly leveraged capital structure typical of captive finance companies.

At year-end 1999, total debt, including ESOP and Discontinued Operations debt, was $106 million less than at year-end 1998. During 1998, total debt increased by $2,204 million from $12,903 million to $15,107 million.

(In millions)	1999	1998	1997
Total debt* as of January 1	$15,107	$12,903	$12,448
Non-Financing Businesses:			
Document Processing operations cash generation	(353)	(99)	(1,026)
Brazil dollar debt reallocation	505	-	-
Purchase of The Rank Group's remaining interests in Xerox Limited	-	-	1,534
Acquisitions, net of cash and debt acquired	160	380	-
Mandatorily redeemable preferred securities	-	-	(637)
ESOP	(71)	(64)	(60)
Discontinued businesses	(114)	(381)	(541)
Subtotal Non-Financing	127	(164)	(730)
Financing Businesses	(847)	1,764	760
Shareholder dividends	586	531	475
All other changes	28	73	(50)
Total debt* as of December 31	$15,001	$15,107	$12,903

* Includes discontinued operations.

For analytical purposes, total equity includes common equity, ESOP preferred stock, mandatorily redeemable preferred securities and minorities' interests. Total equity increased by $39 million in 1999, decreased $148 million in 1998 and increased by $523 million in 1997.

The following is a three-year summary of the changes in total equity:

(In millions)	1999	1998	1997
Total equity as of January 1	$6,306	$6,454	$5,931
Income from continuing operations, before restructuring charge	1,424	1,692	1,452
Restructuring charge	-	(1,107)	-
Loss from Discontinued operations	-	(190)	-
Mandatorily redeemable preferred securities	-	-	637
Shareholder dividends	(586)	(531)	(475)
Purchase of treasury stock	-	(172)	(116)
Exercise of stock options	97	112	99
Change in minorities' interests	3	(3)	(716)
Translation adjustments	(1,003)	(56)	(463)
All other, net	104	107	105
Total equity as of December 31	$6,345	$6,306	$6,454

Debt related to non-financing operations grew by $741 million and $440 million in 1999 and 1998, respectively. The non-financing debt-to-capital ratio increased to 47.3 percent compared with 43.8 percent and 38.9 percent as of year-end 1998 and 1997, respectively. The 1999 growth reflects a 7.4 point increase related to the significant devaluation of the Brazilian real, partially offset by net cash from operations and income net of shareholder dividends. The $1,107 million after-tax restructuring charge taken in 1998 was a primary factor underlying the 4.9 point increase in 1998.

The following table summarizes the results of capital and coverage calculations commonly used to measure the Company's financial strength:

(In millions)	1999	1998	1997
Non-Financing:			
Debt*	$ 4,155	$ 3,414	$ 2,974
Equity*	4,630	4,385	4,662
Total Capital	$ 8,785	$ 7,799	$ 7,636
Debt-to-Capital	47.3%	43.8%	38.9%
Ratio of earnings to interest expense, before 1998 restructuring charge**	5.9x	7.1x	7.1x

Ratio of earnings to interest expense, after 1998 restructuring charge**	5.9x	2.0x	7.1x
Ratio of earnings to fixed charges, before 1998 restructuring charge**	4.4x	5.0x	4.8x
Ratio of earnings to fixed charges, after 1998 restructuring charge**	4.4x	1.7x	4.8x
Financing:			
Debt	$11,165	$12,012	$10,248
Equity	1,396	1,602	1,473
Total Capital	$12,561	$13,614	$11,721
Debt-to-Equity	8.0x	7.5x	7.0x
Ratio of Earnings to Interest Expense	1.9x	1.8x	1.7x

* Includes $319 million (one-half) share of mandatorily redeemable preferred securities.

**Includes one-half share of redeemable preferred securities dividends of $27 million in 1999 and 1998, and $24 million in 1997.

Non-Financing Operations

The following table summarizes 1999, 1998 and 1997 document processing non-financing operations cash generation and usage:

(In millions)	1999	1998	1997
Document Processing Non-Financing:			
Income	$1,114	$1,381*	$1,217
Depreciation and amortization**	935	821	739
Cash from Operations	$2,049	$2,202	$1,956
Additions to land, building and equipment	(594)	(566)	(520)
Increase in on-lease equipment	(401)	(473)	(347)
Decrease/(increase) in inventories	68	(558)	(170)
Increase in accounts receivable	(94)	(540)	(188)
All other changes, net	(238)	366	295
Net Cash Generation, Before Restructuring Charges	$ 790	$ 431	$1,026
Cash charges against 1998 restructuring reserve	(437)	(332)	-
Net Cash Generation	$ 353	$ 99	$1,026

* Before restructuring charge.

** Includes rental equipment depreciation of $463, $411 and $311 in 1999, 1998 and 1997, respectively.

[The following data was represented by a chart]

Non-Financing Cash Flows (millions)

1999 $ 353

1998 $ 99

1997 $1,026

Cash from operations was $2,049 million in 1999 versus $2,202 million in 1998 as lower net income was only partially offset by higher non-cash depreciation and amortization expenses. Investment in land, buildings and equipment grew by $28 million and $46 million in 1999 and 1998, respectively, reflecting investments in Ireland, where we are consolidating European customer support centers and investing in manufacturing - partially offset by overall spending constraints. Inventories, other than on-lease equipment, were reduced by $68 million in 1999, a $626 million improvement versus 1998, driven by a major focus on inventory management as well as lower requirements for analog products. The improvement was partially offset by inventory build associated with fourth quarter revenue shortfalls and Y2K inventory contingencies. Inventory growth of $558 million in 1998 was up from $170 million in 1997, reflecting accelerated digital product sales growth. Receivables grew by $94 million in 1999 versus $540 million and $188 million of growth in 1998 and 1997, respectively. Although days sales outstanding improved in the fourth quarter, progress in receivables was less than expected in 1999 due primarily to continued disruptions related to the consolidation of U.S. customer administrative centers. We believe that days sales outstanding will continue to improve during 2000.

Financing Businesses

Customer financing-related debt declined by $847 million in 1999 and increased by $1,764 million in 1998. This change reflects the securitization in 1999 of $1,495 million of financing contracts, and an allocation of $505 million of debt to non-financing operations based on our 8:1 debt to equity guideline. This allocation was necessary because of the impact on our Brazilian finance receivables of the significant devaluation in the Brazilian real. The increase in 1998 largely reflects improved equipment sales growth and currency translation effects. Customer financing debt grew by $760 million in 1997 also due to equipment sales growth, partially offset by currency translation.

Debt related to discontinued third-party financing and real estate activities was fully paid down in 1999. Related amounts, included in financing business debt in 1998 and 1997, totaled $86 million and $117 million, respectively.

Funding Plans for 2000

Decisions related to term funding of our non-financing businesses, including any term funding to replace the $850 million commercial paper borrowing in January related to our purchase of the Color Printing and Imaging Division of Tektronix, Inc., will remain based on the interest rate environment and capital market conditions, and our desire to maintain ample liquidity and capital strength.

Customer financing-related debt is expected to increase in year 2000 in line with equipment sales growth and securitized asset run-off. Decisions regarding the size and timing of funding for our financing businesses will be made based

on match funding needs, refinancing requirements and capital market conditions.

We believe our short-term credit facilities provide an ample source of funds to finance our day-to-day operations, and we have readily available access to the global capital markets to satisfy medium- and long-term financing needs. Our $7 billion global revolving credit agreement with a group of banks expires in 2002. This facility is unused and available to provide backup to Xerox, Xerox Credit Corporation (XCC) and Xerox Capital (Europe) plc (XCE) commercial paper borrowings. Commercial paper balances supported by the global credit agreement totaled $954 million at December 31, 1999. Xerox or XCC may access the facility up to its $7 billion limit. XCE has access subject to a $4 billion limit. At December 31, 1999, Xerox and XCE had combined U.S. shelf capacity of $2.1 billion and XCC had U.S. shelf capacity of $2 billion. In addition, a $4 billion Euro market debt facility is available to Xerox, XCC and XCE, of which $2 billion remained unused at December 31, 1999.

Risk Management

Xerox is typical of multinational corporations because it is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect our results of operations and financial condition.

We have entered into certain financial instruments to manage interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading purposes and employ longstanding policies prescribing that derivative instruments are to be used only to achieve a set of very limited objectives.

Currency derivatives are primarily arranged in conjunction with underlying transactions that give rise to foreign currency-denominated payables and receivables - for example, an option to buy foreign currency to settle the importation of goods from foreign suppliers, or a forward exchange contract to fix the dollar value of a foreign currency-denominated loan.

As of December 31, 1999 and 1998, our primary foreign currency market exposures include the Japanese yen, Euro, Brazilian real, British pound sterling and Canadian dollar.

In order to manage the risk of foreign currency exchange rate fluctuations, we hedge a significant portion of all cross-border cash transactions denominated in a currency other than the functional currency applicable to each of our legal entities. From time to time, when cost-effective, foreign currency debt and currency derivatives are used to hedge international equity investments.

Consistent with the nature of the economic hedge of such foreign currency exchange contracts, associated unrealized gains or losses would be offset by corresponding decreases or increases in the value of the underlying asset or liability being hedged.

Assuming a 10 percent appreciation or depreciation in foreign currency exchange rates as of December 31, 1999, the potential change in fair value of our net foreign currency portfolio would approximate $22million. The amount permanently invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox and Xerox do Brasil, and translated into dollars using the year-end exchange rate, was $6.5 billion at December 31, 1999, net of foreign currency-denominated liabilities designated as a hedge of our net investment. Assuming a 10 percent appreciation or depreciation of the U.S. dollar against all currencies from the quoted foreign currency exchange rates at December 31, 1999, the unrealized loss or gain would approximate $650million.

With regard to interest rate hedging, virtually all customer financing assets earn fixed rates of interest. Therefore, within industrialized economies, we "lock in" an interest rate spread by arranging fixed-rate liabilities with

similar maturities as the underlying assets and fund the assets with liabilities in the same currency. We refer to the effect of these conservative practices as "match funding" customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins during a period of rising interest rates. Conversely, this practice effectively eliminates the opportunity to materially increase margins when interest rates are declining.

Pay fixed-rate and receive variable-rate swaps are typically used in place of more expensive fixed-rate debt. Additionally, pay variable-rate and receive fixed-rate swaps are used from time to time to transform longer term fixed-rate debt into variable-rate obligations. The transactions performed within each of these categories enable more cost-effective management of interest rate exposures. The potential risk attendant to this strategy is the non-performance of the swap counterparty. We address this risk by arranging swaps with a diverse group of strong-credit counterparties, regularly monitoring their credit ratings and determining the replacement cost, if any, of existing transactions.

On an overall worldwide basis, and including the impact of our hedging activities, weighted average interest rates for 1999, 1998 and 1997 approximated 5.6 percent, 6.1 percent and 6.2 percent, respectively.

Many of the financial instruments we use are sensitive to changes in interest rates. Hypothetically, interest rate changes result in gains or losses related to the market value of our term debt and interest rate swaps due to differences between current market interest rates and the stated interest rates within the instrument. Applying an assumed 10 percent reduction or increase in the yield curves at December 31, 1999, the fair value of our term debt and interest swaps would increase or decrease by approximately $69 million.

Our currency and interest rate hedging are typically unaffected by changes in market conditions as forward contracts, options and swaps are normally held to maturity consistent with our objective to lock in currency rates and interest rate spreads on the underlying transactions.

Liquidity

Our primary sources of liquidity are cash generated from operations and borrowings. The consolidated statements of cash flows detailing changes in our cash balances are on page 44.

Operating activities resulted in a net cash inflow of $1,224 million in 1999 compared with outflow of $1,165 in 1998. This year-over-year improvement largely results from the 1999 finance receivables securitizations, containment of the trend toward higher days sales outstanding, improved inventory turns and higher non-cash charges. Higher restructuring payments and infrastructure investment had a modest offsetting effect on cash flow from operations. The unusually high level of operations cash usage experienced in 1998 was largely attributable to strong growth in our customer financing businesses and lower inventory and receivables turnover, which more than offset higher income and non-cash charges.

1999 investing activities resulted in net cash usage of $627 million, or $240 million less than in 1998 due to our 1998 purchase of XLConnect. Net cash outflows from investing activities reached $1,251 million in 1997 largely due to an initial $812 million payment to The Rank Group under our agreement to purchase The Rank Group's remaining interests in Xerox Limited.

Financing activities used $569 million of cash in 1999, and generated $1,887 million and $184 million in 1998 and 1997, respectively. These significant year-to-year financing movements primarily result from operations cash flow changes and, in 1997, include $637 million of proceeds from the issuance of mandatorily redeemable preferred securities.

Year-end cash balances were $126 million in 1999, $79 million in 1998 and $75 million in 1997, consistent with our objective to minimize investments that do not provide added value to our shareholders.

Discontinued Operations -Insurance and Other

The net investment in our discontinued businesses, which includes Insurance and Other Discontinued Businesses, totaled $702 million at December 31, 1999 compared with $759 million at December 31, 1998. The decrease in 1999 was primarily caused by the sale of seven of our remaining eight financing leases, the sale of other Real Estate investments and other run-off activity that were partially offset by the funding of reinsurance coverage for the former Talegen Holdings, Inc. (Talegen) companies to Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt. A discussion of the discontinued businesses follows.

Net Investment in Insurance

In 1995, we recorded a $1,546 million after-tax charge in connection with the disengagement activities for our five then remaining Talegen insurance companies and three related service companies. In the first quarter of 1998, an additional after-tax charge of $190 million was recorded. For a complete description of the status of insurance, see Note 10 to the Consolidated Financial Statements.

The net investment in Insurance at December 31, 1999, totaled $621 million compared with a balance of $513 million and $1,076 million at December 31, 1998 and 1997, respectively. The increase in 1999 is primarily due to contractual payments to Ridge Re for annual premium installments and associated finance charges, a settlement payment related to the sale of one of the former Talegen units and interest on the assigned insurance debt, partially offset by dividends received from Ridge Re. The decrease in 1998 versus 1997 primarily reflects the sales of the remaining insurance and service companies and the reserve increase recorded in the first quarter of 1998, somewhat offset by contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the assigned insurance debt.

Net Investment in Other Discontinued Business

The net investment in our Other Discontinued Businesses at December 31, 1999, which includes Other Financial Services and Third-Party Financing and Real Estate, totaled $131 million compared with $382 million and $423 million at December 31, 1998 and 1997, respectively. The reduction primarily relates to sales of financing leases and an office building and other real estate, partially offset by interest on the assigned debt and other expenses. Debt associated with these assets totaled $50 million at December 31, 1999 compared with $136 million and $167 million at December 31, 1998 and 1997, respectively.

Forward-Looking Cautionary Statements

This Annual Report contains forward-looking statements and information relating to Xerox that are based on our beliefs, as well as assumptions made by and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intend," "will" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in the company's 1999 10-K filed with the SEC in March 2000. We do not intend to update these forward-looking statements.

Consolidated Statements of Income

Year ended December 31 (in millions, except per-share data)	1999	1998	1997

Revenues			
Sales	$10,346	$10,696	$ 9,881
Service and rentals	7,856	7,678	7,257
Finance income	1,026	1,073	1,006
Total Revenues	19,228	19,447	18,144
Costs and Expenses			
Cost of sales	5,744	5,662	5,330
Cost of service and rentals	4,481	4,205	3,778
Inventory charges	-	113	-
Equipment financing interest	547	570	520
Research and development expenses	979	1,040	1,065
Selling, administrative and general expenses	5,144	5,321	5,212
Restructuring charge and asset impairments	-	1,531	-
Other, net	297	242	98
Total Costs and Expenses	17,192	18,684	16,003
Income before Income Taxes, Equity Income and Minorities` Interests	2,036	763	2,141
Income taxes	631	207	728
Equity in net income of unconsolidated affiliates	68	74	127
Minorities' interests in earnings of subsidiaries	49	45	88
Income from Continuing Operations	1,424	585	1,452
Discontinued operations	-	(190)	-
Net Income	$ 1,424	$ 395	$ 1,452
Basic Earnings (Loss) per Share			
Continuing operations	$ 2.09	$ 0.82	$ 2.16
Discontinued operations	-	(0.29)	-
Basic Earnings per Share	$ 2.09	$ 0.53	$ 2.16
Diluted Earnings (Loss) per Share			
Continuing operations	$ 1.96	$ 0.80	$ 2.02
Discontinued operations	-	(0.28)	-
Diluted Earnings per Share	$ 1.96	$ 0.52	$ 2.02

The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

Consolidated Balance Sheets

December 31 (in millions)	1999	1998
Assets		
Cash	$ 126	$ 79
Accounts receivable, net	2,622	2,671
Finance receivables, net	5,115	5,220
Inventories	2,961	3,269
Deferred taxes and other current assets	1,161	1,236
Total Current Assets	11,985	12,475
Finance receivables due after one year, net	8,203	9,093
Land, buildings and equipment, net	2,456	2,366
Investments in affiliates, at equity	1,615	1,456
Goodwill, net	1,724	1,731
Other assets	1,701	1,233
Investment in discontinued operations	1,130	1,670
Total Assets	$ 28,814	$ 30,024
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,957	$ 4,104
Accounts payable	1,016	948
Accrued compensation and benefits costs	630	722
Unearned income	186	210
Other current liabilities	2,161	2,523
Total Current Liabilities	7,950	8,507
Long-term debt	10,994	10,867
Postretirement medical benefits	1,133	1,092
Deferred taxes and other liabilities	2,263	2,711
Discontinued operations liabilities - policyholders' deposits and other	428	911
Deferred ESOP benefits	(299)	(370)
Minorities' interests in equity of subsidiaries	127	124
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	638	638
Preferred stock	669	687
Common shareholders' equity	4,911	4,857
Total Liabilities and Equity	$ 28,814	$ 30,024

Shares of common stock issued and outstanding at December 31, 1999 were (in thousands) 665,156. Shares of common stock issued and out- standing at December

31, 1998 were (in thousands) 657,196 and 656,787, respectively.
The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	1999	1998	1997
Cash Flows from Operating Activities			
Income from continuing operations	$ 1,424	$ 585	$ 1,452
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization	935	821	739
Provision for doubtful accounts	359	301	265
Restructuring charge and other charges	-	1,644	-
Provision for postretirement medical benefits, net of payments	41	33	29
Cash charges against 1998 restructuring reserve	(437)	(332)	-
Minorities' interests in earnings of subsidiaries	49	45	88
Undistributed equity in income of affiliated companies	(68)	(27)	(84)
Decrease (increase) in inventories	68	(558)	(170)
Increase in on-lease equipment	(401)	(473)	(347)
Increase in finance receivables	(1,788)	(2,169)	(1,629)
Proceeds from securitization of finance receivables	1,495	-	-
Increase in accounts receivable	(94)	(540)	(188)
(Decrease) increase in accounts payable and accrued compensation and benefit costs	(94)	127	250
Net change in current and deferred income taxes	277	(192)	361
Change in other current and non-current liabilities	(78)	67	83
Other, net	(464)	(497)	(377)
Total	1,224	(1,165)	472
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(594)	(566)	(520)
Proceeds from sales of land, buildings and equipment	99	74	36
Acquisitions, net of cash acquired	(107)	(380)	(812)
Other, net	(25)	5	45
Total	(627)	(867)	(1,25 1)
Cash Flows from Financing Activities			
Net change in debt	(97)	2,468	5
Dividends on common and preferred stock	(586)	(531)	(475)
Proceeds from sale of common stock	144	126	140
Repurchase of preferred and common stock	-	(172)	(116)
Dividends to minority shareholders	(30)	(4)	(7)
Proceeds from issuance of mandatorily redeemable preferred securities	-	-	637
Total	(569)	1,887	184
Effect of exchange rate changes on cash	(9)	(29)	(18)
Cash provided (used) by continuing operations	19	(174)	(613)
Cash provided by discontinued operations	28	178	584
Increase (decrease) in cash	47	4	(29)
Cash at beginning of year	79	75	104
Cash at end of year	$ 126	$ 79	$ 75

The accompanying notes on pages 46 to 65 are an integral part of the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(In millions, except share data in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehen- sive Income/1/	Treasury Stock Shares	Treasury Stock Amount	Total
Balance at December 31, 1996	651,804	$655	$1,025	$3,090	$ (242)	(4,442)	$ (161)	$ 4,367
Net income				1,452				1,452
Net income during stub period				8				8
Translation adjustments					(463)			(463)
Comprehensive income								997
Purchase of treasury stock						(3,975)	(116)	(116)
Stock option and incentive plans	360		(17)	(129)		7,296	245	99
Xerox Canada exchangeable stock	116					126		
Convertible securities	202		9			995	32	41
Cash dividends declared								
Common stock ($0.64 per share)				(418)				(418)
Preferred stock				(57)				(57)

Tax benefits on ESOP dividends				14				14
Premiums from sale of put options			13					13
Tax benefits on stock options			45					45
Balance at December 31, 1997	652,482	$655	$1,075	$3,960	$ (705)	-	$ -	$ 4,985
Net income				395				395
Net loss during stub period				(6)				(6)
Translation adjustments					(56)			(56)
Comprehensive income								333
Purchase of treasury stock						(3,683)	(172)	(172)
Stock option and incentive plans	3,899	4	69	(116)		2,364	111	68
Xerox Canada exchangeable stock	350					12		
Convertible securities	465	1	28			898	42	71
Cash dividends declared								
Common stock ($0.72 per share)				(475)				(475)
Preferred stock				(56)				(56)
Tax benefits on ESOP dividends				10				10
Premiums from sale of put options			5					5
Tax benefits on stock options			88					88
Balance at December 31, 1998	657,196	$660	$1,265	$3,712	$ (761)	(409)	$ (19)	$ 4,857
Net income				1,424				1,424
Translation adjustments					(1,003)			(1,003)
Minimum pension liability					(32)			(32)
Comprehensive income								389
Stock option and incentive plans	5,331	6	136	(57)		270	12	97
Xerox Canada exchangeable stock	1,362							
Convertible securities	1,267	1	63			139	7	71
Cash dividends declared								
Common stock ($0.80 per share)				(532)				(532)
Preferred stock				(54)				(54)
Tax benefits on ESOP dividends				8				8
Settlement of put options			(5)					(5)
Tax benefits on stock options			80					80
Balance at December 31, 1999	665,156	$667	$1,539	$4,501	$(1,796)	-	$ -	$ 4,911

/1/ Accumulated Other Comprehensive Income is composed of cumulative translation of $(1,764) and minimum pension liability of $(32). The accompanying notes on pages 46 to 65 are an integral part of the financial statements.

Notes to Consolidated Financial Statements

(Dollars in millions, except per-share data and unless otherwise indicated)

1 Summary of Significant Accounting Policies

Basis of Consolidation. The consolidated financial statements include the accounts of Xerox Corporation and all majority owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated. References herein to "we" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically requires otherwise.

Xerox Limited, Xerox Holding (Nederland) BV, Xerox Investments (Bermuda) Limited, Xerox Holdings (Bermuda) Limited and their respective subsidiaries are referred to as Xerox Limited.

Investments in which we have a 20 to 50 percent ownership interest are generally accounted for on the equity method.

Upon the sale of stock by a subsidiary, we recognize a gain or loss equal to our proportionate share of the increase or decrease in the subsidiary's equity.

Fuji Xerox Co. Ltd. (Fuji Xerox), changed its reporting period from a fiscal year ending October 20, 1996 to a fiscal year ending December 20. The results of operations during the period between the end of the 1996 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a gain of $8. Fuji Xerox again changed its reporting period from a fiscal year ending December 20, 1997 to a fiscal year ending December 31. The results of operations during this stub period amounted to a loss of $6. The stub period results were recorded directly in retained earnings to avoid reporting more than 12 months' results of operations in one year.

Earnings per Share. Basic earnings per share are based on net income less preferred stock dividend requirements divided by the average common shares

outstanding during the period. Diluted earnings per share assume exercise of in-the-money stock options outstanding and full conversion of convertible debt and convertible preferred stock into common stock at the beginning of the year or date of issuance, unless they are antidilutive.

Use of Estimates. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Goodwill. Goodwill represents the cost of acquired businesses in excess of the net assets purchased and is amortized on a straight-line basis, over periods ranging from 15 to 40 years. Goodwill is reported net of accumulated amortization, and the recoverability of the carrying value is evaluated on a periodic basis by assessing current and future levels of income and cash flows as well as other factors. Accumulated amortization at December 31, 1999 and 1998 was $176 and $119, respectively.

Accounting Changes. In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivatives as assets or liabilities measured at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We will adopt SFAS No. 133, as amended, beginning January 1, 2001. We do not expect this Statement to have a material impact on our consolidated financial statements.

Revenue Recognition. Revenues from the sale of equipment under installment contracts and from sales-type leases are recognized at the time of sale or at the inception of the lease, respectively. Associated finance income is earned on an accrual basis under an effective annual yield method. Revenues from equipment under other leases are accounted for by the operating lease method and are recognized over the lease term. Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. Sales of equipment subject to the Company's operating leases to third-party lease finance companies are recorded as sales at the time the equipment is accepted by the third party.

Provisions for Losses on Uncollectible Receivables.
The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience.

Inventories. Inventories are carried at the lower of average cost or market.

Buildings and Equipment. Our fixed assets are depreciated over their estimated useful lives. Depreciation is computed using principally the straight-line method. Significant improvements are capitalized; maintenance and repairs are expensed. See Note 7 on page 49.

Classification of Commercial Paper and Bank Notes Payable. It is our policy to classify as long-term debt that portion of commercial paper and notes payable that is intended to match fund finance receivables due after one year to the extent that we have the ability under our revolving credit agreement to refinance such commercial paper and notes payable on a long-term basis. See Note 11 on page 54.

Foreign Currency Translation. The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange, and income and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded in Accumulated Other Comprehensive Income. The U.S. dollar is used as the functional currency for certain subsidiaries that conduct their business in U.S.

dollars or operate in hyperinflationary economies. A combination of current and historical exchange rates is used in remeasuring the local currency transactions of these subsidiaries, and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were $1, $29 and $85 in 1999, 1998 and 1997, respectively, and are included in Other, net in the consolidated statements of income.

Stock-Based Compensation. The Company follows the intrinsic value-based method of accounting for its stock-based compensation.

Reclassifications. Prior years' financial statements have been restated to reflect certain reclassifications to conform with the 1999 presentation. The impact of these changes is not material and did not affect net income.

2 Restructuring

In 1998, we announced a worldwide restructuring program intended to enhance our competitive position and lower our overall cost structure. In connection with this program, we recorded a pre-tax provision of $1,644 ($1,107 after taxes and including our $18 share of a restructuring charge recorded by Fuji Xerox). The program includes the elimination of approximately 9,000 jobs, net, worldwide, the closing and consolidation of facilities, and the write-down of certain assets. The charges associated with this restructuring program include $113 of inventory charges recorded as cost of revenues and $316 of asset impairments. Included in the asset impairment charge is facility fixed asset write-downs of $156 and other asset write-downs of $160. For facility fixed assets classified as assets to be disposed of, the impairment loss recognized is based on fair value less cost to sell, with fair value based on third-party valuations as well as our internal estimates of existing market prices for similar assets. The effect of suspending depreciation on assets no longer in use for 1999 and 1998 is not material. The remaining $160 of asset impairments includes the write-down of certain technology assets and other items impacted by the consolidation initiatives described below. Key initiatives of the restructuring include:

1. Consolidating 56 European customer support centers into one facility and implementing a shared services organization for back-office operations.
2. Streamlining manufacturing, logistics, distribution and service operations. This will include centralizing U.S. parts depots and outsourcing storage and distribution.
3. Overhauling our internal processes and associated resources, including closing one of four geographically organized U.S. customer administrative centers.

The reductions are occurring primarily in administrative functions, but also impact service, research and manufacturing.

The following table summarizes the status of the restructuring reserve (in millions):

	Total Reserve	Charges Against Reserve/1/	12/31/99 Balance
Severance and related costs	$1,017	$ 717	$ 300
Asset impairment	316	316	-
Lease cancellation and other costs	198	104	94
Inventory charges	113	113	-
Total	$1,644	$1,250	$394/2/

/1/ Includes the impact of currency changes.

/2/ Of this amount, $273 is included in Other current liabilities.

As of December 31, 1999, approximately 10,000 employees have left the Company under the restructuring program.

The restructuring reserve is reviewed quarterly and there have been no material changes to the program since its announcement in April 1998. The remaining reserve will be primarily utilized during 2000 for the completion of certain European initiatives that extended beyond 1999 due to local regulatory issues as they relate to the workforce.

3 Common Stock Split

On January 25, 1999, the Board of Directors approved a two-for-one split of the Company's common stock. The effective date of the stock split was February 23 for shareholders of record as of February 4. Shareholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from additional paid-in capital to common stock the par value of the additional shares arising from the split. In addition, all prior period references in the financial statements to number of shares and per-share amounts have been restated to reflect the stock split.

4 Acquisitions

In August 1999, we purchased the OmniFax division from Danka Business Systems for $45 in cash. OmniFax is a supplier of business laser multifunction fax systems. The acquisition resulted in goodwill of approximately $31 (including transaction costs), which is being amortized over 15 years. Also during the third quarter, we paid $62 to increase our ownership in our joint venture in India from approximately 40 percent to 68 percent. This transaction resulted in additional goodwill of $48, which is being amortized over 40 years. The operating results of these companies, which are immaterial, have been included in our consolidated statement of income from the dates of acquisition.

In May 1998, we acquired XLConnect Solutions, Inc. (XLConnect), an information technology services company, and its parent company, Intelligent Electronics,Inc., for $413 in cash. The operating results of these companies, which are not material, have been included in our consolidated statement of income from the date of the acquisition. Based on the allocation of the purchase price, the transaction resulted in goodwill of $395 (including transaction costs), which is being amortized over 25 years.

In June 1997, we acquired the remaining 20 percent of Xerox Limited from The Rank Group Plc (Rank) in a transaction valued at (pound)940 million, or approximately $1.5 billion. As a result of this transaction, we now own 100 percent of Xerox Limited. The transaction was funded entirely by debt consisting of (pound)500 million of third-party debt and (pound)440 million of notes payable issued to Rank, which were paid in deferred installments, half paid on June 29, 1998 and the other half paid on June 30, 1999. The purchase price (including transaction costs) was allocated such that goodwill increased by $737, minority interest in equity of subsidiaries was reduced by approximately $720, with the balance of $70 applied to other assets and liabilities, primarily investment in affiliates, at equity.

5 Finance Receivables, Net

Finance receivables result from installment sales and sales-type leases arising from the marketing of our business equipment products. These receivables generally mature over two to five years and are typically collateralized by a security interest in the underlying assets. The components of finance receivables, net at December 31, 1999, 1998 and 1997 follow:

	1999	1998	1997
Gross receivables	$14,666	$16,139	$14,094
Unearned income	(1,677)	(2,084)	(1,909)
Unguaranteed residual			

values	752	699	557
Allowance for doubtful accounts	(423)	(441)	(389)
Finance receivables, net	13,318	14,313	12,353
Less current portion	5,115	5,220	4,599
Amounts due after one year, net	$ 8,203	$ 9,093	$ 7,754

Contractual maturities of our gross finance receivables subsequent to December 31, 1999 follow:

2000	2001	2002	2003	2004	Thereafter
$5,430	$3,938	$2,719	$1,640	$676	$263

Experience has shown that a portion of these finance receivables will be prepaid prior to maturity. Accordingly, the preceding schedule of contractual maturities should not be considered a forecast of future cash collections.

During 1999, the Company sold $1,495 of finance receivables. This resulted in a net increase in finance income of approximately $17, which includes the unfavorable flow through impacts.

Allowances for doubtful accounts on our accounts receivable balances at December 31, 1999, 1998 and 1997 amounted to $137, $102 and $92, respectively.

6 Inventories

The components of inventories at December 31, 1999, 1998 and 1997 follow:

	1999	1998	1997
Finished goods	$1,800	$1,923	$1,549
Work in process	122	111	97
Raw materials	363	464	406
Equipment on operating leases, net	676	771	740
Inventories	$2,961	$3,269	$2,792

Equipment on operating leases consists of our business equipment products that are rented to customers and are depreciated to estimated residual value. Depreciable lives vary from two to four years. Our business equipment operating lease terms vary, generally from 12 to 36 months.

Accumulated depreciation on equipment on operating leases at December 31, 1999, 1998 and 1997 amounted to $1,082, $1,260 and $1,198, respectively. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2000	2001	2002	Thereafter
$308	$160	$68	$24

Total contingent rentals, principally usage charges in excess of minimum allowances relating to operating leases, for the years ended December 31, 1999,

1998 and 1997 amounted to $163, $161 and $186, respectively.

7 Land, Buildings and Equipment, Net

The components of land, buildings and equipment, net at December 31, 1999, 1998 and 1997 follow:

	Estimated Useful Lives (Years)	1999	1998	1997
Land		$ 66	$ 80	$ 88
Buildings and building equipment	25 to 50	1,087	973	1,012
Leasehold improvements	Lease term	434	425	403
Plant machinery	4 to 12	1,897	1,926	1,870
Office furniture and equipment	3 to 15	1,339	1,299	1,285
Other	3 to 20	235	260	190
Construction in progress		328	283	310
Subtotal		5,386	5,246	5,158
Less accumulated depreciation		2,930	2,880	2,781
Land, buildings and equipment, net		$2,456	$2,366	$2,377

We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Total rent expense under operating leases for the years ended December 31, 1999, 1998 and 1997 amounted to $397, $436 and $419, respectively. Future minimum operating lease commitments that have remaining non-cancelable lease terms in excess of one year at December 31, 1999 follow:

2000	2001	2002	2003	2004	Thereafter
$275	$218	$157	$131	$113	$329

In certain circumstances, we sublease space not currently required in operations. Future minimum sublease income under leases with non-cancelable terms in excess of one year amounted to $22 at December 31, 1999.

In 1994, we awarded a contract to Electronic Data Systems Corp. (EDS) to operate our worldwide data processing and telecommunications network through the year 2004. Subject to making a payment defined in the contract, effective July 1, 1999, Xerox obtained the right to terminate this agreement with six months` notice to EDS. Minimum payments due EDS under the contract follow:

2000	2001	2002	2003	2004
$229	$217	$198	$183	$95

8 Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20 to 50 percent ownership interest at December 31, 1999, 1998

and 1997 follow:

	1999	1998	1997
Fuji Xerox	$1,513	$1,354	$1,231
Other investments	102	102	101
Investments in affiliates, at equity	$1,615	$1,456	$1,332

Xerox Limited owns 50 percent of the outstanding stock of Fuji Xerox, a corporate joint venture with Fuji Photo Film Co. Ltd. (Fuji Photo). Fuji Xerox is headquartered in Tokyo and operates in Japan and other areas of the Pacific Rim, Australia and New Zealand, except for China. Condensed financial data of Fuji Xerox for its last three fiscal years follow:

	1999	1998	1997
Summary of Operations			
Revenues	$7,751	$6,809	$7,415
Costs and expenses	7,440	6,506	6,882
Income before income taxes	311	303	533
Income taxes	201	195	295
Net income	$ 110	$ 108	$ 238
Balance Sheet Data			
Assets			
Current assets	$3,521	$2,760	$2,461
Non-current assets	3,521	3,519	2,942
Total assets	$7,042	$6,279	$5,403
Liabilities and Shareholders' Equity			
Current liabilities	$2,951	$2,628	$2,218
Long-term debt	169	101	286
Other non-current liabilities	1,079	1,028	679
Shareholders' equity	2,843	2,522	2,220
Total liabilities and shareholders' equity	$7,042	$6,279	$5,403

9 Segment Reporting

Our reportable segments are as follows: Core Business, Fuji Xerox, Paper and Media, and Other.

The Core Business operating segment consists of the worldwide development, manufacturing, marketing, financing and servicing of document processing products and services. We have aggregated all Core Business operating units due to commonality of economic characteristics, products and services, the production process, class of customer and distribution process. This segment also includes our corporate headquarters.

The Fuji Xerox operating segment is composed of our corporate joint venture with Fuji Photo and is managed jointly.

The Paper and Media segment operates as a distributor of print media and supplies to our customers. The mission of Paper and Media is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor and is managed as a separate operating segment.

The Other operating segment is composed primarily of our Channels business and Xerox Technology Enterprises companies. Channels distributes products primarily through retail channels and value-added resellers. Xerox Technology Enterprises comprises our investments in emerging companies with important document processing hardware and software technologies in various stages of development. Total assets for this segment also includes our investment in discontinued operations.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

	Document Processing Segments				
	Core Business	Fuji Xerox	Paper and Media	Other	Total
1999					
Information about profit or loss					
Revenues from external customers	$15,224	-	$ 1,148	$1,830	$18,202
Finance income	1,016	-	-	10	1,026
Intercompany revenues	(206)	-	-	206	-
Total segment revenues	16,034	-	1,148	2,046	19,228
Depreciation and amortization	930	-	-	5	935
Interest expense	803	-	-	-	803
Segment profit (loss)	2,014	-	62	(40)	2,036
Earnings of non-consolidated affiliates	13	$ 55	-	-	68
Information about assets					
Investments in non-consolidated affiliates	102	1,513	-	-	1,615
Total assets	25,319	1,513	86	1,896	28,814
Capital expenditures	580	-	-	14	594
1998					
Information about profit or loss					
Revenues from external customers	$15,553	-	$1,162	$1,659	$18,374
Finance income	1,064	-	-	9	1,073
Intercompany revenues	(326)	-	-	326	-
Total segment revenues	16,291	-	1,162	1,994	19,447
Depreciation and amortization	803	-	-	18	821
Interest expense	749	-	-	-	749
Segment profit (loss) before restructuring	2,424	-	58	(75)	2,407
Segment profit (loss) after restructuring	916	-	58	(211)	763
Earnings of non-consolidated affiliates/1/	19	$ 72	-	1	92
Information about assets					
Investments in non-consolidated affiliates	81	1,354	-	21	1,456
Total assets	26,238	1,354	84	2,348	30,024
Capital expenditures	539	-	-	27	566
1997					
Information about profit or loss					
Revenues from external customers	$14,937	-	$1,117	$1,084	$17,138
Finance income	1,006	-	-	-	1,006
Intercompany revenues	(118)	-	-	118	-
Total segment revenues	15,825	-	1,117	1,202	18,144
Depreciation and amortization	732	-	-	7	739
Interest expense	617	-	-	-	617
Segment profit (loss)	2,180	-	44	(83)	2,141
Earnings of non-consolidated affiliates	6	$ 119	-	2	127
Information about assets					
Investments in non-consolidated affiliates	91	1,231	-	10	1,332
Total assets	22,913	1,231	91	3,497	
Capital expenditures	510	-	-	10	520

/1/ Excludes our $18 share of a restructuring charge recorded by Fuji Xerox.

Products and services and geographic area data for our continuing operations follow:

	Revenues		
	1999	1998	1997
Information about products and services			
Digital	$10,198	$ 8,644	$ 6,347
Light-lens	5,785	7,351	8,304
Paper and Other	3,245	3,452	3,493
Total	$19,228	$19,447	$18,144

	Revenues			Long-Lived Assets		
	1999	1998	1997	1999	1998	1997
Information about Geographic Areas						
United States	$10,417	$10,122	$ 9,187	$2,250	$2,090	$2,020
Europe	5,345	5,155	4,794	616	503	456
Other Areas	3,466	4,170	4,163	751	804	801
Total	$19,228	$19,447	$18,144	$3,617	$3,397	$3,277

10 Discontinued Operations

In January 1993, we announced our intent to sell or otherwise disengage from our Insurance and Other Financial Services (IOFS) businesses. Since that time, we have sold all of our Talegen Holdings, Inc. (Talegen) insurance businesses and have disposed of a number of other financial services businesses through sale and run-off collection activities. At December 31, 1999, our sole remaining insurance operation is the Ridge Reinsurance Limited (Ridge Re) reinsurance business. Our other discontinued businesses, consisting of OakRe Life Insurance Company (OakRe) and Third-Party Financing and Real Estate, are primarily in asset and liability run-off. A discussion of the status of IOFS follows.

Insurance. In the fourth quarter of 1995, we recorded a $1,546 after-tax charge in connection with the disengagement activities for our five then remaining Talegen insurance companies and three related service companies. In the first quarter of 1998, an additional after-tax charge of $190 was recorded.

In 1997 and 1998, all of the Talegen insurance companies and service companies were sold for an aggregate $1,793 in cash, the assumption or repayment of $269 of debt, less approximately $145 in transaction-related costs. As part of the consideration for one of the companies, The Resolution Group, Inc. (TRG), which closed in 1997, we received a $462 performance-based instrument. We will participate in the future cash flows of TRG via the performance-based instrument. The recovery of this instrument is dependent upon the sufficiency of TRG's available cash flows. Based on current forecasts at December 31, 1999, we expect to realize $462 for this instrument. However, the ultimate realization may be more or less than this amount.

The net proceeds of the above sales transactions, after transaction-related costs, were used primarily to retire debt.

At December 31, 1999, the insurance business consists of Ridge Re and headquarters costs associated with the insurance activities of Xerox Financial Services, Inc. (XFSI), a wholly owned subsidiary.

XFSI continues to provide aggregate excess of loss reinsurance coverage (the Reinsurance Agreements) to one of the former Talegen units and TRG through Ridge Re, a wholly owned subsidiary of XFSI. The coverage limits for these two remaining Reinsurance Agreements total $578, which is net of 15 percent coinsurance and exclusive of $234 in coverage that was reinsured under a retrocession arrangement during 1998. Through December 31, 1999, Ridge Re had recognized the discounted value of approximately $366 of this available coverage and it is possible that some additional reserves could ultimately be needed within the coverage limit. During 1999, Ridge Re entered into agreements with other insurers to eliminate its obligations for reinsurance coverage related to two of the former Talegen units. The coverage limit under the policies totaled $170. In connection with the agreements, Ridge Re paid the insurers $105.

XFSI has guaranteed that Ridge Re will meet all of its financial obligations under the two remaining Reinsurance Agreements. Related premium payments to Ridge Re are made by XFSI and guaranteed by us. As of December 31,

1999, there were three remaining annual installments of $38, plus finance charges. We have also guaranteed that Ridge Re will meet its financial obligations on $578 of the Reinsurance Agreements and we have provided a $400 partial guaranty of Ridge Re's $600 letter of credit facility. This facility is required to provide security with respect to aggregate excess of loss reinsurance obligations under the two remaining Reinsurance Agreements.

XFSI may also be required, under certain circumstances, to purchase, over time, additional redeemable preferred shares of Ridge Re, up to a maximum of $301.

Other Discontinued Businesses. In 1995, we completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life). In connection with the transaction, OakRe, a wholly owned XFSI subsidiary, assumed responsibility, via coinsurance agreements, for the Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life. As a result of these coinsurance agreements, at December 31, 1999 and 1998, the consolidated balance sheets include approximately $400 and $800, respectively, of invested assets and the related reinsurance liabilities associated with these SPDA policies. Most of these liabilities are expected to be satisfied during the year 2000 as the policies are either terminated by the policyholder or renewed and transferred to the buyer. In support of OakRe's coinsurance obligations, XFSI established a $500 letter of credit and line of credit, expiring in July 2000, with a group of banks. These facilities are unused and available at December 31, 1999. Upon a drawing under the letter of credit, XFSI has the option to cover the drawing using the credit line.

We have made substantial progress in disengaging from the Third-Party Financing and Real Estate businesses that were discontinued in 1990. During the three years ended December 31, 1999, we received net cash proceeds of $460 ($260 in 1999, $48 in 1998 and $152 in 1997) from the sale of individual assets and from run-off and collection activities. These proceeds were used primarily to retire debt. The remaining assets at December 31, 1999 primarily represent real estate held for sale in Virginia and one asset-based financing lease, with a long-duration contractual maturity and unique tax attributes.

Total Discontinued Operations. The consolidated financial statements present the Insurance and Other Discontinued Businesses as discontinued operations. Debt was assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Interest expense thereon is primarily determined based on our annual average domestic borrowing costs. Assigned interest expense for the discontinued businesses for the years ended December 31, 1999, 1998 and 1997 was $50, $143 and $201, respectively.

Summarized information of discontinued operations for the three years ended December 31, 1999 follows:

	1999	1998	1997
Balance Sheet Data			
Assets			
Insurance			
Investment, net	$ 621	$ 513	$ 1,076
Other Discontinued Businesses			
OakRe investments	408	805	1,537
All other assets, net	101	352	412
Investments, net	509	1,157	1,949
Investment in discontinued operations	$ 1,130	$ 1,670	$ 3,025

Liabilities			
OakRe policyholders' deposits	$ 378	$ 775	$ 1,526
Assigned debt	50	136	167
Discontinued operations liabilities	$ 428	$ 911	$ 1,693
Net investment in discontinued operations	$ 702	$ 759	$ 1,332

Based on current estimates, we believe that the proceeds received from disposition or run-off and collection activities from the remaining net discontinued assets will be consistent with our net carrying value of these businesses.

11 Debt

Short-Term Debt. Short-term borrowings data at December 31, 1999 and 1998 follow:

	Weighted Average Interest Rates at 12/31/99	1999	1998
Notes payable	-	$ -	$ 536
Foreign commercial paper	-	-	384
Total short-term debt	-	-	920
Current maturities of long-term debt		3,957	3,184
Total		$3,957	$4,104

Notes payable generally represent foreign currency denominated borrowings of non-U.S. subsidiaries.

Long-Term Debt. A summary of long-term debt by final maturity date at December 31, 1999 and 1998 follows:

	Weighted Average Interest Rates at 12/31/99	1999	1998
U.S. Operations			
Xerox Corporation (parent company)			
Guaranteed ESOP notes due 1999-2003	7.60%	$ 299	$ 370
Notes due 1999	-	-	1,108
Notes due 2000	6.24	2,041	600
Notes due 2001	6.67	721	675
Notes due 2002	7.90	230	230
Notes due 2003	5.60	1,398	1,360
Notes due 2004	4.95	502	200
Notes due 2016	7.20	250	250

Convertible notes due 2018	3.63	601	575
Notes due 2038	5.96	25	25
Other debt due 1999-2018	6.91	120	137
Subtotal		6,187	5,530
Xerox Credit Corporation			
Notes due 1999	-	-	1,175
Notes due 2000	5.47	2,026	536
Notes due 2001	6.21	401	51
Notes due 2002	2.20/1/	668	-
Notes due 2003	6.10	200	-
Floating rate notes due 2048	5.19	60	60
Subtotal		3,355	1,822
Total U.S. operations		$9,542	$7,352

/1/ Weighted average interest rate includes Japanese yen bonds of $488 issued by Xerox Credit Corporation in 1999 with an interest rate of 0.80%.

	Weighted Average Interest Rates at 12/31/99	1999	1998
International Operations			
Various obligations, payable in:			
Canadian dollars due 1999-2007	11.46%	$ 88	$ 99
Dutch guilders due 1999-2001	4.67	9	37
French francs due 1999-2004	4.60	133	7
Pounds sterling due 1999-2003	8.75	202	207
Italian lire due 1999	-	-	140
Euros due 2000-2004	6.41	195	-
U.S. dollars due 1999-2008	6.02	2,995	1,013
Other currencies due 1999-2000	6.93	7	212
Capital lease obligations	5.93	3	1
Total international operations		3,632	1,716
Other borrowings deemed long-term		1,827	5,119
Subtotal		15,001	14,187
Less current maturities		3,957	3,184
Total long-term debt		$11,044	$11,003

Consolidated Long-Term Debt Maturities.

Payments due on long-term debt for the next five years and thereafter follow:

2000	2001	2002	2003	2004	Thereafter
$3,957	$1,316	$3,230	$2,918	$530	$1,223

These payments do not include amounts relating to domestic commercial paper and foreign bank notes payable, which have been classified as long-term debt under the caption "Other borrowings deemed long-term." These borrowings are classified as long-term because we have the intent to refinance them on a long-term basis and the ability to do so under our revolving credit agreement.

Certain of our debt agreements allow us to redeem outstanding debt prior to scheduled maturity. Outstanding debt issues with these call features are classified in the preceding five-year maturity table in accordance with management's current expectations. The actual decision as to early redemption will be made at the time the early redemption option becomes exercisable and will be based on prevailing economic and business conditions and the relative costs of new borrowing.

Convertible Debt. In April 1998, we issued convertible subordinated debentures for net proceeds of $575. The amount due upon maturity in April 2018 is $1,012, resulting in an effective interest rate of 3.625 percent per annum, including 1.003 percent payable in cash semiannually beginning in October 1998. These debentures are convertible at any time at the option of the holder into 7.808 shares of our stock per $1,000 principal amount at maturity of debentures.

Lines of Credit. We have a $7 billion revolving credit agreement with a group of banks, which matures in 2002. This revolver is also accessible by the following wholly owned subsidiaries: Xerox Credit Corporation (up to a $7 billion limit) and Xerox Capital (Europe) plc (up to a $4 billion limit) with our guarantee. Any amounts borrowed under this facility would be at rates based, at the borrower's option, on spreads above certain reference rates such as LIBOR. This agreement is unused and is available to back commercial paper borrowings of our domestic operations, Xerox Capital (Europe) plc and Xerox Overseas Holdings Ltd., which amounted to $1.0 billion at December 31, 1999. In addition, our foreign subsidiaries had unused committed long-term lines of credit used to back short-term indebtedness that aggregate $0.2 billion in various currencies at prevailing interest rates.

Match Funding of Finance Receivables and Indebtedness. We employ a match funding policy for customer financing assets and related liabilities. Under this policy, which is more fully discussed in the accompanying Financial Review on page 39, the interest and currency characteristics of the indebtedness are, in most cases, matched to the interest and currency characteristics of the finance receivables. At December 31, 1999, these operations had approximately $13.3 billion of net finance receivables, which will service approximately $11.2 billion of assigned short- and long-term debt.

Guarantees. At December 31, 1999, we have guaranteed the borrowings of our ESOP and $1,279 of indebtedness of our foreign subsidiaries.

Interest. Interest paid by us on our short- and long-term debt, including amounts relating to debt assigned to discontinued operations, amounted to $787, $859 and $812 for the years ended December 31, 1999, 1998 and 1997, respectively.

Total Short- and Long-Term Debt. Our total indebtedness, at December 31, 1999 and 1998, is reflected in the consolidated balance sheet captions as follows:

	1999	1998
Short-term debt and current portion of long-term debt	$ 3,957	$ 4,104
Long-term debt	10,994	10,867
Discontinued operations liabilities - policyholders' deposits and other	50	136

Total debt	$ 15,001	$ 15,107

A summary of changes in consolidated indebtedness for the three years ended December 31, 1999 follows:

	1999	1998	1997
Increase (decrease) in short-term debt, net	$(4,140)	$ 553	$ (276)
Proceeds from long-term debt	5,446	3,464	1,807
Principal payments on long-term debt	(1,489)	(1,580)	(1,632)
Subtotal	(183)	2,437	(101)
Less change in debt of discontinued operations	(86)	(31)	(106)
Total change in debt of continuing operations	$ (97)/1/	$ 2,468	$ 5

/1/ Excludes debt of $51 assumed with the increased ownership in our India joint venture and accretion of $26 on convertible debt.

12 Financial Instruments

Derivative Financial Instruments.

Certain financial instruments with off-balance-sheet risk have been entered into by us to manage our interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading or other speculative purposes.

We typically enter into simple, unleveraged derivative transactions which, by their nature, have low credit and market risk. Our policies on the use of derivative instruments prescribe an investment-grade counterparty credit floor and at least quarterly monitoring of market risk on a counterparty-by-counterparty basis. We utilize numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties. Based upon our ongoing evaluation of the replacement cost of our derivative transactions and counterparty creditworthiness, we consider the risk of

credit default significantly affecting our financial position or results of operations to be remote.

We employ the use of hedges to reduce the risks that rapidly changing market conditions may have on the underlying transactions. Typically, our currency and interest rate hedging activities are not affected by changes in market conditions, as forward contracts and swaps are arranged and normally held to maturity in order to lock in currency rates and interest rate spreads related to underlying transactions.

None of our hedging activities involves exchange-traded instruments.

Interest Rate Swaps. We enter into interest rate swap agreements to manage interest rate exposure. An interest rate swap is an agreement to exchange interest rate payment streams based on a notional principal amount. We follow settlement accounting principles for interest rate swaps whereby the net interest rate differentials to be paid or received are recorded currently as

adjustments to interest expense.

Virtually all customer financing assets earn fixed rates of interest. Accordingly, through the use of interest rate swaps in conjunction with the contractual maturity terms of outstanding debt, we "lock in" an interest spread by arranging fixed-rate interest obligations with maturities similar to the underlying assets. Additionally, in industrialized countries customer financing assets are funded with liabilities denominated in the same currency. We refer to the effects of these conservative practices as "match funding" our customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins resulting from adverse changes in the interest rate environment. Conversely, this practice does effectively eliminate the opportunity to materially increase margins when interest rates are declining.

More specifically, pay fixed/receive variable interest rate swaps are often used in place of more expensive fixed-rate debt for the purpose of match funding fixed-rate customer contracts.

Pay variable/receive variable interest rate swaps ("basis swaps") are used to transform variable rate, medium-term debt into commercial paper or local currency LIBOR rate obligations. Pay variable/receive fixed interest rate swaps are used to transform term fixed-rate debt into variable rate obligations. During 1999, 7 such agreements were cancelled in connection with the early retirement of 7 issues of medium-term notes. The transactions performed within each of these three categories enable the cost-effective management of interest rate exposures. During 1999, the average notional amount of an interest rate swap agreement was $31.

For the three years ended December 31, 1999, no pay fixed/receive variable interest rate swap agreements were terminated prior to maturity.

The total notional amounts of these transactions at December 31, 1999 and 1998, based on contract maturity, follow:

	1999	1998
Commercial paper/bank borrowings	$ 5,352	$ 2,242
Medium-term debt	10,493	6,629
Long-term debt	4,238	5,128
Total	$20,083	$13,999

The aggregate notional amounts of interest rate swaps by maturity date and type at December 31, 1999 and 1998 follow:

	1999	2000	2001-2003	2004-2018	Total
1999					
Pay fixed/receive variable	$ -	$2,699	$ 6,380	$2,903	$11,982
Pay variable/receive variable	-	443	550	-	993
Pay variable/receive fixed	-	2,210	3,563	1,335	7,108
Total	$ -	$5,352	$10,493	$4,238	$20,083
Memo:					
Interest rate paid	-	5.94%	4.95%	5.92%	5.42%
Interest rate received	-	5.48%	5.27%	5.82%	5.44%
1998					
Pay fixed/receive variable	$1,792	$1,788	$ 5,489	$ 479	$ 9,548
Pay variable/receive variable	-	53	550	-	603
Pay variable/receive fixed	450	587	1,901	910	3,848
Total	$2,242	$2,428	$ 7,940	$1,389	$13,999
Memo:					

Interest rate paid	6.36%	6.08%	4.89%	5.51%	5.39%
Interest rate received	5.10%	5.25%	5.01%	6.54%	5.22%

Forward Exchange Contracts. We utilize forward exchange contracts to hedge against the potentially adverse impacts of foreign currency fluctuations on foreign currency-denominated receivables and payables; firm foreign currency commitments; and investments in foreign operations. Firm foreign currency commitments generally represent committed purchase orders for foreign-sourced inventory. These contracts generally mature in six months or less. At December 31, 1999 and 1998, we had outstanding forward exchange contracts of $3,838 and $2,817, respectively. Of the outstanding contracts at December 31, 1999, the largest single currency represented was the Euro. Contracts denominated in Euros, U.S. dollars, British pounds sterling, Brazilian reais, French francs and Japanese yen accounted for over 85 percent of our forward exchange contracts. On contracts that hedge foreign currency-denominated receivables and payables, gains or losses are reported currently in income, and premiums or discounts are amortized to income and included in Other, net in the consolidated statements of income. Gains or losses, as well as premiums or discounts, on contracts that hedge firm commitments are deferred and subsequently recognized as part of the underlying transaction. At December 31, 1999, we had a net deferred gain of $13. Gains or losses on contracts that hedge an investment in a foreign operation are reported currently in the balance sheet as a component of cumulative translation adjustments. The premium or discount on contracts that hedge an investment in a foreign operation are amortized to income and included in Other, net in the consolidated statements of income. During 1999, the average notional amount of a forward exchange contract amounted to $16.

Foreign Currency Swap Agreements. We enter into cross-currency interest rate swap agreements, whereby we issue foreign currency-denominated debt and swap the proceeds with a counterparty. In return, we receive and effectively denominate the debt in local currencies. Currency swaps are utilized as hedges of the underlying foreign currency borrowings, and exchange gains or losses are recognized currently in Other, net in the consolidated statements of income. At December 31, 1999 and 1998, we had outstanding cross-currency interest rate swap agreements with aggregate notional amounts of $3,968 and $3,143, respectively. Of the outstanding agreements at December 31, 1999, the largest single currency represented was the British pound sterling. Contracts denominated in British pounds sterling, U.S. dollars, Japanese yen and French francs accounted for over 75 percent of our currency interest rate swap agreements.

Fair Value of Financial Instruments. The estimated fair values of our financial instruments at December 31, 1999 and 1998 follow:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	$ 126	$ 126	$ 79	$ 79
Accounts receivable, net	2,622	2,622	2,671	2,671
Short-term debt	-	-	920	920
Long-term debt	15,001	14,839	14,187	14,524
Interest rate and currency swap agreements	-	(40)	-	47
Forward exchange contracts	-	131	-	51

The fair value amounts for Cash, Accounts receivable, net and Short-term debt approximate carrying amounts due to the short maturities of these

instruments.

The fair value of Long-term debt was estimated based on quoted market prices for these or similar issues or on the current rates offered to us for debt of the same remaining maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date. We have no plans to retire significant portions of our long-term debt prior to scheduled maturity. We are not required to determine the fair value of our finance receivables, the match funding of which is the source of much of our interest rate swap activity.

The fair values for interest rate and cross-currency swap agreements and forward exchange contracts were calculated by us based on market conditions at year-end and supplemented with quotes from brokers. They represent amounts we would receive (pay) to terminate/replace these contracts. We have no present plans to terminate/replace significant portions of these contracts.

13 Employee Benefit Plans

We sponsor numerous pension and other postretirement benefit plans in our U.S. and international operations.

	Pension Benefits		Other Benefits	
	1999	1998	1999	1998
Change in Benefit Obligation				
Benefit obligation, January 1	$8,040	$7,399	$ 1,095	$ 997
Service cost	191	172	27	26
Interest cost	1,009	916	77	72
Plan participants' contributions	14	13	-	-
Actuarial (gain)/loss	(79)	157	(78)	40
Currency exchange rate changes	(139)	31	2	(3)
Curtailments	(3)	(9)	-	20
Settlements	2	-	-	-
Special termination benefits	11	99	2	2
Benefits paid	(628)	(738)	(65)	(59)
Benefit obligation, December 31	8,418	8,040	1,060	1,095
Change in Plan Assets				
Fair value of plan assets, January 1	7,958	7,708	-	-
Actual return on plan assets	1,422	872	-	-
Employer contribution	96	80	65	59
Plan participants' contributions	14	13	-	-
Currency exchange rate changes	(91)	23	-	-
Benefits paid	(628)	(738)	(65)	(59)
Fair value of plan assets, December 31	8,771	7,958	-	-
Funded status (including under-funded and non-funded plans)	353	(82)	(1,060)	(1,095)
Unamortized transition assets	(36)	(61)	-	-
Unrecognized prior service cost	21	28	(4)	(4)
Unrecognized net actuarial (gain) loss	(381)	121	(69)	7
Net amount recognized	$ (43)	$ 6	$(1,133)	$(1,092)
Amounts recognized in the consolidated balance sheets consist of:				
Prepaid benefit cost	$ 377	$ 349	$ -	$ -
Accrued benefit liability	(456)	(343)	(1,133)	(1,092)
Intangible asset	4	-	-	-
Accumulated other comprehensive income	32	-	-	-
Net amount recognized	$ (43)	$ 6	$(1,133)	$(1,092)
Under-funded or non-funded plans				
Aggregate benefit obligation	$ 497	$ 345	$ 1,060	$ 1,095
Aggregate fair value of plan assets	$ 174	$ 35	$ -	$ -
Weighted average assumptions as of December 31				
Discount rate	7.4%	7.0%	8.0%	7.0%
Expected return on plan assets	8.9	9.2		
Rate of compensation increase	4.2	4.2		

	Pension Benefits			Other Benefits		
	1999	1998	1997	1999	1998	1997
Components of Net Periodic Benefit Cost						
Defined benefit plans						
Service cost	$ 191	$ 172	$ 167	$ 27	$ 26	$ 25
Interest cost	1,009	916	948	77	72	66
Expected return on plan assets	(1,090)	(1,010)	(1,014)	-	-	-

Recognized net actuarial (gain)/loss	11	10	16	1	-	(4)
Amortization of prior service cost	8	6	8	-	-	-
Recognized net transition asset	(18)	(19)	(20)	2	-	-
Recognized curtailment/settlement gain	(9)	(60)	(31)	-	-	-
Net periodic benefit cost	102	15	74	107	98	87
Defined contribution plans	28	32	23	-	-	-
Total	$ 130	$ 47	$ 97	$ 107	$ 98	$ 87

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease to 5.25 percent in 2002 and thereafter.

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One-percentage-point increase	One-percentage-point decrease
Effect on total service and interest cost components	$ 5	$ (4)
Effect on postretirement benefit obligation	$62	$(53)

Employee Stock Ownership Plan (ESOP) Benefits. In 1989, we established an ESOP and sold to it 10 million shares of Series B Convertible Preferred Stock (Convertible Preferred) of the Company for a purchase price of $785. Each ESOP share is convertible into six common shares of the Company. The Convertible Preferred has a $1 par value and a guaranteed minimum value of $78.25 per share and accrues annual dividends of $6.25 per share. The ESOP borrowed the purchase price from a group of lenders. The ESOP debt is included in our consolidated balance sheets because we guarantee the ESOP borrowings. A corresponding amount classified as Deferred ESOP benefits represents our commitment to future compensation expense related to the ESOP benefits.

The ESOP will repay its borrowings from dividends on the Convertible Preferred and from our contributions. The ESOP's debt service is structured such that our annual contributions (in excess of dividends) essentially correspond to a specified level percentage of participant compensation. As the borrowings are repaid, the Convertible Preferred is allocated to ESOP participants and Deferred ESOP benefits are reduced by principal payments on the borrowings. Most of our domestic employees are eligible to participate in the ESOP.

Information relating to the ESOP for the three years ended December 31, 1999 follows:

	1999	1998	1997
Interest on ESOP Borrowings	$28	$33	$38
Dividends declared on Convertible Preferred Stock	$54	$56	$57
Cash contribution to the ESOP	$44	$41	$39
Compensation expense	$46	$44	$40

We recognize ESOP costs based on the amount committed to be contributed to the ESOP plus related trustee, finance and other charges.

14 Income Taxes

The parent company and its domestic subsidiaries file consolidated U.S. income tax returns. Generally, pursuant to tax allocation arrangements, domestic subsidiaries record their tax provisions and make payments to the parent company for taxes due or receive payments from the parent company for tax benefits utilized.

Income before income taxes from continuing operations for the three years ended December 31, 1999 consists of the following:

	1999	1998	1997
Domestic income	$1,243	$625	$1,082
Foreign income	793	138	1,059
Income before income taxes	$2,036	$763	$2,141

Provisions for income taxes from continuing operations for the three years ended December 31, 1999 consist of the following:

	1999	1998	1997
Federal income taxes			
Current	$168	$ 265	$253
Deferred	189	(149)	67
Foreign income taxes			
Current	124	178	168
Deferred	68	(143)	158
State income taxes			
Current	52	70	69
Deferred	30	(14)	13
Income taxes	$631	$ 207	$728

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for continuing operations for the three years ended December 31, 1999 follows:

	1999	1998	1997
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Foreign earnings and dividends taxed at different rates	(6.8)	(7.3)	(3.2)
Goodwill amortization	.7	.7	.3
Tax-exempt income	(1.0)	(2.3)	(.8)
State taxes	2.6	4.7	2.5
Other	.5	(3.7)	.2
Effective income tax rate	31.0%	27.1%	34.0%

The 1999 effective tax rate of 31.0 percent is 0.6 percentage points lower than 1998, after excluding the 1998 worldwide restructuring program from the 1998 effective tax rate.

The 1998 effective tax rate of 27.1 percent is 6.9 percentage points lower than 1997. Excluding the 1998 worldwide restructuring program, the 1998 effective tax rate is 31.6 percent, which is 2.4 percentage points lower than 1997. This lower 1998 rate is primarily attributable to an increase in foreign tax credits, refund of foreign taxes and mix of profits from our worldwide operations.

On a consolidated basis, including the effects of discontinued operations, we paid a total of $238, $217 and $241 in income taxes to federal, foreign and state income-taxing authorities in 1999, 1998 and 1997, respectively.

Total income tax expense (benefit) for the three years ended December 31, 1999 was allocated as follows:

	1999	1998	1997
Income taxes on income from continuing operations	$ 631	$ 207	$ 728
Tax benefit included in minorities' interests/1/	(20)	(20)	(19)
Discontinued operations	(26)	(54)	(166)
Common shareholders' equity/2/	(106)	(140)	(57)
Total	$ 479	$ (7)	$ 486

/1/ Benefit relates to preferred securities as more fully described in Note 16 on page 63.

/2/ For dividends paid on shares held by the ESOP, cumulative translation adjustments and tax benefit on nonqualified stock options.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings included in consolidated retained earnings at December 31, 1999 was approximately $4.9 billion. These earnings have been substantially reinvested, and we do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 1999 and 1998 follow:

	1999	1998
Tax effect of future tax deductions		
Depreciation	$ 385	$ 443
Postretirement medical benefits	436	419
Restructuring reserves	160	329
Other operating reserves	198	277
Deferred intercompany profit	90	76
Allowance for doubtful accounts	104	93
Deferred compensation	159	165
Tax credit carryforwards	98	104
Research and development	641	564
Other	145	116
Total	$ 2,416	$ 2,586
Tax effect of future taxable income		
Installment sales and leases	$(1,041)	$(1,407)
Leveraged leases	(29)	(23)
Deferred income	(848)	(630)

Other	(298)	(264)
Total	$(2,216)	$(2,324)

The above amounts are classified as current or long-term in the consolidated balance sheets in accordance with the asset or liability to which they relate. Current deferred tax assets at December 31, 1999 and 1998 amounted to $478 and $551, respectively.

We have concluded that it is more likely than not that the deferred tax assets will be realized in the ordinary course of operations based on scheduling of deferred tax liabilities and income from operating activities.

At December 31, 1999, we have tax credit carry-forwards for federal income tax purposes of $98 available to offset future federal income taxes indefinitely. We also have net operating loss carry-forwards for income tax purposes of $94 that are available to offset future taxable income through 2006 and $291 available to offset future taxable income indefinitely.

15 Litigation

On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. Subsequently, a single corporate entity, CSU, L.L.C. (CSU), was substituted for the three affiliated companies. CSU claimed damages predominately resulting from the Company's alleged refusal to sell parts for high-volume copiers and printers to CSU prior to 1994. The Company's policies and practices with respect to the sale of parts to ISOs were at issue in an antitrust class action in Texas, which was settled by the Company during 1994. Claims for individual lost profits of ISOs who were not named parties, such as CSU, were not included in that class action. The Company asserted counter-claims against CSU alleging patent and copyright infringement relating to the copying of diagnostic software and service manuals. On April 8, 1997, the District Court granted partial summary judgment in favor of the Company on CSU's antitrust claims, ruling that the Company's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. On January 8, 1999, the Court dismissed with prejudice all of CSU's antitrust claims. The District Court also granted summary judgment in favor of the Company on its patent infringement claim, leaving open with respect to patent infringement only the issues of willfulness and the amount of damages, and granted partial summary judgment in favor of the Company with respect to some of its claims of copyright infringement. A judgment in the amount of $1 was entered in favor of the Company and against CSU on the copyright infringement counterclaim. On February 16, 2000, the United States Court of Appeals for the Federal Circuit affirmed the judgment of the District Court dismissing CSU's antitrust claims.

On April 11, 1996, an action was commenced by Accuscan Corp. (Accuscan), in the United States District Court for the Southern District of New York, against the Company seeking unspecified damages for infringement of a patent of Accuscan which expired in 1993. The suit, as amended, was directed to facsimile and certain other products containing scanning functions and sought damages for sales between 1990 and 1993. On April 1, 1998, the jury entered a verdict in favor of Accuscan for $40. However, on September 14, 1998, the Court granted the Company's motion for a new trial on damages. The trial ended on October 25, 1999 with a jury verdict of $10. The Company is also seeking to appeal the issue of liability and believes that the liability verdict should be set aside. We filed a motion to have the judge dismiss or modify the verdict.

A consolidated lawsuit is currently pending in the United States District Court for the Western District of Texas. It is a consolidation of two previously separate lawsuits, one of which had been filed in the United States District Court for the District of New Jersey and had been transferred to Texas, and the other which was commenced in Texas. Plaintiffs in both cases claimed that the

withdrawal of Crum & Forster Holdings, Inc. (a former subsidiary of ours) (C&F) from the Xerox Corporation Employee Stock Ownership Plan (ESOP) constituted a wrongful termination under the Employee Retirement Income Security Act (ERISA). Both cases were also brought as purported class actions. The complaints in the two cases asserted different legal theories for recovery. In one case damages of $250 were alleged and in the other case damages were unspecified.

On December 14, 1999, the Court granted plaintiffs' motion to amend their complaint. The amended complaint alleges violations of ERISA only and seeks unspecified damages, injunctive relief, costs and attorneys' fees. Under the amended complaint, plaintiffs purport to bring this action on behalf of themselves and a class of approximately 10,000 persons who were C&F participants in the ESOP on January 1, 1993. The plaintiffs have filed a new motion for class certification based upon the allegations in the amended complaint, which is currently pending. Plaintiffs' previous motion to certify a class action was denied by the Court. Xerox denies liability and intends to vigorously defend this action.

On June 24, 1999, Xerox Corporation was served with a summons and complaint filed in the Superior Court of the State of California for the County of Los Angeles. The complaint was filed on behalf of 681 individual plaintiffs claiming damages as a result of Xerox' alleged disposal and/or release of hazardous substances into the soil, air and groundwater. On July 22, 1999, a complaint was filed in the same Court, which has not yet been served on Xerox, in a separate action on behalf of an additional 80 plaintiffs with the same claims for damages as the earlier action. Plaintiffs in both cases further allege that they have been exposed to such hazardous substances by inhalation, ingestion and dermal contact, including but not limited to hazardous substances contained within the municipal drinking water supplied by the City of Pomona and the Southern California Water Company. Plaintiffs' claims against Xerox include personal injury,

wrongful death, property damage, negligence, trespass, nuisance, fraudulent concealment, absolute liability for ultra-hazardous activities, civil conspiracy, battery and violation of the California Unfair Trade Practices Act. Damages are unspecified.

We deny any liability for the plaintiffs' alleged damages and intend to vigorously defend these actions. The Court has issued a stay in this case until March 2, 2000.

On December 9, 1999, a complaint was filed in the United States District Court for the District of Connecticut in an action entitled Giarraputo, et al. vs. Xerox Corporation, Barry Romeril, Paul Allaire and Richard Thoman which purports to be a class action on behalf of the named plaintiff and all other purchasers of Common Stock of the Company between January 25, 1999 and October 7, 1999, (Class Period). On December 13, 1999, an amended complaint was filed adding an additional named plaintiff, extending the Class Period through December 10, 1999, and expanding the class to include individuals who purchased call options or sold put options. The amended complaint alleges that pursuant to the Securities Exchange Act of 1934, as amended, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's Common Stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts. The amended complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and intrinsic value of the Company's Common Stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held Common Stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase Common Stock of the Company at inflated prices. The amended complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants'

alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. Several additional class action complaints alleging the same or substantially similar claims have been filed in the same Court.

The named individual defendants and we deny any wrongdoing and intend to vigorously defend these actions, which we expect to be consolidated.

16 Preferred Securities

As of December 31, 1999, we have four series of outstanding preferred securities. In total we are authorized to issue 22 million shares of cumulative preferred stock, $1 par value.

Convertible Preferred Stock. As more fully described in Note 13 on page 59, we sold, for $785, 10 million shares of our Series B Convertible Preferred Stock (ESOP shares) in 1989 in connection with the establishment of our ESOP. As employees with vested ESOP shares leave the Company, these shares are redeemed by us. We have the option to settle such redemptions with either shares of common stock or cash. Outstanding preferred stock related to our ESOP at December 31, 1999 and 1998 follows (shares in thousands):

	1999		1998	
	Shares	Amount	Shares	Amount
Convertible Preferred Stock	8,551	$669	8,785	$687

Preferred Stock Purchase Rights. We have a shareholder rights plan designed to deter coercive or unfair takeover tactics and to prevent a person or persons from gaining control of us without offering a fair price to all shareholders.

Under the terms of the plan, one-half of one preferred stock purchase right (Right) accompanies each share of outstanding common stock (giving effect to the two-for-one stock split in February 1999). Each full Right entitles the holder to purchase from us one three-hundredth of a new series of preferred stock at an exercise price of $250.

Within the time limits and under the circumstances specified in the plan, the Rights entitle the holder to acquire either our common stock, the surviving company in a business combination, or the purchaser of our assets, having a value of two times the exercise price.

The Rights may be redeemed prior to becoming exercisable by action of the Board of Directors at a redemption price of $.01 per Right. The Rights expire in April 2007.

The Rights are non-voting and, until they become exercisable, have no dilutive effect on the earnings per share or book value per share of our common stock.

Deferred Preferred Stock. In 1996, a subsidiary of ours issued 2 million deferred preferred shares for Canadian (Cdn.) $50 million. The U.S. dollar value was $37 and is included in Minorities' interests in equity of subsidiaries in the consolidated balance sheets. These shares are mandatorily redeemable on February 28, 2006 for Cdn. $90 million. The difference between the redemption amount and the proceeds from the issue is being amortized, through the redemption date, to Minorities' interests in earnings of subsidiaries in the consolidated statements of income. We have guaranteed the redemption value.

Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company. In January 1997, a

trust sponsored and wholly owned by the Company issued $650 aggregate liquidation amount preferred securities (the "Original Preferred Securities") to investors and 20,103 shares of common securities to the Company, the proceeds of which were invested by the trust in $670 aggregate principal amount of the Company's newly issued 8 percent Junior Subordinated Debentures due 2027 (the "Original Debentures"). In June 1997, pursuant to a registration statement filed by the Company and the trust with the Securities and Exchange Commission, Original Preferred Securities with an aggregate liquidation preference amount of $644 and Original Debentures with a principal amount of $644 were exchanged for a like amount of preferred securities (together with the Original Preferred Securities, the "Preferred Securities") and 8 percent Junior Subordinated Debentures due 2027 (together with the Original Debentures, the "Debentures") which were registered under the Securities Act of 1933. The Debentures represent all of the assets of the trust. The proceeds from the issuance of the Original Debentures were used by the Company for general corporate purposes. The Debentures and related income statement effects are eliminated in the Company's consolidated financial statements.

The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8 percent per annum of the stated liquidation amount of $1,000 per Preferred Security. The Company has guaranteed (the "Guarantee"), on a subordinated basis, distributions and other payments due on the Preferred Securities. The Guarantee and the Company's obligations under the Debentures and in the indenture pursuant to which the Debentures were issued and the Company's obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities.

The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by the Company of any Debentures. The redemption price in either such case will be $1,000 per share plus accrued and unpaid distributions to the date fixed for redemption.

17 Common Stock

We have 1.05 billion authorized shares of common stock, $1 par value. At December 31, 1999 and 1998, 84.3 and 45.3 million shares, respectively, were reserved for issuance under our incentive compensation plans. In addition, at December 31, 1999,13.2 million common shares were reserved for the conversion of $654 of convertible debt, and 51.3 million common shares were reserved for conversion of ESOP-related Convertible Preferred Stock.

Treasury Stock. The Board of Directors has authorized us to repurchase up to $1 billion of our common stock. The stock will be repurchased from time to time on the open market depending on market and other conditions. No shares were repurchased during 1999. During 1998, we repurchased 3.7 million shares for $172. Since inception of the program we have repurchased 20.6 million shares for $594. Common shares issued for stock option exercises, conversion of convertible securities and other exchanges were partially satisfied by reissuances of treasury shares.

Put Options. In connection with the share repurchase program, during 1999, 1998 and 1997, we sold 0.8 million, 1.0 million and 8.0 million put options, respectively, that entitle the holder to sell one share of our common stock to us at a specified price. These put options are exercisable only at maturity and can be settled in cash at our option. The put options had original maturities ranging from six months to two years.

In 1999, put options on 1.0 million shares of common stock were exercised and settled for a net cash payment of $5.

At December 31, 1999, 0.8 million put options remain outstanding with a strike price of $40.56 per share.

Stock Option and Long-Term Incentive Plans. We have a long-term incentive plan whereby eligible employees may be granted nonqualified stock options and performance unit rights. Subject to vesting and other requirements, performance unit rights are typically paid in our common stock, beginning with the 1998 awards, and are typically paid in cash for units awarded prior to 1998. Prior to 1999, the value of each performance unit was typically based upon the level of return on assets during the year in which granted. Beginning with the 1999 awards, the value of each performance unit is based on the growth in earnings per share during the year in which granted. Performance units ratably vest in the three years after the year awarded.

Beginning in 1999, certain incentive compensation plans were modified to provide for the issuance of stock options as part of the total payments due under the plans.

Stock options and rights are settled with newly issued or treasury shares of our common stock. Stock options granted prior to December 31, 1995 normally vest in two years and expire five years from the date of grant. Stock options granted subsequent to December 31, 1995 generally vest in three years and expire between eight and ten years from the date of grant. The exercise price of the options is equal to the market value of our common stock on the effective date of grant.

At December 31, 1999 and 1998, 36.2 million and 6.4 million shares, respectively, were available for grant of options or rights. The following table provides information relating to the status of, and changes in, options granted:

Employee Stock Options	1999		1998		1997	
(Options in thousands)	Stock Options	Average Option Price	Stock Options	Average Option Price	Stock Options	Average Option Price
Outstanding at January 1	30,344	$33	27,134	$26	22,206	$19
Granted	19,059	51	8,980	47	12,201	34
Cancelled	(870)	47	(199)	37	(300)	24
Exercised	(5,145)	23	(5,571)	20	(6,973)	17
Outstanding at December 31	43,388	42	30,344	33	27,134	26
Exercisable at end of year	13,467		9,622		8,850	

Options outstanding and exercisable at December 31, 1999 are as follows:

Thousands except per-share data	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$13.18 to $19.63	2,058	1.55	$18.16	2,058	$18.16
20.11 to 28.91	7,737	6.84	23.99	3,954	22.07
30.97 to 44.16	15,358	5.37	37.10	6,396	35.82
46.88 to 60.95	18,235	7.10	56.02	1,059	48.60
$13.18 to $60.95	43,388	6.18	$41.81	13,467	$30.09

We do not recognize compensation expense relating to employee stock options because the exercise price of the option equals the fair value of the stock on the effective date of grant. If we had deter mined the compensation based on the value as determined by the modified Black-Scholes option pricing model, in accordance with SFAS No. 123, the pro forma net income and earnings per share

would be as follows:

	1999	1998	1997
Net income - as reported	$1,424	$ 395	$1,452
Net income - pro forma	1,323	350	1,429
Basic EPS - as reported	2.09	0.53	2.16
Basic EPS - pro forma	1.94	0.46	2.12
Diluted EPS - as reported	1.96	0.52	2.02
Diluted EPS - pro forma	1.82	0.45	1.99

The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.

As reflected in the pro forma amounts in the table at left, the fair value of each option granted in 1999, 1998 and 1997 was $15.83, $13.31 and $9.03, respectively. The fair value of each option granted was estimated on the date of grant using the following weighted average assumptions:

	1999	1998	1997
Risk-free interest rate	5.1%	5.2%	6.1%
Expected life in years	6.2	5.3	5.0
Expected volatility	28.0%	24.9%	23.5%
Expected dividend yield	1.8%	1.4%	1.9%

18 Earnings per Share

A reconciliation of the numerators and denominators of the basic and diluted EPS calculation follows:

	1999			1998			1997		
(Shares in thousands)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS									
Income from continuing operations	$1,424			$585			$1,452		
Accrued dividends on preferred stock	(38)			(46)			(44)		
Basic EPS	$1,386	663,493	$2.09	$539	658,956	$0.82	$1,408	653,371	$2.16
Diluted EPS									
Stock options and other incentives		8,727			9,811			7,929	
ESOP Adjustment, net of tax	43	51,989					44	54,686	
Convertible debt, net of tax	17	13,191		3	5,287		3	5,287	
Diluted EPS	$1,446	737,400	$1.96	$542	674,054	$0.80	$1,455	721,273	$2.02

Note: Recalculation of per-share amounts may be off by $0.01 in certain instances due to rounding.

19 Subsequent Events

In January 2000, we and Fuji Xerox acquired the Color Printing and Imaging Division of Tektronix, Inc. (CPID). The aggregate consideration paid of $925 in cash, which includes $75 paid directly by Fuji Xerox, is subject to certain post-closing adjustments. CPID manufactures and sells color printers, ink and related products, and supplies. The acquisition was accounted for using the

purchase method and will result in goodwill and other identifiable intangible assets of approximately $575 (unaudited), which will be amortized over their useful lives, predominantly 20 years. In addition, we will also recognize a charge in the first quarter of 2000 for accrued in-process research and development of approximately $25 (unaudited). We have engaged an independent appraiser to value the intangible assets, including amounts allocable to accrued in-process research and development. Accordingly, the amounts included herein are based on preliminary estimates and will be revised to reflect the final appraisal.

Quarterly Results of Operations

(Unaudited)

In millions, except per-share data	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
1999					
Revenues	$ 4,300	$ 4,862	$4,628	$5,438	$19,228
Costs and Expenses	3,806	4,229	4,123	5,034	17,192
Income before Income Taxes, Equity Income and Minorities' Interests	494	633	505	404	2,036
Income Taxes	153	196	157	125	631
Equity in Net Income of Unconsolidated Affiliates	10	24	5	29	68
Minorities' Interests in Earnings of Subsidiaries	8	13	14	14	49
Income from Continuing Operations	343	448	339	294	1,424
Discontinued Operations	-	-	-	-	-
Net Income	$ 343	$ 448	$ 339	$ 294	$ 1,424
Basic Earnings per Share					
Continuing Operations	$ 0.50	$ 0.66	$ 0.50	$ 0.43	$ 2.09
Discontinued Operations	-	-	-	-	-
Basic Earnings per Share	$ 0.50	$ 0.66	$ 0.50	$ 0.43	$ 2.09
Diluted Earnings per Share/1/					
Continuing Operations	$ 0.48	$ 0.62	$ 0.47	$ 0.41	$ 1.96
Discontinued Operations	-	-	-	-	-
Diluted Earnings per Share/1/	$ 0.48	$ 0.62	$ 0.47	$ 0.41	$ 1.96
1998					
Revenues	$ 4,304	$ 4,742	$4,607	$5,794	$19,447
Costs and Expenses	3,859	5,841	4,067	4,917	18,684
Income (Loss) before Income Taxes (Benefits), Equity Income and Minorities' Interests	445	(1,099)	540	877	763
Income Taxes (Benefits)	147	(385)	173	272	207
Equity in Net Income of Unconsolidated Affiliates	14	12	28	20	74
Minorities' Interests in Earnings of Subsidiaries	11	10	14	10	45
Income (Loss) from Continuing Operations	301	(712)	381	615	585
Discontinued Operations	(190)	-	-	-	(190)
Net Income (Loss)/2/	$ 111	$ (712)	$ 381	$ 615	$ 395
Basic Earnings (Loss) per Share					
Continuing Operations	$ 0.44	$ (1.10)	$ 0.56	$ 0.92	$ 0.82
Discontinued Operations	(0.29)	-	-	-	(0.29)
Basic Earnings per Share	$ 0.15	$ (1.10)	$ 0.56	$ 0.92	$ 0.53
Diluted Earnings (Loss) per Share/1/					
Continuing Operations	$ 0.42	$ (1.10)	$ 0.53	$ 0.84	$ 0.80
Discontinued Operations	(0.26)	-	-	-	(0.28)
Diluted Earnings per Share/1/	$ 0.16	$ (1.10)	$ 0.53	$ 0.84	$ 0.52

/1/ Quarterly diluted earnings per share differ from the full-year amounts because securities that are antidilutive in certain quarters are not antidilutive on a full-year basis.

/2/ 1998 second quarter includes a restructuring charge of $1,644 ($1,107 after taxes and including our $18 share of a restructuring charge recorded by Fuji Xerox).

Reports of Management and Independent Auditors

Report of Management

Xerox Corporation management is responsible for the integrity and objectivity of the financial data presented in this annual report. The consolidated financial statements were prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments.

The Company maintains an internal control structure designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. This structure includes the hiring and training of qualified people, written accounting and control policies and procedures, clearly drawn lines of accountability and delegations of authority. In a business ethics policy that is communicated annually to all employees, the Company has established its intent to adhere to the highest standards of ethical conduct in all of its business activities.

The Company monitors its internal control structure with direct management reviews and a comprehensive program of internal audits. In addition, KPMG LLP, independent auditors, have audited the consolidated financial statements and have reviewed the internal control structure to the extent they considered necessary to support their report, which follows.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets regularly with the independent auditors, the internal auditors and representatives of management to review audits, financial reporting and internal control matters, as well as the nature and extent of the audit effort. The Audit Committee also recommends the engagement of independent auditors, subject to shareholder approval. The independent auditors and internal auditors have free access to the Audit Committee.

/s/ G. Richard Thoman	/s/ Barry D. Romeril
G. Richard Thoman President and Chief Executive Officer	Barry D. Romeril Vice Chairman and Chief Financial Officer

Report of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation:

We have audited the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements appearing on pages 42 through 65 present fairly, in all material respects, the financial position of Xerox Corporation and consolidated subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the

years in the three-year period ended December 31, 1999, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

KPMG LLP
Stamford, Connecticut
January 25, 2000

Eleven Years in Review

(Dollars in millions, except per-share data)	1999	1998	1997	1996
Per-Share Data				
Earnings (loss) from continuing operations				
Basic	$ 2.09	$ 0.82	$ 2.16	$ 1.78
Diluted	1.96	0.80	2.02	1.66
Dividends declared	0.80	0.72	0.64	0.58
Operations				
Revenues	$ 19,228	$ 19,447	$ 18,144	$ 17,378
Research and development expenses	979	1,040	1,065	1,044
Income (loss) from continuing operations	1,424	585	1,452	1,206
Net income (loss)	1,424	395	1,452	1,206
Financial Position				
Accounts and finance receivables, net	$ 15,940	$ 16,984	$ 14,498	$ 13,394
Inventories	2,961	3,269	2,792	2,676
Land, buildings and equipment, net	2,456	2,366	2,377	2,256
Investment in discontinued operations	1,130	1,670	3,025	4,398
Total assets	28,814	30,024	27,732	26,818
Consolidated capitalization				
Short-term debt	3,957	4,104	3,707	3,536
Long-term debt	11,044	11,003	8,946	8,697
Total debt	15,001	15,107	12,653	12,233
Deferred ESOP benefits	(299)	(370)	(434)	(494)
Minorities' interests in equity of subsidiaries	127	124	127	843
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	638	638	637	-
Preferred stock	669	687	705	721
Common shareholders' equity	4,911	4,857	4,985	4,367
Total capitalization	21,047	21,043	18,673	17,670
Selected Data and Ratios				
Common shareholders of record at year-end	55,297	52,048	54,689	55,908
Book value per common share/1/	$ 7.35	$ 7.35	$ 7.59	$ 6.71
Year-end common stock market price	$ 22.69	$ 59.00	$ 36.94	$ 26.31
Employees at year-end	94,600	92,700	91,500	86,700
Working capital	$ 4,035	$ 3,968	$ 3,074	$ 2,948
Current ratio	1.5	1.5	1.4	1.4
Additions to land, buildings and equipment	$ 594	$ 566	$ 520	$ 510
Depreciation on land, buildings and equipment	$ 416	$ 362	$ 400	$ 372

* Data that conform with the 1999 basis of presentation were not available.

/1/ Book value per common share is computed by dividing common shareholders' equity by outstanding common shares plus common shares reserved for the conversion of the Xerox Canada Inc. Exchangeable Class B Stock.

1995	1994	1993	1992	1991	1990	1989
$ 1.73	$ 1.14	$ (0.42)	$ 0.87	$ 0.63	$ 0.91	$ 0.74
1.61	1.07	(0.42)	0.77	0.62	0.87	0.73
0.50	0.50	0.50	0.50	0.50	0.50	0.50
16,588	$ 15,084	$ 14,229	$ 14,298	$ 13,438	$ 13,210	$ 12,095
949	895	883	922	890	848	809
1,174	794	(193)	562	436	599	488
(472)	794	(126)	(1,020)	454	243	704
$ 12,389	$ 11,759	$ 10,565	$ 10,250	$ 8,952	$ 8,016	$ 7,272
2,656	2,294	2,162	2,257	2,091	2,148	2,413
2,105	2,108	2,219	2,150	1,950	1,851	1,781
4,810	7,904	8,841	8,652	9,164	9,695	*
26,008	27,278	26,999	25,792	24,342	24,116	*

3,274	3,159	2,698	2,533	2,038	1,828	1,482
8,148	7,355	7,386	8,105	7,825	8,726	9,247
11,422	10,514	10,084	10,638	9,863	10,554	10,729
(547)	(596)	(641)	(681)	(720)	(756)	(785)
755	1,021	844	885	818	832	715
-	-	-	-	-	-	-
763	832	1,066	1,072	1,078	1,081	1,081
3,878	4,177	3,972	3,875	5,140	5,051	5,035
16,271	15,948	15,325	15,789	16,179	16,762	16,775
54,262	56,414	65,820	68,877	71,213	74,994	78,876
$ 5.92	$ 6.48	$ 6.28	$ 6.70	$ 9.07	$ 8.96	$ 8.93
$ 22.84	$ 16.50	$ 14.69	$ 13.21	$ 11.42	$ 5.92	$ 9.54
85,900	87,600	97,000	99,300	100,900	99,000	99,000
$ 2,843	$ 2,411	$ 2,357	$ 2,578	$ 2,282	$ 2,537	*
1.4	1.4	1.4	1.5	1.5	1.6	*
$ 438	$ 389	$ 470	$ 582	$ 467	$ 405	$ 390
$ 376	$ 446	$ 437	$ 418	$ 397	$ 372	$ 370

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Japan
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Products and Services

www.xerox.com or by phone:
.800 ASK-XEROX (800 275-9376) for any product or service

.800 TEAM-XRX (800 832-6979) for any small office or home office product

.800 34-XEROX (800 349-3769) for networked products sold through resellers

Additional Information

The Xerox Foundation and Community Involvement Program: 203 968-3333

Xerox diversity programs and EEO-1 reports: 716 423-6157

Environmental, Health and Safety Progress Report: 800 828-6571

Questions from Students and Educators:
800 594-5015 or 716 423-4828
E-mail: Nancy.Dempsey@usa.xerox.com

Auditors
KPMG LLP

Certified Public Accountants
Stamford Square
3001 Summer Street
Stamford, CT 06905
203 356-9800

Consecutive Dividends Paid to Shareholders

At its February 7, 2000, meeting, the Company's Board of Directors declared the regular quarterly dividend of $.20 per share on the common stock and the regular quarterly dividend of $1.5625 per share on the preferred stock. Xerox has declared dividends to its shareholders for 70 consecutive years and has paid consecutive quarterly dividends since 1948. The Series B Convertible Preferred stock was issued in July 1989 in connection with the formation of a Xerox Employee Stock Ownership Plan.

Both common and preferred dividends are payable April 1 to shareholders of record March 3.

Xerox Common Stock Prices and Dividends

New York Stock Exchange composite prices

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$63.00	$63.69	$59.75	$42.81
Low	51.63	52.50	40.50	19.88
Dividends Paid	$ 0.18	$ 0.20	$ 0.20	$ 0.20

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$53.38	$57.50	$58.25	$60.81
Low	33.09	45.16	39.00	40.91
Dividends Paid	$ 0.16	$ 0.18	$ 0.18	$ 0.18

Stock Listed and Traded

Xerox common stock (XRX) is listed on the New York Stock Exchange and the Chicago Stock Exchange. It is also traded on the Boston, Cincinnati, Pacific Coast, Philadelphia, London and Switzerland exchanges.

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EXHIBIT 21

Subsidiaries of Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of February 10, 2000. The names of a number of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary	Incorporated In
Intelligent Electronics, Inc.	Pennsylvania
Intellinet, Ltd.	Pennsylvania
Xerox Connect, Inc.	Pennsylvania
Xerox de Venezuela, C.A.	Venezuela
Xerox Argentina, I.C.S.A.	Argentina
Xerox Canada Capital Ltd.	Ontario
Xerox Canada Inc.	Ontario
Xerox Canada Finance Inc.	Ontario
Xerox Canada Ltd.	Canada
Xerox de Chile S.A.	Chile
Xerox (China) Limited	China
Xerox Financial Services, Inc.	Delaware
OakRe Life Insurance Company	Missouri
Ridge Reinsurance Limited	Bermuda
Talegen Holdings, Inc.	Delaware
Xerox Credit Corporation	Delaware
Xerox Investments India Private Limited	India
Xerox Investments (Europe) BV	Netherlands
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	Ireland
Xerox Capital (Europe) plc	United Kingdom
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Limited	Hong Kong
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox XHB Limited	Bermuda
Xerox XIB Limited	Bermuda
Xerox Limited	United Kingdom
Fuji Xerox Co., Ltd. *	Japan
NV Xerox Credit S.A.	Belgium
NV Xerox Management Services S.A.	Belgium
N.V. Xerox S.A.	Belgium
Xerox AB	Sweden
Xerox AG	Switzerland
Xerox A/S	Denmark
Xerox AS	Norway
Xerox Austria GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Espana-The Document Company, S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Fabricacion S.A.U.	Spain
Xerox Finance AG	Switzerland
Xerox Finance (Nederland) BV	Netherlands
Xerox de Financiacion S.A.U., E.F.C.	Spain
Xerox GmbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Hellas AEE	Greece
Xerox (Hong Kong) Limited	Hong Kong

Name of Subsidiary	Incorporated In
Xerox Modicorp Ltd.	India
Xerox (Nederland) BV	Netherlands

Xerox Oy	Finland
Xerox Pensions Limited	United Kingdom
Xerox S.p.A.	Italy
Xerox - THE DOCUMENT COMPANY S.A.	France
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Xerox Finance Limited	United Kingdom
Xerox do Brasil Ltda.	Brazil
Xerox Real Estate Services, Inc.	New York
Xerox Servicios Tecnicos, C.A.	Venezuela

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* Indicates only 50% is owned, directly or indirectly, by Xerox Corporation.

EXHIBIT 23

Consent of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

We consent to the incorporation by reference in the Registration Statements of Xerox Corporation on Forms S-8 (Nos. 333-93269, 333-09821, 333-22059, 333-22037, 333-22313, 33-65269, 33-44314, 33-44313, 33-18126, 2-86275, 2-86274) and Forms S-3 (Nos. 33-9486, 33-32215, 333-34333, 333-59355and 333-73173) of our reports dated January 25, 2000 relating to the consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows, and shareholders' equity and related financial statement schedule for each of the years in the three-year period ended December 31, 1999, which reports appear in or are incorporated by reference in the 1999 Annual Report on Form 10-K of Xerox Corporation.

/s/ KPMG LLP

Stamford, Connecticut
March 27, 2000

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S DECEMBER 31, 1999 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.
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