

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (date of earliest event reported):
June 21, 2002

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

New York (State or other jurisdiction of incorporation)	1-4471 (Commission File Number)	16-0468020 (IRS Employer Identification No.)
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800 Long Ridge Road
P. O. Box 1600
Stamford, Connecticut 06904-1600
(Address of principal executive offices)(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Item 5. Other Events.

On June 21, 2002, Registrant (or "Xerox Corporation" or "we" or "our" or "us") announced that it had entered into an Amended and Restated Credit Agreement (the "New Credit Facility") with a group of lenders, replacing the \$7 Billion Revolving Credit Agreement dated October 22, 1997 among Registrant, Xerox Credit Corporation and certain Overseas Borrowers, as Borrowers, various Lenders and Morgan Guaranty Trust Company of New York, The Chase Manhattan Bank, Citibank, N.A. and Bank One, as Agents (the "Old Revolver"). At that time, we permanently repaid \$2.8 billion of the Old Revolver. Accordingly there is currently \$4.2 billion outstanding under the New Credit Facility, consisting of three tranches of term loans totaling \$2.7 billion and a \$1.5 billion revolving facility that includes a \$200 million letter of credit sub-facility. The three term loan tranches include a \$1.5 billion amortizing "Tranche A" term loan maturing on April 30, 2005, a \$500 million "Tranche B" term loan maturing on April 30, 2005, and a \$700 million "Tranche C" term loan which matures on September 15, 2002. Xerox Corporation is currently, and will remain, the borrower of all of the term loans. The revolving loans are available, without sub-limit, to Xerox Corporation, Xerox Canada Capital Limited ("XCCL"), Xerox Capital Europe plc ("XCE") and other foreign subsidiaries requested by us from time to time that meet certain qualifications. We are required to repay \$400 million of the Tranche A loan and \$5 million of the Tranche B loan in semi-annual installments in 2003, and \$600 million of the Tranche A loan and \$5 million of the Tranche B loan in semi-annual installments in 2004. The remaining portions of the term loans contractually mature on April 30, 2005, but we could be required to repay portions earlier upon the occurrence of certain events, as described below. In addition, all loans under the New Credit Facility mature upon the occurrence of a change of control.

Subject to certain limits described in the following paragraph, all obligations under the New Credit Facility are secured by liens on substantially all domestic assets of Xerox Corporation and by liens on the assets of substantially all of our U.S. subsidiaries (excluding Xerox Credit Corporation) and are guaranteed by substantially all of our U.S. subsidiaries. In addition, revolving loans outstanding from time to time to XCE (currently \$605 million) are also secured by all of XCE's assets and are also guaranteed on an unsecured basis by certain foreign subsidiaries that directly or indirectly own all of the outstanding stock of XCE. Revolving loans outstanding from time to time to XCCL (currently \$300 million) are also secured by all of XCCL's assets and are also guaranteed on an unsecured basis by our material Canadian subsidiaries, as defined (although the guaranties of the Canadian subsidiaries will become secured by their assets in the future if certain events occur).

Under the terms of certain of our outstanding public bond indentures, the outstanding amount of obligations under the New Credit Facility that can be secured by assets (the "Restricted Assets") of (i) Xerox Corporation and (ii) our non-financing subsidiaries that have a consolidated net worth of at least \$100 million, without triggering a requirement to also secure these indentures, is limited to the excess of (a) 20% of our consolidated net worth (as defined in the public bond indentures) over (b) a portion of the outstanding amount of certain other debt that is secured by the Restricted Assets. Accordingly, the amount of the debt secured under the New Credit Facility by the Restricted Assets (the "Restricted Asset Security Amount") will vary from time to time with changes in our consolidated net worth. The Restricted Assets secure the Tranche B loan (up to the Restricted Asset Security Amount); any Restricted Asset Security Amount in excess of the outstanding Tranche B loan secures, on a ratable basis, the other outstanding loans under the New Credit Facility. The assets of XCE, XCCL and many of the subsidiaries guarantying the New Credit Facility are not Restricted Assets because those entities are not restricted subsidiaries as defined in our public bond indentures. Consequently, the amount of debt under the New Credit Facility secured by their assets is not subject to the foregoing limits.

The New Credit Facility loans generally bear interest at LIBOR plus 4.50%, except that the Tranche B loan bears interest at LIBOR plus a spread that varies between 4.00% and 4.50% depending on the Restricted Asset Security Amount in effect from time to time. Specified percentages of any net proceeds we receive from capital market debt issuances, equity issuances or asset sales during the term of the New Credit Facility must be used to reduce the amounts outstanding under the New Credit Facility, and in all cases any such amounts will first be applied to reduce the Tranche C loan. Once the Tranche C loan has been repaid, or to the extent that such proceeds exceed the outstanding Tranche C loan, any such prepayments arising from debt and equity proceeds will first permanently reduce the Tranche A loans, and any amount remaining thereafter will be proportionally allocated to repay the then-outstanding balances of the revolving loans and the Tranche B loans and to reduce the revolving commitment accordingly. Any such prepayments arising from asset sale proceeds will first be proportionally allocated to permanently reduce any outstanding Tranche A loans and Tranche B loans, and any amounts remaining thereafter will be used to repay the revolving loans and to reduce the revolving commitment accordingly. Notwithstanding the foregoing description, the revolving loan commitment cannot be reduced below \$1 billion.

The New Credit Facility contains affirmative and negative covenants including limitations on issuance of debt and preferred stock, certain fundamental changes, investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, hedging transactions, payment of dividends, inter-company loans and certain restricted payments, and a requirement to transfer excess foreign cash, as defined, and excess cash of Xerox Credit Corporation to Xerox Corporation in certain circumstances. Despite a general limitation on the creation of liens, the New Credit Facility provides for the creation of liens from time to time in connection with the monetization or other financing of discrete pools of receivables, leases and other financial assets by Xerox Corporation and its subsidiaries. Thus, the New Credit Facility does not affect our ability to continue to monetize our receivables under the agreements with General Electric Capital Corporation and others. No cash dividends can be paid on our Common Stock for the term of the New Credit Facility. Cash dividends may be paid on preferred stock provided there is then no event of default. In addition to other defaults customary for facilities of this type, defaults on debt of, or bankruptcy of, Xerox Corporation or certain subsidiaries would constitute a default under the New Credit Facility.

The New Credit Facility also contains financial covenants which the Old Revolver did not contain, including:

- * Minimum EBITDA (rolling four quarters, as defined)
- * Maximum Leverage (total adjusted debt:EBITDA, as defined)
- * Maximum Capital Expenditures (annual test)
- * Minimum Consolidated Net Worth (quarterly test, as defined)

Any failure to be in compliance with any material provision of the New Credit Facility could have a material adverse effect on our liquidity and operations.

Following the repayment of the \$2.8 billion portion of the Old Revolver and \$1.3 billion in debt that matured this quarter, our current cash position is approximately \$1.7 billion.

We expect that the higher interest rates under the New Credit Facility will increase our interest expense by approximately \$80 million in 2002 and \$140 million in 2003, net of interest income and including transaction fees.

Copies of the New Credit Facility and related agreements are filed as exhibits to this Current Report on Form 8-K.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

(4)(h)(5) First Supplemental Indenture dated as of June 21, 2002 between Registrant and Wells Fargo, as trustee, to the January 17, 2002 U.S. Dollar Indenture.

(4)(h)(6) First Supplemental Indenture dated as of June 21, 2002 between Registrant and Wells Fargo, as trustee, to the January 17, 2002 Euro Indenture.

(4)(l)(1) Amended and Restated Credit Agreement dated as of June 20, 2002 among Registrant and the Overseas Borrowers, as Borrowers, various Lenders and Bank One, N.A., JPMorgan Chase Bank and Citibank, N.A., as Agents (the "Amended Credit Agreement").

(4)(l)(2) Guarantee and Security Agreement dated as of June 21, 2002 among Registrant, the Subsidiary Guarantors and Bank One, N.A., as Agent, relating to the Amended Credit Agreement.

(4)(l)(3) Canadian Guarantee and Security Agreement dated as of June 21, 2002 among Xerox Canada Capital Ltd., the Guarantors and Bank One, N.A., Canada Branch, as Agent, relating to the Amended Credit Agreement.

(4)(l)(4) Deed of Guarantee and Indemnity Made June 21, 2002 between Bank One, N.A., as Agent, and Xerox Overseas Holdings Limited and Xerox UK Holdings Limited, as Guarantors, relating to Obligations of Xerox Capital (Europe) plc and the Amended Credit Agreement.

(4)(l)(5) Debenture dated June 21, 2002 between Xerox Capital (Europe) plc and Bank One, N.A., as Agent, relating to the Amended Credit Agreement.

(4)(l)(6) Mortgage, Assignment of Leases and Rents, Security Agreement, Financing Statement and Fixture Filing dated as of June 21, 2002 by Xerox Corporation, as Mortgagor, to Bank One, N.A., as Agent for the Lenders, the Mortgagee, relating to property in the County of Monroe, State of New York and the Amended Credit Agreement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly authorized this report to be signed on its behalf by the undersigned duly authorized.

XEROX CORPORATION

/s/ MARTIN S. WAGNER

By: MARTIN S. WAGNER
Assistant Secretary

Date: June 21, 2002

Exhibit Index

Exhibit No.	Description
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XEROX CORPORATION,
as ISSUER,

and

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
as TRUSTEE

FIRST SUPPLEMENTAL INDENTURE

Dated as of June 21, 2002

To

The Indenture, dated as of January 17, 2002,
among Xerox Corporation, as Issuer, and
Wells Fargo Bank Minnesota, National Association, as Trustee,
Relating to the Company's 9 3/4% Senior Notes due 2009
(Denominated in U.S. Dollars)

FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE (the "Supplemental Indenture"), dated as of June __, 2002, among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York (the "Company"), the Guarantors listed on the signature pages hereto (the "Guarantors") and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (the "Trustee").

WHEREAS, the Company has heretofore executed and delivered to the Trustee an Indenture, dated as of January 17, 2002 (the "Indenture"), providing for the issuance of an aggregate principal amount of \$600,000,000 of its 9 3/4% Senior Notes due 2009 (the "Notes");

WHEREAS, pursuant to Section 1013(c) of the Indenture, the Company shall have the right to cause certain of its subsidiaries to execute a guarantee in respect of the Company's obligations under the Notes; and

WHEREAS, pursuant to Section 901(6) of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guarantors, the Company and the Trustee mutually covenant and agree as follows

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.
2. Agreement to Guarantee. The Guarantors hereby jointly and severally agree to fully and unconditionally guarantee all of the Company's obligations under the Notes and the Indenture (each, a "Guarantee"), including the prompt payment in full when due of the principal of, premium on, if any, interest and, without duplication, Additional Interest, if any, on the Notes and all other amounts payable by the Company under the Indenture and the Notes, subject to any applicable grace period, whether at maturity, by acceleration or otherwise, and interest on any overdue principal and any overdue interest on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes, and to be bound by all applicable provisions of the Indenture and the Notes.
3. Release of Guarantees. Any Guarantee shall be automatically and unconditionally released upon the release (other than by reason of payment) of such Guarantor's guarantee of the Amended and Restated Credit Agreement, dated as of June [], 2002, among the Company, certain overseas borrowers party thereto, the lenders party thereto, Bank One, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JP Morgan Chase Bank, as Documentation Agent and Citibank, N.A., as Syndication Agent. Any Guarantee shall also be automatically and unconditionally released upon: (i) the designation of such Guarantor as an Unrestricted Subsidiary in compliance with the

provisions of the Indenture or (ii) any transaction, including without limitation, any sale, exchange or transfer, to any Person not an Affiliate of the Company, of the Company's Capital Stock in, or all or substantially all the property of, such Guarantor, which transaction is in compliance with the terms of the Indenture, and which results in the Guarantor ceasing to be a Subsidiary of the Company and, in the case of either clause (i) or clause (ii), such Guarantor is released from all guarantees, if any, by it of other Capital Markets Debt of the Company.

4. Ratification of Indenture; Supplemental Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of the Notes heretofore or hereafter authenticated and delivered shall be bound hereby.

5. Governing Law. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

6. Multiple Originals. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. One signed copy is enough to prove this Supplemental Indenture.

7. Effect of Headings. The Section headings herein are for convenience only and shall not affect the construction hereof.

8. Successors. All agreements of the Company and the Guarantors in this Supplemental Indenture shall bind their successors. All agreements of the Trustee in this Supplemental Indenture shall bind its successors.

9. Separability Clause. In case any provision of this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

10. Conflict with Trust Indenture Act. If any provision hereof limits, qualifies or conflicts with any provision of the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), such provision or requirement of the Trust Indenture Act shall control.

If any provision of this Supplemental Indenture modifies or excludes any provision of the Trust Indenture Act that may be so modified or excluded, the latter provision shall be deemed to apply to this Supplemental Indenture as so modified or excluded, as the case may be.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, and attested, as of the date first above written.

XEROX CORPORATION
VRN INC.
XEROX FINANCE, INC.
XEROX FINANCIAL SERVICES, INC.
XEROX CAPITAL MANAGEMENT LLC
 By: Xerox Corporation, as sole member
XEROX INVESTMENT MANAGEMENT LLC
 By: Xerox Capital Management LLC, as
 sole member
 By: Xerox Corporation, as sole member
XEROX EXPORT, LLC
By: Xerox Corporation, as sole member

By: _____
Name: Gregory B. Tayler
Titles: Vice President & Treasurer of Xerox Corporation, President & Treasurer of VRN Inc., President of Xerox Finance, Inc., and Chairman & President of Xerox Financial Services, Inc.

AMTX, INC.
XDI, INC.

By: _____
Name: Allan E. Dugan
Titles: Chairman & President of AMTX, Inc. and Chairman of XDI, Inc.

BRADLEY COMPANY

By: _____
Name: Roy B. Larson
Title: Vice President

CARMEL VALLEY, INC.
INCONCERT, INC.
LIVEWORKS, INC.
UPPERCASE, INC.
TERABANK SYSTEMS, INC.

By: _____
Name: Thomas C. Little
Titles: Chairman, President & Treasurer
of Carmel Valley, Inc., President &
Treasurer of InConcert, Inc., LiveWorks,
Inc. and Uppercase, Inc., and President
of Terabank Systems, Inc.

PIXELCRAFT, INC.

By: _____
Name: Herve Gallaire
Title: Chairman, President & Treasurer

INTELLIGENT ELECTRONICS, INC.
INTELLINET, LTD.
RNTS, INC.
XEROX CONNECT, INC.

By: _____
Name: Robert Hope
Title: Treasurer

JEREMIAD CO.
SECURITIES INFORMATION CENTER, INC.
XTENDED MEMORY SYSTEMS

By: _____
Name: Martin S. Wagner
Title: President

XEROX INTERNATIONAL REALTY
CORPORATION
XEROX REALTY CORP. (CALIFORNIA)
LANSLOWNE RESIDENTIAL LLC
By: Xerox Realty Corporation,
as sole member
XRC REALTY CORP. WEST
XEROX REALTY CORPORATION

By: _____
Name: David R. McLellan
Titles: President of Xerox International
Realty Corporation, Xerox Realty Corp.
(California) and XRC Realty Corp. West,
and Chairman & President of Xerox Realty
Corporation

LOW-COMPLEXITY MANUFACTURING
GROUP, INC.
PALO ALTO RESEARCH CENTER
INCORPORATED
PAGECAM, INC.
XEROX COLORGRAF X SYSTEMS, INC.
XEROX IMAGING SYSTEMS, INC.

By: _____
Name: James J. Costello
Titles: Vice President of Low-Complexity
Manufacturing Group, Inc. and Palo Alto
Research Center Incorporated, Vice
President & Treasurer of PageCam, Inc.,
and Chairman, President & Treasurer of
Xerox Colorgraf X Systems, Inc. and Xerox
Imaging Systems, Inc.

PACIFIC SERVICES AND DEVELOPMENT
CORPORATION

By: _____
Name: J. Terrance Daly
Title: President & Treasurer

TALEGEN HOLDINGS, INC.
TALEGEN PROPERTIES, INC.

By: _____
Name: George Rachmiel
Titles: Chairman, President &
Treasurer of Talegen Holdings, Inc.
and Chairman & President of Talegen
Properties, Inc.

VIA XEROX RELOCATION COMPANY, INC.

By: _____
Name: David Owens
Title: President

XE HOLDINGS, INC.

By: _____
Name: John Duerden
Title: Chairman, President &
Treasurer

XEROX COLOR PRINTING, INC.

By: _____
Name: John Vester
Title: Vice President

XEROX CREDIT CORPORATION

By: _____
Name: John Rivera
Title: Vice President & Treasurer

XEROX INTERNATIONAL JOINT
MARKETING, INC.

By: _____
Name: James Firestone
Title: President

XEROX LATINAMERICAN HOLDINGS, INC.

By: _____
Name: Enrique Cervetti
Title: President & Treasurer

XEROX REAL ESTATE SERVICES, INC.

By: _____
Name: David Pierson
Title: President

IGHI, INC.

By: _____
Name: Mark Sheivachman
Title: Treasurer

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

By: _____
Name:
Title:

XEROX CORPORATION,
as ISSUER,

and

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
as TRUSTEE

FIRST SUPPLEMENTAL INDENTURE

Dated as of June 21, 2002

To

The Indenture, dated as of January 17, 2002,
among Xerox Corporation, as Issuer, and
Wells Fargo Bank Minnesota, National Association, as Trustee,
Relating to the Company's 9 3/4% Senior Notes due 2009
(Denominated in Euro)

FIRST SUPPLEMENTAL INDENTURE

THIS FIRST SUPPLEMENTAL INDENTURE (the "Supplemental Indenture"), dated as of June __, 2002, among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York (the "Company"), the Guarantors listed on the signature pages hereto (the "Guarantors") and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (the "Trustee").

WHEREAS, the Company has heretofore executed and delivered to the Trustee an Indenture, dated as of January 17, 2002 (the "Indenture"), providing for the issuance of an aggregate principal amount of \$600,000,000 of its 9 3/4 % Senior Notes due 2009 (the "Notes");

WHEREAS, pursuant to Section 1013(c) of the Indenture, the Company shall have the right to cause certain of its subsidiaries to execute a guarantee in respect of the Company's obligations under the Notes; and

WHEREAS, pursuant to Section 901(6) of the Indenture, the Company and the Trustee are authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guarantors, the Company and the Trustee mutually covenant and agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.
2. Agreement to Guarantee. The Guarantors hereby jointly and severally agree to fully and unconditionally guarantee all of the Company's obligations under the Notes and the Indenture (each, a "Guarantee"), including the prompt payment in full when due of the principal of, premium on, if any, interest and, without duplication, Additional Interest, if any, on the Notes and all other amounts payable by the Company under the Indenture and the Notes, subject to any applicable grace period, whether at maturity, by acceleration or otherwise, and interest on any overdue principal and any overdue interest on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes, and to be bound by all applicable provisions of the Indenture and the Notes.
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exchange or transfer, to any Person not an Affiliate of the Company, of the Company's Capital Stock in, or all or substantially all the property of, such Guarantor, which transaction is in compliance with the terms of the Indenture, and which results in the Guarantor ceasing to be a Subsidiary of the Company and, in the case of either clause (i) or clause (ii), such Guarantor is released from all guarantees, if any, by it of other Capital Markets Debt of the Company.

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XEROX CORPORATION
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By: Xerox Corporation, as sole member

XEROX INVESTMENT MANAGEMENT LLC

By: Xerox Capital Management LLC,
as sole member

By: Xerox Corporation, as
sole member

XEROX EXPORT, LLC

By: Xerox Corporation, as sole member

By: _____

Name: Gregory B. Tayler

Titles: Vice President & Treasurer of Xerox Corporation, President & Treasurer of VRN Inc., President of Xerox Finance, Inc., and Chairman & President of Xerox Financial Services, Inc.

AMTX, INC.

XDI, INC.

By: _____

Name: Allan E. Dugan

Titles: Chairman & President of AMTX, Inc. and Chairman of XDI, Inc.

BRADLEY COMPANY

By: _____

Name: Roy B. Larson

Title: Vice President

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LIVEWORKS, INC.
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XTENDED MEMORY SYSTEMS

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Name: Martin S. Wagner
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XEROX COLORGRAF X SYSTEMS, INC.
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By: _____
Name: James J. Costello
Titles: Vice President of Low-Complexity
Manufacturing Group, Inc. and Palo Alto
Research Center Incorporated, Vice President &
Treasurer of PageCam, Inc., and Chairman,
President & Treasurer of Xerox Colorgraf X
Systems, Inc. and Xerox Imaging Systems, Inc.

PACIFIC SERVICES AND DEVELOPMENT CORPORATION

By: _____
Name: J. Terrance Daly
Title: President & Treasurer

TALEGEN HOLDINGS, INC.
TALEGEN PROPERTIES, INC.

By: _____
Name: George Rachmiel
Titles: Chairman, President & Treasurer of
Talegen Holdings, Inc. and Chairman &
President of Talegen Properties, Inc.

VIA XEROX RELOCATION COMPANY, INC.

By: _____
Name: David Owens
Title: President

XE HOLDINGS, INC.

By: _____
Name: John Duerden
Title: Chairman, President & Treasurer

XEROX COLOR PRINTING, INC.

By: _____
Name: John Vester
Title: Vice President

XEROX CREDIT CORPORATION

By: _____
Name: John Rivera
Title: Vice President & Treasurer

XEROX INTERNATIONAL JOINT
MARKETING, INC.

By: _____
Name: James Firestone
Title: President

XEROX LATINAMERICAN HOLDINGS, INC.

By: _____
Name: Enrique Cervetti
Title: President & Treasurer

XEROX REAL ESTATE SERVICES, INC.

By: _____
Name: David Pierson
Title: President

IGHI, INC.

By: _____
Name: Mark Sheivachman
Title: Treasurer

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

By: _____
Name:
Title:

=====

AMENDED AND RESTATED CREDIT AGREEMENT

dated as of

June 21, 2002

among

XEROX CORPORATION

and

THE OVERSEAS BORROWERS PARTY HERETO
as Borrowers

and

THE LENDERS PARTY HERETO

and

BANK ONE, NA
as Administrative Agent, Collateral Agent and LC Issuing Bank

and

JPMORGAN CHASE BANK
as Documentation Agent
and

CITIBANK, N.A.
as Syndication Agent

=====

Arranged By

J.P. MORGAN SECURITIES INC. and BANK ONE, NA,
as Joint Lead Arrangers

J.P. MORGAN SECURITIES INC. and SALOMON SMITH BARNEY INC.,
as Joint Bookrunners

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- Schedule 5.13 - Initial Mortgaged Properties
- Schedule 6.01 - Existing Indebtedness
- Schedule 6.02 - Existing Liens
- Schedule 6.09 - Existing Affiliate Transactions

EXHIBITS:

- Exhibit A - Form of Assignment
- Exhibit B-1 - Form of Opinion of Skadden, Arps, Slate, Meagher & Flom LLP & Affiliates, special counsel for the Credit Parties, delivered pursuant to Section 4.01(b)
- Exhibit B-2 - Form of Opinion of Martin S. Wagner, Associate General Counsel, Corporate, Finance and Ventures, of Xerox, delivered pursuant to Section 4.01(b)
- Exhibit B-3 - Form of Opinion of Fasken Martineau DuMoulin LLP, Canadian counsel for the Credit Parties, delivered pursuant to Section 4.01(b)
- Exhibit B-4 - Form of Opinion of Lovells, United Kingdom counsel for the Credit Parties, delivered pursuant to Section 4.01(b)
- Exhibit B-5 - Form of Opinion of the Counsel of XCD, delivered pursuant to Section 4.01(b)
- Exhibit B-6 - Form of Opinion of the General Counsel of XCE, delivered pursuant to Section 4.01(b)
- Exhibit B-7 - Form of Opinion of counsel for each additional Overseas Borrower
- Exhibit C-1 - Form of Domestic Security Agreement

- Exhibit C-2 - Form of Canadian Security Agreement
- Exhibit C-3 - Form of UK Security Agreement
- Exhibit C-4 - Form of UK Guarantee Agreement
- Exhibit D - Form of Mortgage
- Exhibit E - Form of Election to Participate
- Exhibit F - Form of Election to Terminate
- Exhibit G-1 - Form of Tranche A Term Note
- Exhibit G-2 - Form of Tranche B Term Note
- Exhibit G-3 - Form of Tranche C Term Note
- Exhibit G-4 - Form of Revolving Note
- Exhibit H - Form of Intercompany Subordination Terms
- Exhibit I - Form of Basket Lien Principal Amount Certificate

AMENDED AND RESTATED CREDIT AGREEMENT dated as of June 21, 2002 among XEROX CORPORATION, a New York corporation ("Xerox"), the Overseas Borrowers from time to time party hereto, the LENDERS party hereto, BANK ONE, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMORGAN CHASE BANK, as Documentation Agent and CITIBANK, N.A., as Syndication Agent.

WHEREAS, Xerox, XCC (as this and other capitalized terms are defined in Section 1.01 below), the Overseas Borrowers party thereto and certain financial institutions are parties to a Revolving Credit Agreement dated as of October 22, 1997 (the "Existing Credit Agreement"), pursuant to which the Lenders have \$7,000,000,000 of loans outstanding as set forth in Appendix I hereto;

WHEREAS, Xerox proposes to refinance the Existing Credit Agreement and the loans outstanding thereunder by (i) reducing the outstanding principal amount of loans to \$4,200,000,000, by making an initial repayment of \$2,800,000,000 on the Effective Date, (ii) converting \$700,000,000 of such remaining principal amount to Tranche C Term Loans, repayable no later than September 15, 2002, (iii) converting \$1,500,000,000 of such remaining principal amount to Tranche A Term Loans and \$500,000,000 of such remaining principal amount to Tranche B Term Loans, each repayable as provided herein, and (iv) continuing \$1,500,000,000, the balance of such remaining principal amount, as Revolving Loans (with the Revolving Commitments permanently reduced to \$1,500,000,000 on the Effective Date), and in connection therewith to extend the Termination Date (other than for the Tranche C Term Loans) to April 30, 2005, amend the pricing terms, provide certain guarantees and collateral and make certain other changes;

WHEREAS, although XCC is a party to and a borrower under the Existing Credit Agreement, it is a condition to the Effective Date that XCC repay all of its Revolving Loans under the Existing Credit Agreement and this amendment and restatement provides that upon the Effective Date XCC will no longer be a party to this Agreement; and

WHEREAS, the parties hereto wish to provide for the foregoing on the terms set forth herein by amending and restating the Existing Credit Agreement in its entirety;

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE 1
Definitions

Section 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"Adjusted LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Adjustment.

"Adjustment Certificate" has the meaning specified in Section 1.04(b)(ii).

"Administrative Agent" means Bank One, NA, in its capacity as administrative agent under the Loan Documents.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with such specified Person.

"Agents" means the Administrative Agent, JPMorgan Chase Bank as Documentation Agent and Citibank, N.A. as Syndication Agent.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate will be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Applicable Law" means (a) all provisions of statutes, rules, regulations, judicial decisions and administrative rulings, (b) all orders of a Governmental Authority applicable to the Person in question, and (c) all orders and decrees of all courts and arbitrators in proceedings or actions in which the Person in question is a party or to which such Person is otherwise subject.

"Applicable Percentage" means, in connection with determining the amount of any mandatory prepayment required to be made pursuant to Section 2.10(b), (a) at any time when any principal amount of the Tranche C Term Loans

remains outstanding, 100%, (b) if neither clause (a), (c) nor (d) is applicable, 75%, (c) at any time that no principal amount of the Tranche A Term Loans remains subject to mandatory repayment pursuant to Section 2.09(a) and neither clause (a) nor (d) is applicable, 25% and (d) at any time that no principal amount of the Tranche A Term Loans remains subject to mandatory repayment pursuant to Section 2.09(a), clause (a) is not applicable and the cumulative amount of Net Proceeds of all Asset Transfers, Capital Markets Events and Equity Issuances that have been taken into account for purposes of determining mandatory prepayments (and Revolving Commitment reductions) pursuant to Section 2.10 equals or exceeds \$2,500,000,000, 50%, provided that (A) in respect of any particular instance of Asset Transfers, Capital Markets Events and Equity Issuances, the Applicable Percentage from among clauses (a), (b), (c) and (d) as in effect immediately before receipt thereof shall be applied only to such portion of the related Net Proceeds as results in such a prepayment (and Revolving Commitment reductions) as would result in the next succeeding clause being applicable to such Net Proceeds, and such next succeeding clause shall be applicable to the remaining portion of such Net Proceeds and (B) in respect of any Capital Markets Event of XCE, the Applicable Percentage shall be 90% at all times.

"Applicable Premium Percentage" means, in respect of any prepayment of Tranche B Term Loans subject to a premium pursuant to Section 2.10(c), (x) if such prepayment occurs prior to the first anniversary of the Effective Date, 2.00% and (y) if such prepayment occurs on or after the first anniversary of the Effective Date but prior to the second anniversary of the Effective Date, 1.00%.

"Applicable Rate" has the following meanings for any day.

(a) With respect to any Revolving Loan, Tranche A Term Loan or Tranche C Term Loan that is a Base Rate Loan, 3.50%.

(b) With respect to any Revolving Loan, Tranche A Term Loan or Tranche C Term Loan that is a Eurodollar Loan, 4.50%.

(c) With respect to any Tranche B Term Loan, a percentage per annum as set forth below for Base Rate Loans and Eurodollar Loans in the row opposite such term and in the column corresponding to the Level that applies on such day:

	Level I	Level II	Level III
Base Rate	3.00%	3.25%	3.50%
Eurodollar	4.00%	4.25%	4.50%

Level I applies at any date if the Basket Lien Coverage Ratio is equal to or greater than 130%.

Level II applies at any date if the Basket Lien Coverage Ratio is equal to or greater than 50% but less than 130%.

Level III applies at any date if the Basket Lien Coverage Ratio is less than 50%.

(d) With respect to commitment fees, 0.75%.

"Arrangers" means J.P. Morgan Securities Inc. and Bank One, NA, in their capacities as Joint Lead Arrangers.

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, the Assessment Rate cannot be determined as aforesaid, then the Assessment Rate shall be such annual rate as the Administrative Agent shall determine to be representative of the cost of such insurance to the Lenders.

"Asset Transfer" means any Transfer of any property, which shall include any Qualified Receivables Transaction, any Sale and Leaseback Transaction and any sale of any Equity Interest owned by a Xerox Company or the issuance of additional Equity Interests by any Subsidiary other than to any Xerox Company, in each case other than (a) a transaction or series of related transactions (including transactions involving sales (but not other Transfers) of Intellectual Property in the ordinary course of business) in which the Xerox Companies receive aggregate consideration of \$10,000,000 or less, (b) Transfers (other than sales) of Intellectual Property in the ordinary course of business or to settle pending or threatened litigation, (c) Transfers of inventory or used, obsolete, worn out or surplus equipment, in each case in the ordinary course of business, (d) abandonments or failures to maintain registrations or applications for Intellectual Property that any Xerox Company determines in good faith, in the exercise of its reasonable business judgment, to be unlikely to issue, not material to the business or not economically feasible to pursue or maintain, (e) Transfers to a Xerox Company; provided that any such Transfer involving a Subsidiary that is not a Credit Party shall comply with Section 6.09, (f) Transfers of Permitted Investments and any Transfer that constitutes an Investment permitted by Section

6.04 or a Restricted Payment permitted by Section 6.07, (g) the discounting or compromising by any Xerox Company for less than the face value thereof of notes or accounts receivable in order to resolve disputes that occur in the ordinary course of business and not in connection with a factoring or financing transaction, (h) the Transfer of Equity Interests of any Subsidiary in order to qualify members of the governing body of such Subsidiary if required by Applicable Law and (i) Liens permitted hereunder.

"Assignment" means an assignment and assumption agreement entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.05), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Automatic Turnaround Program Subsidiary" means any Subsidiary (other than a Third Party Vendor Financing Subsidiary) that (a) is acquired or created in connection with the Turnaround Program after the date hereof and is not a Wholly-Owned Subsidiary, or (b) ceases to be a Wholly-Owned Subsidiary after the date hereof in connection with the Turnaround Program, and in each case, the Equity Interests in such Subsidiary that are owned by any Credit Party are not prohibited from being pledged to the Collateral Agent as part of the Collateral by any agreement entered into with or for the benefit of any other Person owning or acquiring Equity Interests in such Subsidiary (it being understood that legally valid contractual restrictions imposed on the owner of Equity Interests in such Subsidiary in connection with the Turnaround Program that do not prohibit any Xerox Company's Equity Interests in such Subsidiary from being so pledged, but that otherwise restrict the Transfer by the Collateral Agent of, or other rights and remedies of the Collateral Agent with respect to, such Equity Interests, are permitted).

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Adjustment plus (b) the Assessment Rate.

"Base Rate", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Basket Lien Available Amount" means at any time an amount equal to (a) the maximum amount of "indebtedness" (as defined in the Reference Indenture, when used in this definition) that, in reliance solely upon the Reference Basket Lien Provision, could be outstanding and secured by a Lien or other arrangement on the properties and assets referred to therein without requiring such Lien or other arrangement to equally and ratably secure indebtedness outstanding under the Reference Indenture (such determination to be made

assuming that at least one dollar of indebtedness remains outstanding under the Reference Indenture, even if all such indebtedness actually has been repaid in full), less (b) the sum of (i) the principal amount of all outstanding indebtedness (other than the Loans, the LC Exposure, the XCFI Debentures and the ESOP Notes) that is secured by any Lien or other arrangement that is permitted solely in reliance on the Reference Basket Lien Provision (such determination to be made assuming that at least one dollar of indebtedness remains outstanding under the Reference Indenture, even if all such indebtedness actually has been repaid in full) and (ii) the amount of additional Debt that could be incurred at such time solely in reliance upon Section 6.02(i), provided that (A) subject only to clauses (B), (C) and (D) of this definition, if (1) on any day an Event of Default has occurred or (2) as of the last day of the first Fiscal Quarter ending on or after the Restatement Date (x) Consolidated Net Worth is less than \$4,100,000,000 and (y) the Reference Indenture Consolidated Net Worth of Xerox and its Subsidiaries is less than \$2,500,000,000, then unless both the Required Lenders and the Required B Lenders agree otherwise (as to any particular Event of Default, in the case of clause (A)(1)), the Basket Lien Available Amount shall be fixed at an amount never less than the amount in effect on such day (the "Floor Amount") and shall no longer be subject to decrease below the Floor Amount (but shall remain subject to increase and subsequent decrease down to the Floor Amount as provided herein), provided further that if the Basket Lien Available Amount has become fixed pursuant to clause (A)(2) of this definition and the Basket Lien Available Amount determined as of the last day of the immediately succeeding Fiscal Quarter (notwithstanding the fact that the Basket Lien Available Amount has previously become fixed) is greater than the Floor Amount, the greater Basket Lien Available Amount shall be the Floor Amount, (B) if the Basket Lien Available Amount has been fixed pursuant to clause (A) of this definition, the Floor Amount shall nonetheless be reduced by the principal amount of any prepayment of Tranche B Term Loans made by Xerox pursuant to Section 2.10(a)(iv), effective on the date of such prepayment, (C) if the Basket Lien Available Amount has been fixed pursuant to clause (A) of this definition and subsequently thereto any change in GAAP requires that any amount in respect of Trust Preferred Securities that, prior to such fixing, had been included in the calculation of the Reference Indenture Consolidated Net Worth of Xerox and its Subsidiaries may no longer be so included, then unless an Event of Default described in Section 7.01(a), 7.01(b), 7.01(h), 7.01(i) or 7.01(j) has occurred and is continuing, the Floor Amount at the time in effect shall automatically be reduced by an amount equal to 20% of the amount of the decrease in the Reference Indenture Consolidated Net Worth of Xerox and its Subsidiaries resulting from such change in GAAP, effective as of the first date that such change in GAAP must be reflected in such calculation, and (D) if at any time there is no Reference Indenture (or other indenture with a provision substantially identical to the Reference Basket Lien Provision) under which any indebtedness

is outstanding (other than the XCFI Debentures and the ESOP Notes), the Basket Lien Available Amount shall thereafter be an unlimited amount.

"Basket Lien Coverage Ratio" applicable for any date is the ratio, expressed as a percentage, of (i) the Basket Lien Principal Amount set forth in the most recently delivered Basket Lien Principal Amount Certificate to (ii) the principal amount of Tranche B Term Loans outstanding on the date as of which such determination of the Basket Lien Principal Amount was made, provided that at any time prior to when Xerox has first provided a Basket Lien Principal Amount Certificate (it being understood that, as contemplated by Section 5.01(g), the initial Basket Lien Principal Amount Certificate will not, and may not, be delivered until it can reflect the Restatement) or if Xerox shall fail to provide any Basket Lien Principal Amount Certificate in accordance with the provisions of Section 5.01(g), then the Basket Lien Coverage Ratio shall be deemed to be less than 50% until such time as such Basket Lien Principal Amount Certificate is provided, whereupon the Basket Lien Coverage Ratio shall be as therein presented.

"Basket Lien Principal Amount" means at any time the Basket Lien Available Amount multiplied by a fraction, the numerator of which is the sum of the LC Exposure and the outstanding principal amount of the Loans and the denominator of which is the sum of the LC Exposure and the outstanding principal amount of the Loans, the outstanding principal amount of the XCFI Debentures and the outstanding principal amount of the ESOP Notes.

"Basket Lien Principal Amount Certificate" has the meaning specified in Section 5.01(g).

"Board of Directors" means, with respect to any Person, the board of directors of such Person, including any committee thereof, and any reference in this Agreement to a "director" means, unless the context otherwise requires, a member of the relevant Board of Directors.

"Borrowers" means Xerox and the Overseas Borrowers.

"Borrowing" means Loans of the same Class and Interest Type made, converted or continued on the same day and, in the case of Eurodollar Loans, as to which the same Interest Period is in effect.

"Borrowing Request" means a request by a Borrower for a Borrowing in accordance with Section 2.03.

"Business Acquisition" means (a) an Investment by any Xerox Group Company in any other Person other than a Xerox Company (including an

Investment by way of acquisition of securities of any such Person) pursuant to which such Person shall become a Subsidiary or shall be merged into or consolidated with any Xerox Group Company or (b) an acquisition by any Xerox Group Company of the property and assets of any Person (other than any Xerox Company) that constitute substantially all the assets of such Person or any division or other business unit of such Person, in each case other than any such transaction or series of related transactions in which the Xerox Group Companies pay an aggregate consideration (not including any consideration that is Qualified Capital Stock) of \$15,000,000 or less.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City or Chicago, or, with respect to the obligations of any Canadian or European Borrower, Toronto, Ontario or London, respectively, are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Business Plan" means, initially, the financial plan dated January 16, 2002 previously provided to the Lenders by Xerox and, on and after the Covenant Re-set Date, the Revised Business Plan.

"CA Guarantees" means the Domestic Guarantee, the Canadian Guarantee and the UK Guarantee.

"Canadian Benefit Plans" means all material employee benefit plans of any nature or kind whatsoever that are not Canadian Pension Plans and are maintained or contributed to by any Credit Party having employees in Canada.

"Canadian Credit Parties" means XCD, each Canadian Guarantor and any Foreign Subsidiary that is organized under the laws of Canada or any province or territory thereof that becomes an Overseas Borrower or Foreign Guarantor after the Effective Date.

"Canadian Funding Failure" means any failure to contribute in accordance with Applicable Law pertaining to any Canadian Pension Plan or Canadian Benefit Plan.

"Canadian Guarantee" means "Guarantee" as defined in Section 1 of the Canadian Security Agreement.

"Canadian Guarantors" means each Subsidiary that is a party to the Canadian Security Agreement as of the date of delivery of such agreement pursuant to Section 5.13(a), and each other Wholly-Owned Material Foreign

Subsidiary that is organized under the laws of Canada or any province or territory thereof that is designated as a Guarantor pursuant to Section 5.11(b) or 5.13(a).

"Canadian Pension Plans" means each plan which is considered to be a pension plan for the purposes of any applicable pension benefits standards statute and/or regulation in Canada established, maintained or contributed to by any Credit Party for its employees or former employees.

"Canadian Secured Obligations" has the meaning specified in Section 1 of the Canadian Security Agreement.

"Canadian Security Agreement" means the Guarantee and Security Agreement among each of the Canadian Credit Parties and Bank One, NA, Canada Branch, as Collateral Agent, substantially in the form of Exhibit C-2.

"Canadian Security Documents" means the Canadian Security Agreement, the Hypothec and each other Security Document executed and delivered by a Canadian Credit Party.

"Capital Expenditures" means, for any period, (a) the additions to land, buildings and equipment of Xerox and its Subsidiaries that are (or would be) set forth as "additions to land, buildings and equipment" (or under any successor caption or line item) in a consolidated statement of cash flows of Xerox and its Subsidiaries for such period prepared in accordance with GAAP (other than such additions made with insurance or condemnation proceeds in respect of a Casualty Event) and (b) without duplication, any Capital Lease Obligations incurred by Xerox and its Subsidiaries during such period.

"Capital Lease Obligations" of any Person means obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required under GAAP to be classified and accounted for as capital leases on a balance sheet of such Person. The amount of such obligations will be the capitalized amount thereof determined in accordance with GAAP.

"Capital Markets Debt" means any Debt (a) that is a security (other than syndicated commercial loans) that is eligible for resale in the United States pursuant to Rule 144A under the Securities Act or outside the United States pursuant to Regulation S of the Securities Act or a security (other than syndicated commercial loans) that is sold or subject to resale pursuant to a registration statement under the Securities Act or (b) that is incurred pursuant to a syndicated line of credit or other similar commercial loan credit facility.

"Capital Markets Event" means the issuance of Covered Capital Markets Debt by Xerox, XCE or any Finance SPE.

"Capitalized Software Expense" means, for any period, any amounts spent for software development by Xerox and its Subsidiaries on a consolidated basis in such period that are capitalized.

"Carry Over Amount" means, with respect to any Fiscal Year, the amount (if any), up to a maximum of \$75,000,000, by which (x) the amount of Capital Expenditures permitted for the immediately preceding Fiscal Year (including any Carry Over Amount from any prior Fiscal Year) exceeded (y) the amount of Capital Expenditures actually made during such immediately preceding Fiscal Year.

"Cash Balance" means, at any time of determination with reference to any Foreign Subsidiary or XCC, the sum of the amount of all money, currency and cash equivalents held or carried in any deposit, custody or other account maintained by such Foreign Subsidiary or XCC.

"Cash Collateral Account" means, (a) with respect to each Domestic Credit Party, the Collateral Account as defined in the Domestic Security Agreement, (b) with respect to each Canadian Credit Party, the Collateral Account as defined in the Canadian Security Agreement and (c) with respect to XCE, the Collateral Account as defined in the UK Security Agreement.

"Casualty Event" means any casualty or other insured damage to any Collateral, or any taking of any Collateral under power of eminent domain or by condemnation or similar proceeding, or any transfer of any Collateral in lieu of a condemnation or similar taking thereof (other than any such event or related series of events in which the Credit Parties receive aggregate proceeds of \$10,000,000 or less), in each case during the term of this Agreement.

"Change in Control" means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the SEC thereunder as in effect on the date hereof), other than any Xerox Company or any Xerox Company's employee benefit plans, of Equity Interests representing more than 35% of either the aggregate ordinary voting power or the aggregate equity value represented by the issued and outstanding Equity Interests in Xerox; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of Xerox by Persons who were neither (i) on the board of directors on the Effective Date, (ii) nominated by the board of directors of Xerox nor (iii) appointed by directors so nominated; or (c) the occurrence of a "Change of Control" as defined in any Indenture.

"Change in Law" means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or LC Issuing Bank (or, for purposes of Section 2.14(b), by any lending office of such Lender or by such Lender's or LC Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

"Class" (a) when used with respect to Lenders, refers to whether such Lenders are Revolving Lenders, Tranche A Lenders, Tranche B Lenders or Tranche C Lenders and (b) when used with respect to Loans or a Borrowing, refers to whether such Loans, or the Loans comprising such Borrowing, are Revolving Loans, Tranche A Term Loans, Tranche B Term Loans or Tranche C Term Loans.

"Collateral" means any and all "Collateral", as defined in any Security Document.

"Collateral Agent" means Bank One, NA, in its capacity as Collateral Agent under the Security Documents.

"Consolidated EBITDA" means, for any period, determined on a consolidated basis without duplication, the sum of the amounts for such period of (a) Consolidated Net Income, (b) Consolidated Interest Expense, (c) income tax expense, (d) total depreciation expense, (e) total amortization expense, and (f) any losses or expenses from any unusual, extraordinary or otherwise non-recurring items, including but not limited to (i) aggregate foreign exchange losses included in "other expense", (ii) equity losses in affiliates, (iii) losses from minority interest, (iv) net restructuring charges (determined in accordance with GAAP), (v) losses attributable to asset sales or other transfers of assets and (vi) write-downs of assets; less (x) Consolidated Interest and Financing Income and (y) the sum of the amounts for such period of any income tax benefits and any income or gains from any unusual, extraordinary or otherwise non-recurring items (excluding interest income), including but not limited to (A) aggregate foreign exchange gains included in "other income", (B) equity income in affiliates, (C) income from minority interest, and (D) gains attributable to asset sales or other transfers of assets. All of the foregoing shall be determined on a consolidated basis for Xerox and its Subsidiaries in conformity with GAAP, and in the case of items (b) - (f) and items (x) and (y), to the extent such amounts were included in the calculation of Consolidated Net Income.

"Consolidated Interest and Financing Income" means, for any period, for Xerox and its Subsidiaries on a consolidated basis, interest, fees, commissions

and other income, arising from investments in cash and cash equivalents or finance receivables, included in Consolidated Net Income for such period, determined in conformity with GAAP.

"Consolidated Interest Expense" means, for any period and to the extent deducted in the calculation of Consolidated Net Income, total interest expense (including that portion attributable to capital leases in accordance with GAAP) of Xerox and its Subsidiaries for such period, determined on a consolidated basis in conformity with GAAP.

"Consolidated Net Income" means, for any period, the net income (or loss) of Xerox and its Subsidiaries on a consolidated basis for such period taken as a single accounting period determined in conformity with GAAP, provided that there shall be excluded (A) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary of Xerox or is merged into or consolidated with Xerox or any of its Subsidiaries or that Person's assets are acquired by Xerox or any of its Subsidiaries and (B) (to the extent not included in clause (A) above) any gains or losses arising from operations identified as discontinued in the consolidated financial statements of Xerox and its Subsidiaries for such period.

"Consolidated Net Worth" means at any date the sum of the amounts that would, in accordance with GAAP, be included on the consolidated balance sheet of Xerox and its Subsidiaries as of such date as (a) "common shareholders' equity", (b) "preferred stock" and (c) if not treated as indebtedness for purposes of GAAP, "company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company" (or, in each case, under any successor caption or line item), determined without giving effect to any changes therein on or after January 1, 2002 as a result of currency translation adjustment effects or the effects of compliance with FAS 133 and related GAAP pronouncements, provided that notwithstanding the treatment thereof under GAAP, Consolidated Net Worth shall always (A) include (without duplication) any amount shown on such balance sheet in respect of any Trust Preferred Securities or other Preferred Stock outstanding on the date hereof and (B) exclude (without duplication) any amount shown on such balance sheet in respect of any Disqualified Capital Stock issued after the date hereof.

"Control" means possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Convertible Subordinated Debentures" means the 3.625% Convertible Subordinated Debentures of Xerox due 2018.

"Covenant Re-set Date" means the date the re-setting of the financial covenants in Sections 6.13, 6.14 and 6.15 on account of the Restatement becomes effective.

"Covenant Re-set Schedule" has the meaning specified in Section 1.04(b)(ii)(B).

"Covered Capital Markets Debt" means any Capital Markets Debt that is only permitted to be incurred pursuant to Section 6.01(b).

"Credit Parties" means the Borrowers and the Guarantors.

"Debt" of any Person means, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (d) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (e) all Debt of others secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Debt secured thereby has been assumed, (f) all Guarantees by such Person of Debt of others, (g) all Capital Lease Obligations of such Person, (h) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty (other than letters of credit and letters of guaranty which support obligations other than obligations for borrowed money to the extent not drawn upon and, if drawn upon, to the extent not reimbursed within 5 business days following payment on such letter of credit or letter or guaranty), and (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Debt of any Person shall include the Debt of any other entity (including any partnership in which such Person is a general partner) to the extent that such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent that contractual provisions binding on the holder of such Debt provide that such Person is not liable therefor.

For purposes of determining compliance with this Agreement, the U.S. dollar-equivalent principal amount of Debt denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Debt was incurred, in the case of term Debt, or first committed, in the case of revolving credit Debt, and in the case of Debt existing on the Effective Date, the rate in effect on December 31, 2001. Notwithstanding any other provision of Section 6.01, the maximum amount of Debt that the Company or any Subsidiary may incur pursuant to Section 6.01 shall not be deemed to be

exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Permitted Refinancing Debt, if incurred in a different currency from the Debt being refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Permitted Refinancing Debt is denominated that is in effect on the date of such refinancing.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Disclosed Matters" means SEC Filings made prior to the date hereof.

"Disqualified Capital Stock" means that portion of any Equity Interest which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event (other than an event that would constitute an Asset Transfer or Change of Control), matures or is mandatorily redeemable (other than such Equity Interest that, at the election of Xerox (not subject to any condition), may be redeemed with Qualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof (except, in each case, upon the occurrence of an Asset Transfer or Change of Control) on or prior to October 31, 2005.

"dollars" or "\$" refers to lawful money of the United States.

"Domestic Collateral" means Collateral granted pursuant to a Domestic Security Document.

"Domestic Credit Parties" means Xerox and the Domestic Guarantors.

"Domestic Guarantee" means "Guarantee" defined in Section 1 of the Domestic Security Agreement.

"Domestic Guarantors" means each Subsidiary that is a party to the Domestic Security Agreement as of the Effective Date and each other Wholly-Owned Material Domestic Subsidiary that is designated as a Guarantor pursuant to Section 5.11(b).

"Domestic Secured Obligations" means "Secured Obligations" and the "Secured Guarantees" each as defined in Section 1 of the Domestic Security Agreement.

"Domestic Security Agreement" means the Guarantee and Security Agreement among the Domestic Credit Parties and the Collateral Agent, substantially in the form of Exhibit C-1.

"Domestic Security Documents" means the Domestic Security Agreement, the Mortgages and each other Security Document executed and delivered by a Domestic Credit Party pursuant to this Agreement.

"Domestic Subsidiary" means a Subsidiary that is not a Foreign Subsidiary.

"Domestic Subsidiary Update Certificate" has the meaning specified in Section 5.13(b).

"Effective Date" means the date on which each of the conditions specified in Section 4.01 is satisfied (or waived in accordance with Section 9.02).

"Effective Date Collateral and Guarantee Requirement" means the requirement that:

(a) the Administrative Agent shall have received from Xerox and each Domestic Subsidiary identified on Schedule 3.12 as an initial Domestic Guarantor a counterpart of the Domestic Security Agreement duly executed and delivered on behalf of such Credit Party;

(b) (i) all outstanding Equity Interests directly owned by or on behalf of any Domestic Credit Party (other than XCC) in each Domestic Subsidiary on Schedule 3.12 and (ii) all other Pledged Securities on Schedule 1 of the Domestic Security Agreement, in each case identified as required to be pledged on the Effective Date shall have been pledged pursuant to the Domestic Security Agreement, and the Administrative Agent shall have received all certificates or other instruments representing such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank;

(c) all documents and instruments, including Uniform Commercial Code financing statements, all other similar filings, registrations and notices, and documents related to Intellectual Property, in each case required by law or reasonably requested by the Administrative Agent to be filed, registered or recorded to create the Liens intended to be created by the Domestic Security Documents (other than any Mortgage) and to perfect or record such Liens (including in the United States Patent and Trademark Office and the United States Copyright Office) to the extent, and with the priority, required by the

Domestic Security Documents, shall have been filed, registered or recorded or delivered to the Administrative Agent for filing, registration or recording;

(d) each Domestic Credit Party shall have obtained all consents and approvals required to be obtained by it in connection with the execution and delivery of all Security Documents described in clause (a) and (b) of this definition to which it is a party, the performance of its obligations thereunder and the granting of the Liens granted by it thereunder; and

(e) each Domestic Credit Party shall have taken all other action required under this Agreement or under the Domestic Security Documents to be undertaken on or prior to the Effective Date to perfect, register and/or record the Liens granted by it thereunder.

"Effective Date Paydown" means the repayment on the Effective Date of \$2,800,000,000 principal amount of Revolving Loans under the Existing Credit Agreement, \$1,020,000,000 of which will be paid by XCC, \$1,380,000,000 of which will be paid by Xerox, \$200,000,000 of which will be paid by XCE and \$200,000,000 of which will be paid by XCD.

"Election to Participate" means an Election to Participate substantially in the form of Exhibit E hereto.

"Election to Terminate" means an Election to Terminate substantially in the form of Exhibit F hereto.

"Eligible Assignee" means (a) any Lender, any Affiliate of any Lender, and any Person (other than a natural Person) that is (or will be) engaged in providing commercial loans and similar extensions of credit in the ordinary course of its business that is administered or managed by a Lender, an Affiliate of a Lender or an entity or an Affiliate of an entity that administers or manages a Lender, and having total assets in excess of \$100,000,000; and (b)(i) a commercial bank organized under the laws of the United States or any state thereof, having total assets in excess of \$100,000,000, (ii) a savings and loan association or savings bank organized under the laws of the United States or any state thereof, that has a total net worth, determined in accordance with GAAP, in excess of \$100,000,000, (iii) a commercial bank organized under the laws of any other country or a political subdivision thereof, having total assets in excess of \$100,000,000, provided that (A) such bank is acting through a branch or agency located in the United States or (B) such bank is organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development or a political subdivision of such country, (iv) any Person (other

than a natural Person) that is an "accredited investor" (as defined in Regulation D under the Securities Act) that extends credit or buys loans (revolving loans, in the case of any assignment of any Revolving Commitment) as one of its businesses, including insurance companies, mutual funds and lease financing companies, in each case having total assets in excess of \$100,000,000 and (v) any other Person approved by Xerox, such approval not to be unreasonably withheld, provided that no Credit Party, no Affiliate of a Credit Party nor any Person one of whose principal lines of business competes with one of the principal lines of business of the Xerox Companies shall qualify as an Eligible Assignee, it being understood that for purposes of this definition, the financing business shall not be considered one of the principal lines of business of the Xerox Companies, and a Person one of whose principal lines of business is financing, even if such Person is in the business of financing copiers and other products of the same or similar kind that the Xerox Companies sell, shall not be deemed not to qualify as an Eligible Assignee because of such business.

"Eligible Jurisdiction" means any country in the European Union (as it exists on the date hereof) or Switzerland.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, the preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of remediation, fines, penalties or indemnities), of any Credit Party directly or indirectly resulting from or based on (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Material, (c) exposure to any Hazardous Material, (d) the release or threatened release of any Hazardous Material into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Interests" means (a) shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person or (b) any warrants, options or other rights to acquire such shares or interests.

"Equity Issuance" means any issuance of any Equity Interests by Xerox, other than any such issuance to directors, officers or employees pursuant to employee benefit plans in the ordinary course of business.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with Xerox or any Subsidiary, is treated as a single employer under Section 414(b) or (c) of the Internal Revenue Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Internal Revenue Code, is treated as a single employer under Section 414 of the Internal Revenue Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (except an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Internal Revenue Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Internal Revenue Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by Xerox or any ERISA Affiliate of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by Xerox or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by Xerox or any ERISA Affiliate of any liability with respect to withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by Xerox or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from Xerox or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"ESOP Guarantee Agreement" has the meaning specified in the Domestic Security Agreement.

"ESOP Note Documents" means the ESOP Guarantee Agreement and the Note Agreement dated as of October 1, 1993, among Xerox Corporation Employee Stock Ownership Plan Trust, Xerox Corporation and Connecticut General Life Insurance Company.

"ESOP Notes" means the 7.89% (7.82% since January 1, 1993) Guaranteed Series B ESOP Notes due October 1, 2002 and the Guaranteed ESOP Restructuring Notes due October 1, 2003, each issued by Xerox Corporation Employee Stock Ownership Plan Trust, a Massachusetts trust.

"ESOP Plan" means the Xerox Corporation Employee Stock Ownership Plan, 2000 Restatement dated March 17, 2000, as amended by Amendment Nos. 1-4, a Xerox-sponsored employee benefit plan, subject to ERISA.

"ESOP Preferred Shares" means the Series B Convertible Preferred shares issued pursuant to the Restated Certificate of Incorporation of Xerox dated October 17, 1996, as amended by a Certificate of Amendment dated May 21, 1999; each of which shares are convertible into six shares of Xerox common stock.

"Eurodollar", when used with respect to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Events of Default" has the meaning specified in Section 7.01.

"Excess Foreign Cash" has the meaning specified in Section 5.12(a).

"Excepted Qualified Receivables Transactions" means, at any time when the Tranche C Term Loans have been paid in full, (a) if all Tranche C Term Loans have been paid in full solely by the application of the proceeds of one or more Planned Qualified Receivables Transactions, all other Planned Qualified Receivables Transactions and (b) if all Tranche C Term Loans have been paid in full, in whole or in part, by application pursuant to Section 2.10(b), in whole or in part, of the Net Proceeds of any Casualty Event, Asset Transfer (other than a Planned Qualified Receivables Transaction), Equity Issuance or Capital Markets Event ("Alternate Net Proceeds"), all Planned Qualified Receivables Transactions consummated after such repayment in full of the Tranche C Loans, but only to the extent the Net Proceeds thereof exceed such amount of Tranche C Term Loans as have been paid out of such Alternate Net Proceeds.

"Excepted Transactions" means (a) any Excepted Qualified Receivables Transactions and (b) any incurrence of Debt by a Foreign Subsidiary from a Person other than a Xerox Company that is determined by Xerox or such Foreign Subsidiary in good faith to be necessary or desirable for local working capital and operational requirements of, or other uses in the ordinary course of business (including the repayment of Debt permitted by this Agreement or for other purposes permitted by this Agreement that are otherwise not inconsistent in any material respect with the Business Plan) by, the Foreign Subsidiaries, provided that the aggregate principal amount of Debt under this clause (b) shall not exceed \$425,000,000 at any time outstanding for all Foreign Subsidiaries.

"Excluded Taxes" means, with respect to any Lender Party or other recipient of a payment made by or on account of any obligation of any Borrower hereunder:

(a) income or franchise taxes imposed on (or measured by) such Lender Party's net income by the United States or by a Lender Party Jurisdiction;

(b) any branch profits taxes imposed by the United States or any similar tax or capital tax imposed by any other jurisdiction described in clause (a) above;

(c) in the case of a Foreign Lender, any withholding tax imposed on any such payment by the United States to the extent that it is determined on the basis of laws in effect and tax rates applicable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement or designates a new lending office (except to the extent of the rate of any such tax for which such Lender Party was indemnified under the Existing Credit Agreement);

(d) in the case of any such payment made to a Lender Party by reason of an assignment, any withholding tax imposed by Canada or the United Kingdom to the extent attributable to any excess as of the date of such assignment of (i) such tax determined on the basis of laws in effect and tax rates applicable to such Lender Party over (ii) such tax determined on the basis of laws in effect and tax rates applicable to the assignor (taking into account for purposes of this clause (ii) only taxes that were not Excluded Taxes with respect to such assignor);

(e) in the case of any such payment made to a Lender Party that was a party to the Existing Credit Agreement immediately prior to the Effective Date, any withholding tax imposed by the United States, Canada or the United Kingdom to the extent attributable to any excess of (i) such tax determined on the basis of laws in effect and tax rates applicable to such Lender Party as of the Effective Date over (ii) such tax determined on the basis of the rate thereof for which such Lender Party was indemnified under the Existing Credit Agreement; and

(f) any withholding tax to the extent attributable to a Lender's failure to comply with Section 2.16(e) or 2.16(g), as applicable.

Notwithstanding the foregoing, a withholding tax will not be an "Excluded Tax" to the extent that (x) it is imposed on any such payment made to a Lender Party that becomes a party to this Agreement by an assignment after the Effective Date,

and does not exceed the amount for which the assignor would have been indemnified pursuant to Section 2.16(a), or (y) in the case of designation of a new lending office, it does not exceed the amount for which such Lender Party would have been indemnified if it had not designated a new lending office. In the case of any payment made to the Administrative Agent for the account of any other Lender Party, no Tax shall be characterized as an Excluded Tax with respect to such other Lender Party by reason of applying the foregoing definition with reference to the Administrative Agent.

"Existing Borrowings" means the Borrowings that were made under the Existing Credit Agreement that remain outstanding after giving effect to the Effective Date Paydown.

"Existing Credit Agreement" has the meaning specified in the recitals in this Agreement.

"Extended Debt" means any Capital Markets Debt of any Xerox Company outstanding on the date hereof and maturing prior to October 31, 2005, but only to the extent repayment or other satisfaction of the principal amount thereof is effected by issuing to the holders thereof in exchange therefor Permitted Refinancing Debt or Permitted Refinancing Preferred Stock.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published on such Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Federal Reserve Board" means the Board of Governors of the Federal Reserve System of the United States.

"Finance SPE" means (a) any Receivables SPE and (b) any Subsidiary that (i) is a special purpose financing vehicle, (ii) was created solely for the purpose of facilitating the incurrence of Capital Markets Debt by any Xerox Company or any Equity Issuance by any Xerox Company (including the issuance of any Trust Preferred Securities), (iii) has no business other than the facilitation of such incurrence or issuance and activities incidental thereto and (iv) is capitalized with no more than an amount equal to the cash proceeds received by such Finance SPE from such transaction, provided that such transaction does not

constitute or create indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount.

"Financial Officer" means the chief financial officer, treasurer or any assistant treasurer of Xerox.

"Fiscal Quarter" means a fiscal quarter of Xerox.

"Fiscal Year" means a fiscal year of Xerox.

"Flextronics Transaction" means the Transfer of certain assets related to Xerox's manufacturing, assembly and distribution operations and all of the issued and outstanding capital stock or other ownership interests of Xerox Corporation (Penang) Sdn. Bhd. and Xerox Equipamentos e Servicos Ltda. pursuant to the Master Purchase Agreement, dated as of October 1, 2001, by and between Flextronics International Ltd. ("Flextronics") and Xerox and the related Ancillary Agreements (as defined in such Master Purchase Agreement), and the agreement between Flextronics and Xerox for Flextronics and its affiliates to supply Xerox and its affiliates with manufactured products pursuant to the terms and subject to the conditions set forth in the Master Supply Agreement, dated as of November 30, 2001, by and between Flextronics and Xerox, as amended as of January 31, 2002, and the related Specific Supply Agreements (as defined in the Master Supply Agreement).

"Foreign Collateral" means Collateral granted pursuant to a Foreign Security Document.

"Foreign Credit Parties" means each Overseas Borrower and each Foreign Guarantor.

"Foreign Guarantee Agreements" means the Canadian Security Agreement, the UK Guarantee Agreement and any other guarantee agreement executed and delivered by a Foreign Guarantor pursuant to Section 5.11 or 5.13.

"Foreign Guarantors" means each Canadian Guarantor, each UK Guarantor and each other Foreign Subsidiary that is designated as a Guarantor pursuant to Section 5.11(b) or 5.14(a).

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction outside the United States.

"Foreign Net Cash Proceeds" has the meaning specified in Section 5.12(a).

"Foreign Security Agreements" means the UK Security Agreement, the Canadian Security Agreement, the Hypothec and any other Security Agreement executed and delivered by a Foreign Credit Party pursuant to Section 5.11 or 5.13.

"Foreign Security Documents" means the Foreign Security Agreements, the Foreign Guarantee Agreements and any other Security Document that is not a Domestic Security Document.

"Foreign Subsidiary" means a Subsidiary (which may be a corporation, limited liability company, partnership or other legal entity) organized under the laws of a jurisdiction outside the United States.

"GAAP" means generally accepted accounting principles as in effect from time to time in the United States, applied on a basis consistent (except for changes concurred in by Xerox's independent public accountants) with the most recent audited consolidated financial statements of Xerox and its consolidated Subsidiaries delivered to the Lenders.

"Governmental Authority" means the government of the United States, any other nation or any political subdivision thereof, whether state, provincial or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Debt or other monetary obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation or to purchase (or advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Debt or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Debt or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Debt or other obligation; provided that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

The amount of any Guarantee shall be equal to the amount of the primary obligation so guaranteed or otherwise supported, if any, or, if less, the amount to which such Guarantee is specifically limited, unless such primary obligation and

the amount for which such guaranteeing Person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such guaranteeing Person's maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith.

"Guarantors" means Xerox, each Domestic Guarantor and each Foreign Guarantor.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest rate, currency exchange rate or commodity price hedging arrangement.

"High Yield Indenture" means that certain Indenture dated as of January 17, 2002 among Xerox and Wells Fargo Bank Minnesota, National Association, as Trustee, with respect to the 9 3/4% Senior Notes due 2009 (denominated in U.S. dollars).

"Hypothec" has the meaning specified in the Canadian Security Agreement.

"Immaterial Subsidiary Certificate" means a certificate of a Financial Officer certifying that one or more Foreign Subsidiaries or Domestic Subsidiaries do not qualify as Material Foreign Subsidiaries (it being understood that a particular Foreign Subsidiary may be a Material Foreign Subsidiary for purposes of clause (a) of the definition of "Material Foreign Subsidiary" while not qualifying as a Material Foreign Subsidiary for purposes of clause (b) of such definition) or Material Domestic Subsidiaries, as the case may be, determined at such time in accordance with the definitions of such terms.

"Included Asset Transfer" means (a) any Asset Transfer by Xerox or any Wholly-Owned Domestic Subsidiary (other than Equity Issuances made by Turnaround Program Subsidiaries or Third Party Vendor Financing Subsidiaries) and, to the extent a Domestic Subsidiary that is not a Wholly-Owned Domestic Subsidiary pays a dividend or makes a distribution to Xerox or any Wholly-Owned Domestic Subsidiary, on account of such Subsidiary having received the proceeds of any Asset Transfer, the receipt by Xerox or such Wholly-Owned Domestic Subsidiary of such dividend or distribution, and (b) any Asset Transfer

by any Wholly-Owned Foreign Subsidiary and, to the extent a Foreign Subsidiary that is not a Wholly-Owned Foreign Subsidiary pays a dividend or makes a distribution to any Wholly-Owned Foreign Subsidiary in respect of any Asset Transfer, the receipt of such dividend or distribution by such Wholly-Owned Foreign Subsidiary, to the extent the proceeds of such Asset Transfer are required to be transferred to Xerox pursuant to Section 5.12, or all or any portion of such proceeds that are in fact transferred to Xerox or a Domestic Subsidiary, except, in each case, the Excepted Qualified Receivables Transactions and the Flextronics Transaction.

"Indemnified Taxes" means all Taxes except Excluded Taxes.

"Indenture" means any indenture, credit agreement or similar agreement governing Capital Markets Debt of any Xerox Company.

"Initial Mortgaged Properties" means the parcels of real estate, and the improvements located thereon, described in Schedule 5.13.

"Initial Paydown" means, together, the Effective Date Paydown and the Tranche C Paydown.

"Intellectual Property" has the meaning specified in the Domestic Security Agreement.

"Interest Election" means an election by a Borrower to change or continue the Interest Type of a Borrowing in accordance with Section 2.06.

"Interest Payment Date" means (a) with respect to any Base Rate Loan, the last day of each March, June, September and December and (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, if such Interest Period is longer than three months, each day during such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period

"Interest Period" means, with respect to any Eurodollar Borrowing (and subject to Section 2.06(a) in the case of the Existing Borrowings), the period beginning on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the relevant Borrower may elect; provided that (a) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day; (b) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which

there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period; and (c) any Interest Period that would end after the Termination Date (or, in the case of the Tranche C Term Loans, after the Tranche C Maturity Date) shall end on the Termination Date (or, in the case of the Tranche C Term Loans, on the Tranche C Maturity Date). For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made (or, in the case of the Existing Borrowings, the Effective Date) and thereafter shall be deemed to be the effective date of the most recent conversion or continuation of such Borrowing.

"Interest Type", when used with respect to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Investment" means any investment in any Person, whether by means of share purchase, capital contribution, loan, Guarantee, time deposit, merger or otherwise. The amount of any Investment shall be the original principal or capital amount thereof less all returns of principal or equity thereon (and without adjustment by reason of the financial condition of such other Person) and shall, if made by the transfer or exchange of property other than cash, be deemed to have been made in an original principal or capital amount equal to the fair market value of such property at the time of such transfer or exchange as determined in good faith by the Person making such Investment. Investments shall not include intercompany mergers permitted by Section 6.03(a) or extensions of trade credit made by any Xerox Company to any Person that is not an Affiliate of Xerox in the ordinary course of business consistent in all material respects with past practice.

"IP Company" means any Person, whether now existing or hereafter formed, in which any Xerox Company owns or acquires any Equity Interests, which Person (a) has as its primary business one or more of the following: (i) research and development, (ii) the generation or management of Intellectual Property or (iii) the commercialization or maximization of the value of Intellectual Property developed by or Transferred to such Person or one or more Xerox Companies, and activities incidental thereto, and (b) has no other significant business, provided that each of the following Persons and its subsidiaries shall be deemed to be an IP Company: (i) PARC, (ii) XESystems, Inc., (iii) Integic Corporation, (iv) ScanSoft, Inc., (v) Telesensory Corporation, (vi) Placeware, Inc., (vii) Document Sciences Corporation, (viii) dpiX, LLC, (ix)

ContentGuard Holdings, Inc., (x) InXight Software, Inc. and (xi) Gyricon Media Inc.

"LC Disbursement" means a payment made by an LC Issuing Bank in respect of a drawing under a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Letters of Credit outstanding at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by the Borrowers at such time. The LC Exposure of any Revolving Lender at any time will be its Revolving Percentage of the total LC Exposure at such time.

"LC Issuing Banks" means Bank One, NA, in its capacity as the issuer of Letters of Credit hereunder, and each Lender that, at the request of Xerox and with the consent of the Administrative Agent (such consent not to be unreasonably withheld, it being understood that in any particular instance the Administrative Agent may take into account the absolute number of LC Issuing Banks), agrees to become an LC Issuing Bank after the Effective Date, and their respective successors in such capacity as provided in Section 2.04(i). An LC Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by its Affiliates, in which case the term "LC Issuing Banks" shall include each such Affiliate with respect to Letters of Credit issued by it.

"LC Reimbursement Obligations" means, at any time, all obligations of the Borrowers to reimburse the LC Issuing Banks for amounts paid by them in respect of drawings under Letters of Credit, including any portion of such obligations to which Lenders have become subrogated by making payments to the LC Issuing Banks pursuant to Section 2.04(e).

"Lender Affiliate" means, (a) with respect to any Lender, (i) an Affiliate of such Lender or (ii) any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"Lender Parties" means the Lenders, the LC Issuing Banks and the Administrative Agent.

"Lender Party Jurisdiction" means, with respect to any Lender Party:

(a) the jurisdiction under the laws of which such Lender Party is organized or in which its principal office is located,

(b) in the case of any Lender, the jurisdiction in which its applicable lending office is located, and

(c) in the case of any Lender, any jurisdiction in which it is treated as resident for purposes of income or franchise taxes imposed on (or measured by) net income (or is otherwise subject to such taxes) by reason of its business activities and operations that are unrelated to this Agreement, the Existing Credit Agreement and the loans hereunder and thereunder.

"Lender Share" means, with respect to any Lender, the aggregate outstanding amount of such Lender's Tranche A Term Loan, Tranche B Term Loan, Tranche C Term Loan and Revolving Commitments (or, if the Revolving Commitments shall have been terminated, the aggregate outstanding amount of such Lender's Revolving Loans and LC Exposure).

"Lenders" means the Persons listed in Appendix I and any other Person that shall have become a party hereto pursuant to an Assignment, other than any such Person that ceases to be a party hereto pursuant to an Assignment.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement.

"Leverage Ratio" means, as of the last day of any Fiscal Quarter, the ratio of (a) Total Debt as of such day minus (i) 85% of the amount of net finance receivables that are, in accordance with GAAP, included on the consolidated balance sheet of Xerox and its Subsidiaries as of such day and (ii) the amount of cash and cash equivalents as reflected on the consolidated balance sheet of Xerox and its Subsidiaries as of such day (it being understood that such amounts would not include any cash or cash equivalents that are subject to any Lien) in excess of \$1,300,000,000 to (b) Consolidated EBITDA for the period of four consecutive Fiscal Quarters ended on such day; provided that for purposes of calculating the Leverage Ratio, (x) if any Xerox Company has consummated any Business Acquisition after the Effective Date during the relevant period for determining Consolidated EBITDA, Consolidated EBITDA for the relevant period shall be calculated after giving pro forma effect thereto, as if any such Business Acquisition (and any related incurrence, repayment or assumption of Debt, with any new Debt being deemed to be amortized over the relevant period in accordance with its terms) had occurred on the first day of the relevant period for determining Consolidated EBITDA and (y) if any Xerox Company has consummated any Asset Transfer (other than Transfers to a Xerox Company or

Transfers that are part of the Third Party Vendor Financing Program) after the Effective Date pursuant to which assets that generated Consolidated EBITDA of \$50,000,000 or more during the period of four Fiscal Quarters most recently ended before such Asset Transfer, Consolidated EBITDA for the relevant period shall be calculated after giving pro forma effect thereto, as if any such Transfer (and any related incurrence, repayment or assumption of Debt, with any new Debt being deemed to be amortized over the relevant period in accordance with its terms) had occurred on the first day of the relevant period for determining Consolidated EBITDA, provided that pro forma calculations shall not be required pursuant to clause (y) if Xerox determines in good faith that the relevant information is not ascertainable without unreasonable effort or expense.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period (and subject to the last sentence of this definition in the case of the Existing Borrowings), the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days before the beginning of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. If such rate is not available at such time for any reason, then the "LIBO Rate" with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days before the beginning of such Interest Period. The LIBO Rate for the initial Interest Period applicable to each Existing Borrowing (all of which are Eurodollar Borrowings) shall be the rate set forth in Appendix II as applicable to such Existing Borrowing.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset or any agreement to provide any of the foregoing, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities which, if exercised, would not constitute a Transfer permitted by this Agreement, it being understood that a license or assignment of Intellectual Property, a lease or sublease of assets to another Person or the filing

of a precautionary financing statement (or similar filing) in connection with an operating lease or consignment does not constitute a "Lien".

"Loan Documents" means this Agreement and the Security Documents.

"Loans" means loans made by the Lenders to the Borrowers pursuant to this Agreement.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations or condition, financial or otherwise, of the Xerox Companies taken as a whole, (b) the ability of the Credit Parties to perform their monetary obligations under any Loan Document or (c) the rights of and benefits available to any Lender Party under any Loan Document; provided that (i) downgrades after the Effective Date of two levels of Xerox's senior unsecured debt ratings from S&P and Moody's shall not, in and of themselves, constitute a Material Adverse Effect, although the consequence of such actions, taken together with other changes, may constitute a Material Adverse Effect and (ii) the occurrence of any Restatement Event shall not constitute a Material Adverse Effect.

"Material Canadian Subsidiary" means a Material Foreign Subsidiary that is organized under the laws of Canada or any province or territory thereof.

"Material Debt" means Debt (other than obligations in respect of the Loans and Letters of Credit) of any one or more Xerox Companies in an aggregate principal amount exceeding \$25,000,000.

"Material Document" means any Indenture or certificate of designations or other document governing rights or obligations with respect to any Trust Preferred Securities or any other Preferred Stock.

"Material Domestic Subsidiary" means, (a) at any time prior to the date that Xerox delivers the Domestic Subsidiary Update Certificate, any Restricted Domestic Subsidiary, and (b) at any time thereafter, any Domestic Subsidiary that as of the end of the most recently completed Fiscal Year had total assets exceeding \$25,000,000 or for such Fiscal Year had total revenues exceeding \$25,000,000, with any change in a Person's status as a Material Domestic Subsidiary becoming effective as of the date of delivery of the financial statements for such Fiscal Year pursuant to Section 1.04 or 5.01; provided that any such Person will cease to be a Material Domestic Subsidiary only if its total assets or total revenues do not meet or exceed the required threshold for two consecutive Fiscal Years.

"Material Foreign Subsidiary" means, on any date prior to the date that is 90 days after the Restatement Date, any Restricted Foreign Subsidiary, and on any date thereafter, (a) for all purposes except Sections 7.01(h) - (j), any Foreign Subsidiary that as of the end of the most recently completed Fiscal Year had total assets exceeding \$50,000,000 or for such Fiscal Year had total revenues exceeding \$50,000,000, with any change in a Person's status as a Material Foreign Subsidiary becoming effective as of the date of delivery of the financial statements for such Fiscal Year pursuant to Section 1.04 or 5.01, provided that any such Person will cease to be a Material Foreign Subsidiary only if its total assets or total revenues do not meet or exceed the required threshold for two consecutive Fiscal Years and (b) for purposes of Sections 7.01(h) - (j), any Foreign Subsidiary that either (i) as of the end of the most recently completed Fiscal Year had Consolidated Net Worth (determined applying such definition mutatis mutandis to just such Foreign Subsidiary and its subsidiaries) exceeding \$25,000,000 or (ii) as of the end of the most recently completed Fiscal Year had total assets exceeding \$100,000,000 or for such Fiscal Year had total revenues exceeding \$100,000,000, provided that each Foreign Subsidiary shall be deemed to be a Material Foreign Subsidiary at all times and for purposes of both clauses (a) and (b) of this definition unless and to the extent that Xerox has delivered an Immaterial Subsidiary Certificate with respect to such Foreign Subsidiary for purposes of such clause.

"Material Subsidiaries" means the Material Domestic Subsidiaries and the Material Foreign Subsidiaries.

"Moody's" means Moody's Investors Service, Inc.

"Mortgage" means a mortgage, deed of trust, assignment of leases and rents or other security document granting a Lien on any Mortgaged Property to secure any of the Domestic Secured Obligations. Each Mortgage must be substantially in the form of Exhibit D (appropriately modified in the case of a Deed of Trust) or otherwise reasonably satisfactory in form and substance to the Administrative Agent.

"Mortgaged Property" means each parcel of real property and improvements thereto owned by a Domestic Credit Party that is either (a) an Initial Mortgaged Property or (b) subject to a Transaction Lien granted after the Effective Date pursuant to Section 5.13(a) or 5.14(c).

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Proceeds" means, with respect to any event, (a) the cash proceeds received in respect of such event including (i) any cash received in respect of any

non-cash proceeds, but only as and when received and (ii) in the case of a Casualty Event, insurance proceeds or condemnation awards and similar payments, in each case net of (b) the sum of (i) all reasonable fees and other out-of-pocket expenses paid or payable by the Xerox Companies to third parties (other than Affiliates) in connection with such event (including, with respect to a Casualty Event, incurred in connection with the adjustment or settlement of any claims in respect thereof), (ii) in the case of any Transfer of an asset, any costs incurred by the Xerox Companies within the year preceding the consummation of such Transfer expressly in anticipation of such Transfer (but not including ordinary course of business expenses such as maintenance and routine repairs), (iii) in the case of Transfer of an asset (including pursuant to a Sale and Leaseback Transaction, a casualty or a condemnation or similar proceeding), the amount of all payments required to be made by the Xerox Companies as a result of such event to repay Debt (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event (not including any such repayment that can be avoided by repaying Loans or acquiring replacement assets), (iv) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, foreign and local taxes required to be paid or accrued as a liability under GAAP (and, in the case of any Transfer of assets, issuance of Covered Capital Markets Debt or Equity Issuance by any Foreign Subsidiary, the amount of any Tax paid or accrued by any Xerox Company in connection with or as a result of the proceeds of such event being transferred to Xerox to satisfy the mandatory prepayment provisions of this Agreement), and the amount of any reserves established by the Xerox Companies to fund contingent liabilities reasonably estimated to be payable, in each case during the term of this Agreement, that are directly attributable to such event (as determined reasonably and in good faith by a Financial Officer of Xerox) and (v) any portion of such proceeds that are required to be held in escrow or as collateral for any obligations of any Xerox Company in respect thereof or thereunder (and, in the case of a Qualified Receivables Transaction, the Receivables subject thereto or the servicing obligations of any Xerox Company relating to such Receivables), provided that (x) in the case of any issuance of Permitted Refinancing Debt or Permitted Refinancing Preferred Stock, the Net Proceeds determined in connection therewith shall instead be deemed to be the portion of the principal amount of the related Refunded Debt or Extended Debt, as the case may be that was scheduled to be repaid (whether at maturity or otherwise) before April 30, 2005 (less, without duplication, any make-whole or other premiums and any items of a type described in clauses (i), (iv) or (v) above in connection with the issuance of such Permitted Refinancing Debt or Permitted Refinancing Preferred Stock or the repayment or satisfaction of such Refunded Debt or Extended Debt), which Net Proceeds shall further be deemed to have been received by Xerox on the date of the applicable scheduled repayment of such Refunded Debt or Extended Debt, (y) in the case of any issuance of Capital Markets Debt or Equity Issuance of Preferred Stock in connection with which

cash and cash equivalents are made subject to Qualified Capital Markets Liens, the Net Proceeds determined in connection therewith shall initially be reduced by the amount of such cash and cash equivalents, but on any date, if ever, that any such cash and cash equivalents are released from such Qualified Capital Markets Liens, they shall be deemed to be Net Proceeds of a Capital Markets Event or Equity Issuance, as applicable, received on the date of release and (z) in the event that Xerox satisfies its obligation to repurchase the Convertible Subordinated Debentures on April 21, 2003 with Equity Interests of Xerox instead of purchasing such debentures for cash, an amount equal to the cash purchase price that would have been required to be paid to the holders of such debentures to satisfy such obligation (net of costs of a type described in clauses (b)(i) or (b)(iv) above in connection therewith) shall be deemed to be Net Proceeds of an Equity Issuance, which Net Proceeds shall further be deemed to have been received by Xerox on the date of the applicable scheduled repayment of such obligation.

"Notes" has the meaning specified in Section 2.08(f).

"Objection Notice" has the meaning specified in Section 1.04.

"Operating Agreement" means the Amended and Restated Operating Agreement dated as of November 1, 1980, between Xerox and XCC, as amended, supplemented or otherwise modified prior to the date hereof.

"Ordinary Course Needs" means as of any date of determination with reference to any Foreign Subsidiary, the cash working capital and other needs of such Foreign Subsidiary and its subsidiaries in the ordinary course of business (net of other sources of funds available or expected to be available to it from any source other than a Xerox Company), determined in good faith by a Financial Officer consistent in all material respects with past practice (subject to appropriate adjustment to the extent past practice has been modified to reflect changes in the nature of the business and operations of the Foreign Subsidiaries contemplated by the Business Plan), including reasonably anticipated needs for repaying Debt and other obligations and making investments in its business not inconsistent in any material respect with the Business Plan, provided that in determining the Ordinary Course Needs of any Foreign Subsidiary, Xerox may take into account its ordinary course of business cash management practices whereby amounts that would otherwise constitute Cash Balances of one or more Foreign Subsidiaries are managed by being concentrated in a single Foreign Subsidiary.

"Other Taxes" means any and all present or future recording, stamp, documentary, excise, transfer, sales or property taxes, charges or levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, any Loan Document and any similar taxes.

"Overseas Borrowers" means (a) XCE, (b) XCD and (c) any other Qualified Foreign Subsidiary as to which an Election to Participate shall have been delivered to the Administrative Agent in accordance with Section 2.19; provided that the status of any of the foregoing as an Overseas Borrower shall terminate if and when an Election to Terminate is delivered to the Administrative Agent in accordance with Section 2.19.

"PARC" means Palo Alto Research Center, Incorporated, a Delaware corporation and, as of the Effective Date, a Wholly-Owned Subsidiary of Xerox.

"Participants" has the meaning specified in Section 9.05(e).

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Perfection Certificate" means a certificate in the form of Exhibit A to the Domestic Security Agreement and in respect of any Foreign Credit Party, a certificate in the form provided in the Foreign Security Agreement to which such Foreign Credit Party is a party or any other form approved by the Administrative Agent.

"Permitted Investments" means investments in:

(a) marketable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States or the government of any Eligible Jurisdiction (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the such government), in each case maturing within one year from the date of acquisition thereof;

(b) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the two highest ratings obtainable from either S&P or Moody's;

(c) commercial paper maturing within one year from the date of acquisition thereof and having, at such date of acquisition, at least the second highest credit rating obtainable from S&P or from Moody's;

(d) certificates of deposit, banker's acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any bank organized under the laws of the

United States or any State thereof or the District of Columbia or any Eligible Jurisdiction or any U.S. branch of a foreign bank which has at the date of acquisition thereof a combined capital and surplus of at least \$100,000,000;

(e) repurchase agreements with a term of not more than 7 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (d) above;

(f) Investments in money market funds that invest substantially all their assets in securities of the types described in clauses (a) - (e) above; and

(g) Investments in cash in euros or dollars or, to the extent determined by Xerox or a Foreign Subsidiary in good faith to be necessary for local working capital requirements and operations requirements of such Foreign Subsidiary, other cash and cash equivalents denominated in the currency of the jurisdiction of organization or place of business of such Foreign Subsidiary which are, in the case of cash equivalents, otherwise substantially similar to the items specified in clauses (a) - (f), above;

provided that in the case of Ridge Re, "Permitted Investments" shall also include an investment that may legally be made by a Bermuda insurance company.

"Permitted Joint Ventures" means (a) Fuji Xerox Co., Limited and (b) any joint venture, partnership or other arrangement in connection with the Third Party Vendor Financing Program or any Qualified Receivables Transaction.

"Permitted Liens" means:

(a) Liens imposed by law for Taxes that are not yet required to be paid pursuant to Section 5.05(a);

(b) carriers', warehousemen's, landlord's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business or similar deposits or pledges in the ordinary course of business, including those made to obtain the release of such Lien;

(c) pledges and deposits made and other Liens arising in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations or

to secure payments of workers' compensation or unemployment insurance;

(d) Liens (except for Liens on the Collateral) or deposits to secure the performance of bids, trade contracts, leases, statutory obligations, performance bonds and other obligations of a like nature, in each case in the ordinary course of business, or to secure surety and appeal bonds and other obligations of a like nature;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under Section 7.01(k);

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligation and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of Xerox or any Subsidiary;

(g) with respect to each Mortgaged Property, Permitted Encumbrances (as defined in the applicable Mortgage); and

(h) security given in the ordinary course of business consistent with past practice to any public utility or Governmental Authority in connection with the operation of the business, other than security for borrowed money;

provided that the term "Permitted Liens" shall not include any Lien that secures Debt.

"Permitted Refinancing Debt" means (a) any Capital Markets Debt issued by Xerox, XCE or any Finance SPE, the proceeds of which a Financial Officer certifies are intended to be, and actually are, applied within 180 days of the date such Capital Markets Debt is issued to make scheduled repayments (including at maturity), together with accrued interest, fees, premiums and other amounts outstanding in respect thereof, of Capital Markets Debt of any Xerox Company outstanding on the date hereof, which scheduled repayment is due prior to October 31, 2005, (b) any Capital Markets Debt issued by Xerox, XCE or any Finance SPE to effect the repayment or other satisfaction of any Extended Debt or (c) any XCC Exchange Debt, all of which Capital Markets Debt (i) matures no earlier than, and has no mandatory amortization (other than mandatory repayment on terms no more onerous for Xerox than set forth herein upon the occurrence of an event that would constitute an Asset Transfer or Change of Control) before October 31, 2005, and (ii) contains financial and negative covenants and events of

default that, taken as a whole, are not materially more onerous for Xerox than those set forth herein.

"Permitted Refinancing Preferred Stock" means any Preferred Stock issued by Xerox or a Finance SPE that is not Disqualified Capital Stock and that contains financial and negative covenants that, taken as a whole, are not materially more onerous for Xerox than those set forth herein, the proceeds of which a Financial Officer certifies are intended to be, and actually are, applied within 180 days of the date such Preferred Stock is issued to make, or that is used to effect the repayment or other satisfaction of, scheduled repayments (including at maturity), together with accrued interest, fees, premiums and other amounts outstanding in respect thereof, of Capital Markets Debt of any Xerox Company outstanding on the date hereof, which scheduled repayment is due prior to October 31, 2005.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (except a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Internal Revenue Code or Section 302 of ERISA, and in respect of which Xerox or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) a "contributing sponsor" as defined in Section 4001(a)(13) of ERISA.

"Planned Qualified Receivables Transactions" means (a) Qualified Receivables Transactions (other than Qualified Receivables Transactions described in clause (b) of this definition) that, when consummated, result in Xerox, directly or indirectly through a Subsidiary, having received aggregate Net Proceeds from all Qualified Receivables Transactions occurring after January 1, 2002 of \$2,214,000,000, it being understood that Net Proceeds of such Qualified Receivables Transactions in excess of such amount are to be taken into account for purposes of determining mandatory prepayments (and Revolving Commitment reductions) pursuant to Section 2.10, and (b) any Qualified Receivables Transaction that is consummated as part of the Third Party Vendor Financing Program or, if the effectiveness of the Third Party Vendor Financing Program in any jurisdiction is delayed beyond the projected date used in preparation of the Business Plan or is determined to be impracticable to accomplish, any Qualified Receivables Transaction that is consummated in lieu of or in anticipation of the Third Party Vendor Financing Program in such jurisdiction. Whether a Qualified Receivables Transaction is part of, or in lieu of or in anticipation of, the Third Party Vendor Financing Program shall be as determined in good faith by a Financial Officer, having reference to the Business

Plan and the categories and estimated percentages of receivables that were projected to be Transferred pursuant to the Third Party Vendor Financing Program.

"Pledged Securities" has the meaning specified in the Domestic Security Agreement.

"Post-Closing Collateral and Guarantee Requirement" means the requirement that:

(a) Xerox and each other relevant Domestic Subsidiary shall (i) deliver, with respect to each of the Mortgaged Properties other than the Tulsa, Oklahoma Mortgaged Property, (A) a Mortgage, duly executed and delivered by the record owner of such Mortgaged Property, (B) a policy or policies of title insurance issued by a nationally recognized title insurance company insuring the Lien of each such Mortgage as a valid first Lien on the Mortgaged Property described therein, free of any other Liens except Permitted Liens, Liens permitted by Section and other liens and matters otherwise reasonably acceptable to the Agents, in amounts set forth on Schedule 5.13 or as determined by appraisal pursuant to Section 5.13 (as applicable), together with such endorsements as are specified on Schedule 5.13 and such coinsurance as is reasonably requested by the Agents, (C) a survey (which may be an existing survey) in a form reasonably acceptable to the Agents and (D) a favorable written opinion of local counsel for the Credit Parties in each jurisdiction where a Mortgaged Property is located, in form and substance reasonably satisfactory to the Agents; and (ii) make arrangements reasonably satisfactory to the Agents for the payment of mortgage recording and other similar taxes and charges and title insurance premiums in respect of the policies of title insurance described above and, if Xerox has not consummated a Sale and Leaseback on the Tulsa, Oklahoma Mortgaged Property by the date which is 270 days after the Effective Date, Xerox shall satisfy the foregoing requirements with respect to such property within 30 days of such date (unless a Sale and Leaseback is consummated prior to such date); provided that the Agents may agree in their discretion, with respect to any asset constituting Collateral pledged pursuant to any Mortgage, that compliance with any or all of the requirements set forth in this clause (a) with respect thereto is impossible, impractical or unreasonably burdensome or expensive (or has been substantially, but not fully, completed) and the Agents may, in their respective good faith discretion, consent to a waiver of any or all of such conditions with respect to such asset. In acting pursuant to this clause (a), each Agent shall be entitled to the benefits of Article 8 of this Agreement, and, without limiting the generality of the foregoing, the Lenders hereby authorize the Agents, in

their sole discretion and from time to time, to grant such waivers and hereby confirm and agree, without limiting the generality of Article 8 of this Agreement, that in the absence of gross negligence or willful misconduct, no Agent shall be liable to any Lender on account of granting any such waiver and any consequences thereof;

(b) Xerox shall cause (i) XCD and each Canadian Subsidiary identified on Schedule 3.12 as an initial Canadian Guarantor to deliver duly executed counterparts of the Canadian Security Agreement, and, if applicable, the Hypothec, (ii) each UK Guarantor to deliver duly executed copies of the UK Guarantee Agreement, (iii) XCE to deliver duly executed copies of the UK Security Agreement, (iv) the delivery of favorable written opinions of (A) Fasken Martineau DuMoulin LLP, Canadian counsel for the Credit Parties, in form and substance reasonably satisfactory to the Agents, (B) Lovells, United Kingdom counsel for the Credit Parties, in form and substance reasonably satisfactory to the Agents, (C) the General Counsel of XCI, XCL and XCFI, in form and substance reasonably satisfactory to the Agents, (D) the General Counsel of Xerox UK Holdings Limited, in form and substance reasonably satisfactory to the Agents, (E) the Counsel of XCD, in form and substance reasonably satisfactory to the Agents and (F) local counsel in each province and territory of Canada reasonably requested by the Administrative Agent with respect to the Canadian security interests required to be effective at such date pursuant to the Canadian Security Documents stating that (w) the Canadian Security Agreement or Hypothec, as the case may be, creates a valid security interest or hypothec, respectively, (x) all filings and registrations required to perfect the security interests or hypothecs, as applicable, in such province or territory are complete, (y) the choice of law provision in the Canadian Security Agreement or Hypothec, as the case may be, is valid and enforceable according to its terms and (z) a court in such province or territory will enforce a foreign judgment in connection with a breach or default under the Canadian Security Agreement or Hypothec, as the case may be, in each case in form and substance satisfactory to the Collateral Agent and (v) the delivery of each other document or instrument reasonably required by the Administrative Agent in order for such Canadian or UK Credit Party to fulfill the Post-Closing Collateral and Guarantee Requirement; provided that the Agents may agree in their discretion, with respect to any asset constituting Collateral pledged pursuant to any Canadian Security Document or UK Security Document, that compliance with any or all of the requirements set forth in this clause (b) with respect thereto is impossible, impractical or unreasonably burdensome or expensive (or has been substantially, but not fully, completed) and the Agents may, in their respective good faith discretion, consent to a waiver of any or all of such

conditions with respect to such asset. In acting pursuant to this clause (b), each Agent shall be entitled to the benefits of Article 8 of this Agreement, and, without limiting the generality of the foregoing, the Lenders hereby authorize the Agents, in their sole discretion and from time to time, to grant such waivers and hereby confirm and agree, without limiting the generality of Article of this Agreement, that in the absence of gross negligence or willful misconduct, no Agent shall be liable to any Lender on account of granting any such waiver and any consequences thereof;

(c) (i) all outstanding Equity Interests directly owned by or on behalf of any Domestic Credit Party (other than XCC), Canadian Credit Party or XCE in each Foreign Subsidiary on Schedule 3.12 and (ii) all other Pledged Securities on Schedule 1 of the Domestic Security Agreement, in each case identified as required to be pledged as part of the Post-Closing Collateral and Guarantee Requirement, shall have been pledged pursuant to the relevant Security Document (except that (i) no more than 65% of the outstanding voting Equity Interests in any Foreign Subsidiary that is a corporation for United States Federal income tax purposes shall be pledged to secure the obligations of Xerox or any Domestic Subsidiary (either directly or through any entity that is a disregarded entity for such purposes), (ii) no Canadian Credit Party shall be required to pledge Equity Interests in any Person other than Foreign Subsidiaries directly owned by it and organized under the laws of Canada (or any province or other political subdivision thereof) and (iii) XCE shall not be required to pledge Equity Interests in any Person other than Foreign Subsidiaries directly owned by it and organized under the laws of the United Kingdom (or any political subdivision thereof)), and the Administrative Agent shall have received all certificates or other instruments representing such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank;

(d) the Administrative Agent shall have received (i) a completed Perfection Certificate delivered from each of XCI (on behalf of all Canadian Guarantors) and XCD and signed by an appropriate officer of XCI or XCD, as the case may be, together with all attachments contemplated thereby, including the results of a search of the personal property security registries in the applicable provinces and territories of Canada (except, with respect to the province of Quebec, a search of the register of movable and personal real rights in the province of Quebec) made with respect to each Canadian Credit Party in the jurisdictions contemplated by such Perfection Certificate and (ii) the results of a search of the register of charges kept by the registrar of companies pursuant to the Companies Act of 1985 in the United Kingdom made with respect to XCE, and in each case, copies of the financing statements (or similar

documents) disclosed by such search and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) that are effective to perfect a Lien are permitted by Section or have been released or the obligations secured thereby have been satisfied;

(e) each Credit Party shall have obtained all consents and approvals required to be obtained by it in connection with the execution and delivery of all Security Documents described in clauses (a), (b) and (c) of this definition to which it is a party, the performance of its obligations thereunder and the granting of the Liens granted by it thereunder; and

(f) each Credit Party shall have taken all other action required under this Agreement or under the Security Documents to be undertaken to perfect, register and/or record the Liens granted by it pursuant to the Security Documents described in clauses (a), (b) and (c) of this definition.

"Preferred Stock" of any Person shall mean capital stock or other ownership interests of or in such Person of any class or classes (however designated) that ranks prior, as to the payment of dividends and/or as to the distribution of assets upon any voluntary or involuntary liquidation, dissolution or winding up of such Person, to shares of capital stock or other ownership interests of or in any other class of such person, provided that the XCI Class B Shares shall not constitute Preferred Stock.

"Prime Rate" means a rate per annum equal to the publicly announced prime rate announced from time to time by Bank One, NA or its parent (which is not necessarily the lowest rate charged to any customer) changing when and as said prime rate changes.

"Proposed Transfer" has the meaning specified in Section 5.12(b).

"Purchase Money Debt" means Debt incurred to finance the acquisition, construction or improvement of any fixed or capital assets, including Capital Lease Obligations and any Debt assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets before the acquisition thereof, and extensions, renewals, refinancings and replacements of any such Debt, in whole or in part, that do not increase the outstanding principal amount thereof (other than to finance accrued interest, fees and other amounts outstanding in respect thereof and fees and expenses incurred in connection with such extension, renewal, refinancing or replacement) or result in an earlier maturity date or decreased weighted average life thereof, provided that (a) such Debt (other than any extension, renewal, refinancing or replacement thereof) is

incurred before or within 120 days after such acquisition or the completion of such construction or improvement and (b) the Debt secured thereby does not exceed 100% of the cost of acquiring, constructing or improving such fixed or capital assets.

"Qualification Requirements" means (a) Xerox has delivered a notice to the Administrative Agent (a copy of which the Administrative Agent shall promptly deliver to each Lender) proposing a transaction that would result in (i) the acquisition or creation of a Wholly-Owned Subsidiary (other than a Third Party Vendor Financing Subsidiary) in connection with the Turnaround Program, (ii) both (A) any Person other than a Xerox Company acquiring Equity Interests in any Subsidiary (other than a Third Party Vendor Financing Subsidiary) and (B) such Subsidiary failing to qualify as an Automatic Turnaround Program Subsidiary immediately after giving effect thereto, (iii) any Equity Interests of a Subsidiary being prohibited from being pledged to the Collateral Agent as part of the Collateral by any agreement entered into in connection with the Turnaround Program with or for the benefit of any other Person owning or acquiring Equity Interests in such a Subsidiary or (iv) any Intellectual Property interest retained by a Credit Party as set forth in clause (e)(iv) of the definition of "Turnaround Program" being prohibited from being pledged to the Collateral Agent as part of the Collateral by any agreement entered into in connection with the Turnaround Program and (b) the Super-Majority Lenders have not notified the Administrative Agent within 45 days of Xerox's delivery of such notice to the Administrative Agent that they disapprove of such transaction (the Administrative Agent agreeing to promptly notify Xerox if it has received such notice of disapproval from the Super-Majority Lenders); any notice delivered by Xerox pursuant to clause (a) shall set forth in reasonable detail a description of such transaction and Xerox agrees to provide such additional information concerning such transaction as any Lender, through the Administrative Agent, shall reasonably request, it being understood that failure to comply with such requirements in any instance shall not affect satisfaction of the Qualification Requirements in such instance if the Super-Majority Lenders do not disapprove pursuant to clause (b) of this definition.

"Qualified Capital Markets Lien" means any Lien on (a) deposit or other accounts (and the cash or cash equivalents or investments from time to time credited thereto) created in connection with a Capital Markets Event or Equity Issuance of Preferred Stock for the direct or indirect benefit of the holders of the related securities, or (b) any assets of, or Equity Interests in, each and any Finance SPE used to facilitate such transaction, provided that (a) such Lien does not result in secured indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount and (b) the amount of cash and cash equivalents or other investments subject to such Lien or held in a deposit or other account subject to such Lien pursuant to clause (a) may not exceed an

amount equal to the cash proceeds received by the Xerox Companies from such Capital Markets Event or Equity Issuance.

"Qualified Capital Stock" means any Equity Interest that is not Disqualified Capital Stock.

"Qualified Foreign Subsidiary" means XCI or any of its subsidiaries or any other Subsidiary of Xerox, each of which satisfies the following criteria: (a) the principal place of business and jurisdiction of organization or incorporation of such Subsidiary is located outside the United States, (b) all or, in the case of XCI or any of its subsidiaries, at least 97%, of the shares of capital stock or other ownership interests of such Subsidiary (except directors' qualifying shares) are at the time directly or indirectly owned by Xerox and (c) except in the case of XCI or any of its subsidiaries, such Subsidiary is not a "Specified Subsidiary" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under a new Reference Indenture) or a "Restricted Subsidiary" under the ESOP Guarantee Agreements.

"Qualified Receivables Transaction" means any transaction or arrangement or series of transactions or arrangements entered into by Xerox or any of its Subsidiaries in order to monetize or otherwise finance, or as a result of which it may receive earlier than otherwise due amounts that will become receivable or be earned in the future in respect of, a discrete pool (which may be fixed or revolving) of Receivables, leases or other financial assets (including, without limitation, financing contracts), including, without limitation, any transaction or arrangement that is not a sale or transfer but pursuant to and by virtue of which a Person succeeds to, and becomes entitled to, the rights under or in respect of such Receivables, leases or other financial assets (in each case whether now existing or arising in the future) and which may include Qualified Receivables Transaction Liens, provided that such transaction or arrangement does not constitute or create indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount.

"Qualified Receivables Transaction Lien" means any Lien in connection with a Qualified Receivables Transaction on (a) Receivables, (b) deposit or other accounts (and the funds or investments from time to time credited thereto) established in connection with a Qualified Receivables Transaction to secure obligations of any Xerox Company arising in connection with or otherwise related to such transaction, provided that the amount of cash and cash equivalents or other investments subject to such Lien do not exceed an amount equal to the cash proceeds received by the Xerox Companies from such Qualified Receivables Transaction, (c) any promissory note issued by any Xerox Company evidencing the repayment of amounts directly or indirectly distributed to such Xerox

Company from any such accounts and (d) any assets of or Equity Interests in each and any Receivables SPE used to facilitate such transaction.

"Qualified Turnaround Program Subsidiary" means any Subsidiary (other than a Third Party Vendor Financing Subsidiary) (a) that is acquired or created, or ceases to be directly or indirectly wholly-owned by Xerox, after the date hereof in connection with the Turnaround Program and that does not qualify as an Automatic Turnaround Program Subsidiary but (b) with respect to which Xerox has satisfied the Qualification Requirements.

"Receivables" means Accounts (as such term is defined in the UCC (or the Personal Property Security Act in effect in each of the provinces or territories in Canada (other than Quebec), to the extent applicable thereto), including the proceeds of inventory to the extent it also constitutes an Account), "claims" as such term is defined in the Civil Code of Quebec, Book Debts (as defined in the UK Security Agreement) and any other accounts receivable, lease receivables, finance receivables, service receivables and supply receivables and any property or assets (including, without limitation, equipment, inventory, software and servicing contracts) related thereto.

"Receivables SPE" means a Subsidiary that is a special purpose entity that (a) borrows against Receivables or purchases, leases or otherwise acquires Receivables or Transfers Receivables to one or more third party purchasers or another Receivables SPE as part of a Qualified Receivables Transaction or (b) engages in other activities that are necessary or desirable to effectuate the activities described in the definitions of Qualified Receivables Transaction or the Third Party Vendor Financing Program, or (c) is established solely for the purpose of, and has no business other than, owning a Receivables SPE, servicing Receivables owned by a Receivables SPE, owning or holding title to the property or assets giving rise to such Receivables or any activities incidental thereto (including those described in the definitions of Qualified Receivables Transaction or the Third Party Vendor Financing Program).

"Reference Basket Lien Provision" means the first proviso (not in a parenthetical) to Section 1012(a) of the Reference Indenture described in clause (a) of the definition of "Reference Indenture" or, if the Reference Indenture in effect is an indenture described in clause (b) of the definition of "Reference Indenture", the comparable provision of such indenture.

"Reference Indenture" means (a) initially, the High Yield Indenture and (b) if all of the Debt issued under the High Yield Indenture has been repaid in full, from time to time thereafter such other Indenture governing outstanding Debt of Xerox (which must have a provision governing the creation of liens securing Debt of Xerox and its Subsidiaries that, to the reasonable satisfaction of

the Administrative Agent, is substantially identical to the comparable provision in the High Yield Indenture) as shall have been designated by Xerox in a notice to the Administrative Agent (with a copy of such indenture attached thereto), it being understood that even if all of the Debt issued under the Indenture described in clause (a) has been repaid in full, such Indenture shall remain as the Reference Indenture until Xerox has so designated another indenture pursuant to this clause (b).

"Reference Indenture Consolidated Net Worth" of any Person means its "Consolidated Net Worth" as defined in the Reference Indenture.

"Refunded Debt" means any Capital Markets Debt of any Xerox Company outstanding on the date hereof, but only to the extent that any scheduled payment of the principal thereof (including at maturity) is made by direct application of the proceeds of any Permitted Refinancing Debt or Permitted Refinancing Preferred Stock, provided that any Capital Markets Debt of XCC that is repaid or purchased using the proceeds of XCC Exchange Debt or which is otherwise paid or satisfied by issuance of XCC Exchange Debt to the holders thereof shall constitute Refunded Debt.

"Register" has the meaning specified in Section 9.05(c).

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and its Affiliates.

"Release Conditions" means (a) with respect to any Domestic Credit Party, the "Release Conditions" as defined in the Domestic Security Agreement, (b) with respect to each Canadian Credit Party, the "Release Conditions" as defined in the Canadian Security Agreement, and the conditions specified in the Hypothec for the release of all of the hypothec in such Canadian Credit Party's assets, if any, in the province of Quebec in Canada, (c) with respect to each UK Credit Party, the "Release Conditions" as defined in the relevant UK Security Document and (d) with respect to any other Credit Party, the corresponding obligations specified in the relevant Security Document.

"Required A Lenders" means, at any time, Tranche A Lenders having outstanding Tranche A Loans representing at least a majority of the sum of all outstanding Tranche A Loans.

"Required A/B Lenders" means, at any time, Lenders holding at least a majority of the aggregate outstanding amount of the Tranche A Loans and the Tranche B Loans.

"Required B Lenders" means, at any time, Tranche B Lenders having outstanding Tranche B Loans representing at least a majority of the sum of all outstanding Tranche B Loans.

"Required C Lenders" means, at any time, Tranche C Lenders having outstanding Tranche C Loans representing at least a majority of the sum of all outstanding Tranche C Loans.

"Required Lenders" means, at any time, Lenders having Revolving Exposures, outstanding Term Loans and unused Revolving Commitments representing at least a majority of the sum of all Revolving Exposures, outstanding Term Loans and unused Revolving Commitments at such time.

"Required Revolving Lenders" means, at any time, Revolving Lenders holding at least a majority of the aggregate amount of the Revolving Commitments or, if the Revolving Commitments have been terminated, the Revolving Exposures.

"Required Revolving/B Lenders" means, at any time, Lenders holding at least a majority of the aggregate outstanding amount of the (a) Revolving Commitments or, if the Revolving Commitments have been terminated, the Revolving Exposure and (b) Tranche B Loans.

"Responsible Officers" means the chief executive officer, any Financial Officer and the general counsel of Xerox, and solely for the purpose of Section 3.11, shall also include each individual considered an "officer" of Xerox for purposes of Section 16 of the Securities Exchange Act of 1934, as amended.

"Restatement" means the restatement of any Xerox Company's financial statements for any or all of Fiscal Years 1997 through 2000 (or any Fiscal Quarter of any such Fiscal Year), as well as any adjustment of previously announced results for Fiscal Year 2001, but only if made (a) to reflect adjustments in the timing and allocation of lease revenue recognition, adjustments due to the establishment and release of certain reserves prior to 2001 and other miscellaneous items, all as described in Xerox's Form 8-K filed with the SEC on April 12, 2002, or (b) to reflect other adjustments or other new methods of accounting required by the independent public accountants reporting on the financial statements for such periods in connection with their audit thereof.

"Restatement Date" means the date that Xerox delivers its audited financial statements for Fiscal Year 2001 to the Administrative Agent pursuant to Section 1.04(a).

"Restatement Event" means (a) the Restatement, (b) any lawsuit or other action previously or hereafter brought against any Xerox Company, any of their Affiliates or any present or former officer or director of a Xerox Company or any of their Affiliates involving or arising out of the Restatement, and any settlement thereof or other development with respect thereto, (c) the failure to timely satisfy any requirement for the delivery of financial statements of any Xerox Company for Fiscal Year 2001 or the first or second Fiscal Quarter of Fiscal Year 2002 or to timely file Xerox's or XCC's Form 10-K for Fiscal Year 2001 or Form 10-Q for the first or second Fiscal Quarter of Fiscal Year 2002 or (d) the occurrence of any default or event of default under any indenture, instrument or other agreement or contract, or the exercise of any remedy in respect thereof, that arises directly or indirectly as a result of any of the matters described in any of the foregoing clauses (a) - (c) or this clause (d).

"Restricted Debt" means Debt of Xerox or any Subsidiary, the payment, prepayment, redemption, purchase or defeasance of which is restricted under Section 6.08.

"Restricted Domestic Subsidiary" means a Domestic Subsidiary that (a) as of the end of the most recently completed Fiscal Year for which audited financial statements of Xerox and its Subsidiaries have been delivered pursuant to Section 3.04(a), 1.04(a) or 5.01(a) had Reference Indenture Consolidated Net Worth of \$100,000,000 or more and (b) is not a Subsidiary of the type described in the proviso of the definition of "Specified Subsidiary" in the High Yield Indenture; provided that XCC and Xerox Financial Services, Inc. shall each be Restricted Domestic Subsidiaries.

"Restricted Foreign Subsidiary" means a Foreign Subsidiary that (a) as of the end of the most recently completed Fiscal Year for which audited financial statements of Xerox and its Subsidiaries have been delivered pursuant to Section 3.04(a), 1.04(a) or 5.01(a) had Reference Indenture Consolidated Net Worth of \$100,000,000 or more and (b) is not a Subsidiary of the type described in the proviso of the definition of "Specified Subsidiary" in the High Yield Indenture; provided that Xerox Canada Finance Inc., Xerox XF Holdings (Ireland) Limited and Xerox Finance Limited shall each be Restricted Foreign Subsidiaries.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interest in any Xerox Company, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Equity Interest in any Xerox Company (including, for this purpose, any payment in respect of any Equity Interest in any Xerox Company under a Synthetic Purchase Agreement).

"Revised Business Plan" has the meaning specified in Section

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the Revolving Maturity Date (or, if earlier, the date on which all outstanding Revolving Commitments terminate).

"Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's potential Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.07 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.05. The initial amount of each Lender's Revolving Commitment is set forth on Appendix I or in the Assignment pursuant to which such Lender shall have assumed its initial Revolving Commitment, as applicable. The initial aggregate amount of the Revolving Commitments is \$1,500,000,000.

"Revolving Exposure" means, with respect to any Lender at any time, the sum of the aggregate outstanding principal amount of such Lender's Revolving Loans and its LC Exposure at such time.

"Revolving Lender" means a Lender with a Revolving Commitment or, if the Revolving Commitments have terminated or expired, a Lender with a Revolving Exposure.

"Revolving Loan" means a Loan arising pursuant to Section 2.01(a)(iv) or made pursuant to Section 2.01(b).

"Revolving Maturity Date" means April 30, 2005 or, if such day is not a Business Day, the next preceding Business Day.

"Revolving Percentage" means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments represented by such Lender's Revolving Commitment. If the Revolving Commitments have terminated or expired, the Revolving Percentages will be determined based on Revolving Exposures.

"Ridge Re" means Ridge Reinsurance Limited, a Bermuda corporation, and a Wholly-Owned Subsidiary of Xerox Financial Services, Inc., itself a Wholly-Owned Subsidiary of Xerox.

"S&P" means Standard & Poor's.

"Sale and Leaseback Transaction" means any arrangement with any Person providing for the leasing by Xerox or any of its Subsidiaries of any property that has been or is to be sold or transferred by Xerox or such Subsidiary to such Person, other than (a) leases between Xerox and a Subsidiary or between Subsidiaries of Xerox and (b) leases of property executed by the time of, or within 270 days after the latest of, the acquisition, the completion of construction or improvement of such property, or the commencement of commercial operation, of such property.

"SEC" means the Securities and Exchange Commission.

"SEC Filings" means public filings with the Securities and Exchange Commission on Form S-4, Form 8-K, Form 10-Q or Form 10-K, and any filed amendments to any of the foregoing.

"Secured Obligations" means the Domestic Secured Obligations, the Canadian Secured Obligations and the UK Secured Obligations.

"Secured Parties" means (a) with respect to the Domestic Security Documents, the "Secured Parties" defined in the Domestic Security Agreement, (b) with respect to the Canadian Security Documents, the "Secured Parties" defined in the Canadian Security Agreement, (c) with respect to the UK Security Documents, the Revolving Lenders and (d) with respect to any other Security Document, any Person or Persons holding secured obligations thereunder.

"Securities Act" means the Securities Act of 1933, as amended.

"Security Documents" means the Domestic Security Documents, the Foreign Security Documents and each other security agreement, guarantee agreement, instrument or document executed and delivered pursuant to Section 5.11 or 5.13 to secure or guarantee any of the Secured Obligations.

"Statutory Reserve Adjustment" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Federal Reserve Board to which the Administrative Agent (or, if the Administrative Agent is not a "member bank" of the Federal Reserve System, Bank One, NA) is subject with respect to (a) for purposes of determining the Base CD Rate, new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months and (b) for purposes of determining the Adjusted LIBO Rate, eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Federal Reserve Board). Such

reserve percentages will include those imposed pursuant to such Regulation D. Eurodollar Loans will be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Adjustment will be adjusted automatically on and as of the effective date of any change in any applicable reserve percentage.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership or other entity of which securities or other ownership interests representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, Controlled or held by the parent and/or one or more of its subsidiaries.

"Subsidiary" means any subsidiary of Xerox.

"Super-Majority Lenders" means, at any time, Lenders having Revolving Exposures, outstanding Term Loans and unused Revolving Commitments representing at least 66 2/3% of the sum of all Revolving Exposures, outstanding Term Loans and unused Revolving Commitments at such time.

"Support Agreement" means the Support Agreement dated as of November 1, 1980, between Xerox and XCC, as amended, supplemented or otherwise modified prior to the date hereof.

"Synthetic Purchase Agreement" means any swap, derivative or combination of similar agreements pursuant to which Xerox or a Subsidiary is or may become obligated to make (a) any payment in connection with the purchase by any third party, from a Person other than Xerox or a Subsidiary, of any Equity Interest or Restricted Debt or (b) any payment (other than on account of a permitted purchase by it of any Equity Interest or Restricted Debt) the amount of which is determined by reference to the price or value at any time of any Equity Interest or Restricted Debt; provided that no phantom stock or similar plan providing for payments only to current or former directors, officers or employees of Xerox or its Subsidiaries (or their heirs or estates) will be deemed to be a Synthetic Purchase Agreement.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions or similar charges (whether imposed directly or through withholdings) imposed by any Governmental Authority, together with any interest, penalties and additions to tax.

"Term Loans" means Tranche A Term Loans, Tranche B Term Loans and Tranche C Term Loans.

"Termination Date" means April 30, 2005 or, if such day is not a Business Day, the next preceding Business Day.

"Third Party Vendor Financing Program" means the arrangement by Xerox or any Subsidiary of third party vendor financing for customers of the Xerox Companies, including (a) the sale of a financing business or a Qualified Receivables Transaction as contemplated by the Business Plan and (b) Transfers of all or any portion of the business of, and assets relating to the business of, providing billing, collection and other services in respect of finance, lease and other Receivables.

"Third Party Vendor Financing Subsidiaries" means any Subsidiary acquired or created in connection with the Third Party Vendor Financing Program.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Federal Reserve Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Federal Reserve Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported for such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"Threshold Amount" means, (a) in the case of any Proposed Transfer of Excess Foreign Cash, 5% of such Excess Foreign Cash, and (b) in the case of any Proposed Transfer of Foreign Net Cash Proceeds in respect of an Included Asset Transfer, 10% of such Foreign Net Cash Proceeds.

"Total Debt" means, as of any date, the sum of (a) the aggregate principal amount of debt of Xerox and its Subsidiaries outstanding as of such date, in the amount that would be reflected as debt on a balance sheet prepared as of such date on a consolidated basis in accordance with GAAP and (b) (without duplication) the aggregate LC Exposure, adjusted in accordance with the second paragraph of the definition of "Debt", provided that notwithstanding the treatment thereof under GAAP, Total Debt shall always exclude (without

duplication) any amount shown on such balance sheet in respect of any Trust Preferred Securities or other Preferred Stock outstanding on the date hereof.

"Tranche A Lender" means a Lender with an outstanding Tranche A Term Loan.

"Tranche A Maturity Date" means April 30, 2005 or, if such day is not a Business Day, the next preceding Business Day.

"Tranche A Term Loan" means a Loan arising pursuant to Section 2.01(a)(ii).

"Tranche B Lender" means a Lender with an outstanding Tranche B Term Loan.

"Tranche B Maturity Date" means April 30, 2005 or, if such day is not a Business Day, the next preceding Business Day.

"Tranche B Term Loan" means a Loan arising pursuant to Section 2.01(a)(iii).

"Tranche C Lender" means a Lender with an outstanding Tranche C Term Loan.

"Tranche C Maturity Date" means September 15, 2002 or, if such day is not a Business Day, the next preceding Business Day.

"Tranche C Paydown" means the mandatory repayment of the Tranche C Term Loans on or prior to September 15, 2002.

"Tranche C Term Loan" means a Loan arising pursuant to Section 2.01(a)(i).

"Transactions" means the execution, delivery and performance by each Credit Party of the Loan Documents to which it is to be a party, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder.

"Transaction Liens" means the Liens on Collateral granted by the Credit Parties under the Security Documents.

"Transfer" means any sale, disposition, assignment, lease, license, conveyance or other transfer of any property.

"Trust Preferred Securities" means the \$650.0 million aggregate liquidation amount of 8% Trust Preferred Securities of Xerox Capital Trust I, the \$1,035.0 million aggregate liquidation amount of 7 1/2% Convertible Trust Preferred Securities of Xerox Capital Trust II and the Deferred Preferred Shares, Series A, of Xerox Capital LLC, and any other similar preferred securities issued by any Xerox Company after the date hereof.

"Turnaround Program" means (a) the Third Party Vendor Financing Program, including the creation and maintenance of joint ventures in furtherance thereof, (b) the outsourcing of manufacturing activities, including Transfers and closings of any related manufacturing sites, offices or other real property or assets and the creation and maintenance of joint ventures in furtherance thereof, (c) Transfers of assets related to the SOHO business, (d) deployment of, and transition to, a "distributor" model in the "Developing Markets Operations" or other markets outside North America pursuant to which a Xerox Company's products or services, or any receivables relating to any thereof, would be sold or disposed of to third-party vendors or any other Person, including Transfers of offices, equipment and real estate relating to such markets and the creation and maintenance of joint ventures in furtherance thereof and (e) the following types of transactions in respect of research and development and Intellectual Property of the Xerox Companies: (i) the creation of IP Companies, whether alone or with third-parties; (ii) the Transfer of assets of, or Equity Interests in, any IP Company, (iii) the Transfer to any IP Company of any offices, real property, equipment or other tangible assets relating to the business of the applicable IP Company and (iv) the Transfer to any IP Company of Intellectual Property, provided that the terms of any such Transfer pursuant to this clause (e)(iv) do not restrict in any material manner the ability of the Xerox Companies to utilize any such Intellectual Property that is material to the production or office businesses of the Xerox Companies in such business and, where ownership of such Intellectual Property is Transferred to an IP Company by any Xerox Company, all rights (if any) of the Xerox Companies to so use such Intellectual Property are evidenced by a license or other agreement that, in the case of any such right of a Credit Party, may be included in the Collateral subject to the Security Documents (unless the Qualification Requirements have been satisfied with respect thereto), provided that in no event shall the foregoing include any Transfer of ownership of the "Xerox" name.

"Turnaround Program Subsidiaries" means each Automatic Turnaround Program Subsidiary and each Qualified Turnaround Program Subsidiary.

"UCC" has the meaning specified in the Domestic Security Agreement.

"UK Credit Parties" means XCE, the UK Guarantors and any Foreign Subsidiary that is organized under the laws of the United Kingdom that becomes an Overseas Borrower or Foreign Guarantor after the Effective Date.

"UK Guarantor" means Xerox UK Holdings Limited and XOH and each other Foreign Subsidiary that is organized under the laws of the United Kingdom that is designated as a Guarantor pursuant to Section 5.11(b) or 5.13(a).

"UK Guarantee" means the guarantee obligations of the UK Guarantors created pursuant to the UK Guarantee Agreement.

"UK Guarantee Agreement" means the Deed of Guarantee and Indemnity among the UK Guarantors and the Collateral Agent, substantially in the form of Exhibit C-4.

"UK Secured Obligations" means XCE's obligations to pay the "Secured Sums" as defined in the UK Security Agreement.

"UK Security Agreement" means the Debenture among XCE and the Collateral Agent, substantially in the form of Exhibit C-3.

"UK Security Documents" means the UK Security Agreement, the UK Guarantee Agreement and each other Security Document executed and delivered by a UK Credit Party pursuant to this Agreement.

"United States" means the United States of America.

"Wholly-Owned" when used in reference to any Subsidiary (including a Domestic Subsidiary, Foreign Subsidiary, Material Subsidiary, Material Domestic Subsidiary or a Material Foreign Subsidiary) means a Subsidiary more than 80% (or, in the case of PARC, 90%) of the voting Equity Interests of which are owned, directly or indirectly, by Xerox.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

"XCC" means Xerox Credit Corporation, a Delaware corporation.

"XCC Exchange Debt" means any Capital Markets Debt issued by Xerox, (a) the proceeds of which a Financial Officer certifies are intended to be, and actually are, transferred to XCC within 30 days of the date such Capital Markets Debt is issued and applied by XCC within 5 Business Days of receipt to the repayment or purchase of Capital Markets Debt of XCC outstanding on the

date hereof or (b) which is issued to holders of Capital Markets Debt of XCC outstanding on the date hereof in payment or other satisfaction thereof (in either case without regard to the scheduled repayment date of such Capital Markets Debt of XCC).

"XCD" means Xerox Canada Capital Ltd., a Canadian corporation.

"XCE" means Xerox Capital (Europe) plc, a company incorporated in England and Wales.

"XCFI Debentures" means (a) the 10.70% Sinking Fund Debentures due 2006 issued pursuant to that certain Trust Indenture dated as of December 15, 1986, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee and (b) the 12.15% Sinking Fund Debentures due 2007 issued pursuant to that certain Trust Indenture dated as of October 27, 1987, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee.

"XCFI Indentures" has the meaning specified in the Domestic Security Agreement.

"XCI" means Xerox Canada Inc., a company organized under the laws of the Province of Ontario, Canada.

"XCI Class B Shares" means the Non-Voting Class B Exchangeable Shares of XCI.

"XCL" means Xerox Canada Ltd., a Canadian corporation.

"Xerox Austria" means Xerox (Austria) Holdings GmbH, a company organized under the laws of Austria.

"Xerox Companies" means Xerox and the Subsidiaries.

"Xerox Group Companies" means each Xerox Company except (a) any Subsidiary existing on the date hereof that is not a Wholly-Owned Subsidiary, (b) any Turnaround Program Subsidiary or (c) any Subsidiary that (i) is not a Wholly-Owned Subsidiary and (ii) is formed or acquired pursuant to Section 6.04(a)(xvi).

"XFI" means Xerox Finance, Inc., a Delaware corporation.

"XOH" means Xerox Overseas Holdings Limited, a company incorporated in England and Wales.

Section 1.01. Accounting Terms; Changes in GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP as in effect from time to time; provided that, if Xerox notifies the Administrative Agent that Xerox requests an amendment of any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof (or if the Administrative Agent notifies Xerox that the Required Lenders request an amendment of any provision hereof for such purpose), regardless of whether such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be applied on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

Section 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Interest Type (e.g., a "Eurodollar Loan") or by Class and Interest Type (e.g., a "Eurodollar Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Interest Type (e.g., a "Eurodollar Borrowing") or by Class and Interest Type (e.g., a "Eurodollar Revolving Borrowing").

Section 1.03. Terms Generally. The definitions of terms herein (including those incorporated by reference to another document) apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun includes the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise, (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the word "property" shall be construed to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights. Whenever in this Agreement an amount

or other circumstance is to be as determined in the good faith judgment of any Xerox Company (including as determined by a Financial Officer), or any comparable criterion, such reference shall be construed to require that (a) such determination be reasonable in fact or based on reasonable assumptions under the circumstances and (b) the Xerox Company in question shall be required to provide such internally generated information, including reasonably detailed financial data and calculations, as shall be reasonably requested by the Administrative Agent to demonstrate that there is a reasonable basis for such determination. In addition, whenever any provision of this Agreement requires a certificate of a Financial Officer or any other Person, such provision shall be deemed to be satisfied by the delivery of a certificate of Xerox executed, on behalf of Xerox, by a Financial Officer or such other Person.

Section 1.04. Restatement; Covenant Re-set. (a) As promptly as possible and in any event no later than December 31, 2002, Xerox will deliver to the Administrative Agent and each Lender its audited consolidated balance sheet as of the end of Fiscal Year 2001 and the related statements of operations, stockholders' equity and cash flows for such Fiscal Year, accompanied by an unqualified report of PricewaterhouseCoopers LLP (or other independent public accountants of recognized national standing) as to such financial statements presenting fairly in all material respects the financial position, results of operations and cash flows of Xerox and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP, it being understood that such financial statements will reflect the Restatement. The provisions of the last paragraph of Section 5.01 shall be available for delivery of such financial statements to the Lenders, but Xerox shall furnish a hard copy of such statements to the Administrative Agent as soon as available (with as many additional copies as the Administrative Agent shall have reasonably requested).

(b) Promptly and in any event no later than 60 days after the Restatement Date, Xerox will deliver to the Administrative Agent (i) a revised version of the Business Plan, prepared as described in Section 1.04(b)(ii)(A) below (the "Revised Business Plan"), and (ii) the certificate described in Section 1.04(b)(ii)(B) below (the "Adjustment Certificate"), in accordance with the following:

(A) The Revised Business Plan shall be prepared by Xerox in good faith and shall restate the projected financial data set forth in the initial Business Plan solely to give effect to the Restatement, the effect of the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement") on Fiscal Year 2001 and future periods and the effect of Xerox's change as of January 2002 to the new method of lease revenue recognition adopted in connection with the

Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement"). Except for the Restatement and as otherwise provided in this Section 1.04(b)(ii)(A), no other restatement or other adjustment of any such financial data shall be made for this purpose on account of any other new or additional information that has become known or available to Xerox since the preparation of the initial Business Plan that is or might otherwise be a basis for adjusting any projection or other statement in the initial Business Plan, or any assumption upon which it was based, notwithstanding that the Revised Business Plan otherwise may, as of its date, contain material misstatements or omit to state material facts, it being understood and agreed that the application of Section 3.11 and Section 7.01(c) to the Revised Business Plan is qualified to this extent. The Revised Business Plan shall be accompanied by a certificate of the Chief Financial Officer or Treasurer of Xerox stating that it has been prepared in accordance with the foregoing requirements. The Revised Business Plan will also be accompanied by a supplement to the initial Business Plan (which, upon delivery, will be considered part of the initial Business Plan), prepared by Xerox in good faith and signed by the Chief Financial Officer or Treasurer of Xerox, in which the projected Consolidated Net Income for Fiscal Years 2003, 2004 and 2005 (which is set forth in the initial Business Plan on only an annual basis) will be broken down on a quarterly basis (but only through the first Fiscal Quarter of Fiscal Year 2005).

(B) The Adjustment Certificate shall be prepared by Xerox in good faith and signed by the Chief Financial Officer or Treasurer of Xerox, and shall have attached thereto a Schedule (the "Covenant Re-set Schedule") setting forth the content of Sections 6.13 - 6.15 but with the amounts and ratios included therein in accordance with the following:

(1) Minimum Consolidated EBITDA. The minimum Consolidated EBITDA required by Section 6.13 for each period of four consecutive Fiscal Quarters specified therein shall be adjusted to equal the total of (A) the amount set forth opposite the last day of such period in Section 6.13 (before giving effect to the last sentence thereof), plus (or minus) (B) the increase (decrease) of (1) the Consolidated EBITDA for such period contemplated by the Revised Business Plan compared to (2) the Consolidated EBITDA for such period contemplated by the initial Business Plan.

(2) Leverage Ratio. The maximum Leverage Ratio permitted by Section 6.14 as of the last day of any Fiscal Quarter specified therein shall be adjusted to equal the ratio, rounded upwards to the nearest 1/10th, of:

(a) the excess of (x) the amount of "Covenant Total Debt" set forth opposite such Fiscal Quarter in Schedule 1.04 over (y) the sum of (i) 85% of the amount of net finance receivables as of such day contemplated by the Revised Business Plan and (ii) the excess, if any, of the amount of consolidated cash and cash equivalents of Xerox as of such day contemplated by the Revised Business Plan (other than those subject to Liens) over \$1.3 billion, to

(b) the sum of (x) the minimum Consolidated EBITDA covenant level determined pursuant to Section 1.04(b)(ii)(B)(1) for the period of four consecutive Fiscal Quarters ending on such day and (y) the amount of "Capitalized Software" set forth opposite the last Fiscal Quarter of such period in Schedule 1.04.

(3) Consolidated Net Worth. The minimum Consolidated Net Worth required by Section 6.15 as of the last day of each Fiscal Quarter shall be adjusted to equal:

(a) in the case of the Fiscal Quarter ending September 30, 2002, (x) the excess of (i) Consolidated Net Worth as of December 31, 2001 determined by reference to the audited Fiscal Year financial statements delivered pursuant to this Section 1.04(a) over (ii) \$1.3 billion, plus (or minus) (y) the increase (decrease) of (i) Consolidated Net Income contemplated by the Revised Business Plan for the first three Fiscal Quarters of Fiscal Year 2002 compared to (ii) Consolidated Net Income contemplated by the initial Business Plan for such three Fiscal Quarters, and

(b) in the case of each subsequent Fiscal Quarter through and including the first Fiscal Quarter of Fiscal Year 2005, the sum of the amount determined under Section 1.04(b)(ii)(B)(3) for the immediately preceding Fiscal Quarter plus the increase (or minus the decrease, as the case may be) of (x) Consolidated Net Income contemplated by the Revised Business Plan for such subsequent Fiscal Quarter compared to (y) Consolidated Net Income contemplated by the initial Business Plan for such subsequent Fiscal Quarter.

The Adjustment Certificate shall set forth in reasonable detail the basis for, and the computations of, all of the adjustments set forth therein.

(c) During the 30-day period following delivery of the Revised Business Plan and the Adjustment Certificate, as and when reasonably requested by the Administrative Agent, Xerox will make available one or more Financial Officers, its independent public accountants (with a Financial Officer present) and its financial adviser to review with the Administrative Agent (and any advisers identified by it) the adjustments from the initial Business Plan reflected in the Revised Business Plan (it being understood that (x) the Revised Business Plan shall not be subject to approval of any Agent or any Lender, (y) any such review of the Revised Business Plan by the Administrative Agent (and any advisers) shall be solely for informational purposes and determining Xerox's compliance with Section 1.04(b) and (z) the Revised Business Plan and the outcome of such review thereof by the Administrative Agent (and any advisers) shall only constitute grounds for the delivery of an Objection Notice with respect to any failure by Xerox to comply with Section 1.04(b)) and the basis for, and the computations of, the adjustments set forth in the Adjustment Certificate, and to provide such additional information and responses to other questions as the Administrative Agent (or such advisers) may reasonably request with respect to the Restatement and the application of Section 1.04(b). On or before the last day of such 30-day period, the Administrative Agent may deliver a notice (the "Objection Notice") to Xerox stating that it disagrees with one or more of the adjustments set forth in the Adjustment Certificate, which notice shall set forth in reasonable detail the basis for such disagreement. In the event the Administrative Agent delivers an Objection Notice in accordance with this Section 1.04(c), Xerox and the Administrative Agent shall negotiate in good faith to resolve promptly the matters described in the Objection Notice, and any references herein to the Adjustment Certificate, including the Covenant Re-set Schedule, shall mean the Adjustment Certificate and Covenant Re-set Schedule if and as modified by the agreement of Xerox and the Administrative Agent as a result of such negotiations. The Covenant Re-set Date shall be (i) the last day of such 30-

day period (or such earlier date as the Administrative Agent notifies Xerox that it does not have any disagreements with the adjustments set forth in the Adjustment Certificate), unless the Administrative Agent delivers an Objection Notice on or prior thereto, or (ii) if the Administrative Agent delivers an Objection Notice, the date an Adjustment Certificate (including a Covenant Re-set Schedule) is agreed to by the Administrative Agent and Xerox following their negotiations (it being understood that such negotiations may result in no actual changes to the previously delivered Adjustment Certificate).

(d) Effective automatically on the Covenant Re-set Date, without the requirement of any notice to or action by the Lenders, the covenants in Sections 6.13 - 6.15 shall be replaced in their entirety by the Covenant Re-set Schedule, a copy of which shall be distributed to each Lender by the Administrative Agent promptly after the Covenant Re-set Date and which shall be deemed to be incorporated into this Agreement as if attached hereto. At all times prior to the Covenant Re-set Date, compliance with Sections 6.13 - 6.15 shall be determined without giving effect to the Restatement, the effect of the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement") on Fiscal Year 2001 and future periods and the effect of Xerox's change as of January 2002 to the new method of lease revenue recognition adopted in connection with the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement").

(e) Notwithstanding anything to the contrary set forth herein or in any other Loan Document, it is the intent of the parties hereto that the occurrence or existence of any Restatement Event shall not constitute or cause a Default hereunder or prevent any Borrower from requesting and receiving any Loan, and the provisions hereof and of the other Loan Documents shall be deemed modified to the extent necessary to avoid the foregoing, provided that (A) the foregoing provisions shall not permit any Xerox Company to take or fail to take any action explicitly required not to be taken or to be taken by Sections 5.01 or 5.02 or Article 6 other than as set forth therein with reference to Restatement Events, nor shall the foregoing excuse any Event of Default under Section 7.01(k) on account of any judgment arising out of a Restatement Event or, except as specifically provided therein, any Event of Default under Section 7.01(f)-7.01(j) arising out of or directly or indirectly caused by a Restatement Event and (B) the foregoing shall have no effect on the calculation of Consolidated Net Worth. Furthermore, to the extent that the delivery by any Xerox Company of any financial report or certificate required to be delivered by it hereunder or in any other Loan Document, or the maintenance by any Xerox Company of its books and records, reflects the Restatement, the effect of the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement") on Fiscal Year 2001 and future periods and the effect of Xerox's

change as of January 2002 to the new method of lease revenue recognition adopted in connection with the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement"), any requirement herein or in any other Loan Document that any such report, certificate or books and records be delivered, prepared or maintained in accordance with past practice or in a consistent manner shall, on and after the Restatement Date, be modified to allow such matters to be reflected.

ARTICLE 2
The Credits

Section 2.01. Revolving Commitments; Conversion to Term Loans. (a) Subject to the terms and conditions set forth herein, on the Effective Date:

(i) \$700,000,000 aggregate principal amount of the loans outstanding under the Existing Credit Agreement shall be converted to Tranche C Term Loans;

(ii) \$1,500,000,000 aggregate principal amount of the loans outstanding under the Existing Credit Agreement shall be converted to Tranche A Term Loans;

(iii) \$500,000,000 aggregate principal amount of the loans outstanding under the Existing Credit Agreement shall be converted to Tranche B Term Loans; and

(iv) \$1,500,000,000 aggregate principal amount of the loans outstanding under the Existing Credit Agreement shall remain outstanding as Revolving Loans, and the Revolving Commitments shall be ratably reduced to an aggregate amount of \$1,500,000,000.

Each Lender under the Existing Credit Agreement shall convert into Tranche C Term Loans, Tranche A Term Loans, Tranche B Term Loans and Revolving Loans a portion of its loans outstanding under the Existing Credit Agreement that bears the same proportion to the total amount of its loans outstanding under the Existing Agreement as the initial aggregate principal amount of such Tranche or of the Revolving Loans set forth above bears to \$7,000,000,000. Each Lender's Revolving Commitment on and after the Effective Date will be an amount that bears the same proportion to the total amount of its loans outstanding under the Existing Credit Agreement as \$1,500,000,000 bears to \$7,000,000,000. The Tranche C Term Loans, Tranche A Term Loans, Tranche B Term Loans, Revolving Loans and Revolving Commitments of each Lender that will be outstanding and exist on the Effective Date are set forth in Appendix I.

(b) Subject to the terms and conditions set forth herein, on and after the Effective Date each Revolving Lender agrees to make Revolving Loans to the Borrowers from time to time during the Revolving Availability Period in an aggregate principal amount that will not, after giving effect to any simultaneous repayment of the Revolving Loans (or reimbursement of any LC Disbursement or cancellation of any Letter of Credit) and the provisions of Section 2.05(b), at any time result in such Lender's Revolving Exposure exceeding its Revolving Commitment. Within such limits and subject to the terms and conditions set forth herein, the Borrowers may borrow, repay and reborrow Revolving Loans. Amounts repaid in respect of any Term Loans may not be reborrowed.

(c) The Revolving Commitments of the Revolving Lenders are several, i.e., the failure of any Revolving Lender to make any Revolving Loan required to be made by it shall not relieve any other Revolving Lender of its obligations hereunder, and no Lender shall be responsible for any other Lender's failure to make Loans as and when required hereunder.

Section 2.02. Revolving and Term Loans. (a) The Loans comprising each Existing Borrowing shall be Tranche A Term Loans, Tranche B Term Loans, Tranche C Term Loans or Revolving Loans, all as set forth in Appendix II. Each Revolving Loan made after the Effective Date shall be made as part of a Borrowing consisting of Loans of the same Interest Type made by the Revolving Lenders ratably in accordance with their respective Revolving Commitments as the relevant Borrower may request (subject to Section 2.13) in accordance herewith. Subject to Section 2.18, each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan. Any exercise of such option shall not affect the relevant Borrower's obligation to repay such Loan as provided herein.

(b) At the beginning of each Interest Period for any Eurodollar Borrowing, the aggregate amount of such Borrowing shall be an integral multiple of \$5,000,000 and not less than \$25,000,000. When each Base Rate Borrowing is made, the aggregate amount of such Borrowing shall be an integral multiple of \$5,000,000 and not less than \$25,000,000; provided that a Base Rate Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the Revolving Commitments. Borrowings of more than one Class and Interest Type may be outstanding at the same time; provided that there shall not at any time be more than a total of 20 Eurodollar Borrowings outstanding.

(c) Notwithstanding any other provision hereof, no Borrower will be entitled to request, or to elect to convert or continue, any Eurodollar Borrowing if the Interest Period requested with respect thereto would end after the Revolving Maturity Date, Tranche A Maturity Date, Tranche B Maturity Date or Tranche C Maturity Date, as applicable.

Section 2.03. Requests to Borrow Revolving Loans. To request a Revolving Borrowing, the relevant Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than Noon, New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of a Base Rate Borrowing, not later than 10:30 a.m., New York City time, on the date of the proposed Borrowing; provided that any such notice of a Base Rate Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.04(e) may be given not later than 11:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by Xerox and the relevant Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds (if any) are to be disbursed, which shall comply with the requirements of Section 2.05.

If no election as to the Interest Type of a Borrowing is specified, the requested Borrowing will be a Base Rate Borrowing. If no Interest Period with respect to a requested Eurodollar Borrowing is specified, the relevant Borrower will be deemed to have selected an Interest Period of one month's duration. Promptly after it receives a Borrowing Request in accordance with this Section 2.03, the Administrative Agent shall advise each Revolving Lender as to the details of such Borrowing Request and the amount of such Lender's Loan to be made pursuant thereto.

Section 2.04. Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, any Borrower may request the issuance of Letters of Credit for its own benefit or the benefit of any Xerox Company, in a form

reasonably acceptable to the Administrative Agent and the relevant LC Issuing Bank, from time to time during the Revolving Availability Period. If the terms and conditions of any form of letter of credit application or other agreement submitted by a Borrower to, or entered into by a Borrower with, any LC Issuing Bank relating to any Letter of Credit are not consistent with the terms and conditions of this Agreement, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal or Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the relevant Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the relevant LC Issuing Bank) to the relevant LC Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the requested date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with Section 2.04(c)), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the relevant LC Issuing Bank, the relevant Borrower also shall submit a letter of credit application on such LC Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the relevant Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension, (i) the LC Exposure will not exceed \$200,000,000 and (ii) the total Revolving Exposures will not exceed the total Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or before the close of business on the earlier of (i) the date that is one year after such Letter of Credit is issued (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days before the Revolving Maturity Date.

(d) Participations. Effective upon the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of any LC Issuing Bank or the Revolving Lenders, the LC Issuing Banks grant to each Revolving Lender, and each Revolving Lender acquires from the relevant LC Issuing Bank, a participation in such Letter of Credit equal to such Lender's Revolving Percentage of the aggregate amount available to be drawn thereunder. Pursuant to such participations, each Revolving

Lender agrees to pay to the Administrative Agent, for the account of the relevant LC Issuing Bank, such Lender's Revolving Percentage of (i) each LC Disbursement made by such LC Issuing Bank and not reimbursed by the relevant Borrower on the date due as provided in Section 2.04(e) and (ii) any reimbursement payment required to be refunded to the relevant Borrower for any reason. Each Lender's obligation to acquire participations and make payments pursuant to this subsection is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or any reduction or termination of the Revolving Commitments, and each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If any LC Issuing Bank makes any LC Disbursement under a Letter of Credit, the relevant Borrower shall reimburse such LC Disbursement by paying an amount equal to such LC Disbursement to the Administrative Agent not later than 2:00 p.m., New York City time, on the day after Xerox receives notice of such LC Disbursement; provided that, if such LC Disbursement is at least \$5,000,000 or the entire unused balance of the Revolving Commitments, the relevant Borrower may, without regard to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be made with the proceeds of a Base Rate Revolving Borrowing in an equivalent amount and, to the extent so requested, the relevant Borrower's obligation to make such payment shall be discharged and replaced by the resulting Base Rate Revolving Borrowing. If the relevant Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Lender of the applicable LC Disbursement, the payment then due from such Borrower in respect thereof and such Lender's Revolving Percentage thereof. Promptly after it receives such notice, each Revolving Lender shall pay to the Administrative Agent its Revolving Percentage of the payment then due from the relevant Borrower, in the same manner as is provided in Section 2.05 with respect to Loans made by such Lender (and Section 2.05(c) shall apply, mutatis mutandis, to such payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the relevant LC Issuing Bank the amounts so received by it from the Revolving Lenders. If a Revolving Lender makes a payment pursuant to this subsection to reimburse an LC Issuing Bank for any LC Disbursement (other than by funding Base Rate Revolving Loans as contemplated above), (i) such payment will not constitute a Loan and will not relieve the relevant Borrower of its obligation to reimburse such LC Disbursement and (ii) such Revolving Lender will be subrogated to its pro rata share of such LC Issuing Bank's claim against such Borrower for such reimbursement. Promptly after the Administrative Agent receives any payment from a Borrower pursuant to this subsection, the Administrative Agent will distribute such payment to the relevant LC Issuing Bank or, if Revolving Lenders

have made payments pursuant to this subsection to reimburse an LC Issuing Bank, then to such Lenders and such LC Issuing Bank as their interests may appear.

(f) Obligations Absolute. Each Borrower's obligation to reimburse LC Disbursements as provided in Section 2.04(e) shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by any LC Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, such Borrower's obligations hereunder. None of the Administrative Agent, the Lenders, the LC Issuing Banks and their respective Related Parties shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the relevant LC Issuing Bank; provided that the foregoing shall not excuse the LC Issuing Banks from liability to the relevant Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are waived by the Borrowers to the extent permitted by Applicable Law) suffered by the Borrowers that are caused by such LC Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. In the absence of gross negligence or wilful misconduct on the part of an LC Issuing Bank (as finally determined by a court of competent jurisdiction), such LC Issuing Bank shall be deemed to have exercised care in each such determination. Without limiting the generality of the foregoing, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the relevant LC Issuing Bank may, in its sole discretion, either (A) accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or (B) refuse to accept and make payment upon such documents if such documents do not strictly comply with the terms of such Letter of Credit.

(g) Disbursement Procedures. The relevant LC Issuing Bank shall, promptly after its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The relevant LC Issuing Bank shall promptly notify the Administrative Agent and Xerox by telephone (confirmed by telecopy) of such demand for payment and whether such LC Issuing Bank has made or will make an LC Disbursement pursuant thereto; provided that any failure to give or delay in giving such notice will not relieve the relevant Borrower of its obligation to reimburse the relevant LC Issuing Bank and the Revolving Lenders with respect to any such LC Disbursement.

(h) Interim Interest. Unless the relevant Borrower reimburses an LC Disbursement in full on the day it is made, the unpaid amount thereof shall bear interest, for each day from and including the day on which such LC Disbursement is made to but excluding the day on which such Borrower reimburses such LC Disbursement, at the rate per annum then applicable to Base Rate Revolving Loans; provided that, if such Borrower fails to reimburse such LC Disbursement when due pursuant to Section 2.04(e), then Sections 2.12(c) and 2.12(d) shall apply. Interest accrued pursuant to this subsection shall be for the account of the LC Issuing Banks, except that a pro rata share of interest accrued on and after the day that any Revolving Lender reimburses an LC Issuing Bank for a portion of such LC Disbursement pursuant to Section 2.04(e) shall be for the account of such Lender.

(i) Replacement of LC Issuing Banks. Any LC Issuing Bank may be replaced at any time by written agreement among Xerox, the Administrative Agent, the replaced LC Issuing Bank and the successor LC Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement. At the time any such replacement becomes effective, Xerox shall pay all unpaid fees accrued for the account of the replaced LC Issuing Bank pursuant to Section 2.11(c). On and after the effective date of any such replacement, (i) the successor LC Issuing Bank will have all the rights and obligations of an LC Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "LC Issuing Bank" will be deemed to refer to such successor or to any previous LC Issuing Bank, or to such successor and all previous LC Issuing Banks, as the context shall require. After an LC Issuing Bank is replaced, it will remain a party hereto and will continue to have all the rights and obligations of an LC Issuing Bank under this Agreement with respect to Letters of Credit issued by it before such replacement, but will not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If an Event of Default has occurred and the Loans then outstanding have been or are concurrently being declared to be due and payable pursuant to Section 7.01, then on the Business Day that Xerox receives notice from the Administrative Agent, the Required Lenders or the

Required Revolving Lenders demanding the deposit of cash collateral pursuant to this subsection, the relevant Borrower shall deposit in its Cash Collateral Account an amount in cash equal to 105% of the LC Exposure attributable to such Borrower as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral will become effective immediately, and such deposit will become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to any Borrower described in clause (h) or (i) of Article 7. Any amount so deposited (including any earnings thereon) will be applied to pay the Secured Obligations as provided in the relevant Security Document.

Section 2.05. Funding of Revolving and Term Loans. (a) Each Lender making a Revolving Loan hereunder shall (subject to Section 2.05(b)) wire the principal amount thereof in immediately available funds, by 12:00 noon, New York City time, on the proposed date of such Loan, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent shall make such funds available to the relevant Borrower by promptly transferring the amounts so received, in like funds, to an account of such Borrower maintained in the United States and designated in the applicable Borrowing Request; provided that Base Rate Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.04(e) will be remitted by the Administrative Agent to the relevant LC Issuing Bank.

(b) If any Lender makes a new Loan to any Borrower on a day on which another Borrower (the "repaying Borrower") is to repay all or any part of an outstanding Loan from such Lender, such Lender shall apply the proceeds of its new Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Lender to the Administrative Agent as provided in Section 2.05(a), or remitted by the repaying Borrower to the Administrative Agent as provided in Section 2.17, as the case may be.

(c) Unless the Administrative Agent receives notice from a Lender before the proposed date of any Borrowing that such Lender will not make its share of such Borrowing available to the Administrative Agent, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.05(a) and may, in reliance on such assumption, make a corresponding amount available to a Borrower. In such event, if a Lender has not in fact made its share of such Borrowing available to the Administrative Agent, such Lender and the relevant Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the day such amount is made available to such Borrower to but excluding the date of payment

to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of a Borrower, the interest rate applicable to Base Rate Loans. If such Lender pays such amount to the Administrative Agent, such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.06. Interest Elections. (a) Each Existing Borrowing initially shall be a Eurodollar Borrowing with an initial Interest Period as set forth in Appendix II. Each Revolving Borrowing made after the Effective Date initially shall be of the Interest Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter (including in the case of any Existing Borrowing), a Borrower may elect to convert such Borrowing to a different Interest Type or, in the case of a Eurodollar Borrowing, to continue such Borrowing for one or more additional Interest Periods, all as provided in this Section 2.06. A Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing.

(b) To make an election pursuant to this Section 2.06, the relevant Borrower shall notify the Administrative Agent thereof by telephone by the time that a Borrowing Request would be required under Section 2.03 if such Borrower were requesting that a Borrowing of the Interest Type resulting from such election be made on the effective date of such election. Each such telephonic Interest Election shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election in a form approved by the Administrative Agent and signed by Xerox and the relevant Borrower.

(c) Each telephonic and written Interest Election shall specify the following information in compliance with Section 2.02 and Section 2.06(e):

(i) the Borrowing to which such Interest Election applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to Section 2.06(c)(iii) and 2.06(c)(iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be a Base Rate Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is to be a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of "Interest Period".

If an Interest Election requests a Eurodollar Borrowing but does not specify an Interest Period, the relevant Borrower will be deemed to have selected an Interest Period of one month's duration.

(d) Promptly after it receives an Interest Election, the Administrative Agent shall advise each Lender of the relevant Class as to the details thereof and such Lender's portion of each resulting Borrowing.

(e) If the relevant Borrower fails to deliver a timely Interest Election with respect to a Eurodollar Borrowing before the end of an Interest Period applicable thereto, such Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of such Interest Period. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies Xerox, then, so long as an Event of Default is continuing, (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) each Eurodollar Borrowing (unless repaid) will be converted to a Base Rate Borrowing at the end of the Interest Period applicable thereto on the date of such notice.

Section 2.07. Termination or Reduction of Commitments. (a) The Revolving Commitments shall be reduced from time to time or terminated in accordance with the terms of Section 2.10(b), and, unless previously terminated, the Revolving Commitments will terminate on the Revolving Maturity Date.

(b) Xerox may at any time terminate, or from time to time reduce, the Revolving Commitments; provided that (A) the amount of each reduction of the Revolving Commitments shall be the amount of \$10,000,000 or an integral multiple thereof and (B) Xerox shall not terminate or reduce the Revolving Commitments if, after giving effect thereto and to any concurrent prepayment of Revolving Loans pursuant to Section 2.10, the total Revolving Exposures would exceed the total Revolving Commitments.

(c) Xerox shall notify the Administrative Agent of any election to terminate or reduce the Revolving Commitments under Section 2.07(b), or any required reduction of the Revolving Commitments under Section 2.10(b), at least

two Business Days before the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by Xerox pursuant to this Section will be irrevocable; provided that any such notice terminating the Revolving Commitments may state that it is conditioned on the effectiveness of other credit facilities, in which case such notice may be revoked by Xerox (by notice to the Administrative Agent on or before the specified effective date) if such condition is not satisfied. Any termination or reduction of the Revolving Commitments will be permanent and will be made ratably among the Revolving Lenders in accordance with their respective Revolving Commitments.

Section 2.08. Payment at Maturity; Evidence of Debt. (a) Each Borrower unconditionally promises to pay to the Administrative Agent on the Revolving Maturity Date, for the account of each Revolving Lender, the then unpaid principal amount of such Lender's Revolving Loans attributable to such Borrower.

(b) Xerox unconditionally promises to pay the Administrative Agent (i) on the Tranche A Maturity Date, for the account of each Tranche A Lender, the then unpaid principal amount of such Lender's Tranche A Term Loans, (ii) on the Tranche B Maturity Date, for the account of each Tranche B Lender, the then unpaid principal amount of such Lender's Tranche B Term Loans and (iii) on the Tranche C Maturity Date, for the account of each Tranche C Lender, the then unpaid principal amount of such Lender's Tranche C Term Loans.

(c) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrowers to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time.

(d) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder (including the Existing Borrowings), the Class and Interest Type thereof and each Interest Period (if any) applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(e) The entries made in the accounts maintained pursuant to Section 2.08(c) and 2.08(d) shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that any failure by any Lender or the Administrative Agent to maintain such accounts or any error therein shall not

affect the Borrowers' obligation to repay the Loans in accordance with the terms of this Agreement.

(f) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the relevant Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in substantially the form of Exhibit G-1, G-2, G-3 or G-4 hereto, as appropriate (each such promissory note is a "Note"). Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.05) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.09. Scheduled Amortization of Term Loans. (a) Subject to adjustment pursuant to Section 2.09(c), Xerox shall repay Tranche A Term Loans on each date set forth below in the aggregate principal amount set forth opposite such date:

Date ----	Amount -----
March 31, 2003	\$200,000,000
September 30, 2003	\$200,000,000
March 31, 2004	\$300,000,000
September 30, 2004	\$300,000,000

(b) Subject to adjustment pursuant to Section 2.09(c), Xerox shall repay Tranche B Term Loans on each date set forth below in the aggregate principal amount set forth opposite such date:

Date ----	Amount -----
March 31, 2003	\$2,500,000
September 30, 2003	\$2,500,000
March 31, 2004	\$2,500,000
September 30, 2004	\$2,500,000

(c) Except as provided in Sections 2.10(a)(iv) and 2.10(b)(v), any prepayment of Term Loans of any Class will be applied first to reduce the scheduled repayments of the Term Loans of such Class to be made pursuant to this Section in direct order of maturity and second to the amount to be paid at final maturity. Each repayment pursuant to this Section 2.09 shall be made

together with accrued interest on the amount repaid and any amounts owing under Section 2.15 in respect of such repayment.

Section 2.10. Optional and Mandatory Prepayments. (a) Optional Prepayments. (i) Each Borrower will have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the provisions of this Section.

(ii) No Borrower will be permitted to prepay any Revolving Loans until such time as the Tranche C Loans are paid in full, unless, after giving effect to any new Borrowing of Revolving Loans being made by another Borrower on the same day or the following Business Day, the aggregate outstanding principal amount of Revolving Loans will be unchanged.

(iii) Except as set forth in Section 2.10(a)(iv), any optional prepayment of Term Loans shall be applied as follows: first, to the outstanding principal amount of the Tranche C Term Loans until the Tranche C Term Loans are paid in full, second, to the outstanding principal amount of the Tranche A Term Loans until the Tranche A Term Loans are paid in full (which payment shall be applied in direct order of maturity as set forth in Section 2.09(c)) and third, to the outstanding principal amount of the Tranche B Term Loans (which payment shall be applied in direct order of maturity as set forth in Section 2.09(c)). Any such prepayment shall be made together with any premium payable pursuant to Section 2.10(c), accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment.

(iv) If the Basket Lien Available Amount has become fixed as contemplated by clause (A) of the definition of "Basket Lien Available Amount" and Xerox at any time thereafter determines in good faith that the Basket Lien Available Amount is an amount that requires it to equally and ratably secure the Debt outstanding under the Reference Indenture (or any other indenture with a provision substantially identical to the Reference Basket Lien Provision), or determines in good faith that it is significantly likely that within 90 days it would be required to do so, then upon five Business Days' notice to the Administrative Agent (which notice shall be accompanied by a certificate of a Financial Officer setting forth in reasonable detail the computations underlying such determination (and any projections underlying any such significant likelihood)), Xerox may prepay an outstanding principal amount of the Tranche B Term Loans equal to the amount (rounded upwards to the nearest multiple of \$1,000,000) by which the Basket Lien Available Amount must be reduced

so that Xerox is not required to equally and ratably secure any such other Debt. Such prepayment shall be made together with any premium payable pursuant to Section 2.10(c), accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment, and such prepayment shall be applied, first, to reduce the principal amount of the Tranche B Term Loans payable at maturity and, second, to reduce all then remaining unpaid installments of principal of the Tranche B Term Loans payable pursuant to Section 2.09 in inverse order of maturity.

(b) Mandatory Prepayments. (i) Asset Transfers. Within three Business Days after Xerox or any Wholly-Owned Domestic Subsidiary receives any Net Proceeds of any Included Asset Transfer, Xerox shall prepay an aggregate amount equal to the Applicable Percentage of such Net Proceeds as follows: first, an outstanding principal amount of the Tranche C Term Loans until the Tranche C Term Loans have been paid in full, second, an outstanding principal amount of the Tranche A Term Loans and the Tranche B Term Loans, allocated ratably based on outstanding principal amount, until such Loans have been paid in full (which payment shall be applied in direct order of maturity as set forth in Section 2.09(c)) and third, an outstanding principal amount of the Revolving Loans (and in connection with any prepayment pursuant to this clause third the Revolving Commitments shall be permanently reduced (but not to an amount less than \$1,000,000,000) by an amount equal to the amount of such prepayment plus, if the amount of Net Proceeds available after application pursuant to clauses first and second exceeds the outstanding principal amount of the Revolving Loans, the amount of such excess). Such prepayment shall be made together with accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment. Notwithstanding the foregoing, if the Net Proceeds of any Included Asset Transfer are less than \$75,000,000, Xerox shall not be required to make any prepayment pursuant to this Section 2.10(b)(i) until the aggregate Net Proceeds of Included Asset Transfers not so applied equal or exceed \$75,000,000.

(ii) Debt and Equity Issuances. Within (A) three Business Days after Xerox or any Finance SPE that is a Domestic Subsidiary receives any Net Proceeds of any Covered Capital Markets Debt or Equity Issuance and (B) five Business Days after XCE or any Finance SPE that is a Foreign Subsidiary receives any Net Proceeds of any Covered Capital Markets Debt or Equity Issuance, Xerox shall prepay an aggregate amount equal to the Applicable Percentage of such Net Proceeds as follows: first, an outstanding principal amount of the Tranche C Term Loans until the Tranche C Term Loans have been paid in full, second, an outstanding principal amount of the Tranche A Term Loans until the Tranche A Term Loans have been paid in full (which payment shall be applied in direct

order of maturity as set forth in Section 2.09(c)) and third, an outstanding principal amount of the Tranche B Term Loans and the Revolving Loans, allocated ratably based on outstanding principal amount (which payment of Tranche B Term Loans shall be applied in direct order of maturity as set forth in Section 2.09(c)), and in connection with any prepayment pursuant to this clause third the Revolving Commitments shall be permanently reduced (but not to an amount less than \$1,000,000,000) by an amount equal to the amount of such prepayment of the Revolving Loans plus, if the amount of Net Proceeds available after application pursuant to clauses first and second exceeds the outstanding principal amount of the Tranche B Term Loans and the Revolving Loans, the amount of such excess). Such prepayment shall be made together with accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment.

(iii) Casualty Events. Within thirty Business Days after any Credit Party receives any Net Proceeds of any Casualty Event, Xerox shall prepay an aggregate amount equal to the Applicable Percentage of such Net Proceeds as follows: first, an outstanding principal amount of the Tranche C Term Loans until the Tranche C Term Loans are paid in full, second, an outstanding principal amount of the Tranche A Term Loans and the Tranche B Term Loans, allocated ratably based on outstanding principal amount, until such Loans have been paid in full (which payment shall be applied in direct order of maturity as set forth in Section 2.09(c)) and third, an outstanding principal amount of the Revolving Loans (and in connection with any prepayment pursuant to this clause third the Revolving Commitments shall be permanently reduced (but not to an amount less than \$1,000,000,000) by an amount equal to the amount of such prepayment plus, if the amount of Net Proceeds available after application pursuant to clauses first and second exceeds the outstanding principal amount of the Revolving Loans, the amount of such excess); provided that, if Xerox shall deliver to the Administrative Agent a certificate of a Financial Officer to the effect that (A) such Credit Party intends to apply the Net Proceeds from such event (or a portion thereof specified in such certificate), within 360 days after receipt of such Net Proceeds, to repair, restore or replace the property with respect to which such Net Proceeds were received, (B) if such property is to be replaced, the property acquired to replace it will be included in the Collateral at least to the extent that the property to be replaced was included therein and (C) no Event of Default has occurred and is continuing, then no prepayment will be required pursuant to this subsection in respect of such Net Proceeds (or the portion of such Net Proceeds specified in such certificate, if applicable) except that, if any such Net Proceeds have not been so applied by the end of such 360-day period, a prepayment will be required at that time in an amount

equal to the amount of such Net Proceeds that have not been so applied (unless a binding commitment with a third party to repair or replace the applicable asset is in effect). Notwithstanding the foregoing, if the Net Proceeds of any Casualty Event are less than \$75,000,000, Xerox shall not be required to make any prepayment pursuant to this Section 2.10(b)(iii) until the aggregate Net Proceeds of Casualty Events not so applied equal or exceed \$75,000,000. Such prepayment shall be made together with accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment.

(iv) Change in Control. Within 15 days after any Change in Control, Xerox shall prepay all outstanding Term Loans and Revolving Loans in full and deposit in the Cash Collateral Account an amount in cash equal to 105% of the LC Exposure as of such date. Upon the occurrence of any Change in Control, the Revolving Commitments shall automatically terminate. Such prepayment shall be made together with accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment.

(v) If as of the last day of any Fiscal Quarter the Basket Lien Available Amount has become fixed as contemplated by clause (A)(2) of the definition of "Basket Lien Available Amount", and as of the last day of the immediately succeeding Fiscal Quarter, the Basket Lien Principal Amount determined as of such date (notwithstanding the fact that the Basket Lien Available Amount has previously become fixed) is less than the aggregate outstanding principal amount of the Tranche B Term Loans (such difference is the "shortfall"), Xerox shall prepay, within three Business Days after the delivery of the compliance certificate required pursuant to Section 5.01(c) with respect to such succeeding Fiscal Quarter, or, if such Fiscal Quarter is the fourth Quarter of a Fiscal Year, such Fiscal Year, an aggregate amount of Tranche B Term Loans equal to the shortfall. Such prepayment shall be made together with any premium payable pursuant to Section 2.10(c), accrued interest thereon to the date of prepayment and all amounts then owing under Section 2.15 in respect of such prepayment, and such prepayment shall be applied, first, to reduce the principal amount of the Tranche B Term Loans payable at maturity and, second, to reduce all then remaining unpaid installments of principal of the Tranche B Term Loans payable pursuant to Section 2.09 in inverse order of maturity.

(c) Prepayment Premium. In the case of the prepayment of any Tranche B Term Loans pursuant to Section 2.10(a) or 2.10(b)(v) prior to the second anniversary of the Effective Date, Xerox shall also pay a premium for the account of each Tranche B Lender in an amount equal to the Applicable Premium

Percentage of the aggregate principal amount of the Tranche B Term Loans being prepaid.

(d) Partial Prepayments. Each partial prepayment of a Borrowing shall be in an amount that would be permitted under Section 2.02(b) for a Borrowing of the same Interest Type, except as needed to apply fully the required amount of a mandatory prepayment. Each partial prepayment of a Borrowing shall be applied ratably to the Loans included in such Borrowing.

(e) Notice of Prepayments. Xerox shall notify the Administrative Agent by telephone (confirmed by teletype) of any prepayment of any Borrowing hereunder (i) in the case of a Eurodollar Borrowing, not later than 1:00 p.m., New York City time, two Business Days before the date of prepayment and (ii) in the case of a Base Rate Borrowing, not later than 1:00 p.m., New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; provided that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.07(c), then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.07(c). Promptly after it receives any such notice, the Administrative Agent shall advise the Lenders of the contents thereof.

Section 2.11. Fees. (a) Xerox shall pay to the Administrative Agent for the account of each Revolving Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily unused amount of the Revolving Commitment of such Lender during the Revolving Availability Period. Accrued commitment fees will be payable in arrears on the last day of March, June, September and December of each year and the day when the Revolving Commitments terminate, commencing on the first such day to occur after the date hereof. All commitment fees will be computed on the basis of a year of 360 days and will be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, a Lender's Revolving Commitment will be deemed to be used to the extent of its outstanding Revolving Loans.

(b) On the Effective Date, Xerox shall pay to the Administrative Agent for the account of each Lender a restructuring fee in an amount equal to 1.25% of the amount of such Lender's Loans outstanding after giving effect to the Initial Paydown (determined on a pro forma basis assuming that the Tranche C Paydown was made on the Effective Date).

(c) Xerox shall pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue for each day, at the Applicable Rate that applies to Eurodollar Revolving Loans, on the amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) on such day, during the period from the Effective Date to the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to each LC Issuing Bank a fronting fee, which, subject to any different agreement as to the basis of calculation between Xerox and such LC Issuing Bank, shall accrue at the rate or rates per annum separately agreed upon by the relevant Borrower and such LC Issuing Bank on the average daily amount of the LC Exposure attributable to Letters of Credit issued by such LC Issuing Bank (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from the Effective Date to the later of the date on which the Revolving Commitments terminate and the date on which there ceases to be any LC Exposure, as well as such LC Issuing Bank's standard fees with respect to issuing, amending, renewing or extending any Letter of Credit or processing drawings thereunder. Participation fees and fronting fees accrued through the last day of March, June, September and December of each year will be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees accrued to the date on which the Revolving Commitments terminate will be payable on such date, and any such fees accruing after such date will be payable on demand. Any other fees payable to the LC Issuing Banks pursuant to this subsection will be payable within 15 days after demand. All such participation fees and fronting fees will be computed on the basis of a year of 360 days and will be payable for the actual number of days elapsed (including the first day but excluding the last day).

(d) Xerox shall pay to the Administrative Agent, for its own account (including in its capacity as Collateral Agent), fees payable in the amounts and at the times separately agreed upon by Xerox and the Administrative Agent.

(e) Xerox shall pay to the Arrangers, for their own accounts, fees payable in the amounts and at the times separately agreed upon by Xerox and the Arrangers.

(f) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the relevant LC Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

Section 2.12. Interest. (a) The Base Rate Loans of each Class shall bear interest for each day at the Alternate Base Rate plus the Applicable Rate for such Class.

(b) The Loans comprising each Eurodollar Borrowing of each Class shall bear interest for each Interest Period in effect for such Borrowing at the Adjusted LIBO Rate for such Interest Period plus the Applicable Rate for such Class (it being understood that although the Existing Borrowings will, for their initial Interest Periods, continue to have the same Adjusted LIBO Rates, determined under the Existing Credit Agreement, as are applicable to currently effective interest periods, all as specified on Appendix II, interest accrued for such Interest Periods on and after the Effective Date will be calculated using the Applicable Rate).

(c) Notwithstanding the foregoing, if an Event of Default under Section 7.01(h), 7.01(i) or 7.01(j) has occurred and is continuing or if any other Event of Default has occurred and is continuing and the Administrative Agent, at the direction of the Required Lenders, has given notice to Xerox specifying the application of this Section 2.12(c), then during the continuance of such Event of Default, the interest rates applicable to the Loans and all fees and other amounts payable by any Borrower hereunder shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding subsections of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to Base Rate Revolving Loans.

(d) Interest accrued on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments; provided that (A) interest accrued pursuant to Section 2.12(c) shall be payable on demand, (B) upon any repayment of any Loan (except a prepayment of a Base Rate Revolving Loan before the end of the Revolving Availability Period), interest accrued on the principal amount repaid shall be payable on the date of such repayment and (C) upon any conversion of a Eurodollar Loan before the end of the current Interest Period therefor, interest accrued on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder will be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate will be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case will be payable for the actual number of days elapsed (including the first day but excluding the last day). Each applicable Alternate Base Rate or Adjusted LIBO

Rate shall be determined by the Administrative Agent, and its determination thereof will be conclusive absent manifest error.

(f) For purposes of disclosure pursuant to the Interest Act (Canada), the annual rates of interest or fees to which the rates of interest or fees provided in this Agreement and each Note (and stated herein or therein as applicable to be computed on the basis of a 365 day year or any other period of time less than a calendar year) are equivalent are the rates so determined multiplied by the actual number of days in the applicable calendar year and divided by 365 or such other period of time.

Section 2.13. Alternate Rate of Interest. If before the beginning of any Interest Period for a Eurodollar Borrowing:

(i) the Administrative Agent determines (which determination will be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(ii) Lenders whose Loans to be included in such Borrowing aggregate at least 51% thereof advise the Administrative Agent that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining such Loans for such Interest Period;

then the Administrative Agent shall give notice thereof to Xerox and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies Xerox and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing will be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing will be made as a Base Rate Borrowing; provided that if the circumstances giving rise to such notice affect only one Class of Borrowings, then the other Classes of Borrowings shall be permitted to be Eurodollar Borrowings.

Section 2.14. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or any LC Issuing Bank; or

(ii) impose on any Lender or any LC Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost (other than an increase in Taxes, which increase is dealt with exclusively in Section 2.16) to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make Eurodollar Loans) or to increase the cost to such Lender or LC Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce any amount received or receivable by such Lender or LC Issuing Bank hereunder (whether of principal, interest or otherwise), then Xerox shall pay to such Lender or LC Issuing Bank, as the case may be, such additional amount or amounts as will compensate it for such additional cost incurred or reduction suffered.

(b) If any Lender or LC Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or LC Issuing Bank's capital or on the capital of such Lender's or LC Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender or the Letters of Credit issued by such LC Issuing Bank, to a level below that which such Lender or LC Issuing Bank or such Lender's or LC Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or LC Issuing Bank's policies and the policies of such Lender's or LC Issuing Bank's holding company with respect to capital adequacy), then from time to time Xerox shall pay to such Lender or LC Issuing Bank, as the case may be, such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

(c) A certificate of a Lender or an LC Issuing Bank setting forth in reasonable detail the basis for, and the calculation of, the amount or amounts necessary to compensate it or its holding company, as the case may be, as specified in Section 2.14(a) or 2.14(b) shall be delivered to Xerox and shall be conclusive absent manifest error. Xerox shall pay such Lender or LC Issuing Bank, as the case may be, the amount shown as due on any such certificate within 15 days after receipt thereof.

(d) Failure or delay by any Lender or LC Issuing Bank to demand compensation pursuant to this Section 2.14 will not constitute a waiver of its right to demand such compensation; provided that Xerox will not be required to compensate a Lender or LC Issuing Bank pursuant to this Section 2.14 for any increased cost or reduction incurred more than 270 days before it notifies Xerox of the Change in Law giving rise to such increased cost or reduction and of its

intention to claim compensation therefor. However, if the Change in Law giving rise to such increased cost or reduction is retroactive, then the 270-day period referred to above will be extended to include the period of retroactive effect thereof.

(e) This Section 2.14 shall not apply to any Change in Law that imposes or increases the amount of any Tax.

Section 2.15. Break Funding Payments. If (a) any principal of any Eurodollar Loan is repaid on a day other than the last day of an Interest Period applicable thereto (including as a result of an Event of Default but excluding any principal amount that is simultaneously reborrowed by another Borrower as contemplated by Section 2.05(b)), (b) any Eurodollar Loan is converted on a day other than the last day of an Interest Period applicable thereto, (c) any Borrower fails to borrow, convert, continue or prepay any Revolving Loan or Term Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.10(e) and is revoked in accordance therewith), or (d) any Eurodollar Loan is assigned on a day other than the last day of an Interest Period applicable thereto as a result of a request by any Borrower pursuant to Section 2.18, then such Borrower shall compensate each Lender for its loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost and expense to any Lender shall be deemed to be equal to an amount determined by such Lender to be the excess, if any, of (i) the amount of interest that would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the end of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have begun on the date of such failure), over (ii) the amount of interest that would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the beginning of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of any Lender setting forth in reasonable detail the basis for, and the calculation of, any amount or amounts that such Lender is entitled to receive pursuant to this Section 2.15 shall be delivered to Xerox and shall be conclusive absent manifest error. The relevant Borrower shall pay such Lender the amount shown as due on any such certificate within 15 days after receipt thereof.

Section 2.16. Taxes. (a) All payments by the Borrowers under the Loan Documents shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that, if any Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (A) the sum payable will be increased as necessary so that, after all required deductions (including deductions applicable to additional sums payable under this

Section) are made, each relevant Lender Party receives an amount equal to the sum it would have received had no such deductions been made, (B) such Borrower shall make such deductions and (C) such Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law.

(b) In addition, each Borrower shall pay any Other Taxes to the extent required to be withheld or paid by such Borrower to the relevant Governmental Authority in accordance with Applicable Law.

(c) Each Borrower shall indemnify each Lender Party, within 15 Business Days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid or incurred by such Lender Party with respect to any payment by or obligation of such Borrower under the Loan Documents (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.16) and any expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Each Lender Party shall make a good faith effort to verify that such Indemnified Taxes or Other Taxes are correctly and legally imposed or asserted by the relevant Governmental Authority. An officer's certificate as to the amount of any such payment delivered to Xerox by a Lender Party on its own behalf, or by the Administrative Agent on behalf of a Lender Party, shall be conclusive absent manifest error.

(d) Within 15 Business Days after any Borrower pays any Indemnified Taxes, Other Taxes or any withholding tax that is an Excluded Tax to a Governmental Authority, such Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment. Each Borrower shall promptly furnish to each Lender Party any other information, documents and receipts that the Lender Party may from time to time reasonably request to establish to its satisfaction that full and timely payment of all Indemnified Taxes and Other Taxes has been made. The applicable Borrower will be deemed to have satisfied the requirement of this Section 2.16(d) if it has furnished such information, documents and/or receipts to the Administrative Agent.

(e) Any Lender Party that is entitled to an exemption from or reduction of withholding tax imposed by Canada or the United Kingdom with respect to payments under this Agreement shall deliver to the relevant Borrower (with a copy to the Administrative Agent) within 15 Business Days following receipt of the written notice referred to below, such properly completed and executed documentation as is reasonably requested by such Borrower or the Administrative Agent in order to permit such payments to be made with the benefit of such

exemption or reduction (and shall make application to the relevant Governmental Authority for exemption or reduced rates if it is the party required by law to do so), provided that such Lender Party has received written notice from such Borrower or the Administrative Agent identifying the requirements for such exemption or reduction, supplying all applicable documentation and specifying the time period within which documentation is to be provided under this paragraph 2.16(e) (or such application is to be made). Without limiting the Lender Parties' obligations under the preceding sentence, each Lender Party agrees that it will, without material cost or other material disadvantage (as determined in such Lender Party's good faith judgment), cooperate with such Borrower to minimize the applicable withholding tax burdens in Canada and the United Kingdom. If any Lender Party becomes subject to any Tax because it fails to comply with this subsection 2.16(e), each Borrower shall take such steps as such Lender Party shall reasonably request to assist such Lender Party to recover such Tax. The Administrative Agent agrees that it will provide administrative and ministerial cooperation to each Borrower with respect to (i) procedures for reducing or eliminating the withholding taxes imposed by Canada or the United Kingdom on payments to the Lender Parties and (ii) the reporting, withholding and remitting of Taxes to the appropriate Governmental Authority and shall administer such reporting, withholding and remitting in a manner consistent with its practice under the Existing Credit Agreement, provided that such cooperation shall not impose upon the Administrative Agent greater burdens than those that have arisen in the administration of the Existing Credit Agreement unless such greater burdens are attributable to changes in Applicable Law or procedures with respect to any such taxes. Notwithstanding the foregoing, (i) the Borrowers shall retain primary responsibility for ascertaining the requirements of Applicable Law and providing to the Lender Parties the written notice described in the first sentence of this paragraph, and (ii) no failure by the Administrative Agent to meet any obligations under this paragraph shall operate to excuse any Borrower from its obligations to the Lender Parties under this Section 2.16.

(f) If the Administrative Agent or any Lender Party receives a cash refund of any Indemnified Tax or Other Tax deducted, withheld or paid by any Borrower pursuant to this Section 2.16 from the Governmental Authority that imposed such tax, which in the good faith judgement of the Administrative Agent or such Lender Party is allocable to such deduction, withholding or payment and is not (or is no longer) subject to return, reassessment or other repayment to such Governmental Authority, the Administrative Agent or such Lender Party shall promptly pay to such Borrower an amount equal to such cash refund, net of all reasonable out-of-pocket expenses incurred by the Administrative Agent or such Lender Party in obtaining such cash refund.

(g) Each Foreign Lender shall provide Xerox (or its designated paying agent) within the time periods required by Applicable Law with Internal Revenue

Service form W-8BEN or W-8ECI, as appropriate, (or any successor form) certifying to the effect that (i) such Foreign Lender is entitled to benefits under an income tax treaty that exempts such Foreign Lender from United States withholding tax or reduces the rate of such tax on payments of interest (or is otherwise exempt) or (ii) such interest is effectively connected with the conduct of a trade or business in the United States. If and to the extent that such withholding tax is an Excluded Tax, Xerox will determine the amount of any applicable United States withholding tax (or the exemption therefrom) on the basis of such certification (or prior certification under the Existing Credit Agreement), except to the extent that Xerox has actual knowledge of the incorrectness of such certification and provides written notice thereof to the relevant Foreign Lender at least 10 Business Days prior to the relevant Interest Payment Date. The parties agree otherwise to cooperate with respect to United States withholding tax matters in a manner consistent with the principles of Section 2.16(e) above, mutatis mutandis.

Section 2.17. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) Each Borrower shall make each payment required to be made by it under the Loan Documents (whether of principal, interest or fees, or reimbursement of LC Disbursements, or amounts payable under Section 2.14, 2.15 or 2.16 or otherwise) before the time expressly required under the relevant Loan Document for such payment (or, if no such time is expressly required, before 2:00 p.m., New York City time), on the date when due, in immediately available funds, without set-off or counterclaim. Any amount received after such time on any day may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 1 Bank One Plaza, Chicago, Illinois, 60670, except payments to be made directly to an LC Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.14, 2.15, 2.16 and 9.04 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payment received by it for the account of any other Person to the appropriate recipient promptly after receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment will be extended to the next succeeding Business Day and, if such payment accrues interest, interest thereon will be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, to pay interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to

such parties, and (ii) second, to pay principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal or interest on any of its Loans or any of its participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans and participations in LC Disbursements; provided that (A) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (B) the provisions of this Section 2.17(c) shall not apply to any payment made by any Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to any Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this Section 2.17(c) shall apply). Each of the Borrowers consents to the foregoing and agrees, to the extent it may effectively do so under Applicable Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Borrower in the amount of such participation.

(d) Unless, before the date on which any payment is due to the Administrative Agent for the account of one or more Lender Parties hereunder, the Administrative Agent receives from Xerox notice that the relevant Borrower will not make such payment, the Administrative Agent may assume that such Borrower has made such payment on such date in accordance herewith and may, in reliance on such assumption, distribute to each relevant Lender Party the amount due to it. In such event, if the relevant Borrower has not in fact made such payment, each Lender Party severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender Party with interest thereon, for each day from and including the day such amount is distributed to it to but excluding the day it repays the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the

Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender fails to make any payment required to be made by it pursuant to Section 2.04(d), 2.04(e), 2.05(c), 2.17(d) or 9.04(c), the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.18. Lender's Obligation to Mitigate; Replacement of Lenders.

(a) If any Lender requests compensation under Section 2.14, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.16, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.14 or 2.16, as the case may be, in the future, (ii) would not subject such Lender to any unreimbursed cost or expense and (iii) would not otherwise be disadvantageous to such Lender. The relevant Borrower shall pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.14, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.16, or if any Lender defaults in its obligation to fund Loans hereunder, then Xerox may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign, without recourse (in accordance with and subject to the restrictions contained in Section 9.05), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (A) Xerox shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, the LC Issuing Banks) in accordance with Section 9.05(b)(A) and (B) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the relevant Borrower (in the case of all other amounts). A Lender shall not be required to make any such assignment if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling Xerox to require such assignment cease to apply.

Section 2.19. Designation of Overseas Borrower; Termination of Designations. (a) Xerox may from time to time designate any Qualified Foreign Subsidiary as an additional Overseas Borrower for purposes of this Agreement by delivering to the Administrative Agent an Election to Participate duly executed on behalf of such Subsidiary and Xerox in such number of copies as the Administrative Agent may request. The Administrative Agent shall promptly notify the Lenders of its receipt of any such Election to Participate.

(b) Xerox may at any time terminate the status of any Subsidiary as an Overseas Borrower for purposes of this Agreement by delivering to the Administrative Agent an Election to Terminate duly executed on behalf of such Subsidiary and Xerox in such number of copies as the Administrative Agent may request. The delivery of such an Election to Terminate shall not affect any obligation of such Subsidiary theretofore incurred under this Agreement or any other Loan Document or any rights of the Lenders and the Agents against such Subsidiary or against Xerox in its capacity as guarantor of the obligations of such Subsidiary. The Administrative Agent shall promptly notify the Lenders of its receipt of any such Election to Terminate.

Section 2.20. Overseas Borrower Costs. (a) If the cost to any Lender of making or maintaining any Loan to an Overseas Borrower is increased (or the amount of any sum received or receivable by any Lender or its applicable lending office is reduced) by an amount deemed by such Lender to be material, by reason of the fact that such Overseas Borrower is incorporated in, or conducts business in, a jurisdiction outside the United States, such Borrower shall indemnify such Lender for such increased cost or reduction within 15 days after demand by such Lender (with a copy to the Administrative Agent). The foregoing indemnity shall not apply to any Excluded Taxes or Taxes addressed in Section 2.16. A certificate of such Lender claiming compensation under this Section 2.20 and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error.

(b) Each Lender will promptly notify the relevant Overseas Borrower and the Administrative Agent of any event or circumstance of which it has knowledge that will entitle such Lender to compensation pursuant to this Section 2.20 and will designate a different applicable lending office, if, in the judgment of such Lender, such designation will avoid the need for, or reduce the amount of, such compensation and will not be otherwise disadvantageous to such Lender.

ARTICLE 3
Representations and Warranties

Each Borrower represents and warrants (as to itself and, to the extent required by the context, its Subsidiaries only) to the Lender Parties that:

Section 3.01. Organization; Powers. Each Credit Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

Section 3.02. Authorization; Enforceability. The Transactions to be entered into by each Credit Party are within its corporate (or equivalent) powers and have been duly authorized by all necessary corporate (or equivalent) and, if required, stockholder (or equivalent) action. This Agreement has been duly executed and delivered by each Borrower and constitutes, and each other Loan Document to which any Credit Party is to be a party, when executed and delivered by such Credit Party, will constitute, a legal, valid and binding obligation of such Borrower or other Credit Party, as the case may be, in each case enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect and (ii) filings, registrations and recordings necessary to perfect the Transaction Liens, (b) will not violate any Applicable Law or the charter, by-laws or other organizational documents of any Credit Party, (c) will not violate any order of any Governmental Authority, except in any such case where such violation could not reasonably be expected to result in a Material Adverse Effect, (d) will not violate or result in a default under any indenture or other agreement governing Debt or other material agreement or other instrument binding upon any Xerox Company or any of its properties, or give rise to a right thereunder to require any Xerox Company to make any payment thereof (it being understood that any decrease in the consolidated net worth of Xerox following any fixing of the Basket Lien Available Amount could result in a default under various Debt agreements), and (e) will not result in the creation or imposition of any Lien on any property of any Xerox Company, other than the

Transaction Liens (which include the equal and ratable Liens securing the ESOP Notes and the XCFI Debentures).

Section 3.04. Financial Statements; No Material Adverse Change. (a) Xerox has heretofore furnished to the Lenders (i) its consolidated balance sheet as of December 31, 2000 and the related consolidated statements of income, stockholders' equity and cash flows for the Fiscal Year then ended, reported on by KPMG LLP, independent public accountants, and (ii) its consolidated balance sheet as of September 30, 2001 and the related consolidated statements of income, stockholders' equity and cash flows for the Fiscal Quarter then ended and for the portion of the Fiscal Year then ended, all certified by a Financial Officer, it being understood that such financial statements do not give effect to the Restatement. Except for changes resulting from any Restatement Event, such financial statements present fairly, in all material respects, the financial position of Xerox and its consolidated Subsidiaries as of such dates and their results of operations and cash flows for such periods in accordance with GAAP, subject to normal year-end adjustments and the absence of footnotes in the case of the statements referred to in this Section 3.04(a)(ii).

(b) After giving effect to the Transactions, none of the Xerox Companies has, as of the Effective Date, any material contingent liabilities, unusual long-term commitments or unrealized losses which are required to be disclosed pursuant to GAAP, except as disclosed in the financial statements referred to above or the notes thereto or in the Business Plan, except for those that may arise from any Restatement Event and except for the Disclosed Matters and those contingent liabilities, unusual long-term commitments and unrealized losses that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Except for the Disclosed Matters and any Restatement Event, since December 31, 2000, there has been no material adverse change in the business, assets, operations or condition, financial or otherwise, of the Xerox Companies, taken as a whole.

Section 3.05. Properties. (a) Except for the Disclosed Matters, each Xerox Company has good title to, or valid license or leasehold interests in, all real and personal property material to its business (including all its Mortgaged Properties), except for Liens permitted by Section 6.02 and defects in title that could not reasonably be expected to result in a Material Adverse Effect.

(b) Except for the Disclosed Matters, each Xerox Company owns, or is licensed to use, all Intellectual Property material to its business, and to the knowledge of a Responsible Officer the use thereof by the Xerox Companies does not infringe upon the Intellectual Property rights of any other Person, except for

any such failures of the foregoing to be true that, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

(c) Other than the Initial Mortgaged Properties, neither Xerox nor any Domestic Subsidiary owns as of the Effective Date any real property the fair market value of which is, in the good faith judgment of Xerox, \$25,000,000 or more.

Section 3.06. Litigation and Environmental Matters. (a) Except for any Restatement Event and the Disclosed Matters, there are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of any Responsible Officer of any Borrower, threatened against or affecting any Xerox Company (i) as to which there is a reasonable possibility of adverse determinations that, in the aggregate, could reasonably be expected to result in a Material Adverse Effect or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except for other matters that, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, no Xerox Company (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) is subject to any Environmental Liability, or (iii) has received notice of any claim with respect to any Environmental Liability, and no Responsible Officer of a Xerox Company knows of any basis for any Environmental Liability that could reasonably be expected to have a Material Adverse Effect.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 3.07. Compliance with Laws and Agreements. Except for the Disclosed Matters or as a result of any Restatement Event, each Xerox Company is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding on it or its property, except where failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

Section 3.08. Investment and Holding Company Status. No Xerox Company is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" or "subsidiary company" of a holding company as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

Section 3.09. Taxes. Each Xerox Company has timely filed or caused to be filed all Tax returns and reports required to have been filed by it and has paid or caused to be paid all Taxes required to have been paid by it, except (a) any Taxes that are being contested in good faith by appropriate proceedings and for which Xerox or the relevant Xerox Company has set aside on its books adequate reserves or (b) to the extent that failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect

Section 3.10. ERISA and Pension Plans. (a) Except in respect of the Disclosed Matters, no ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. Based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87, (i) with respect to each Plan, the present value of the accumulated benefit obligations thereunder did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets thereof by an amount that could reasonably be expected to result in a Material Adverse Effect, and (ii) with respect to all underfunded Plans in the aggregate, the present value of all the accumulated benefit obligations thereunder did not, as of such date, exceed the fair market value of all the assets thereof by an amount that could reasonably be expected to result in a Material Adverse Effect.

(b) Except as could not reasonably be expected to result in a Material Adverse Effect, (i) the Canadian Pension Plans are duly registered under the Income Tax Act (Canada) and all other Applicable Laws which require registration and no event has occurred which is reasonably likely to cause the loss of such registered status; (ii) all material obligations of each Credit Party (including fiduciary, funding, investment and administration obligations) required to be performed in connection with the Canadian Pension Plans and the funding agreements therefor have been performed in a timely fashion; (iii) there have been no improper withdrawals or applications of the assets of the Canadian Pension Plans or the Canadian Benefit Plans; (iv) there are no outstanding disputes concerning the assets of the Canadian Pension Plans or the Canadian Benefit Plans; and (v) each of the Canadian Pension Plans is fully funded on a solvency basis (using actuarial methods and assumptions which are consistent with the valuations last filed with the applicable Governmental Authorities and which are consistent with generally accepted actuarial principles).

Section 3.11. Disclosure. Each of the Borrowers has disclosed to the Lenders, in the Disclosed Matters or otherwise in writing, all facts and other circumstances specific to the Xerox Companies known, as of the Effective Date, to any Responsible Officer, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Except as a result

of any Restatement Event, and except for the Disclosed Matters and as otherwise disclosed to the Lenders in writing, neither the Business Plan nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of any Credit Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished, when taken together as a whole and with the Disclosed Matters) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading in any material respect in light of the circumstances in existence when made; provided that, with respect to projected financial information, Xerox represents only that such information was prepared in good faith based on assumptions believed to be reasonable at the time (and, as of any time prior to the Restatement Date, in the absence of any Restatement Event), it being recognized by the Lenders that such projections as to future events are not to be viewed as facts and that actual results during the period or periods covered by any such projections may differ from the projected results (including as a result of any Restatement Event) and that such differences may be material.

Section 3.12. Subsidiaries. Schedule 3.12 (a) sets forth the name and jurisdiction of organization of each Xerox Company, (b) sets forth the ownership interest of Xerox and any other Subsidiary in each Subsidiary, (c) identifies each Subsidiary that is (i) a Material Domestic Subsidiary, (ii) a Material Foreign Subsidiary, (iii) an initial Domestic Guarantor, (iv) an initial Canadian Guarantor, (v) a UK Guarantor, (vi) an Overseas Borrower, (vii) a Subsidiary the Equity Interests of which are required to be pledged on the Effective Date or (viii) a Subsidiary the Equity Interests of which are required to be pledged as part of the Post-Closing Collateral and Guarantee Requirement, (d) identifies each Xerox Group Company and (e) sets forth the U.S. Federal employer identification number of Xerox and each Domestic Guarantor, in each case as of May 31, 2002, and at any time on or after Xerox has delivered the Domestic Subsidiary Update Certificate, as of the date of such certificate, determined at such time in accordance with the terms hereof.

Section 3.13. Labor Matters. As of the Effective Date, except as set forth in the Disclosed Matters, there are no strikes, lockouts or slowdowns against any Xerox Company pending or, to the knowledge of any Responsible Officer of the Borrowers, threatened that could reasonably be expected to have a Material Adverse Effect. Except as could not reasonably be expected to have a Material Adverse Effect, the hours worked by and payments made to employees of the Xerox Companies have not violated the Fair Labor Standards Act or any other applicable Federal, state, provincial, local or foreign law dealing with such matters. Except as could not reasonably be expected to have a Material Adverse

Effect, all payments due from any Xerox Company, or for which any claim may be made against any Xerox Company, on account of wages and employee health and welfare insurance and other such benefits, have been paid or accrued as a liability on the books of such Xerox Company. Except as could not reasonably be expected to have a Material Adverse Effect, the consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement by which any Xerox Company is bound.

Section 3.14. Representations and Warranties of Future Overseas Borrowers. Each Overseas Borrower (other than XCE and XCD) shall be deemed by the execution and delivery of its Election to Participate to have represented and warranted as of the date thereof that:

(a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization.

(b) The execution and delivery by it of its Election to Participate and any other Loan Document, and the performance by it of this Agreement and any other Loan Document are within its corporate (or equivalent) powers, have been duly authorized by all necessary corporate (or equivalent) action, and do not contravene (i) its charter or by-laws or (ii) any law or any contractual restriction governing Debt or other material restriction binding on or affecting it or any of its assets.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority or regulatory body is required for the due execution and delivery by it of its Election to Participate and any other Loan Document, and the performance by it of this Agreement and any other Loan Document, other than those which have been duly obtained or made and are in full force and effect and filings, registrations and recordings necessary to perfect the Transaction Liens.

(d) This Agreement is, and each other Loan Document when delivered hereunder will be, legal, valid and binding obligations of it enforceable against it in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

ARTICLE 3
Conditions

Section 4.01. Effective Date. This Agreement shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

(a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of each of (i) Skadden, Arps, Slate, Meagher & Flom LLP & Affiliates, special counsel for the Credit Parties, substantially in the form of Exhibit B-1, (ii) Fasken Martineau DuMoulin LLP, Canadian counsel for the Credit Parties, substantially in the form of Exhibit B-3, (iii) Lovells, United Kingdom counsel for the Credit Parties, substantially in the form of Exhibit B-4, (iv) Martin S. Wagner, Associate General Counsel, Corporate, Finance and Ventures, of Xerox, substantially in the form of Exhibit B-2, (v) the Counsel of XCD, substantially in the form of Exhibit B-5, and (vi) the General Counsel of XCE, substantially in the form of Exhibit B-6, and, in the case of each opinion required by this Section 4.01(b), covering such other matters relating to the Credit Parties, the Loan Documents or the Transactions as the Required Lenders shall reasonably request. Each Borrower requests such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Domestic Credit Party, XCD and XCE, the authorization of the Transactions and any other legal matters relating to such Credit Parties, the Loan Documents or the Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by a Responsible Officer of Xerox, confirming compliance with the conditions set forth in Sections 4.02(a) and 4.02(b).

(e) The Credit Parties shall have paid all fees and other amounts due and payable to the Lender Parties on or before the Effective Date, including, to the extent invoiced, all reasonable out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel to the Agents) required to be reimbursed or paid by any Credit Party under the Loan Documents.

(f) The Effective Date Collateral and Guarantee Requirement shall have been satisfied and the Administrative Agent shall have received a completed Perfection Certificate delivered by Xerox on behalf of the Domestic Credit Parties dated the Effective Date and signed by an appropriate officer of Xerox, together with all attachments contemplated thereby, including the results of a search of the UCC filings made with respect to the Credit Parties in the jurisdictions contemplated by the Perfection Certificate and copies of the financing statements disclosed by such search and evidence reasonably satisfactory to the Administrative Agent that the Liens indicated by such financing statements (or similar documents) that are effective to perfect a Lien are permitted by Section 6.02 or have been released or the obligations secured thereby have been satisfied.

(g) The Administrative Agent shall have received evidence that all insurance required by Section 5.07 is in effect.

(h) The Administrative Agent shall have received the Effective Date Paydown.

(i) The Administrative Agent shall have received promissory notes evidencing the Loans, to the extent requested by any Lender.

(j) Xerox shall have paid all interest on Advances (as defined in the Existing Credit Agreement) under the Existing Credit Agreement and all commitment fees pursuant to Section 2.07(a) of the Existing Credit Agreement, each as accrued and unpaid through but excluding the Effective Date.

(k) The Administrative Agent shall have received copies of the Reference Indenture, the ESOP Note Documents, the XCFI Indentures, the Support Agreement and the Operating Agreement, each as in effect as of the Effective Date, certified by an appropriate officer.

Promptly after the Effective Date occurs, the Administrative Agent shall notify Xerox and the Lenders thereof, and such notice shall be conclusive and binding.

Section 4.02. Each Extension of Credit. The obligation of each Lender to make any Loan and the obligation of any LC Issuing Bank to issue, amend, renew or extend any Letter of Credit, are each subject to receipt of the relevant Borrower's request therefor in accordance herewith and to the satisfaction of the following conditions:

(a) The representations and warranties of each Credit Party set forth in the Loan Documents shall be true on and as of the date of such Loan or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable (except to the extent such representations and warranties specifically relate to an earlier date, in which case such representations and warranties shall have been true on and as of such earlier date), provided that with respect to any Loans being repaid and made in an equal amount pursuant to Section 2.05(b), the representations and warranties set forth in Sections 3.01 (with respect to power and authority only), 3.04(b)-(c), 3.05(a)-(b), 3.06, 3.07, 3.09, 3.10, 3.12 and 3.13 shall be excluded.

(b) Immediately after giving effect to such Loan or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Loan and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by each Borrower on the date thereof as to the matters specified in this Section 4.02.

Section 4.03. First Borrowing by Certain Overseas Borrowers. The obligation of each Lender to make a Loan on the occasion of the first Borrowing by each Overseas Borrower (other than XCE and XCD) is subject to the satisfaction of the following further conditions:

(a) receipt by the Administrative Agent of an opinion of counsel for such Overseas Borrower reasonably acceptable to the Administrative Agent, substantially in the form of Exhibit B-7 hereto and covering such additional matters relating to the transactions contemplated hereby as any Lender through the Administrative Agent may reasonably request; and

(b) receipt by the Administrative Agent of all documents which it may reasonably request relating to the existence of such Overseas Borrower, its corporate authority for and the validity of its Election to Participate, this Agreement and any other Loan Document, and any other matters relevant thereto, all in form and substance reasonably satisfactory to the Documentation Agent.

The opinion referred to in clause 4.03(a) above shall be dated no more than five Business Days before the date of the first Borrowing by such Overseas Borrower hereunder.

ARTICLE 4
Affirmative Covenants

Until all the Revolving Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or been cancelled or been cash collateralized pursuant to Section 2.04(j) and all LC Disbursements have been reimbursed, Xerox covenants and agrees with the Lenders that:

Section 5.01 Financial Statements and Other Information. Xerox will furnish to the Administrative Agent and each Lender:

(a) within 105 days after the end of each Fiscal Year, commencing with the Fiscal Year ending on December 31, 2002, its audited consolidated balance sheet as of the end of such Fiscal Year and the related statements of operations, stockholders' equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all reported on without qualification by PricewaterhouseCoopers LLP or other independent public accountants of recognized national standing as presenting fairly in all material respects the financial position, results of operations and cash flows of Xerox and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP;

(b) within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year commencing with the third Fiscal Quarter of 2002, its consolidated balance sheet as of the end of such Fiscal Quarter and the related statements of operations, stockholders' equity and cash flows for such Fiscal Quarter and for the then elapsed portion of such Fiscal Year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous Fiscal Year, all certified by a Financial Officer as presenting fairly in all material respects the financial position, results of operations and cash flows of Xerox and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP, subject to normal year-end adjustments and the absence of footnotes, provided that if the Restatement Date has not occurred by the date that Xerox is required by this Section 5.01(b) to furnish consolidated

financial statements for the third Fiscal Quarter of 2002, it is understood and agreed that the consolidated financial statements for the third Fiscal Quarter of 2002 pursuant to this Section 5.01(b) shall be prepared on a basis consistent with the consolidated financial statements referred to Section 3.04(a)(ii), without giving effect to the Restatement, the effect of the Restatement on Fiscal Year 2001 and the effect of Xerox's change as of January 2002 to the new method of lease revenue recognition adopted in connection with the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement"), and the Financial Officer's certification need not state that such consolidated financial statements have been prepared in accordance with GAAP and may be otherwise qualified to reflect this proviso;

(c) concurrently with each delivery of financial statements under Section 5.01(a) and 5.01(b), a certificate of a Financial Officer (i) certifying whether or not any Responsible Officer has knowledge as to whether a Default has occurred and is continuing and, if a Default has occurred and is continuing, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.12 through 6.15, (iii) stating whether any change in GAAP affecting Xerox's consolidated financial statements or in the application thereof has occurred since the later of (A) the date of the most recent financial statements delivered pursuant to Section 5.01(a) and (B) the date of the Borrower's audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate (provided that such certificate need not address the Restatement, the effect of the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement") on Fiscal Year 2001 and the effect of Xerox's change as of January 2002 to the new method of lease revenue adopted in connection with the Restatement (and any new method of accounting of the character described in clause (b) of the definition of "Restatement")) and (iv) in the case of Section 5.01(a), the comparable figures for such Fiscal Year included in the Business Plan and in the case of Section 5.01(b), to the extent the Business Plan contains figures for such Fiscal Quarter, the comparable figures for such Fiscal Quarter included in the Business Plan (in each case in a level of detail consistent with the Business Plan) and an explanation in reasonable detail of any significant variances from such Business Plan figures;

(d) concurrently with each delivery of financial statements under Section 5.01(a), a certificate of the accounting firm that reported on such financial statements stating whether during the course of their examination

of such financial statements they obtained knowledge of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(e) as soon as available and in any event by February 15 of each Fiscal Year, a copy of Xerox's annual business and financial plan for the Xerox Companies for such Fiscal Year on a quarterly basis and for any subsequent Fiscal Year up to and including 2005 on an annual basis, in form and level of detail consistent in all material respects with the Business Plan or otherwise reasonably satisfactory to the Agents (taking into account the sensitive nature of such information) and in any event including (i) projected balance sheets, income statements and cash flows, (ii) a description of the material assumptions used in preparing such plan and (iii) a comparison to the comparable information included in the Business Plan and an explanation of any significant variances, and promptly when available, any significant revisions to such plan;

(f) within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year and 105 days after the end of the last Fiscal Quarter of each Fiscal Year (commencing with the second Fiscal Quarter of 2002 with respect to Section 5.01(f)(ii) and commencing with the third Fiscal Quarter of 2002 with respect to all other clauses of this Section 5.01(f)), a certificate of a Financial Officer:

(i) describing in reasonable detail the amount of any Foreign Net Cash Proceeds received by any Foreign Subsidiary during such Fiscal Quarter;

(ii) setting forth the aggregate Cash Balances of all Foreign Subsidiaries, taken as a whole, as of the last day of such Fiscal Quarter and the aggregate amount of all Debt of Foreign Subsidiaries outstanding on the last day of such Fiscal Quarter that was incurred in reliance on Section 6.01(a)(iii);

(iii) stating that in the good faith judgment of such Financial Officer either no Excess Foreign Cash or Foreign Net Cash Proceeds were required to be transferred to Xerox during such Fiscal Quarter or the amount of Excess Foreign Cash and Foreign Net Cash Proceeds that were required to be and were transferred to Xerox during such Fiscal Quarter, and in either case setting forth in reasonable detail the relevant calculations of any Excess Foreign Cash;

(iv) setting forth in reasonable detail the aggregate amount of all loans or advances made to the Foreign Subsidiaries during such Fiscal Quarter pursuant to Section 6.04(a)(v) and the relevant calculations demonstrating that such loans and advances were made in compliance with such clause; and

(v) setting forth any information required to be delivered pursuant to Sections 5.03(a), 5.11 and 5.14(c);

(g) within 60 days after the end of each of the first three Fiscal Quarters of each Fiscal Year, beginning with the first Fiscal Quarter ending on or after the Restatement Date, and 105 days after the end of the last Fiscal Quarter of each Fiscal Year, and at any other time within 30 days after a request from the Administrative Agent (provided that, unless a Default has occurred and is continuing, the Administrative Agent may not make such a request more than two times in any Fiscal Year), a certificate of a Financial Officer (each, a "Basket Lien Principal Amount Certificate"), in substantially the form of Exhibit I hereto, setting forth (i) the calculation of the Basket Lien Principal Amount and the Basket Lien Coverage Ratio and (ii) a list of all "Specified Subsidiaries" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under a new Reference Indenture), in each case as of the last day of such Fiscal Quarter or as of the date specified in such request, as the case may be, provided that (A) it is understood that such calculation made at the request of the Administrative Agent may only be an estimate and (B) in the absence of gross negligence or wilful misconduct, if the calculation of the Basket Lien Principal Amount in any Basket Lien Principal Amount Certificate with respect to Liens existing on the Effective Date shall prove to have been incorrect, such incorrect calculation shall not constitute an Event of Default pursuant to Section 7.01(c) unless the error is more than \$25,000,000;

(h) within 105 days of the end of each Fiscal Year, a certificate of a Financial Officer setting forth the names of each Foreign Subsidiary with respect to which Xerox has previously delivered an Immaterial Subsidiary Certificate and each Domestic Subsidiary that was identified as not being a Material Domestic Subsidiary in either the Domestic Subsidiary Update Certificate or an Immaterial Subsidiary Certificate and certifying whether each such Subsidiary still does not qualify as a Material Foreign Subsidiary or Material Domestic Subsidiary, as the case may be;

(i) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed

by any Xerox Company with the SEC, or any Governmental Authority succeeding to any or all of the functions of the SEC, or distributed by Xerox to its shareholders generally, as the case may be; and

(j) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of any Xerox Company, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender (through the Administrative Agent) may reasonably request.

Xerox shall be deemed to have delivered the financial statements and other information referred to in Sections 5.01(a), 5.01(b) and 5.01(i) above, when (i) such SEC filings, financials or other information have been posted on the Internet website of the Securities and Exchange Commission (<http://www.sec.gov>) or on Xerox's own internet website as previously identified to the Administrative Agent and Lenders and (ii) Xerox has notified the Administrative Agent and the Lenders by electronic mail of such posting. If the Administrative Agent or a Lender requests such SEC filings, financial statements or other information to be delivered to it in hard copies, Xerox shall furnish to the Administrative Agent or such Lender, as applicable, such statements accordingly; provided, that no such request shall affect that such SEC filings, financial statements or other information have been deemed to have been delivered in accordance with the terms of the immediately preceding sentence.

Section 5.02 Notice of Material Events. Xerox will furnish to the Administrative Agent and each Lender written notice of the following promptly after a Responsible Officer becomes aware thereof:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting any Xerox Company or any Subsidiary thereof that (i) as to which there is a reasonable possibility of an adverse determination that could reasonably be expected to result in a Material Adverse Effect or (ii) involves any of the Loan Documents or the Transactions;

(c) the occurrence of any ERISA Event or any Canadian Funding Failure that, alone or together with any other ERISA Events or Canadian Funding Failures that have occurred, could reasonably be expected to result in liabilities of the Xerox Companies in an aggregate amount exceeding \$25,000,000;

(d) the occurrence of any Capital Markets Event, Equity Issuance, Asset Transfer, Casualty Event or Change of Control; and

(e) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section 5.02 shall be accompanied by a statement of a Responsible Officer describing in reasonable detail the event or development requiring such notice and any action taken or currently proposed to be taken with respect thereto.

Section 5.03. Information Regarding Collateral. (a) Xerox will furnish to the Administrative Agent promptly (but in any event within 20 Business Days of the occurrence of such event) written notice of any change in (i) any Credit Party's corporate, partnership, company or other legal name or location (determined as provided in Section 9-307 of the UCC), or, in the case of any Canadian Credit Party, its place of business or chief executive office if it has more than one place of business (determined as provided in the personal property security act applicable to such Canadian Credit Party or its property) or, if applicable, its domicile (as defined in the Quebec Civil Code), (ii) any Credit Party's identity or organizational structure or (iii) any U.S. Credit Party's Federal Taxpayer Identification Number or organization identification number, and promptly will make or cause to be made all filings that are required under the UCC (or its equivalent) and will ensure that all other actions have been taken that are required so that such change will not at any time adversely affect the validity, perfection or priority of any Transaction Lien on any of the Collateral.

(b) Each year, at the time annual financial statements with respect to the preceding Fiscal Year are delivered pursuant to Section 5.01(a), Xerox will deliver to the Administrative Agent a certificate of a Responsible Officer (i) setting forth the information required pursuant to Sections A and B of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Effective Date or the date of the most recent certificate or notice delivered pursuant to this Section 5.03 and (ii) certifying that all UCC (or its equivalent) financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral which have been required to be filed pursuant to the relevant Security Agreement have been filed of record in each appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the Transaction Liens for a period of at least 18 months after the date of such certificate based on current facts and law (except as noted therein, including with respect to any continuation statements to be filed within such period).

Section 5.04. Existence; Conduct of Business. Each Xerox Company will do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits and privileges material to the conduct of its business; provided that the foregoing shall not prohibit (A) any merger, consolidation, liquidation or dissolution permitted under Section 6.03, (B) any changes in the nature of the business of any Xerox Company permitted by Section 6.03(b) or (C) failures to do any of the foregoing (except in respect of the existence of any Credit Party) that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

Section 5.05. Payment of Obligations. Each Xerox Company will pay its Debt and other obligations, including Tax liabilities, before the same shall become delinquent or in default, except where either (a) (i) the validity or amount thereof is being contested in good faith by appropriate proceedings, (ii) Xerox or the relevant Xerox Company has set aside on its books adequate reserves with respect thereto in accordance with GAAP, and (iii) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation or (b) the failure to make payment could not reasonably be expected to result in a Material Adverse Effect or such payment has become due as a result of a Restatement Event.

Section 5.06. Maintenance of Properties. Each Xerox Company will maintain (or will use commercially reasonable efforts to cause the party legally responsible for maintaining) all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, except where all failures to do so could not reasonably be expected to have a Material Adverse Effect.

Section 5.07. Insurance. (a) The Xerox Companies will maintain (either with financially sound and reputable insurance companies selected by the Xerox Companies that customarily write insurance for the risks covered thereby in the amounts contemplated thereby or through a self-insurance program) insurance as is usually carried by companies of established repute engaged in the same or similar business, owning similar properties, and located in the same general areas as the Xerox Companies or as may be required by law and will furnish to the Administrative Agent upon request information in reasonable detail as to the insurance so carried.

(b) Any property insurance covering any Collateral shall be endorsed or otherwise amended to include a lenders' loss payable clause in favor of the Administrative Agent and providing for losses thereunder to be payable to the Administrative Agent or its designee as sole loss payee, following receipt by the insurer from the Administrative Agent of a notice; provided that such notice will

only be furnished by the Administrative Agent if an Event of Default has occurred and is continuing (and shall be rescinded by the Administrative Agent promptly following the cessation of such Event of Default). Commercial general liability policies shall be endorsed to name the Administrative Agent, for itself and on behalf of each Lender, as an additional insured. Each such policy referred to in this Section 5.07(b) also shall provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon at least 10 days' prior written notice thereof by the insurer to the Administrative Agent (giving the Administrative Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon at least 30 days' prior written notice thereof by the insurer to the Administrative Agent. The Borrowers hereby agree that the Administrative Agent may (but is not required to) cure defaults in the payment of premiums as described in clause (i) above at any time.

Section 5.08. Proper Records; Rights to Inspect and Appraise. The Xerox Companies will keep proper books of record and account subject to year-end adjustments in which complete and correct entries in accordance with GAAP shall be made of all transactions relating to their business and activities. Each Xerox Company will permit any representatives designated by the Administrative Agent or the Required Lenders, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants (in the presence of its officers), all at such reasonable times during normal business hours and as often as reasonably requested.

Section 5.09. Compliance with Laws. Each Xerox Company will comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where failures to do so, in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 5.10. Use of Proceeds and Letters of Credit. The proceeds of the Revolving Loans will be used only for general corporate purposes of the Xerox Companies in compliance with this Agreement. No part of the proceeds of any Loan will be used, directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Federal Reserve Board, including Regulations T, U and X. Letters of Credit will be requested and used only to support standby obligations, and no such Letter of Credit shall be permitted if, after giving effect to the issuance thereof, the aggregate face amount of all letters of credit issued and outstanding either as (a) Letters of Credit or (b) letters of credit not issued pursuant to this Agreement with reimbursement obligations that are secured by cash collateral pursuant to Section 6.02(k), in each case for purposes other than supporting obligations of Ridge Re, would exceed \$195,000,000.

Section 5.11. Additional Subsidiaries. (a) (i) If any additional Subsidiary is formed or acquired after the Effective Date, Xerox will promptly (but in any event within 20 Business Days of the occurrence of such event) after such Subsidiary is formed or acquired, notify the Administrative Agent thereof and (ii) if (A) such Subsidiary is a Material Subsidiary that is directly owned by a Domestic Credit Party or a Foreign Credit Party or (B) a Domestic Subsidiary with respect to which Xerox has delivered an Immaterial Subsidiary Certificate or a Foreign Subsidiary with respect to which Xerox has delivered an Immaterial Subsidiary Certificate for purposes of clause (a) of the definition of "Material Foreign Subsidiary" becomes a Material Subsidiary that is directly owned by a Domestic Credit Party or a Foreign Credit Party, Xerox will promptly cause the outstanding Equity Interests of such Subsidiary to be pledged to the extent required by the relevant Security Document (except that (x) no more than 65% of the outstanding voting Equity Interests in any Material Foreign Subsidiary that is a corporation for United States Federal income tax purposes shall be pledged to secure the obligations of Xerox or any Domestic Subsidiary (either directly or through any entity that is a disregarded entity for such purposes) and (y) no Foreign Credit Party shall be required to pledge Equity Interests in any Person other than Material Foreign Subsidiaries directly owned by it and organized under the laws of the same country as such Credit Party (or any state, province or other political subdivision thereof)) and deliver or cause to be delivered to the Administrative Agent all certificates or other instruments representing such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank; provided that the Agents may agree in their discretion, with respect to any pledge of the Equity Interests in any Material Foreign Subsidiary described in this clause (ii), that the pledge of such Equity Interests is impossible, impractical or unreasonably burdensome or expensive (or has been substantially, but not fully, completed) and the Agents may, in their respective good faith discretion, consent to a waiver of the pledge of any such Equity Interests. In acting pursuant to the foregoing proviso, each Agent shall be entitled to the benefits of Article 8 of this Agreement, and without limiting the generality of the foregoing, the Lenders hereby authorize the Agents, in their sole discretion and from time to time, to grant such waivers and hereby confirm and agree, without limiting the generality of Article 8 of this Agreement, that in the absence of gross negligence or willful misconduct, no Agent shall be liable to any Lender on account of granting any such waiver and any consequences thereof.

(b) If (i)(A) any additional Subsidiary referred to in Section 5.11(a) (other than a Subsidiary formed or acquired pursuant to Section 6.04(a)(xvi)) is or subsequently becomes a Wholly-Owned Material Domestic Subsidiary, a Wholly-Owned Material Canadian Subsidiary or a Foreign Subsidiary that is required to be a Foreign Guarantor pursuant to Section 5.14(a) or (B) a Subsidiary that is not a Guarantor on the Effective Date becomes a Wholly-Owned Material Domestic Subsidiary, a Wholly-Owned Material Canadian

Subsidiary or a Foreign Subsidiary that is required to be a Foreign Guarantor pursuant to Section 5.14(a) (other than, in each case, a Subsidiary that is not a Xerox Group Company) and (ii) such Subsidiary is not prohibited by Applicable Law or legally valid contractual restrictions in effect on the date hereof or otherwise permitted by Section 6.10 (or, in the case of a Finance SPE, legally valid and customary contractual restrictions or other legally valid contractual restrictions entered into in connection with the Third Party Vendor Financing Program) from guaranteeing one or more Borrowers' obligations hereunder and, from time to time and pursuant to the relevant Security Document, securing such guarantee, Xerox shall promptly cause such Subsidiary to deliver a duly executed supplement to the relevant Security Documents, in the form specified therein, to the Administrative Agent, whereupon such Subsidiary will become a "Domestic Guarantor" or "Foreign Guarantor" and, from time to time, "Lien Grantor" for purposes of the Loan Documents. In addition, Xerox may, at its option, designate as a Guarantor any other Subsidiary that is not a Wholly-Owned Material Subsidiary. If any Subsidiary is so designated, Xerox shall promptly cause such Subsidiary to deliver a duly executed supplement to the relevant Security Documents, in the form specified therein, to the Administrative Agent, whereupon such Subsidiary will become a "Guarantor" and, from time to time, a "Lien Grantor" for purposes of the Loan Documents.

Section 5.12. Subsidiary Cash. (a) If (i) on the last day of any Fiscal Quarter, the Cash Balances of the Wholly-Owned Foreign Subsidiaries that are Xerox Group Companies taken as a whole exceed their aggregate Ordinary Course Needs (such excess, "Excess Foreign Cash") or (ii) any Wholly-Owned Foreign Subsidiary receives Net Proceeds of an Included Asset Transfer, or XCE or any Foreign Subsidiary that is a Finance SPE receives Net Proceeds of an issuance of Covered Capital Markets Debt or an Equity Issuance permitted pursuant to Section 6.01(b)(ii), which in each case is not an Excepted Transaction ("Foreign Net Cash Proceeds"), then Xerox shall as promptly as practicable cause an amount equal to such Excess Foreign Cash (net of any Taxes described below) or the Applicable Percentage of Foreign Net Cash Proceeds effectively to be transferred directly or indirectly to Xerox (and, in the case of any Foreign Net Cash Proceeds, applied as provided in Section 2.10), provided that, except with respect to any Planned Qualified Receivables Transaction of a type described in clause (a) of the definition thereof consummated prior to the payment in full of the Tranche C Term Loans or the issuance of any Covered Capital Markets Debt by XCE or any Foreign Subsidiary that is a Finance SPE, (A) such transfer or application shall not be required to the extent that (1) it cannot be made in a tax efficient manner (as determined under Section 5.12(b)) or (2) such transfer or application would violate any applicable contracts in effect as of the date of this Agreement or otherwise permitted by Section 6.10 or would violate Applicable Law or if Applicable Law would require minority shareholder approval, a valuation or a discretionary order or would, in the good faith determination of

Xerox or a majority of the Board of Directors of such Foreign Subsidiary, involve a reasonable likelihood of there being a breach of fiduciary duties by the directors of such Foreign Subsidiary and (B) it is understood and agreed that (1) Xerox may subsequently re-transfer any such Excess Foreign Cash to any Foreign Subsidiary, as provided in Section 6.04 and (2) in connection with managing transfers of Excess Foreign Cash pursuant to this Section 5.12 and making loans, investments and other advances to Foreign Subsidiaries permitted by Section 6.04, Xerox may cause Excess Foreign Cash to be transferred among Foreign Subsidiaries, rather than transferred to it, in lieu of loans, investments or other advances it would otherwise be permitted to make and would make pursuant to Section 6.04. Notwithstanding the foregoing, (a) in the case of any Foreign Net Cash Proceeds that would otherwise be required to be transferred to Xerox pursuant to this Section 5.12(a), Xerox need not make such transfer if it nonetheless makes the related mandatory prepayment that would otherwise be required by Section 2.10(b)(i) or 2.10(b)(ii) using funds not otherwise required to be made the basis of any mandatory prepayment pursuant to Section 2.10 and (b) if the Foreign Net Cash Proceeds of an Included Asset Transfer are less than \$75,000,000, Xerox shall not be required to cause the Applicable Percentage of such Foreign Net Cash Proceeds effectively to be transferred directly or indirectly to Xerox and applied as provided in Section 2.10(b)(i) until the aggregate Foreign Net Cash Proceeds of Included Asset Transfers not so applied equal or exceed \$75,000,000.

(b) For purposes of Section 5.12(a), the parties agree that a transfer or application of funds (the "Proposed Transfer") cannot be made in a tax efficient manner if and only if in the good faith judgement of Xerox

(i) the aggregate amount of projected Taxes to be incurred by Xerox and all of its Subsidiaries if the Proposed Transfer is made exceeds the aggregate amount of such projected Taxes if the Proposed Transfer is not made by more than the Threshold Amount; and

(ii) there is no reasonably practicable alternative transaction or transactions that would result in the receipt by Xerox of such Excess Foreign Cash or Foreign Net Cash Proceeds at a cost less than or equal to the Threshold Amount.

For purposes of clause (i) above, Taxes shall be projected on the basis of:

(A) reasonable, good faith estimates of income, expenses and cash flows, and (B) the overall net Tax cost to Xerox and its Subsidiaries, taking into account (without duplication) (1) all applicable Taxes for the fiscal year of the Proposed Transfer, (2) all credits and deductions in respect of taxes paid or accrued that are available for such fiscal year,

and (3) all carryovers of prior net operating losses or other tax attributes to such fiscal year but without taking into account any carryover of tax attributes from such fiscal year to any future fiscal year. For purposes of clause (ii) above Xerox shall give consideration in good faith to whether the Proposed Transfer can be effected indirectly through other wholly-owned subsidiaries.

(c) If on the last day of any Fiscal Quarter XCC's Cash Balance exceeds the sum of (i) the aggregate principal amount of Debt and other obligations of XCC required to be repaid at any time within the next succeeding Fiscal Quarter, plus the amount of accrued interest premium, and other amounts that will be payable on the principal amount to be repaid, and (ii) such other amounts as XCC determines in good faith as are required to meet its ordinary course expenses during the succeeding Fiscal Quarter, then Xerox shall no later than the second Business Day of the next succeeding month cause an amount equal to such excess to be directly or indirectly transferred to it (which transfer may take, without limitation, the form of a demand loan or other advance from XCC to Xerox). On and after the date hereof, Xerox will not, nor will it permit any other Subsidiary to, make any loan, advance or other payment of money to XCC, repay any loan, advance or other obligation owing to XCC (other than any repayment all of the proceeds of which are applied on the Closing Date to repay loans of XCC outstanding under the Existing Credit Agreement pursuant to Section 4.01(c)) or sell or otherwise transfer any asset to XCC, except that Xerox Companies may (A) make loans, advances or other payments of money to XCC, or repay any loan, advance or other obligation owing to XCC, in an amount necessary, when added to XCC's Cash Balance (plus any other funds expected to be timely available to it), to enable XCC (1) to repay, together with accrued interest, any principal amount of Debt required to be repaid within 5 Business Days of such payment of money to XCC or (2) to repay or repurchase any Capital Markets Debt of XCC in connection with an issuance by Xerox of XCC Exchange Debt and (B) make any payment to XCC required by the Support Agreement or the Operating Agreement.

Section 5.13. Post-Closing Collateral and Guarantees. (a) Within 75 days following the Effective Date, Xerox will cause an appraisal to be completed for the facilities located in Henrietta, New York and Rochester, New York by an appraiser and pursuant to instructions reasonably acceptable to the Agents. Within 90 days following the Effective Date, each relevant Credit Party shall cause the Post-Closing Collateral and Guarantee Requirement to be satisfied.

(b) Within 90 days following the Restatement Date, Xerox will (i) deliver to the Administrative Agent a certificate of a Financial Officer (the "Domestic Subsidiary Update Certificate") setting forth the names of each Material Domestic Subsidiary, determined pursuant to clause (b) of the definition

of such term, such certificate to have attached thereto a replacement Schedule 3.12 reflecting the information contained in such certificate (which shall replace in its entirety Schedule 3.12 as originally attached hereto and a copy of which shall be distributed to each Lender by the Administrative Agent promptly after receipt thereof), (ii) cause all outstanding Equity Interests in each Material Foreign Subsidiary directly owned by or on behalf of any Domestic Credit Party or any Foreign Credit Party, to the extent that such Equity Interests have not been pledged pursuant to Section 5.13(a) and to the extent required by the relevant Security Document, to be pledged pursuant to the relevant Security Document (except that (x) no more than 65% of the outstanding voting Equity Interests in any Material Foreign Subsidiary that is a corporation for United States Federal income tax purposes shall be pledged to secure the obligations of Xerox or any Domestic Subsidiary (either directly or through any entity that is a disregarded entity for such purposes) and (y) no Foreign Credit Party shall be required to pledge Equity Interests in any Person other than Material Foreign Subsidiaries directly owned by it and organized under the laws of the same country as such Credit Party (or any state, province or other political subdivision thereof)) and deliver or cause to be delivered to the Administrative Agent all certificates or other instruments representing such Equity Interests, together with stock powers or other instruments of transfer with respect thereto endorsed in blank and (iii) cause each Wholly-Owned Material Canadian Subsidiary to deliver a duly executed supplement to the Canadian Security Documents (to the extent that such Subsidiary is not already a party to any Canadian Security Document), in the form specified therein, to the Administrative Agent, whereupon such Subsidiary will become a "Canadian Guarantor" and, from time to time, a "Lien Grantor" for purposes of the Loan Documents to the extent that such Subsidiary is not prohibited by Applicable Law or legally valid contractual restrictions in effect on the date hereof or otherwise permitted by Section 6.10 (or, in the case of a Finance SPE, legally valid and customary contractual restrictions or other legally valid contractual restrictions entered into in connection with the Third Party Vendor Financing Program) from guaranteeing XCD's obligations hereunder and, from time to time and pursuant to the relevant Canadian Security Document, securing such guarantee, provided that the Agents may agree in their discretion, with respect to any pledge of the Equity Interests in any Material Foreign Subsidiary described in Section 5.13(b)(ii) or required as part of satisfying this Section 5.13(b)(iii), that the pledge of such Equity Interests is impossible, impractical or unreasonably burdensome or expensive (or has been substantially, but not fully, completed) and the Agents may, in their respective good faith discretion, consent to a waiver of the pledge of any such Equity Interests. In acting pursuant to the foregoing proviso, each Agent shall be entitled to the benefits of Article 8 of this Agreement, and without limiting the generality of the foregoing, the Lenders hereby authorize the Agents, in their sole discretion and from time to time, to grant such waivers and hereby confirm and agree, without limiting the generality of Article 8 of this Agreement, that in the absence of gross

negligence or willful misconduct, no Agent shall be liable to any Lender on account of granting any such waiver and any consequences thereof.

Section 5.14. Further Assurances. (a) Xerox will, and will cause its Subsidiaries to, deliver such Security Documents to the Administrative Agent as the Administrative Agent may reasonably request with respect to any additional Overseas Borrower designated as such pursuant to Section 2.19 after the date hereof promptly, but in no event later than 30 days after such designation, in order to provide comparable guarantee and security arrangements for the obligations of such Overseas Borrower as are provided (or required to be provided) for XCE and XCD.

(b) Each Credit Party will execute and deliver any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), that may be required under any Applicable Law, or that the Administrative Agent or the Required Lenders may reasonably request, to cause the Transaction Liens to constitute valid and perfected first priority Liens (subject to Liens permitted by Section 6.02) on the Collateral, all at the relevant Borrower or Borrowers' expense. Xerox will provide to the Administrative Agent, from time to time upon reasonable request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Transaction Liens created or intended to be created by the Security Documents.

(c) If any Domestic Credit Party acquires any real property having, at the time of acquisition thereof, a fair market value of at least \$25,000,000, Xerox will notify the Administrative Agent and the Lenders thereof promptly (but in any event within 20 Business Days of the occurrence of such event) and if requested by the Administrative Agent or the Required Lenders, will cause such real property (unless (i) a Financial Officer certifies that such real property is intended to be the subject of a Sale and Leaseback Transaction or the incurrence of Purchase Money Debt within 270 days, and such transaction is, in fact, consummated within 270 days or (ii) the granting of a Transaction Lien on such real property would violate Applicable Law or any contract existing on the date hereof or otherwise permitted by Section 6.10) to be subjected to a Transaction Lien securing the Secured Obligations and will take, or cause the relevant Guarantor to take, such actions as shall be necessary or reasonably requested by the Administrative Agent to grant and perfect or record such Transaction Lien, including actions described in Section 5.14(b), all at such Credit Party's expense.

Section 5.15. Ownership of Overseas Borrowers. Xerox will, at all times, own, directly or indirectly, 100% of the Equity Interests of each Overseas Borrower, except, in the event that XCI or any of its subsidiaries is designated an

Overseas Borrower, it shall be sufficient for Xerox to own 97% or more of the Equity Interests of XCI or such subsidiary.

ARTICLE 6
Negative Covenants

Until all the Revolving Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or been cancelled or been cash-collateralized pursuant to Section 2.04(j) and all LC Disbursements have been reimbursed, Xerox covenants and agrees with the Lenders that:

Section 6.01. Debt and Preferred Stock. (a) Other than as permitted by Section 6.01(b), no Xerox Group Company will create, incur, assume or permit to exist any Debt or Preferred Stock, except:

(i) Debt created under the Loan Documents;

(ii) Debt and Preferred Stock existing on the date hereof and, in the case of any such Debt or Preferred Stock issued to or held by a Person other than a Xerox Company as of May 31, 2002, listed in Schedule 6.01 and other Debt existing on the date hereof the individual outstanding principal amount of which does not exceed \$10,000,000 and extensions, renewals, refinancings and replacements, in whole or in part, of any such Debt or Preferred Stock (whether or not with the same creditors or obligors (except that (x) a Subsidiary which is a Xerox Group Company cannot be substituted as an obligor for Xerox, and (y) a Subsidiary that is a Domestic Subsidiary cannot be substituted for an obligor that is a Foreign Subsidiary)) that do not increase the outstanding principal amount thereof (other than to finance accrued interest, fees and other amounts outstanding in respect thereof and fees and expenses incurred in connection with such extension, renewal, refinancing or replacement) or result in an earlier maturity date or decreased weighted average life thereof, provided that any such extension, renewal, refinancing or replacement shall only be permitted under this Section 6.01(a)(ii) if (A) the Debt or Preferred Stock being extended, renewed, refinanced or replaced, as well as the related new Debt or Preferred Stock, is held by a Xerox Company, (B) the new Debt or Preferred Stock is of a type and in an amount that could be incurred, as of the date of such extension, renewal, refinancing or replacement, without relying on this Section 6.01(a)(ii) or Section 6.01(b) or (C) (x) such extension, renewal, refinancing or replacement (1) is not Capital Markets Debt and (2) does not exceed \$10,000,000 in the case of

any individual facility and (y) the aggregate principal amount of all Debt incurred in reliance upon this clause (C) outstanding at any time does not exceed \$75,000,000;

(iii) Debt of Foreign Subsidiaries described in clause (b) of the definition of "Excepted Transaction";

(iv) Debt or Preferred Stock of any Subsidiary issued to or held by Xerox or any Domestic Guarantor or, if such Subsidiary is not a Credit Party, any Credit Party; provided that any such Debt is permitted to be advanced pursuant to Section 6.04(a);

(v) Purchase Money Debt in an aggregate principal amount under this Section 6.01(a)(v) not exceeding \$75,000,000 at any time outstanding;

(vi) Debt consisting of obligations referred to in Section 6.02(d) and secured by Liens permitted under such Section 6.02(d);

(vii) Guarantees of Debt of Xerox under any Indenture required to be entered into pursuant to the terms thereof, Guarantees permitted by Section 6.04, any Guarantee of Debt of any Subsidiary which Debt is permitted hereunder and Guarantees of Debt of the ESOP Plan pursuant to the Xerox Corporation Employee Stock Ownership Plan Trust Note Agreement dated as of October 1, 1993 as in effect on the date hereof;

(viii) Debt of a Person existing at the time such Person becomes a Subsidiary; provided that such Debt was not created in contemplation of such Person becoming a Subsidiary;

(ix) Debt or Preferred Stock incurred in a Qualified Receivables Transaction or a transaction pursuant to the Third Party Vendor Financing Program, provided that such Debt shall not constitute or create indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount;

(x) Debt of a Credit Party owed to any Subsidiary, provided that such Debt (other than Debt of Xerox owed to XCC or Debt of any Credit Party owed to a Finance SPE) is subordinated to the Secured Obligations on the terms set forth on Exhibit H hereto;

(xi) Obligations incurred by any Xerox Company to repay any amounts directly or indirectly transferred to such Xerox Company pursuant to Section III(e)(iv) of the Framework Agreement dated

September 11, 2001 between Xerox and General Electric Capital Corporation or any other arrangement pursuant to which any Xerox Company may receive and become obligated to repay amounts in a collateral, "holdback" or similar account established in connection with the Third Party Vendor Financing Program or any Qualified Receivables Transaction;

(xii) other Debt in an aggregate principal amount not exceeding \$50,000,000 at any time outstanding;

(xiii) Debt of a Subsidiary which is not a Credit Party owed to a Subsidiary which is not Credit Party;

(xiv) Debt of a Foreign Subsidiary owed to a Foreign Subsidiary;

(xv) Capital Lease Obligations arising in connection with Sale and Leaseback Transactions involving property owned by a Xerox Company as of the Effective Date; provided that the aggregate initial amount of such transactions entered into pursuant to this Section 6.01(a)(xv) shall not exceed \$75,000,000; and

(xvi) Debt arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business, provided, that such Debt is extinguished within five Business Days of incurrence.

(b) In addition to Debt and Preferred Stock permitted to be incurred pursuant to Section 6.01(a), Xerox or XCE or any Finance SPE (but not any other Subsidiary) may

(i) incur Capital Markets Debt that does not mature or have any principal amortization prior to October 31, 2005; and

(ii) issue Preferred Stock that is Qualified Capital Stock.

Section 6.02. Liens. No Xerox Group Company (other than Foreign Subsidiaries that are not Credit Parties and are not "Specified Subsidiaries" as defined in the Reference Indenture) will create or permit to exist any Lien on any property now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable but excluding Transfers permitted by this Agreement) or rights in respect of any thereof, except:

(a) Liens created under the Security Documents;

(b) Permitted Liens;

(c) (i) any Lien on any property of Xerox or any Domestic Subsidiary existing on the date hereof and, in the case of any such Lien in existence on May 31, 2002, listed in Schedule 6.02, (ii) any other Lien on any property of Xerox or any Domestic Subsidiary existing on the date hereof that either (A) does not secure Debt, (B) secures Debt existing on the date hereof the individual outstanding principal amount of which does not exceed \$25,000,000, or (C) secures Debt owed to a Xerox Company, and (iii) any Lien on any property of any Foreign Subsidiary existing on the date hereof; provided that (A) such Lien shall not apply to any other property of any Xerox Company and (B) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that are permitted by Section 6.01(a)(ii);

(d) any Lien existing on any property before the acquisition thereof by any Xerox Company or existing on any property of any Person that becomes a Subsidiary after the date hereof before the time such Person becomes a Subsidiary; provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (B) such Lien will not apply to any other property of any Xerox Company and (C) such Lien will secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof (other than to finance accrued interest, fees and other amounts outstanding in respect thereof and fees and expenses incurred in connection with such extension, renewal, refinancing or replacement) or result in an earlier maturity date or decreased weighted average life thereof;

(e) Liens securing Purchase Money Debt permitted by Section 6.01(a)(v) or 6.01(a)(xv), provided that (A) such Liens under Section 6.01(a)(v) are incurred before or within 120 days after the acquisition or the completion of construction or improvement related to such Purchase Money Debt, and (B) such Liens will not apply to any other property of any Xerox Company;

(f) Qualified Receivables Transaction Liens and Liens granted pursuant to the Third Party Vendor Financing Program, provided that such Liens do not secure indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount;

(g) Qualified Capital Markets Liens;

(h) the rights of XCC relating to the certain reserve account established pursuant to the Operating Agreement;

(i) (i) Liens permitted by the first proviso (not in a parenthetical) of Section 1012(a) of the Reference Indenture existing on the date hereof and (ii) other Liens permitted by the first proviso (not in a parenthetical) of Section 1012(a) of the Reference Indenture, provided that the aggregate principal amount of Debt secured by Liens permitted in this Section 6.02(i)(ii) (including Debt secured by Liens incurred in reliance on this Section 6.02(i)(ii) as permitted by the last sentence of Section 6.02) shall not exceed \$25,000,000 at any time outstanding;

(j) Liens on deposits or other accounts (and the cash and cash equivalents or investments from time to time credited thereto) securing obligations under any Hedging Agreement; and

(k) Liens on deposits or other accounts (and the cash and cash equivalents or investments from time to time credited thereto) securing reimbursement and other obligations with respect to letters of credit other than Letters of Credit issued under this Agreement in an aggregate face amount outstanding at any time pursuant to this Section 6.02(k) not exceeding \$250,000,000, provided that no such Liens shall be permitted to the extent that, after giving effect to the grant thereof, the aggregate face amount of all letters of credit issued and outstanding either as (a) Letters of Credit or (b) letters of credit not issued pursuant to this Agreement with reimbursement obligations that are secured by cash collateral pursuant to this Section 6.02(k), in each case for purposes other than supporting obligations of Ridge Re, would exceed \$195,000,000.

In addition, no Xerox Company that is not a Xerox Group Company (for purposes of this paragraph, "non-Xerox Group Companies") will create or permit to exist any Lien on any property now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable but excluding Transfers permitted by this Agreement) or rights in respect of any thereof, that secures indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount; provided that this sentence shall not prohibit (A) Liens created under the Security Documents, (B) any Lien on property of any non-Xerox Group Company existing on the date hereof, provided that such Lien shall not apply to any other property of any Xerox Company and such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that would be permitted by Section 6.01(a)(ii), if such Section applied to non-Xerox Group Companies, applying such Section to non-Xerox Group Companies, mutatis mutandis, or (C) Liens that would be permitted pursuant to Section 6.02(i)(ii) if

such Section applied to non-Xerox Group Companies, applying such Section to non-Xerox Group Companies, mutatis mutandis, it being understood that any Debt secured by Liens on any property of any non-Xerox Group Company incurred in reliance on this clause (C) shall be included in the calculation of the aggregate principal amount of Debt that is allowed to be secured by Liens pursuant to Section 6.02(i)(ii).

Section 6.03. Fundamental Changes. (a) No Xerox Group Company will merge into or consolidate with any other Person, or liquidate or dissolve, or permit any other Person to merge into or consolidate with it, except that, if at the time thereof and immediately after giving effect thereto no Event of Default shall have occurred and be continuing, (i) any Person (including a Subsidiary) may merge into Xerox in a transaction in which Xerox is the surviving corporation, (ii) any Person (including a Subsidiary) may merge into or consolidate with any Subsidiary in a transaction in which the surviving entity is a Subsidiary and (if any party to such merger is a Guarantor) is or becomes a Guarantor, (iii) any Subsidiary (except a Credit Party) may liquidate or dissolve and any Credit Party may liquidate or dissolve into another Credit Party; provided that a Domestic Credit Party may only be liquidated or dissolved into another Domestic Credit Party; provided that in each case, if any such merger involves a Person that is not a wholly owned Subsidiary immediately before such merger, such merger shall not be permitted unless also permitted by Section 6.04.

(b) No Xerox Group Company (other than an IP Company) will engage in any business as its principal lines of business other than the principal lines of business engaged in by the Xerox Companies, taken as a whole, on the date hereof and similar or related businesses.

Section 6.04. Investments and Acquisitions. (a) No Xerox Group Company will make or acquire any Investment in any Person other than:

(i) Permitted Investments;

(ii) Investments existing on the date hereof, any extension or renewal thereof that does not increase the principal amount thereof (other than to reflect any accrued interest, dividends or other amounts with respect thereto and any expenses incurred in connection with such extension or renewal) and conversions of any such debt Investments into equity Investments and contributions or other transfers of such Investments to any Xerox Company (other than for cash);

(iii) (A) Investments made by any Credit Party in any Domestic Credit Party (including any Person that becomes a Domestic Credit Party concurrently with the making of such Investment) and (B) Investments

made by any Credit Party in, and the contribution or other transfer of an Investment by any Credit Party to, any Foreign Credit Party or any Subsidiary that is not a Credit Party, provided that the aggregate outstanding amount of Investments made, contributed or transferred pursuant to this Section 6.04(a)(iii)(B) (including any Investments originally made pursuant to Section 6.04(a)(iii)(A) and subsequently transferred or contributed to a Subsidiary that is not a Credit Party pursuant to this Section 6.04(a)(iii)(B)) shall not exceed \$25,000,000 at any time;

(iv) Investments made by Xerox or any Domestic Subsidiary in any Foreign Subsidiary in order to enable the Foreign Subsidiaries' aggregate Cash Balance to be sufficient to meet their Ordinary Course Needs and extensions and renewals of any such Investments that do not increase the principal amount thereof (other than to reflect any accrued interest, dividends and other amounts with respect thereto and any expenses incurred in connection with such extension or renewal) and the transfer or other contribution of any such Investment to any Xerox Company (other than for cash); provided that in the case of any Investment in a Foreign Subsidiary for the purpose of enabling such Foreign Subsidiary to repay Debt, such loan or advance shall not be made more than 5 Business Days prior to the relevant Debt repayment;

(v) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers, suppliers or other Persons, in each case in the ordinary course of business;

(vi) Investments directly or indirectly in Third Party Vendor Financing Subsidiaries or any Permitted Joint Ventures;

(vii) Investments permitted by Section 6.04(b);

(viii) Investments directly or indirectly in Turnaround Program Subsidiaries, provided, that any such Investments pursuant to this clause (viii) that do not consist of Transfers of assets existing and owned by a Xerox Company on the Effective Date shall not, in the aggregate, exceed \$125,000,000 in any calendar year;

(ix) Investments in XCE and Finance SPEs in connection with issuances of Capital Markets Debt or Equity Interests by such Persons or the consummation by such Persons of a Qualified Receivables Transaction, provided that the aggregate amount invested by any Xerox Company in such Persons in connection with any such transaction

pursuant to this clause (ix) shall not exceed the aggregate amount of cash proceeds received by such Xerox Company from such transaction;

(x) loans and advances to employees and officers of Xerox and the Subsidiaries to purchase Equity Interests of Xerox for bona fide business purposes; provided that the aggregate amount of such loans and advances outstanding pursuant to this Section 6.04(a)(x) does not exceed \$1,000,000 at any time;

(xi) Investments made by any Xerox Company as a result of consideration received in connection with any Asset Transfer permitted by Section 6.05;

(xii) Investments in connection with pledges, deposits, payments or performance bonds made or given in the ordinary course of business in connection with or to secure statutory, regulatory or similar obligations, including obligations under insurance, health, disability, safety or environmental obligations;

(xiii) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(xiv) Investments relating to purchase or acquisition of products from vendors, manufacturers or suppliers in the ordinary course of business;

(xv) any purchase of ESOP Notes by any Xerox Company;

(xvi) additional Investments in an amount taken together with all other Investments made pursuant to this Section 6.04(a)(xvi) (other than those made with Qualified Capital Stock) and all amounts paid (other than with Qualified Capital Stock or with the portion of proceeds of an Equity Issuance or issuance of Capital Markets Debt that is not required to be applied to make a mandatory prepayment pursuant to Section 2.10(b)(ii)) pursuant to Sections 6.04(b) and 6.07(1), not to exceed \$150,000,000 in any calendar year and \$300,000,000 in the aggregate;

(xvii) Investments by (A) Foreign Subsidiaries in other Foreign Subsidiaries and (B) non-Credit Parties in other non-Credit Parties that are Subsidiaries;

(xviii) Guarantees of obligations of XCE and Finance SPEs in connection with Qualified Receivables Transactions and Guarantees in connection with the Third Party Vendor Financing Program to the extent such Guarantees do not constitute or create indebtedness that would be required to be taken into account in determining the Basket Lien Available Amount;

(xix) the funding of any obligation in connection with transactions permitted by Sections 6.09(h) and 6.09(i);

(xx) Investments received as part of a redemption or payment of or for, as a dividend on, or distribution in respect of, other Investments permitted by this Section 6.04 and contributions or other transfers of such Investments to any Xerox Company (other than for cash);

(xxi) the issuance of letters of credit, including Letters of Credit under this Agreement, as support for the obligations of Ridge Re;

(xxii) Investments in Qualified Capital Stock in connection with transactions permitted by Section 6.09(h) or 6.09(i) or the replacement of XCI Class B Shares with Qualified Capital Stock of Xerox;

(xxiii) Investments by a Domestic Credit Party in a Foreign Subsidiary to the extent the amount of such Investment is directly or indirectly returned or repaid to such Domestic Credit Party in each case within 5 Business Days of the initial Investment; and

(xxiv) Investments in connection with the acquisition of Equity Interests in Xerox Modicorp Ltd. in an aggregate amount not to exceed, pursuant to this clause (xxiv), \$20,000,000.

(b) No Xerox Group Company will make any Business Acquisition unless (i) Xerox shall be in compliance with the covenants in Sections 6.01 - 6.05, 6.07, 6.08, 6.10 and 6.12 - 6.15 as of the most recent date for compliance prior to the date of such acquisition, in all cases after giving effect on a pro forma basis to such acquisition, (ii) if the aggregate consideration (other than consideration to be paid in Qualified Capital Stock) to be paid in connection with such Business Acquisition is more than \$25,000,000, Xerox shall have delivered to each of the Lenders, at least 10 days prior to the consummation of such Business Acquisition, a report of a Financial Officer of Xerox showing calculations in detail reasonably satisfactory to the Agents, demonstrating compliance with Section 6.04(b)(i) above and, if the aggregate consideration (other than consideration payable in Qualified Capital Stock) to be paid in connection with such Business Acquisition is more than \$75,000,000,

demonstrating that, after giving effect to such Business Acquisition and any financing therefor, Xerox shall be in compliance at the end of each Fiscal Quarter until the Termination Date with the covenants set forth in Section 6.04(b)(i) and (iii) the aggregate consideration (other than consideration payable in Qualified Capital Stock) paid in connection with Business Acquisitions by all Xerox Group Companies (including such Business Acquisition), together with all Investments made (other than those made with Qualified Capital Stock) pursuant to Section 6.04(a)(xvi) which are not also Business Acquisitions and all amounts paid (other than with Qualified Capital Stock or with the portion of proceeds of an Equity Issuance or issuance of Capital Markets Debt that is not required to be applied to make a mandatory prepayment pursuant to Section 2.10(b)(ii)) pursuant to Section 6.07(1) do not exceed \$150,000,000 in any Fiscal Year and do not exceed \$300,000,000 in the aggregate.

Section 6.05. Asset Transfers. No Xerox Group Company will consummate any Asset Transfer, except:

(a) Qualified Receivables Transactions;

(b) the Flextronics Transaction;

(c) the Transfer or issuance of Equity Interests in, or the Transfer of other assets to, IP Companies, Turnaround Program Subsidiaries and Third Party Vendor Financing Subsidiaries, and other issuances of Equity Interests and Transfers of Assets as parts of transactions described in the definition of "Turnaround Program";

(d) the Transfer of Equity Interests in Wholly-Owned Subsidiaries that are not Turnaround Program Subsidiaries resulting in such Subsidiary ceasing to be a Subsidiary, provided that the remaining Equity Interests in such entity held by any Xerox Company shall be pledged to the Collateral Agent as part of the Collateral; and

(e) other Transfers that are not permitted by any other clause of this Section 6.05 (except Transfers of Equity Interests in Wholly-Owned Subsidiaries not otherwise permitted by this Section 6.05).

provided that (A) all Asset Transfers permitted by this Section shall be made for fair value as determined by the applicable Xerox Company in good faith, (B) all Asset Transfers permitted by Section 6.05(a) and 6.05(e) shall be for at least 75% cash consideration (it being understood that, in the case of a license, lease or similar transfer of any asset, the consideration therefor may be payable in installments customary for transactions of that type) and (C) no substantial part of the production or office businesses shall be Transferred except for Transfers of

Intellectual Property described in clause (e)(iv) of the definition of "Turnaround Program". For purposes of determining whether a Xerox Company received 75% cash consideration, (x) cash consideration shall be determined without regard to any portion of the consideration that is an earn-out or similar arrangement, (y) replacement assets in a like-kind property exchange shall be considered cash and (z) assumed debt shall be considered cash.

Section 6.06. Hedging Agreements; Synthetic Purchase Agreements. (a) No Xerox Group Company will enter into any Hedging Agreement after the Effective Date except Hedging Agreements entered into in the ordinary course of business (and not for speculative purposes) to hedge or manage risks to which a Xerox Company is exposed in the conduct of its business or the management of its liabilities.

(b) Xerox will not enter into or be party to, or make any payment under, any Synthetic Purchase Agreement or permit any Subsidiary to enter into, be party to, or make any payment under any Synthetic Purchase Agreement.

Section 6.07. Restricted Payments. No Xerox Company will declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that (a) Xerox may declare and pay dividends with respect to its common stock payable solely in Qualified Capital Stock, (b) so long as no Event of Default has occurred and is continuing, any Xerox Company may declare and pay dividends with respect to its Preferred Stock, (c) any Xerox Company (other than Xerox) may declare and pay dividends or make other distributions with respect to its Equity Interests, provided that such dividends or other distributions are payable to Xerox or another Subsidiary, and so long as no Event of Default has occurred and is continuing, any Subsidiary that is not directly or indirectly wholly-owned by Xerox may declare and pay dividends or make other distributions payable to the other equity holders of such Subsidiary on a pro rata basis, (d) Xerox may directly or indirectly redeem or repay any of its or any Subsidiary's Equity Interests in exchange for Qualified Capital Stock, (e) any Xerox Company may redeem any of its Preferred Stock which is outstanding on the date hereof (other than the Trust Preferred Securities, unless such redemption is made with (i) Qualified Capital Stock or subordinated debentures as contemplated by the terms of such Trust Preferred Securities or (ii) the portion of proceeds of an Equity Issuance or issuance of Capital Markets Debt that is not required to be applied to make a mandatory prepayment pursuant to Section 2.10(b)(ii)) at any final scheduled or other mandatory redemption date thereof as in effect on the date hereof, (f) any Subsidiary may redeem or purchase any of its Equity Interests held by a Xerox Company, provided that if such redeeming or purchasing Subsidiary is a Credit Party, it may only make such redemption or purchase from another Xerox Company if such other Xerox Company is a Credit Party or the proceeds

of such redemption or purchase are directly or indirectly effectively transferred to a Credit Party immediately following such redemption or purchase, (g) any Turnaround Program Subsidiary, Third Party Vendor Financing Subsidiary or any Subsidiary existing on the date hereof that is not a Xerox Group Company may declare and pay dividends or make other distributions with respect to, and may make redemptions or repurchases of, its Equity Interests, (h) any Xerox Company may make payments to holders of such company's Equity Interests in lieu of the issuance of fractional shares, (i) Xerox may repurchase the Convertible Subordinated Debentures upon exercise of the right of the holders thereof to require Xerox to purchase such securities on April 21, 2003, (j) any Xerox Company may repurchase or otherwise acquire shares of Qualified Capital Stock of Xerox from employees, former employees, directors or former directors of any Xerox Company (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors of Xerox under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such Qualified Capital Stock, provided that the aggregate amount paid pursuant to this Section 6.07(j) and Section 6.08(o) does not exceed \$25,000,000, (k) Xerox may redeem the ESOP Preferred Shares as and when required by the terms of the ESOP Plan, provided that the aggregate amount paid pursuant to this Section 6.07(k) does not exceed \$30,000,000, (l) the Xerox Companies may redeem or repurchase (i) the XCI Class B Shares on any date and (ii) the Deferred Preferred Shares, Series A, of Xerox Capital LLC on any mandatory redemption date thereof in accordance with the terms thereof as in effect on the date hereof, provided that the aggregate amount paid pursuant to this Section 6.07(l) (other than amounts paid with the proceeds of an Equity Issuance that are not subject to a mandatory prepayment pursuant to Section 2.10(b)(ii)), together with all Investments made pursuant to Section 6.04(a)(xvi) and amounts paid pursuant to Section 6.04(b) (in each case other than with Qualified Capital Stock or with the portion of proceeds of an Equity Issuance or issuance of Capital Markets Debt that is not required to be applied to make a mandatory prepayment pursuant to Section 2.10(b)(ii)) do not exceed \$150,000,000 during any Fiscal Year and do not exceed \$300,000,000 in the aggregate, (m) any Xerox Company may make Restricted Payments that constitute Investments permitted by Section 6.04 and (n) XCI may distribute to the holders of the XCI Class B Shares rights to acquire additional XCI Class B Shares so long as (i) such rights are issued as a part of a plan to effectuate a direct or indirect conversion of the outstanding XCI Class B Shares and all such rights into Qualified Capital Stock and (ii) such conversion occurs promptly after such distribution. It is understood and agreed that any payments with respect to Trust Preferred Securities will continue to be governed by this Section 6.07 rather than Section 6.08 even if there is a change in GAAP requiring that amounts in respect of Trust Preferred Securities be reported as Debt rather than Preferred Stock.

Section 6.08. Certain Payments of Debt. No Xerox Group Company will make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Debt, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, defeasance or termination of any Debt (including, without limitation, any payment in respect of Restricted Debt under a Synthetic Purchase Agreement), except:

(a) payment of Debt and other obligations created under the Loan Documents;

(b) payment of Debt to any Xerox Company, provided such Debt is permitted under Section 6.01.

(c) payment of regularly scheduled principal or interest payments or other amounts as and when due in respect of any Debt;

(d) purchases, repurchases or other acquisitions of Debt purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within three months of the date of such purchase, repurchase or other acquisition;

(e) payment of secured Debt that becomes due as a result of the voluntary sale or transfer of, or a casualty with respect to, the property securing such Debt;

(f) mandatory prepayments or redemptions of Debt (not including any such prepayment or redemption that can be avoided by repaying Loans or acquiring replacement assets);

(g) payment of revolving Debt and other lines of credit permitted to be incurred or outstanding under Section 6.01;

(h) purchases of Debt with Qualified Capital Stock;

(i) exchanges of Extended Debt for, or payments of Refunded Debt with the proceeds of, Permitted Refinancing Debt;

(j) deposits that are Liens permitted by Section 6.02;

(k) payment of Debt incurred after the date hereof in order to cure a default under Section 6.01 or 6.02 hereof;

(l) the repayment or repurchase by any Xerox Company of the ESOP Notes;

(m) payment or repurchase of any Debt, or agreeing to shorten the maturity of any Debt (whether explicitly or by giving the holder thereof the right to require any Xerox Group Company to repurchase such Debt), in respect of which an event of default or notice of default has occurred and is continuing or is, in the absence of obtaining a waiver or amendment, likely to occur in the good faith judgment of Xerox, in any case as a result of a Restatement Event, in a principal amount not exceeding \$75,000,000 in the case of any individual facility or series and not exceeding, together with all amounts paid pursuant to Section 6.08(n), a principal amount of \$200,000,000 in the aggregate, provided that any such repayment, repurchase or agreement is permitted pursuant to this Section 6.08(m) only if a repayment or repurchase is made, or an agreement is entered into, during 2002 or is in respect of any Debt as to which Xerox has notified the Administrative Agent during 2002, making specific reference to this Section 6.08(m), that the holders thereof (or their representatives) have made demands on Xerox on account of such an event of default or likely or threatened event of default;

(n) the repayment or repurchase of the XCFI Debentures in an aggregate amount not to exceed \$55,000,000, provided that (i) such repayment or repurchase is made pursuant to a planned transaction or series of transactions that includes the repurchase or redemption of the XCI Class B Shares and (ii) if any Debt is repaid or repurchased, or is made subject to an agreement shortening its maturity, pursuant to Section 6.08(m), the foregoing amount of \$55,000,000 shall be reduced by an amount equal to the principal amount of such Debt; and

(o) other repayments of Debt which, when taken together with the payments permitted under Section 6.07(j), do not to exceed \$25,000,000 in the aggregate;

each of the foregoing together with interest, fees, premiums and other amounts outstanding in respect thereof.

Section 6.09. Transactions with Affiliates. No Xerox Group Company will Transfer any property to, or purchase, lease, license or otherwise acquire any property from, or otherwise engage in any other transaction with, any of its Affiliates, except (a) transactions in the ordinary course of business that are at prices and on terms and conditions not less favorable in any material respect to such Xerox Company than could reasonably have been obtained in the good faith

judgment of the applicable Xerox Company on an arm's-length basis from unrelated third parties, (b) transactions in the ordinary course of business between Xerox Companies on prices and terms determined in accordance in all material respects with Xerox's policies in respect of such intercompany transactions and relevant tax or regulatory requirements as customarily applied by Xerox, (c) transactions between or among Xerox and the Domestic Guarantors, transactions between or among Subsidiaries that are not Credit Parties, in each case not involving any other Affiliate, and transactions between or among Subsidiaries that are Foreign Subsidiaries, (d) any Restricted Payment permitted by Section 6.07, (e) any Investment permitted by Section 6.04, (f) any merger or other transaction permitted by Section 6.03(a), (g) Qualified Receivables Transactions with a Receivables SPE and the provision of billing, collection and other services in connection therewith or transactions entered into in connection with the Third Party Vendor Financing Program, (h) any employment agreement, collective bargaining agreement, employee benefit plan, employee rights plan, related trust agreement or any similar arrangement, payment of compensation and fees to, and indemnity provided on behalf of, any present or former employees, officers, directors or consultants, maintenance of benefit programs or arrangements for any present or former employees, officers or directors, including vacation plans, health and life insurance plans, deferred compensation plans, and retirement or savings plan and similar plans, and loans and advances to any present or former employees, officers, directors, consultants and shareholders, in each case entered into in the ordinary course of business or approved by the Board of Directors of the respective Xerox Company, as the case may be, (i) any agreement, instrument or arrangement as in effect on the Effective Date, but, in the case of any such material agreement, instrument or arrangement with directors, officers and shareholders of Xerox, only to the extent set forth in Schedule 6.09, in each case together with any amendment thereto, any transaction contemplated thereby (including pursuant to any amendment thereto), or any replacement agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to any Xerox Company in any material respect than the original agreement as in effect on the Effective Date as determined in the good faith judgment of Xerox and (j) the issuance or sale of any Qualified Capital Stock.

Section 6.10. Restrictive Agreements. No Xerox Group Company will, directly or indirectly, enter into or permit to exist any agreement or other arrangement that (a) prohibits, restricts or imposes any condition on (i) the ability of any Xerox Group Company (other than restrictions on Finance SPEs or Third Party Vendor Financing Subsidiaries) to create or permit to exist any Lien on any of its property or (ii) the ability of any Xerox Group Company (other than restrictions on Finance SPEs or Third Party Vendor Financing Subsidiaries) to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to any other Xerox Group Company or to Guarantee Debt of any other Xerox Group Company or (b) in the case of any

agreement evidencing or governing Debt, includes financial or negative covenants or events of default that, taken as a whole, are more onerous for Xerox than set forth herein, provided that (A) the foregoing shall not apply to prohibitions, restrictions and conditions imposed by Applicable Law (including at the direction of any insurance department) or by any Loan Document or imposed in connection with the Third Party Vendor Financing Program, (B) the foregoing shall not apply to restrictions and conditions existing on the date hereof (but shall apply to any amendment or modification expanding the scope of any such restriction or condition), (C) the foregoing shall not apply to any financial or negative covenants or events of default that, taken as a whole, are no more onerous for Xerox than set forth herein, (D) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary or any assets pending such sale, provided that such restrictions and conditions apply only to the Subsidiary or assets that is to be sold, or to any Xerox Company party to such agreement (with respect to such Subsidiary or asset) and such sale is permitted hereunder, (E) Section 6.10(a)(i) shall not apply to restrictions or conditions imposed by any agreement relating to (x) secured Debt permitted by this Agreement if such prohibitions, restrictions or conditions apply only to the property securing such Debt, (y) Qualified Receivables Transactions or (z) Qualified Turnaround Program Subsidiaries, with respect to restrictions of the type described in clauses (iii) and (iv) of the definition of "Qualification Requirements" to the extent, in the case of this clause (z), the Qualification Requirements have been satisfied with respect to such restrictions, (F) Section 6.10(a)(i) shall not apply to customary provisions in leases, licenses and other contracts restricting the assignment, transfer, pledge or other encumbrance thereof, (G) the foregoing shall not apply to prohibitions, restrictions or conditions imposed by any agreement relating to Capital Markets Debt, to the extent such prohibitions, restrictions or conditions are no more restrictive than those set forth herein, (H) the foregoing shall not apply to prohibitions, restrictions or conditions contained in any agreements relating to the refinancing of any Debt, to the extent such restrictions or conditions are no more restrictive than those set forth herein and (I) the foregoing shall not apply to prohibitions, restrictions or conditions imposed in any agreement relating to Debt of any Xerox Company that is not a Credit Party to the extent applicable only to such Xerox Companies and their subsidiaries, provided it is understood that references to restrictions or conditions no more onerous or restrictive than those set forth herein are qualified to the extent that such restrictions or conditions may not prevent, in a manner more restrictive than the High Yield Indenture, the Lenders from being secured as provided herein and in the other Loan Documents.

Section 6.11. Amendment of Material Documents. No Xerox Group Company will amend, modify or waive any of its rights under any Material Document, if the effect of such amendment, modification or waiver would be to (a) cause all or any portion of the principal amount of any Debt under such

Material Document to be payable, or to cause any redemption of any Equity Interest under such Material Document, earlier than scheduled at the date hereof, except to the extent such prepayment or redemption would be permitted by Section 6.07 or 6.08 without giving effect to such amendment, modification or waiver, (b) increase the interest rate payable on such Debt or increase the rate of dividends payable on such Equity Interest (other than in connection with the extension of the maturity of such Debt or the redemption date of such Equity Interest to a date no earlier than October 31, 2005) or (c) make the covenants, redemption provisions, mandatory prepayment provisions or events of default contained in such Material Document materially more burdensome to the Xerox Companies, taken as a whole, provided that notwithstanding the foregoing, a Xerox Group Company may agree to any such amendment, modification or waiver of any Material Document in respect of which a notice of default or an event of default has occurred and is continuing or is, in the absence of obtaining another waiver or amendment, likely to occur in the good faith judgment of Xerox, in any case as a result of a Restatement Event, so long as, after giving effect thereto, such Material Document does not contain financial and negative covenants and events of default that, taken as a whole, are not materially more onerous for the Xerox Group Companies than those in this Agreement.

Section 6.12. Capital Expenditures. Xerox will not permit the aggregate amount of Capital Expenditures made in any Fiscal Year, commencing with the Fiscal Year ending December 31, 2002, to exceed the sum of:

(a) \$330,000,000; plus

(b) for each Fiscal Year ending after December 31, 2002, the Carry Over Amount for such Fiscal Year plus any unused Carry Over Amount for the preceding Fiscal Year.

Section 6.13. Minimum Consolidated EBITDA. Xerox will not permit Consolidated EBITDA less Capitalized Software Expense for any period of four consecutive Fiscal Quarters ending on any date set forth below, to be less than the amount set forth below opposite such date:

Period -----	Consolidated EBITDA -----
September 30, 2002	\$ 825,000,000
December 31, 2002	\$ 863,000,000
March 31, 2003	\$ 920,000,000
June 30, 2003	\$ 998,000,000
September 30, 2003	\$1,086,000,000

Period -----	Consolidated EBITDA -----
December 31, 2003	\$1,142,000,000
March 31, 2004	\$1,167,000,000
June 30, 2004	\$1,222,000,000
September 30, 2004	\$1,275,000,000
December 31, 2004	\$1,386,000,000

On and after the Covenant Re-set Date, however, the foregoing provisions shall be superseded in their entirety by the applicable provisions of the Covenant Re-set Schedule.

Section 6.14. Leverage Ratio. Xerox will not permit the Leverage Ratio as of the last day of any Fiscal Quarter to exceed the ratio set forth opposite such day below:

Period -----	Leverage Ratio -----
September 30, 2002	5.3x
December 31, 2002	5.4x
March 31, 2003	5.7x
June 30, 2003	5.2x
September 30, 2003	5.2x
December 31, 2003	4.3x
March 31, 2004	4.4x
June 30, 2004	4.2x
September 30, 2004	4.2x
December 31, 2004	3.5x

On and after the Covenant Re-set Date, however, the foregoing provisions shall be superseded in their entirety by the applicable provisions of the Covenant Re-set Schedule.

Section 6.15. Consolidated Net Worth. Xerox will not permit Consolidated Net Worth as of the last day of any Fiscal Quarter (commencing with the Fiscal Quarter ending September 30, 2002) to be less than

\$4,140,000,000. On and after the Covenant Re-set Date, however, the foregoing provisions shall be superseded in their entirety by the applicable provisions of the Covenant Re-set Schedule.

Section 6.16. Overseas Borrower Status; XFI. (a) Except in the case of XCI or any of its subsidiaries (if XCI or such subsidiary is designated as an Overseas Borrower), Xerox will not change, alter or otherwise modify, and will not allow any Subsidiary to change, alter or otherwise modify, the nature of the business of any Overseas Borrower to the extent that such change, alteration or modification will make such Overseas Borrower a "Specified Subsidiary" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under a new Reference Indenture) or a "Restricted Subsidiary" under the ESOP Guarantee Agreements.

(b) Notwithstanding the requirements of the Post-Closing Collateral and Guarantee Requirement or of Section 5.11(a)(ii) or Section 5.13(b)(ii), XFI (or any successor to XFI as the owner of all the capital stock of Xerox Austria, it being agreed that unless otherwise prohibited by this Agreement, XFI may be liquidated or dissolved) shall not be required to pledge any shares of Xerox Austria. But so long as Xerox Austria is a Material Foreign Subsidiary and 65% of its outstanding voting Equity Interests have not been pledged as contemplated by the Post-Closing Collateral and Guarantee Requirement (or pursuant to other pledge arrangements reasonably satisfactory to the Agents (who, in so acting, shall be entitled to the benefits of Article 8 of this Agreement)), then notwithstanding any other provision of this Agreement, XFI (or any successor to XFI as the owner of all the capital stock of Xerox Austria) will not engage in any business or conduct any activity other than that of a holding company owning stock or Debt of other Xerox Companies and activities incidental thereto (which shall not, however, prevent XFI or any such successor from liquidating or dissolving Xerox Austria), and without limiting the generality of the foregoing, XFI (or such successor) shall not incur or have outstanding any Debt unless (i) such Debt is owed to a Credit Party or (ii) such Debt is owed to a Subsidiary and is subordinated to the Secured Obligations on the terms set forth on Exhibit H hereto.

ARTICLE 7 Events of Default

Section 7.01. Events of Default. If any of the following events ("Events of Default") shall occur:

(a) any Borrower shall fail to pay any principal of any Loan or any LC Reimbursement Obligation when the same shall become due, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) any Borrower shall fail to pay when due any interest on any Loan or any fee or other amount (except an amount referred to in Section 7.01(a)) payable under any Loan Document, and such failure shall continue unremedied for a period of three Business Days;

(c) any representation, warranty or certification made or deemed made by or on behalf of any Xerox Company in any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) any Borrower shall fail to observe or perform (i) the covenants set forth in Section 6.01 or 6.02 and such failure shall continue unremedied for more than five Business Days after the date a Responsible Officer has knowledge of such failure or (ii) any other covenant or agreement contained in Article 6 or in Section 5.02, 5.04 (with respect to the existence of such Borrower) or 5.10;

(e) any Credit Party shall fail to observe or perform any covenant or agreement contained in any Loan Document (other than those specified in Section 7.01(a), 7.01(b) or 7.01(d) above), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to Xerox (which notice will be given at the request of any Lender);

(f) any Xerox Company shall fail to make a payment or payments (whether of principal or interest and regardless of amount) in respect of Material Debt when the same shall become due or shall fail to make a payment or payments under one or more Hedging Agreements aggregating in excess of \$25,000,000 when the same shall become due, in any case, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise, and such failure shall continue beyond any grace period applicable thereto, provided that this Section 7.01(f) shall not apply to Debt in a principal amount, or Hedging Agreements pursuant to which a Xerox Company is obligated to pay an amount, not exceeding \$75,000,000 in the case of any individual facility or series and not exceeding \$200,000,000 in the aggregate, that becomes due as a result of a Restatement Event, it being understood that the principal amount of the XCFI Debentures repaid pursuant to Section 6.08(n) and the principal amount of any Debt repaid or repurchased, or subject to an agreement shortening its maturity, pursuant to Section 6.08(m) shall be offset to reduce the amount of Debt as to which this proviso would otherwise be applicable;

(g) any non-payment default under any agreement governing any Material Debt occurs that results in Material Debt becoming due before its scheduled maturity or that enables or permits (without the giving of notice or the lapse of time or any such notice having been given or any such grace period having expired) the holder or holders of Material Debt or any trustee or agent on its or their behalf to cause Material Debt to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, before its scheduled maturity; provided that this Section 7.01(g) shall not apply to secured Debt that becomes due as a result of a voluntary sale or transfer of the property securing such Debt or as a result of a Restatement Event;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of Xerox or any Material Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state, provincial or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, manager, trustee, custodian, sequestrator, conservator or similar official for Xerox or any Material Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) Xerox or any Material Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state, provincial or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in Section 7.01(h) above, (iii) apply for or consent to the appointment of a receiver, manager, trustee, custodian, sequestrator, conservator or similar official for Xerox or any Material Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) Xerox or any Material Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount exceeding \$25,000,000 shall be rendered against one or more Xerox Companies and shall remain undischarged for a period of 45 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any asset of any Xerox Company to enforce any such judgment;

(l) an ERISA Event or Canadian Funding Failure shall have occurred (other than in respect of a Disclosed Matter) that, in the opinion of the Required Lenders, when taken together with all other ERISA Events and Canadian Funding Failures that have occurred, could reasonably be expected to result in liability of Xerox and its Subsidiaries in an aggregate amount exceeding \$25,000,000 in any year;

(m) any Lien purported to be created under any Security Document shall cease to be a valid and perfected Lien on any material Collateral, or any Lien purported to be created under any Security Document shall be asserted by any Credit Party not to be a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document, except (i) as a result of a Transfer of the applicable Collateral in a transaction permitted under the Loan Documents or other release provided for in the Loan Documents, (ii) as a result of the Administrative Agent's failure to maintain possession of any stock certificates, promissory notes or other documents delivered to it under the relevant Security Document or (iii) correctable errors of any copyright office or the Patent and Trademark Office or any Credit Party with respect to Intellectual Property filings, to the extent the relevant Credit Party promptly causes such error to be corrected; or

(n) any Guarantor's CA Guarantee shall at any time fail to constitute a valid and binding agreement of such Guarantor or any party shall so assert in writing (other than as a result of transactions permitted by the Loan Documents);

then, and in every such event (except an event with respect to any Borrower described in Section 7.01(h) or 7.01(i) above), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders (or, with respect only to clause (i) below, at the request of the Required Revolving Lenders) shall, by notice to Xerox, take either or both of the following actions, at the same or different times: (i) terminate the Revolving Commitments, and thereupon the Revolving Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrowers accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are waived by the Borrower; and in the case of any event with respect to any Borrower described in Section 7.01(h) or 7.01(i) above, the Revolving Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrowers accrued

hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are waived by the Borrowers.

ARTICLE 8
The Administrative Agent

Section 8.01. Appointment and Authorization. Each Lender Party irrevocably appoints the Administrative Agent as its contractual representative and authorizes the Administrative Agent (a) to sign and deliver the Security Documents and (b) to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. In its capacity as the Lenders' contractual representative, the Administrative Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of the term "secured party" as defined in the UCC and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Administrative Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives. For greater certainty, and without limiting the powers of the Administrative Agent hereunder or under any of Loan Documents, each Lender hereby acknowledges that the Administrative Agent shall, for purposes of holding any Liens granted by any Canadian Credit Party on the Collateral pursuant to the laws of the Province of Quebec to secure payment of all liabilities, obligations and indebtedness of the Canadian Credit Parties to the Lenders and the Administrative Agent including, but not limited to, any bonds, notes or other titles of indebtedness, be the holder of an irrevocable power of attorney or fonde de pouvoir (within the meaning of the Civil Code of Quebec) for all present and future Lenders who will agree to an assignment of participation at the time of such assignment, and in particular for all present and future holders of such bonds, notes, or other titles of indebtedness. Notwithstanding the provisions of Section 32 of An Act Respecting Powers of Legal Persons (Quebec) (formerly the Special Corporate Powers Act (Quebec)), the Administrative Agent may acquire and be the holder of such bonds, notes or other titles of indebtedness. The Borrowers hereby acknowledges that each Note issued by it under this Agreement constitutes a title of indebtedness, as such term is used in Article 2692 of the Civil Code of Quebec.

Section 8.02. Rights and Powers as a Lender. A bank serving as the Administrative Agent shall, in its capacity as a Lender, have the same rights and powers as any other Lender and may exercise the same as though it were not the Administrative Agent. Such bank and its Affiliates may accept deposits from,

lend money to and generally engage in any kind of trust, debt, equity or other business transaction with any Xerox Company or Affiliate thereof as if it were not the Administrative Agent.

Section 8.03. General Immunity. Neither the Administrative Agent nor any of its directors, officers, sub-agents or employees shall be liable to Xerox or any other Borrower, the Lenders or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith, except to the extent such action or inaction is determined in a final, non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

Section 8.04. Limited Duties and Responsibilities. The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required in writing to exercise by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), provided that the Administrative Agent is indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking, or continuing to take any such action, and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for any failure to disclose, any information relating to any Xerox Company that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02). The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof specifying that it is a "notice of default" is given to the Administrative Agent by Xerox or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document including, without limitation, any agreement by a Xerox Company to furnish information directly to each Lender, (iv) the validity,

enforceability, sufficiency, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, (v) the value, sufficiency, creation, perfection or priority of any Lien in any collateral security, (vi) the financial condition of any Xerox Company or (vii) the satisfaction of any condition set forth in Article 4 or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

Section 8.05. Authority to Rely on Certain Writings, Statements and Advice. The Administrative Agent shall be entitled to rely on, and shall not incur any liability for relying on, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely on any statement made to it orally or by telephone and believed by it to be made by the proper Person and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for any Xerox Company), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Section 8.06. Sub-Agents and Related Parties. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through one or more sub-agents appointed by it. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding Sections of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Section 8.07. Resignation; Successor Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided in this Section 8.07, the Administrative Agent may resign at any time by notifying the Lenders, the LC Issuing Banks and Xerox. Upon any such resignation, the Required Lenders shall have the right, in consultation with Xerox, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the LC Issuing Banks, appoint a successor Administrative Agent. Upon acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrowers to a

successor Administrative Agent shall be the same (without duplication) as those payable to its predecessor unless otherwise agreed by the Borrowers and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.04 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Section 7.8. Credit Decisions by Lenders. Each Lender acknowledges that it has, independently and without reliance on the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance on the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based on this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

ARTICLE 8
Miscellaneous

Section 9.01. Notices. (a) Except in the case of notices and other communications expressly permitted to be given by telephone or electronic mail, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to any Borrower, to Xerox at 800 Long Ridge Road, Stamford, CT 06904, Attention of Treasury Department (Telecopy No. 203-968-4373), with a copy to General Counsel (Telecopy No. 203-968-3446);

(ii) if to the Administrative Agent (including in its capacity as a Lender or LC Issuing Bank), to Bank One, NA, 1 Bank One Plaza, Chicago, Illinois, 60670, Attention of Thomas T. Bower (Telecopy No. 312-732-1775); and

(iii) if to any other Lender (including in its capacity as an LC Issuing Bank), to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

The electronic mail address for the Administrative Agent is thomas_t_bower@bankone.com and for each other Lender is as set forth in its Administrative Questionnaire. Any party hereto may change its address or telecopy number (and, for permitted purposes, its electronic mail address) for notices and other communications hereunder by notice to the Administrative Agent and Xerox. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement will be deemed to have been given on the date of receipt.

(b) Each Overseas Borrower hereby designates Xerox as its representative and agent on its behalf for the purposes of giving and receiving all notices (other than Borrowing Requests and requests for the issuance of Letters of Credit pursuant to Section 2.04) and any other documentation required to be delivered to it pursuant to this Agreement and any other Loan Document by the Administrative Agent or any Lender. Xerox hereby accepts such appointment. The Agents and the Lenders may regard any notice (other than Borrowing Requests and requests for the issuance of Letters of Credit pursuant to Section 2.04) or other communication pursuant to any Loan Document from Xerox as a notice or communication from all Borrowers, and may give any notice or communication required or permitted to be given to any Overseas Borrower or Overseas Borrowers hereunder to Xerox on behalf of such Overseas Borrower or Overseas Borrowers. Each Overseas Borrower agrees that each notice, election, representation and warranty, covenant, agreement and undertaking made on its behalf by Xerox shall be deemed for all purposes to have been made by such Overseas Borrower and shall be binding upon and enforceable against such Overseas Borrower to the same extent as if the same had been made directly by such Overseas Borrower.

Section 9.02. Waivers; Amendments. (a) No failure or delay by any Lender Party in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Lender Parties under the Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Credit Party therefrom shall in any event be effective unless the same shall be permitted by Section 9.02(b) - 9.02(k), and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, neither the making of a Loan nor the issuance, amendment, renewal or extension of a Letter of Credit shall be construed as a waiver of any Default, regardless of whether any Lender Party had notice or knowledge of such Default at the time.

(b) No Loan Document or provision thereof may be waived, amended or modified except by an agreement in writing and signed by the Required Lenders (and, if the rights or duties of the Administrative Agent or the LC Issuing Banks are affected thereby, by the Administrative Agent or the LC Issuing Banks, as the case may be) and the Borrowers (except, in each case, as expressly provided in the Loan Documents). Additionally, no waiver, amendment, or modification set forth in Section 9.02(c) - 9.02(k) below will be effective without, in addition, the signatures of the Persons required therein.

(c) Actions Requiring a Unanimous Lender Vote. Without the written consent of each Lender, no amendment, waiver or modification of any Loan Document will be effective to do any of the following:

(i) change the percentage of the Lender Shares or the percentage of any of the Revolving Commitments or of the aggregate unpaid principal amount of the Loans, or the number of Lenders, which shall be required for the Lenders or any of them to take any action under any Loan Document;

(ii) reduce the amount of or postpone the date of the Initial Paydown or the restructuring fee payable pursuant to Section 2.11(b);

(iii) amend this Section 9.02;

(iv) change the definition of "Lender Share" or "Required Lenders"; or

(v) change Section 2.17(b) or Section 2.17(c) in a manner that would alter the pro rata sharing of payments required thereby.

(d) Actions Requiring a Unanimous Tranche A Lender Vote. Without the written consent of each Tranche A Lender, no amendment, waiver or modification of any Loan Document will be effective to reduce the principal amount of any Tranche A Loan or reduce the interest rate thereon, postpone the Tranche A Maturity Date, or any scheduled date of payment of the principal amount of any Tranche A Loan under Section 2.09, or any date for the payment of any interest or fee payable with respect to the Tranche A Loans hereunder, or reduce the amount of, waive or excuse any such payment or change the definition of "Required A Lenders" or "Required A/B Lenders".

(e) Actions Requiring a Unanimous Tranche B Lender Vote. Without the written consent of each Tranche B Lender, no amendment, waiver or modification of any Loan Document will be effective to reduce the principal amount of any Tranche B Loan or reduce the interest rate thereon, postpone the

the Tranche B Maturity Date, or any scheduled date of payment of the principal amount of any Tranche B Loan under Section 2.09, or any date for the payment of any interest or fee payable with respect to the Tranche B Loans hereunder (including the prepayment premium pursuant to Section 2.10(d)), or reduce the amount of, waive or excuse any such payment or change the definition of "Required B Lenders", "Required A/B Lenders" or "Required Revolving /B Lenders".

(f) Actions Requiring a Unanimous Tranche C Lender Vote. Without the written consent of each Tranche C Lender, no amendment, waiver or modification of any Loan Document will be effective to reduce the principal amount of any Tranche C Loan or reduce the interest rate thereon, postpone the Tranche C Maturity Date, or any scheduled date of payment of the principal amount of any Tranche C Loan under Section 2.09, or any date for the payment of any interest or fee payable with respect to the Tranche C Loans hereunder, or reduce the amount of, waive or excuse any such payment or change the definition of "Required C Lenders".

(g) Actions Requiring a Unanimous Revolving Lender Vote. Without the written consent of each Revolving Lender, no amendment, waiver or modification of any Loan Document will be effective to increase the Revolving Commitments, reduce the principal amount of any Revolving Loan or reduce the interest rate thereon, postpone the Revolving Maturity Date, or any scheduled date of payment of the principal amount of any Revolving Loan under Section 2.09, or any date for the payment of any interest or fee payable with respect to the Revolving Loans hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Revolving Commitment or change the definition of "Required Revolving Lenders" or "Required Revolving /B Lenders".

(h) Actions Requiring Required Revolving Lender Vote. If at any time a Default shall have occurred and be continuing or the conditions in Section 4.02(a) could not be satisfied, neither any waiver of such Default or such conditions in Section 4.02(a), nor any amendment or other modification of any Loan Document that has the effect of eliminating such Default or enabling such conditions to be satisfied, shall be effective for purposes of Section 4.02 without the written consent to such waiver, amendment or other modification of the Required Revolving Lenders, provided that the foregoing limit on effectiveness shall not apply in the case of the making of any Loan or the issuance, amendment, renewal or extension of any Letter of Credit if, after giving effect thereto and any concurrent transaction, the aggregate Revolving Exposures of the Revolving Lenders are not increased.

(i) Amendments to Mandatory Prepayment Provisions. (i) Without the written consent of (A) until such time as the Tranche C Loans are paid in full, the Required Tranche C Lenders, (B) thereafter, until such time as the Tranche A Loans are paid in full, the Required Tranche A Lenders and (C) thereafter, the Required Revolving/B Lenders, no amendment, waiver or modification of any Loan Document will be effective to reduce the principal amount of or postpone the date of any mandatory prepayment from the proceeds of Asset Transfers or Casualty Events pursuant to Section 2.10(b)(i) or 2.10(b)(iii).

(ii) Without the written consent of (A) until such time as the Tranche C Loans are paid in full, the Required Tranche C Lenders, (B) thereafter, until such time as the Tranche A Loans and the Tranche B Loans are paid in full, the Required A/B Lenders and (C) thereafter, the Required Revolving Lenders, no amendment, waiver or modification of any Loan Document will be effective to reduce the principal amount of or postpone the date of any mandatory prepayment from the proceeds of Capital Markets Debt or Equity Issuances pursuant to Section 2.10(b)(ii)).

(j) Amendments Releasing Guarantees or Collateral.

(i) Without the written consent of each Tranche B Lender, and, if the amount of the aggregate outstanding Tranche B Loans is less than 25% of the Basket Lien Principal Amount, each Tranche A Lender and Revolving Lender, no amendment, waiver or modification of any Loan Document will be effective to release all or any substantial portion of the Domestic Collateral (except as expressly provided in Section 9.03 or in the relevant Security Document).

(ii) Without the written consent of each Revolving Lender, no amendment, waiver or modification of any Loan Document will be effective to release all or any substantial portion of the Foreign Collateral, or to release Xerox's Guarantee of the obligations of the Overseas Borrowers (except as expressly provided in Section 9.03 or in the relevant Security Document).

(k) Actions Requiring Super-Majority Lender Vote. Without the written consent of the Super-Majority Lenders, neither this Agreement nor any other Loan Document may be amended to permit any Debt (including any Debt attributable to an increase in the Revolving Commitments or the addition of any tranche of Loans hereunder) to be secured by any Collateral pursuant to a Lien of equal priority to, or higher priority than, the Lien of the Secured Parties thereon, except for Permitted Liens.

Section 9.03. Automatic Releases. (a) Notwithstanding anything to the contrary herein or in any other Loan Document, upon the Transfer of any Collateral by any Credit Party, the Lender Parties hereby agree that the security interest granted in such Collateral shall immediately and automatically terminate and all rights to such Collateral shall automatically revert to such Credit Party without any further action by the Administrative Agent, any Lender, any Issuing Bank or any other Person.

(b) Notwithstanding anything to the contrary herein or in any other Loan Document, in the event (i) all of the Equity Interests in any Guarantor shall be sold or otherwise disposed of (including by merger or consolidation) in a sale permitted by this Agreement or a Guarantor shall liquidate or dissolve in a transaction permitted by this Agreement, (ii) any Guarantor becomes a Turnaround Program Subsidiary or ceases to be a Subsidiary in accordance with Section 6.05(d), (iii) with respect to any Foreign Guarantor or Overseas Borrower, all of the Release Conditions with respect to such Foreign Guarantor or Overseas Borrower have been satisfied or (iv) with respect to Xerox or any Domestic Guarantor, all of the Release Conditions are satisfied, then, in each case, the obligations of such Guarantor or Borrower (as the case may be) hereunder and pursuant to any Loan Document shall automatically be discharged and released, and all rights to or security interests in the Collateral of such Guarantor or Borrower (as the case may be) in favor of the Secured Parties shall revert to the applicable Guarantor or Borrower or be released, as the case may be, in each case without any further action by any Secured Party or any other Person. If at any time any payment of a Secured Obligation is rescinded or must be otherwise restored or returned upon the insolvency or receivership of Xerox, any Overseas Borrower or otherwise, any Guarantee or Guarantees in respect of such Secured Obligation that have been discharged and released pursuant to Section 9.03(b)(iii) or 9.03(b)(iv) shall be reinstated with respect thereto as though such payment had been due but not made at such time.

(c) Upon any termination or release of obligations or Collateral pursuant to this Section 9.03, the Collateral Agent will, at the expense of the relevant Credit Party, execute and deliver to such Credit Party such documents as such Credit Party shall reasonably request to evidence the termination or release of such obligations or Collateral, as the case may be.

(d) Notwithstanding anything to the contrary herein or in any other Loan Document, if any Guarantor is not or otherwise ceases to be a Material Domestic Subsidiary or a Material Foreign Subsidiary in accordance with the definitions thereof and Xerox has notified the Administrative Agent in writing that it requests that such Guarantor be released from its obligations under the Loan Documents, then the obligations of such Guarantor hereunder and pursuant to any Loan Document shall automatically be discharged and released, and all rights to or

security interests in the Collateral of such Guarantor in favor of the Secured Parties shall revert to the applicable Guarantor or be released, as the case may be, without any further action by any Secured Party or any other Person.

(e) Notwithstanding anything to the contrary herein or in any other Loan Document, if any Immaterial Subsidiary Certificate indicates that any Foreign Subsidiary the Equity Interests of which have been pledged to the Collateral Agent as part of the Collateral is not a Material Foreign Subsidiary for purposes of clause (a) of such definition as of the date of delivery of such certificate and Xerox has notified the Administrative Agent in writing that it requests that the Equity Interests of such Foreign Subsidiary be released, then the pledge of the Equity Interests in such Foreign Subsidiary shall automatically be discharged and released, and all rights to such Equity Interests in favor of the Secured Parties shall revert to the applicable Guarantor without any further action by any Secured Party or any other Person, and the Collateral Agent shall return any certificates evidencing such Equity Interests to the applicable Guarantor.

(f) Notwithstanding anything to the contrary herein or in any other Loan Document, if any Subsidiary the Equity Interests of which have been pledged to the Collateral Agent as part of the Collateral becomes a Qualified Turnaround Program Subsidiary with respect to which the Qualification Requirements have been satisfied with respect to a prohibition on the pledge of the Equity Interests of such Subsidiary to the Collateral Agent as part of the Collateral thereto, then the pledge of the Equity Interests in such Subsidiary shall automatically be discharged and released, and all rights to such Equity Interests in favor of the Secured Parties shall revert to the applicable Guarantor without any further action by any Secured Party or any other Person, and the Collateral Agent shall return any certificates evidencing such Equity Interests to the applicable Guarantor.

Section 9.04. Expenses; Indemnity; Damage Waiver. (a) Each of the Borrowers, with respect to itself and its Subsidiaries, shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of external counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents and any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the LC Issuing Banks in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) at any time when an Event of Default has occurred and is continuing, all out-of-pocket expenses incurred by any Lender Party, including the fees, charges and disbursements of any counsel (including internal counsel) for any Lender Party,

in connection with the enforcement or protection of its rights in connection with the Loan Documents (including its rights under this Section 9.04), the Letters of Credit or the Loans, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of the Letters of Credit or the Loans.

(b) Each of the Borrowers, with respect to itself and its Subsidiaries, shall indemnify each of the Lender Parties and their respective Related Parties (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the reasonable fees, charges and disbursements of counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom or any Letter of Credit or the use thereof (including any refusal by any LC Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any Mortgaged Property or any other property owned or operated by any Xerox Company, or any Environmental Liability related in any way to any Xerox Company, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not be available to any Indemnitee to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from such Indemnitee's gross negligence or wilful misconduct.

(c) To the extent that any Borrower fails to pay any amount required to be paid by it to the Administrative Agent or any LC Issuing Bank under Section 9.04(a) or 9.04(b), each Lender severally agrees to pay to the Administrative Agent or the relevant LC Issuing Bank, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or such LC Issuing Bank in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based on its share of the sum of the total Revolving Exposures, outstanding Term Loans and unused Revolving Commitments at the time.

(d) To the extent permitted by Applicable Law, no Borrower shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section 9.04 shall be payable within 15 Business Days after written demand therefor.

(f) Notwithstanding the foregoing, nothing in this Section 9.04 shall require a payment by a Foreign Credit Party if such payment would violate Applicable Law or if Applicable Law would require minority shareholder approval, a valuation or a discretionary order; provided that Xerox, as a Guarantor under this Agreement, shall be liable for any such payment referred to in this Subsection 9.04(f).

Section 9.05. Successors and Assigns. (a) The provisions of this Agreement shall be binding on and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of any LC Issuing Bank that issues any Letter of Credit), except that no Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by any Borrower without such consent shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (except the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of any LC Issuing Bank that issues any Letter of Credit) and, to the extent expressly provided herein, the Related Parties of the Lender Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of any Revolving Commitment it has at the time and any Loans at the time owing to it); provided that:

(A) except in the case of an assignment to a Lender or a Lender Affiliate that does not involve a new Revolving Lender, the Administrative Agent (and, in the case of an assignment of all or a portion of a Revolving Commitment or any Lender's obligations in respect of its LC Exposure, each LC Issuing Bank) must give its prior written consent to such assignment (which consents shall not be unreasonably withheld, it being understood that, in the case of any assignment involving a new

Revolving Lender, the assignee may be required to demonstrate to the reasonable satisfaction of the Administrative Agent its legal and financial ability to timely perform its obligations in respect of its unused Revolving Commitment);

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, except that this clause (B) shall not prohibit the assignment of all or a portion of all the assigning Lender's rights and obligations in respect of one Class of Loans or the Revolving Commitments on a non-pro rata basis;

(C) unless each of Xerox and the Administrative Agent otherwise consents, the amount of the Revolving Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date on which the relevant Assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 or, if only Tranche B Term Loans are being assigned, shall not be less than \$1,000,000; provided that this clause (C) shall not apply to an assignment to a Lender or a Lender Affiliate or an assignment of the entire remaining amount of the assigning Lender's Revolving Commitment or Loans or an assignment of the entire remaining amount of the assigning Lender's rights and obligations in respect of one Class of Loans or the Revolving Commitments;

(D) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment, together with a processing and recordation fee of \$3,500; provided that only one such fee shall be due in respect of a simultaneous assignment to up to five Lender Affiliates; and

(E) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent a completed Administrative Questionnaire.

Subject to acceptance and recording thereof pursuant to Section 9.05(d), from and after the effective date specified in each Assignment the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment, be released from its obligations under this Agreement (and, in the case of an Assignment covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.15, 2.16 and 9.04). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.05(b) shall be treated for

purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 9.05(e).

(c) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices in Chicago, Illinois a copy of each Assignment delivered to it and a register for the recordation of the names and addresses of the Lenders, their respective Revolving Commitments and the principal amounts of the Loans and LC Disbursements owing to each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be prima facie evidence of the information recorded therein, and the parties hereto may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by any party hereto at any reasonable time and from time to time upon reasonable prior notice.

(d) Upon its receipt of a duly completed Assignment executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in Section 9.05(b) and any written consent to such assignment required by Section 9.05(b), the Administrative Agent shall accept such Assignment and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this Section 9.05(d). Promptly after recording any Assignment, the Administrative Agent shall send Xerox a notice of such Assignment, including the pertinent information therein and, if the assignee is not already a Lender, accompanied by a copy of the assignee's completed Administrative Questionnaire.

(e) Any Lender may, without the consent of any Borrower or any other Lender Party, sell participations to one or more banks or other entities ("Participants") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Revolving Commitments and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrowers and the other Lender Parties shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment or modification that both affects such

Participant and requires the unanimous vote of all Lenders or the unanimous vote of the Lenders in the Class of Loans or the Revolving Commitments in which the Participant has acquired an interest. Subject to Section 9.05(f), each Participant shall be entitled to the benefits of Sections 2.14, 2.15 and 2.16 to the same extent and subject to the same limitations as if it were a Lender and had acquired its interest by assignment pursuant to Section 9.05(b). To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.09 as though it were a Lender, provided that such Participant agrees to be subject to Section 2.17(c) as though it were a Lender.

(f) A Participant shall not be entitled to receive any greater payment under Section 2.14 or 2.16 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with Xerox's prior written consent. Without limiting the preceding sentence, a Participant that would be a Foreign Lender if it were a Lender shall only be entitled to any of the benefits of Section 2.16 if Xerox is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Sections 2.16(e) and 2.16(g) as though it were a Lender.

(g) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or, in the case of a Lender which is a fund, any pledge or assignment of all or any portion of its rights under this Agreement, to its trustee in support of its obligations to its trustee, and this Section 9.05 shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 9.06. Survival. All covenants, agreements, representations and warranties made by the Credit Parties in the Loan Documents and in certificates or other instruments delivered in connection with or pursuant to the Loan Documents shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any Lender Party may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as any principal of or accrued interest on any Loan or any fee or other amount payable hereunder is outstanding or any Letter of Credit is outstanding or any Revolving Commitment has not expired or terminated. The provisions of Sections 2.14, 2.15, 2.16, 9.04 and 9.13

and Article 8 shall survive and remain in full force and effect regardless of the consummation of the Transactions, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Revolving Commitments or the termination of this Agreement or any provision hereof.

Section 9.07. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Documents and any separate letter agreements with respect to fees payable to the Administrative Agent, the LC Issuing Banks and the Arrangers constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement (a) will become effective as provided in Section 4.01 and (b) thereafter will be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Section 9.08. Severability. If any provision of any Loan Document is invalid, illegal or unenforceable in any jurisdiction then, to the fullest extent permitted by law, (a) such provision shall, as to such jurisdiction, be ineffective to the extent (but only to the extent) of such invalidity, illegality or unenforceability, (b) the other provisions of the Loan Documents shall remain in full force and effect in such jurisdiction and shall be liberally construed in order to carry out the intentions of the parties thereto as nearly as may be possible and (c) the invalidity, illegality or unenforceability of any such provision in any jurisdiction shall not affect the validity, legality or enforceability of such provision in any other jurisdiction.

Section 9.09. Right of Setoff. If an acceleration or payment Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is authorized at any time and from time to time, to the fullest extent permitted by Applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of any Borrower (or, in the case of any Overseas Borrower, Xerox, as Guarantor) against any obligations of such Borrower now or hereafter existing hereunder and held by such Lender, irrespective of whether or not such Lender shall have made any demand hereunder and although such obligations may be unmatured. The rights of each Lender under this Section 9.09 are in addition to other rights and remedies (including other rights of setoff) that such Lender may have.

Section 9.10. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each of the Borrowers irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any relevant appellate court, in any action or proceeding arising out of or relating to this Agreement and, except to the extent expressly provided therein, any other Loan Document, or for recognition or enforcement of any judgment, and each party hereto irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court. Each party hereto agrees that, to the extent permitted by Applicable Law, a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in any Loan Document shall affect any right that any Lender Party may otherwise have to bring any action or proceeding relating to any Loan Document against any Credit Party or its properties in the courts of any jurisdiction.

(c) Each of the Borrowers irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to any Loan Document in any court referred to in Section 9.10(b). Each party hereto irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of any such suit, action or proceeding in any such court.

(d) Each party hereto irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in any Loan Document will affect the right of any party hereto to serve process in any other manner permitted by law.

Section 9.11. WAIVER OF JURY TRIAL. EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT OR ANY TRANSACTION CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO

ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 9.12. Headings. Article and Section headings and the Table of Contents herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 9.13. Confidentiality. Each Lender Party agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed only in connection with this Agreement and the Transactions contemplated hereby, and further, only (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by Applicable Law or by any subpoena or similar legal process (provided that such Lender Party shall give notice to Xerox as promptly as practicable of receipt of any such subpoena or other legal process, unless provision of such notice would result in a violation of such subpoena or other legal process), (d) to any other party to this Agreement, (e) in connection with the exercise of any remedy hereunder or any suit, action or proceeding relating to any Loan Document or the enforcement of any right thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section 9.13, to (i) any actual or prospective assignee of or Participant in any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to any Borrower and its obligations, (g) with the consent of Xerox in its sole discretion or (h) to the extent such Information either (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to any Lender Party on a nonconfidential basis from a source other than Xerox. For the purposes of this Section, "Information" means all information received from any Xerox Company relating to its business, other than any such information that is available to any Lender Party on a nonconfidential basis before disclosure by Xerox. Any Person required to maintain the confidentiality of Information as provided in this Section 9.13 shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 9.14. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together

with all fees, charges and other amounts that are treated as interest on such Loan under Applicable Law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") that may be contracted for, charged or otherwise received by the Lender holding such Loan in accordance with Applicable Law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section 9.14 shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such Lender shall have received such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of payment.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

XEROX CORPORATION

By: _____
Name:
Title:

XEROX CAPITAL (EUROPE) PLC

By: _____
Name:
Title:

XEROX CANADA CAPITAL LTD.

By: _____
Name:
Title:

BANK ONE, NA, as a Lender, as LC
Issuing Bank and as Administrative Agent

By: _____
Name:
Title:

CITIBANK, N.A., as a Lender and as
Syndication Agent

By: _____
Name:
Title:

JPMORGAN CHASE BANK, as a Lender and as
Documentation Agent

By: _____
Name:
Title:

[OTHER LENDERS]

By: _____
Name:
Title:

XCC ACKNOWLEDGMENT:

The undersigned acknowledges this Agreement solely for the purpose of confirming its agreement that the Existing Credit Agreement is amended and restated by this Agreement and, subject to the repayment in full of all of its loans outstanding under the Existing Credit Agreement, the undersigned will not be a party to this Agreement for any other purpose and, except in its capacity as a Domestic Guarantor under the Domestic Security Agreement, will not have any obligations under or in respect of this Agreement.

XEROX CREDIT CORPORATION

By: _____

Name:

Title:

Schedule 1.04

Period -----	Covenant Total Debt -----	Capitalized Software -----
September 30, 2002	\$ 12,959,000,000	\$ 91,000,000
December 31, 2002	\$ 12,101,000,000	\$ 65,000,000
March 31, 2003	\$ 12,613,000,000	\$ 62,000,000
June 30, 2003	\$ 11,866,000,000	\$ 60,000,000
September 30, 2003	\$ 11,662,000,000	\$ 58,000,000
December 31, 2003	\$ 10,212,000,000	\$ 56,000,000
March 31, 2004	\$ 10,623,000,000	\$ 56,000,000
June 30, 2004	\$ 10,166,000,000	\$ 56,000,000
September 30, 2004	\$ 9,944,000,000	\$ 56,000,000
December 31, 2004	\$ 8,957,000,000	\$ 56,000,000

GUARANTEE AND SECURITY AGREEMENT

dated as of

June 21, 2002

among

XEROX CORPORATION

THE SUBSIDIARY GUARANTORS PARTY HERETO

and

BANK ONE, NA
as Collateral Agent

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- Schedule 1 Pledged Securities
- Schedule 2 Terms of Subordination

EXHIBITS:

- Exhibit A Perfection Certificate
- Exhibit B Form of Issuer Control Agreement
- Exhibit C Guarantee and Security Agreement Supplement
- Exhibit D Copyright Security Agreement
- Exhibit E Patent Security Agreement
- Exhibit F Trademark Security Agreement

GUARANTEE AND SECURITY AGREEMENT

AGREEMENT dated as of June __, 2002 (the "Agreement") among XEROX CORPORATION ("Xerox"), the SUBSIDIARY GUARANTORS party hereto and BANK ONE, NA as Collateral Agent (with its successors, the "Collateral Agent").

W I T N E S S E T H :

WHEREAS, Xerox, certain Overseas Borrowers, certain financial institutions (each, a "Lender" and collectively, the "Lenders"), Bank One, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMorgan Chase Bank, as Documentation Agent, and Citibank, N.A., as Syndication Agent, are parties to an Amended and Restated Credit Agreement dated as of June __, 2002 (as the same has been and may be amended from time to time, the "Credit Agreement"); and

WHEREAS, Xerox has agreed to secure (i) its CA Secured Obligations (such term and other capitalized terms are defined in Section 1 below), (ii) the ESOP Secured Obligations and (iii) the XCFI Secured Obligations by granting security interests on its assets which constitute Collateral to the Collateral Agent as provided in the Domestic Security Documents; and

WHEREAS, Xerox is willing to guarantee the Overseas CA Secured Obligations and to secure its guarantee thereof by granting security interests on its assets which constitute Collateral to the Collateral Agent as provided in the Domestic Security Documents;

WHEREAS, Xerox is willing to cause each Subsidiary Guarantor to, and each Subsidiary Guarantor is willing to, guarantee the foregoing obligations of Xerox and the Overseas Borrowers and, in the case of each Secured Subsidiary Guarantor, to secure its guarantee thereof by granting security interests on its assets which constitute Collateral to the Collateral Agent as provided in the Domestic Security Documents; and

WHEREAS, it is a condition to the effectiveness of the Credit Agreement that the parties hereto enter into this Agreement to provide the guarantees and security interests provided herein;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Definitions.

(a) Terms Defined in Credit Agreement. Terms defined in the Credit Agreement and not otherwise defined in subsection (b) or (c) of this Section have, as used herein, the respective meanings provided for therein.

(b) Terms Defined in UCC. As used herein, each of the following terms has the meaning specified in the UCC:

Term	UCC
-----	---
Account	9-102
Authenticate	9-102
Certificated Security	8-102
Chattel Paper	9-102
Document	9-102
Entitlement Holder	8-102
Equipment	9-102
Financial Asset	8-102 & 103
General Intangibles	9-102
Instrument	9-102
Inventory	9-102
Record	9-102
Securities Intermediary	8-102
Security	8-102 & 103
Security Entitlement	8-102
Supporting Obligations	9-102
Uncertificated Security	8-102

(c) Additional Definitions. The following additional terms, as used herein, have the following meanings:

"Actionable Event of Default" means an Event of Default specified in clause (a), (b), (h), (i) or (j) of Section 7.01 of the Credit Agreement.

"CA Percentage" means, at any time, (a) with respect to any Shared Collateral that includes both ESOP Restricted Collateral and XCFI Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding CA Secured Obligations represents of the aggregate amount of all outstanding Secured Obligations at such time, (b) with respect to any ESOP Restricted Collateral that is not XCFI Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding CA Secured Obligations represents of the sum of the aggregate amount of all outstanding ESOP Secured Obligations and CA Secured Obligations at such time and (c) with respect to any XCFI Restricted Collateral that is not ESOP Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding CA Secured

Obligations represents of the sum of the aggregate amount of all outstanding XCFI Secured Obligations and CA Secured Obligations at such time.

"CA Permitted Liens" means the Security Interests and Liens on the Collateral permitted to be created, to be assumed or to exist pursuant to Section 6.02 of the Credit Agreement.

"CA Secured Obligations" means (a) all principal of and premium and interest (including, without limitation, any interest ("Post-Petition Interest") which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of any Borrower (or would accrue but for the operation of applicable bankruptcy or insolvency laws), whether or not allowed or allowable as a claim in any such proceeding) on any Loan outstanding from time to time or any LC Reimbursement Obligations under, or any promissory note issued pursuant to, the Credit Agreement and (b) all other amounts payable by any Borrower under the Credit Agreement or under any other Loan Document (as the same may hereafter be amended, restated, supplemented or otherwise modified from time to time) (including any Post-Petition Interest with respect to such amounts).

"Collateral" means all property, whether now owned or hereafter acquired, on which a Lien is granted or purports to be granted to the Collateral Agent pursuant to the Domestic Security Documents. When used with respect to a specific Lien Grantor, the term "Collateral" means all its property on which such a Lien is granted or purports to be granted.

"Collateral Account" has the meaning specified in Section 8.

"Contingent CA Secured Obligation" means, at any time, any CA Secured Obligation (or portion thereof) that is contingent in nature at such time, including any CA Secured Obligation that is:

(i) an obligation to reimburse a Lender for drawings not yet made under a Letter of Credit issued by it;

(ii) any other obligation (including any guarantee) that is contingent in nature at such time; or

(iii) an obligation to provide collateral to secure any of the foregoing types of obligations.

"Control", when used with respect to any Security or Security Entitlement, has the meaning specified in UCC Section 8-106.

"Copyright License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right to use, copy, reproduce, distribute, prepare derivative works, display or publish any records or other materials on which a Copyright is in existence or may come into existence, including any agreement identified in Schedule 1 to any Copyright Security Agreement.

"Copyright Security Agreement" means a Copyright Security Agreement, substantially in the form of Exhibit D, executed and delivered by a Lien Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

"Copyrights" means all the following: (i) all copyrights under the laws of the United States or any other country (whether or not the underlying works of authorship have been published), all registrations and recordings thereof, all copyrightable works of authorship (whether or not published), and all applications for copyrights under the laws of the United States or any other country, including registrations, recordings and applications in the United States Copyright Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, including those described in Schedule 1 to any Copyright Security Agreement, (ii) all renewals of any of the foregoing, (iii) all claims for, and rights to sue for, past or future infringements of any of the foregoing, and (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Covered Taxes" has the meaning specified in Section 18(a).

"Equity Interest" means (i) in the case of a corporation, any shares of its capital stock, (ii) in the case of a limited liability company, an LLC Interest therein, (iii) in the case of a partnership, any Partnership Interest therein, (iv) in the case of any other business entity, any participation or other interest in the equity or profits thereof or (v) any warrant, option or other right to acquire any Equity Interest described in this definition.

"ESOP Guarantee Agreement" means the Guaranty and Agreement made by Xerox dated as of October 1, 1993 (as amended from time to time) relating to the Guaranteed ESOP Restructuring Notes due October 1, 2003 issued by Xerox Corporation Employee Stock Ownership Plan Trust.

"ESOP Percentage" means, at any time, (a) with respect to any Shared Collateral that includes both ESOP Restricted Collateral and XCFI Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding ESOP Secured Obligations represents of the aggregate amount of all outstanding

Secured Obligations at such time and (b) with respect to any ESOP Restricted Collateral that is not XCFI Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding ESOP Secured Obligations represents of the sum of the aggregate amount of all outstanding ESOP Secured Obligations and CA Secured Obligations at such time.

"ESOP Restricted Collateral" means the Collateral of Xerox or any ESOP Restricted Secured Subsidiary Guarantor (and any Proceeds of such Collateral shall also constitute "ESOP Restricted Collateral").

"ESOP Restricted Secured Subsidiary Guarantor" means a Secured Subsidiary Guarantor that is a "Restricted Subsidiary" under the ESOP Guarantee Agreement.

"ESOP Secured Obligations" means the obligations of Xerox under the ESOP Guarantee Agreement and shall include all outstanding amounts of the loans guaranteed under the ESOP Guarantee Agreement and accrued and unpaid interest and other amounts owing with respect hereto.

"Guarantee" means, with respect to each Subsidiary Guarantor, its Subsidiary Guarantee, and with respect to Xerox, the Xerox Guarantee.

"Guarantee and Security Agreement Supplement" means a Guarantee and Security Agreement Supplement, substantially in the form of Exhibit C, signed and delivered to the Collateral Agent for the purpose of adding a Domestic Subsidiary as a party hereto pursuant to Section 20 and/or adding additional property to the Collateral.

"Guarantors" means Xerox and the Subsidiary Guarantors.

"Intellectual Property" means (i) Patents, (ii) Patent Licenses, (iii) Trademarks, (iv) Trademark Licenses, (v) Copyrights, (vi) Copyright Licenses, (vii) confidential information, (viii) proprietary technology, (ix) trade secrets, (x) domain names and (xi) mask works, and all rights in or under any of the foregoing.

"Intellectual Property Filing" means (i) the filing of the applicable Patent Security Agreement or Trademark Security Agreement with the United States Patent and Trademark Office, together with an appropriately completed recordation form, and (ii) the filing of the applicable Copyright Security Agreement with the United States Copyright Office, together with an appropriately completed recordation form, in each case sufficient to record the Security Interests granted to the Collateral Agent in Recordable Intellectual Property.

"Intellectual Property Security Agreement" means a Copyright Security Agreement, a Patent Security Agreement or a Trademark Security Agreement.

"Issuer Control Agreement" means an Issuer Control Agreement substantially in the form of Exhibit B (with any changes that the Collateral Agent shall have approved).

"Lien Grantors" means Xerox and the Secured Subsidiary Guarantors.

"Liquid Investments" has the meaning specified in Section 8(d).

"LLC Interest" means a membership interest or similar interest in a limited liability company.

"Non-Contingent CA Secured Obligation" means at any time any CA Secured Obligation (or portion thereof) that is not a Contingent CA Secured Obligation at such time.

"Overseas CA Secured Obligations" means the CA Secured Obligations of any Overseas Borrower.

"Original Lien Grantor" means any Lien Grantor that grants a Lien on any of its assets hereunder on the Effective Date.

"Partnership Interest" means a partnership interest, whether general or limited.

"Patent License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right with respect to any Patent or any invention now or hereafter in existence, whether patentable or not, whether a patent or application for patent is in existence on such invention or not, and whether a patent or application for patent on such invention may come into existence or not, including any agreement identified in Schedule 1 to any Patent Security Agreement.

"Patents" means (i) all letters patent and design letters patent of the United States or any other country and all applications for letters patent or design letters patent of the United States or any other country, including applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, including those described in Schedule 1 to any Patent Security Agreement, (ii) all reissues, divisions, continuations, continuations in

part, revisions and extensions of any of the foregoing, (iii) all claims for, and rights to sue for, past or future infringements of any of the foregoing and (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Patent Security Agreement" means a Patent Security Agreement, substantially in the form of Exhibit E, executed and delivered by a Lien Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

"Perfection Certificate" a certificate substantially in the form of Exhibit A hereto, completed and supplemented with the schedules and attachments contemplated thereby to the satisfaction of the Collateral Agent, and duly executed by an executive officer of Xerox.

"Permitted Encumbrances" means (i) any legally valid prohibitions on granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Qualified Turnaround Program Subsidiary pursuant to any agreement entered into in connection with the Turnaround Program with or for the benefit of any other Person owning or acquiring Equity Interests in such a Subsidiary, to the extent the Qualification Requirements have been met with respect to such prohibitions, (ii) (A) any legally valid contractual restrictions in connection with the Turnaround Program that do not prohibit the granting of a security interest in any Xerox Company's Equity Interests in a Turnaround Program Subsidiary to the Collateral Agent as part of the Collateral or (B) any legally valid contractual restrictions that do not prohibit the granting of a security interest in any Xerox Company's Equity Interests in any other Subsidiary that is not a Xerox Group Company, but, in each case, that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interests as a consequence of restrictions imposed on the owner of such Equity Interests (including put and call arrangements, rights of first refusal, right of first offer, tag-along rights and other similar rights to which such Equity Interest may be subject), (iii) any legally valid and customary contractual restrictions on granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Finance SPE or any Permitted Joint Venture created in connection with any Qualified Receivables Transaction or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Collateral, (iv) any legally valid contractual restrictions on granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Third Party Vendor Financing Subsidiary or any Permitted Joint Venture created in connection with the Third Party Vendor Financing Program or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting

rights) and remedies of the Collateral Agent with respect to, such Collateral, (v) any legally valid contractual restrictions existing on the date hereof on granting a security interest to the Collateral Agent as part of the Collateral in any Equity Interest or General Intangible owned by any Original Lien Grantor, or any legally valid contractual restrictions existing on the date hereof that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interest or General Intangible, (vi) any legally valid contractual restrictions permitted by Section 6.10 of the Credit Agreement on the grant of a security interest to the Collateral Agent in any of the Collateral, or on the Transfer by the Collateral Agent of any Collateral (including put and call arrangements, rights of first refusal, right of first offer, tag-along rights and other similar rights to which any Equity Interest may be subject) or (vii) the terms of any legally valid provision of Applicable Law which (A) prohibits the creation of a security interest in any property or asset, (B) requires the consent of any third party to the creation of a security interest in any property or asset, (C) gives rise to any right of termination (including, without limitation, the abandonment, invalidation, or rendering unenforceable any right, title or interest in any Intellectual Property) or default remedy by reason of the creation of a security interest in any property or asset or (D) does not prohibit the creation of a security interest in any property or asset but otherwise restricts the Transfer by the Collateral Agent of any such property or asset or any other rights and remedies of the Collateral Agent.

"Personal Property Collateral" means all property included in the Collateral except Real Property Collateral.

"Pledged", when used in conjunction with any type of asset, means at any time an asset of such type that is included (or that creates rights that are included) in the Collateral at such time. For example, "Pledged Security" means a Security that is included in the Collateral at such time.

"Proceeds" means all proceeds of, and all other profits, products, rents or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or other realization upon, any Collateral, including without limitation all claims of the relevant Lien Grantor against third parties for loss of, damage to or destruction of, or for proceeds payable under, or unearned premiums with respect to, policies of insurance in respect of, any Collateral, and any condemnation or requisition payments with respect to any Collateral, in each case whether now existing or hereafter arising.

"Real Property Collateral" means all real property included in the Collateral.

"Recordable Intellectual Property" means Intellectual Property the transfer of which is required to be recorded in the United States Patent and Trademark Office or the United States Copyright Office in order to be effective against subsequent third party transferees; provided, however, that the following items shall not be considered "Recordable Intellectual Property" hereunder: (i) Patents which are less than one year from their final expiration date, (ii) Intellectual Property licenses, (iii) unregistered Copyrights and (iv) Copyright applications.

"Release Conditions" means the following conditions for releasing all the Guarantees and terminating all the Security Interests:

(i) all Revolving Commitments under the Credit Agreement shall have expired or been terminated;

(ii) all Non-Contingent CA Secured Obligations shall have been paid in full; and

(iii) no Contingent CA Secured Obligation shall remain outstanding;

provided that the condition in clause (iii) shall not apply to outstanding Letters of Credit if (x) no Event of Default has occurred and is continuing and (y) Xerox or the applicable Borrower have granted to the Collateral Agent, for the benefit of the Revolving Lenders (or, if the obligations of the Revolving Lenders to reimburse the applicable LC Issuing Banks have been terminated, to such LC Issuing Banks), a security interest in Liquid Investments (or causes a bank acceptable to the Required Revolving Lenders or such LC Issuing Banks, as the case may be, to issue a letter of credit naming the Collateral Agent or such LC Issuing Banks as beneficiary) in an amount at least equal to 105% of the LC Exposure (plus any accrued and unpaid interest thereon) as of the date of such termination, on terms and conditions and pursuant to documentation reasonably satisfactory to the Required Revolving Lenders or such LC Issuing Banks, as the case may be.

"Restricted Collateral" means the Collateral of Xerox or any Restricted Secured Subsidiary Guarantor (and any Proceeds of such Collateral shall also constitute "Restricted Collateral").

"Restricted Secured Subsidiary Guarantor" means a Secured Subsidiary Guarantor that is a "Specified Subsidiary" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under a new Reference Indenture).

"Secured Agreement", when used with respect to any Secured Obligation, refers collectively to each instrument, agreement or other document that sets forth obligations of Xerox, obligations of the Overseas Borrowers, obligations of a Guarantor and/or rights of the holder with respect to such Secured Obligation.

"Secured Guarantee" means, with respect to each Secured Subsidiary Guarantor, its Subsidiary Guarantee, and with respect to Xerox, the Xerox Guarantee.

"Secured Obligations" means the CA Secured Obligations, the ESOP Secured Obligations and the XCFI Secured Obligations.

"Secured Parties" means (i) with respect to the CA Secured Obligations, the Agents, the Lenders and the LC Issuing Banks, (ii) with respect to the ESOP Secured Obligations, the holders of the ESOP Notes and (iii) with respect to the XCFI Secured Obligations, the Trustee under each of the XCFI Indentures (and any successor Trustee thereunder) for the benefit of the holders of the XCFI Debentures.

"Secured Party Jurisdiction" means, with respect to any Secured Party:

(i) the jurisdiction under the laws of which such Secured Party is organized or in which its principal office is located,

(ii) the jurisdiction in which its applicable lending office is located, and

(iii) any jurisdiction in which it is treated as resident for purposes of income or franchise taxes imposed on (or measured by) net income (or is otherwise subject to such taxes) by reason of its business activities and operations that are unrelated to the Credit Agreement, the Existing Credit Agreement and the loans thereunder.

"Secured Subsidiary Guarantee" means, with respect to each Secured Subsidiary Guarantor, its Subsidiary Guarantee.

"Secured Subsidiary Guarantor" means a Subsidiary Guarantor other than XCC.

"Security Interests" means the security interests in the Collateral granted under the Domestic Security Documents securing the Secured Obligations.

"Shared Collateral" means any Collateral that includes either ESOP Restricted Collateral or XCFI Restricted Collateral, or both.

"State and Local Government Receivables" means Accounts (including without limitation, proceeds of Inventory to the extent it also constitutes an Account, and Chattel Paper, Documents and Instruments and proceeds thereof) that are owed from state and local governments and their subdivisions within the United States or its possessions or territories.

"Subsidiary Guarantee" means, with respect to each Subsidiary Guarantor, its guarantee of the Secured Obligations under Section 2 hereof or Section 1 of a Security Agreement Supplement.

"Subsidiary Guarantors" means each Domestic Subsidiary listed on the signature pages hereof under the caption "Guarantors" and each Domestic Subsidiary that shall, at any time after the date hereof, become a "Guarantor" pursuant to Section 20.

"Third Party Vendor Financing Assets" means Equipment, Inventory and related assets that is transferred to any Person under the Third Party Vendor Financing Program.

"Trademark License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right to use any Trademark, including any agreement identified in Schedule 1 to any Trademark Security Agreement.

"Trademarks" means: (i) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos, brand names, trade dress, prints and labels on which any of the foregoing have appeared or appear, package and other designs, and all other source or business identifiers, and all general intangibles of like nature, and the rights in any of the foregoing which arise under applicable law, (ii) the goodwill of the business symbolized thereby or associated therewith, (iii) all registrations and applications in connection therewith, including registrations and applications in the United States Patent and Trademark Office or in any similar office or agency of the United States, any State thereof or any other country or any political subdivision thereof, including those described in Schedule 1 to any Trademark Security Agreement, (iv) all renewals of any of the foregoing, (v) all claims for, and rights to sue for, past or future infringements of any of the foregoing and (vi) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Trademark Security Agreement" means a Trademark Security Agreement, substantially in the form of Exhibit F, executed and delivered by a Lien Grantor in favor of the Collateral Agent for the benefit of the Secured Parties.

"Transferred Intellectual Property" means any Intellectual Property (including without limitation, proceeds thereof) that was Transferred as permitted by the Credit Agreement.

"Transferred Receivables" means Receivables that were Transferred in connection with a Qualified Receivables Transaction or the Third Party Vendor Financing Program.

"UCC" means the Uniform Commercial Code as in effect from time to time in the State of New York; provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection or the priority of any Security Interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than New York, "UCC" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority.

"Unrestricted Secured Subsidiary Guarantor" means a Secured Subsidiary Guarantor that is not a Restricted Secured Subsidiary Guarantor.

"XCC Indentures" means any Indenture or other agreement governing Capital Markets Debt of XCC.

"XCC Senior Obligations" means XCC's obligations under its Capital Markets Debt outstanding as of the Effective Date.

"XCC Subordinated Obligations" means XCC's obligations under its Subsidiary Guarantee.

"XCFI Indentures" means (a) that certain Trust Indenture dated as of December 15, 1986, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee and (b) that certain Trust Indenture dated as of October 27, 1987, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee, in each case as amended, modified or supplemented from time to time.

"XCFI Percentage" means, at any time, (a) with respect to any Shared Collateral that includes both ESOP Restricted Collateral and XCFI Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding XCFI Secured Obligations represents of the aggregate amount of all outstanding Secured Obligations at such time and (b) with respect to any XCFI Restricted Collateral that is not ESOP Restricted Collateral, the portion, expressed as a percentage, that the amount of outstanding XCFI Secured Obligations represents of the sum of the aggregate amount of all outstanding XCFI Secured Obligations and CA Secured Obligations at such time.

"XCFI Restricted Collateral" means the Restricted Collateral.

"XCFI Secured Obligations" means the obligations of Xerox under the XCFI Indentures and shall include all amounts outstanding under the XCFI Debentures and accrued and unpaid interest and other amounts owing with respect thereto.

"Xerox Secured Obligations" means (i) the Secured Obligations of Xerox and (ii) the Xerox Guarantee.

"Xerox Guarantee" means Xerox's guarantee of the Overseas CA Secured Obligations under Section 2 hereof.

Section 2. Guarantees by Guarantors.

(a) Guarantees. (i) Xerox unconditionally guarantees the full and punctual payment of each Overseas CA Secured Obligation when due (whether at stated maturity, upon acceleration or otherwise). If an Overseas Borrower fails to pay any Overseas CA Secured Obligation punctually when due, Xerox agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the relevant Loan Document.

(ii) Each Subsidiary Guarantor unconditionally guarantees the full and punctual payment of each Secured Obligation when due (whether at stated maturity, upon acceleration or otherwise). If Xerox or any Overseas Borrower fails to pay any Secured Obligation punctually when due, each Subsidiary Guarantor agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the relevant Secured Agreement; provided, however, that notwithstanding the foregoing, (A) the ESOP Secured Obligations are only guaranteed by each ESOP Restricted Secured Subsidiary Guarantor and no holder of any ESOP Secured Obligation shall have any claim against, or Lien on any asset of, XCC or any Secured Subsidiary Guarantor that is not an ESOP Restricted Secured Subsidiary Guarantor by virtue of this Agreement and (B) the XCFI Secured Obligations are only guaranteed by each

Restricted Secured Subsidiary Guarantor and no holder of any XCFI Secured Obligation shall have any claim against, or Lien on any asset of, XCC or any Secured Subsidiary Guarantor that is not a Restricted Secured Subsidiary Guarantor by virtue of this Agreement; provided, further, notwithstanding anything to the contrary contained herein, the liability and obligation of (x) each ESOP Restricted Secured Subsidiary Guarantor under this Section 2(a) with respect to the ESOP Secured Obligations (but not any other Secured Obligations) and (y) each Restricted Secured Subsidiary Guarantor under this Section 2(a) with respect to the XCFI Secured Obligations (but not any other Secured Obligations) shall not be enforced by any action or proceeding wherein damages or any money judgment shall be sought against such ESOP Restricted Secured Subsidiary Guarantor or such Restricted Secured Subsidiary Guarantor, as the case may be, except a foreclosure by the Collateral Agent upon the ESOP Restricted Collateral of such ESOP Restricted Secured Subsidiary Guarantor or the XCFI Restricted Collateral of such Restricted Secured Subsidiary Guarantor, as the case may be, and any judgment in any such foreclosure action shall be enforceable by the Collateral Agent against such ESOP Restricted Collateral or XCFI Restricted Collateral, as the case may be, only to the extent of the ESOP Percentage of such ESOP Restricted Secured Subsidiary Guarantor's interest in such ESOP Restricted Collateral, or only to the extent of the XCFI Percentage of such Restricted Secured Subsidiary Guarantor's interest in such XCFI Restricted Collateral, as the case may be, and the guarantee extended hereby for the benefit of any holder of ESOP Secured Obligations or XCFI Secured Obligations is provided to such holder under the express condition that the Collateral Agent has no right to sue for, seek or demand any deficiency judgment against any ESOP Restricted Secured Subsidiary Guarantor with respect to the ESOP Secured Obligations (but not any other Secured Obligations), or against any Restricted Secured Subsidiary Guarantor with respect to the XCFI Secured Obligations (but not any other Secured Obligations), as the case may be, in any such foreclosure action under or by reason of, or in connection with, this Agreement or otherwise with respect to such guarantee. The obligations of each Subsidiary Guarantor under this Section 2(a) shall be limited as provided in Section 2(i) below and, in the case of XCC only, subordinated as provided in Section 2(j) below.

(b) Guarantees Unconditional. The obligations of each Guarantor under its Guarantee shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(i) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of Xerox, any Overseas Borrower, any other Guarantor or any other Person under any Secured Agreement, by operation of law or otherwise;

(ii) any modification or amendment of or supplement to any Secured Agreement;

(iii) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of Xerox, any Overseas Borrower, any other Guarantor or any other Person under any Secured Agreement;

(iv) any change in the corporate existence, structure or ownership of Xerox, any Overseas Borrower, any other Guarantor or any other Person or any of their respective subsidiaries, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting Xerox, any Overseas Borrower, any other Guarantor or any other Person or any of their assets or any resulting release or discharge of any obligation of Xerox, any Overseas Borrower, any other Guarantor or any other Person under any Secured Agreement;

(v) the existence of any claim, set-off or other right that such Guarantor may have at any time against Xerox, any Overseas Borrower, any other Guarantor, any Secured Party or any other Person, whether in connection with the Loan Documents or any unrelated transactions, provided that nothing herein shall prevent the assertion of any such claim by separate suit or compulsory counterclaim;

(vi) any invalidity or unenforceability relating to or against Xerox, any Overseas Borrower, any other Guarantor or any other Person for any reason of any Secured Agreement, or any provision of applicable law or regulation purporting to prohibit the payment of any Secured Obligation by Xerox, any Overseas Borrower, any other Guarantor or any other Person; or

(vii) any other act or omission to act or delay of any kind by Xerox, any Overseas Borrower, any other Guarantor, any other party to any Secured Agreement, any Secured Party or any other Person, or any other circumstance whatsoever that might, but for the provisions of this clause (vii), constitute a legal or equitable discharge of or defense to any obligation of any Guarantor hereunder.

(c) Release of Guarantees. The Guarantees will be released in accordance with Section 9.02 and 9.03 of the Credit Agreement, as the case may be. In case of any release pursuant to Section 9.03 of the Credit Agreement, the Collateral Agent shall be fully protected in relying on a certificate of Xerox stating that the release of the Guarantee is in accordance with and permitted by the terms of Section 9.03 of the Credit Agreement. If at any time any payment of

a Secured Obligation is rescinded or must be otherwise restored or returned upon the insolvency or receivership of Xerox, any Overseas Borrower or otherwise, the relevant Guarantee or Guarantees shall be reinstated with respect thereto as though such payment had been due but not made at such time.

(d) Waiver by Guarantors. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against Xerox, any Overseas Borrower, any other Guarantor or any other Person.

(e) Subrogation. A Guarantor that makes a payment with respect to a Secured Obligation hereunder shall be subrogated to the rights of the payee against Xerox or the relevant Overseas Borrower with respect to such payment; provided that no Guarantor shall enforce any payment by way of subrogation against Xerox or the relevant Overseas Borrower, or by reason of contribution against any other guarantor of such Secured Obligation, until all the Release Conditions have been satisfied.

(f) Stay of Acceleration. If acceleration of the time for payment of any Secured Obligation by Xerox or any Overseas Borrower is stayed by reason of the insolvency or receivership of Xerox or the relevant Overseas Borrower or otherwise, all Secured Obligations otherwise subject to acceleration under the terms of any Secured Agreement shall nonetheless be payable by the relevant Guarantors hereunder forthwith on demand by the Collateral Agent.

(g) Right of Set-Off. If any Secured Obligation is not paid promptly when due, each of the Secured Parties and their respective Affiliates is authorized, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Secured Party or Affiliate to or for the credit or the account of Xerox or any Secured Subsidiary Guarantor against the obligations of such Guarantor under its Guarantee, irrespective of whether or not such Secured Party shall have made any demand thereunder and although such deposits and other obligations may be unmatured. The rights of each Secured Party under this subsection are in addition to all other rights and remedies (including other rights of setoff) that such Secured Party may have.

(h) Continuing Guarantee. Each Guarantee is a continuing guarantee, shall be binding on the relevant Guarantor and its successors and assigns, and shall be enforceable by the Collateral Agent or the Secured Parties. If all or part of any Secured Party's interest in any Secured Obligation is assigned or otherwise transferred, the transferor's rights under each Guarantee, to the extent applicable

to the obligation so transferred, shall automatically be transferred with such obligation.

(i) Limitation on Obligations of Subsidiary Guarantor. The obligations of each Subsidiary Guarantor under its Subsidiary Guarantee shall be limited to an aggregate amount equal to the largest amount that would not render such Subsidiary Guarantee subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of applicable law.

(j) XCC Guarantee Subordinated. The obligations of XCC under its Subsidiary Guarantee shall be subordinated to the XCC Senior Obligations on the terms set forth in Schedule 2.

Section 3. Representations and Warranties. Each Original Lien Grantor represents and warrants as follows:

(a) Such Lien Grantor is duly organized, validly existing and in good standing under the laws of the jurisdiction identified as its jurisdiction of organization in the Perfection Certificate.

(b) The execution and delivery of this Agreement by such Lien Grantor and the performance by it of its obligations under this Agreement (i) are within its corporate or other powers, (ii) have been duly authorized by all necessary corporate or other action, (iii) require no consent or approval of, registration or filing with, any Governmental Authority except (A) such as have been obtained or made and are in full force and effect and (B) filings, recordings and registrations necessary to perfect the Security Interests, (iv) do not violate any Applicable Law or its organizational documents, (v) do not violate any order of any Governmental Authority except in any such case where such violation could not reasonably be expected to result in a Material Adverse Effect, (vi) do not violate or result in a default under any indenture or material agreement or other instrument binding upon it (it being understood that any decrease in the consolidated net worth of Xerox following any fixing of the Basket Lien Available Amount could result in a default under various Debt agreements) and (vii) do not result in any Lien on any of its properties other than the Security Interests.

(c) This Agreement constitutes a valid and binding agreement of such Lien Grantor, enforceable in accordance with its terms, except as limited by (A) applicable bankruptcy, insolvency, fraudulent conveyance or other similar laws affecting creditors' rights generally and (B) general principles of equity, regardless of whether considered in a proceeding at equity or at law.

(d) Schedule 1 sets forth (i) the name and jurisdiction of organization of, and the ownership interest (including percentage owned and number of shares or units) of such Lien Grantor in the Securities that are Equity Interests and issued by, each of such Lien Grantor's direct Subsidiaries as of the date hereof, which are required to be included in the Collateral and (A) pledged pursuant to the Effective Date Collateral and Guarantee Requirement or (B) in the case of Securities that are Equity Interests and issued by any Restricted Foreign Subsidiary, pledged pursuant to the Post-Closing Collateral and Guarantee Requirement and (ii) all other Securities that are Equity Interests and directly owned by such Lien Grantor as of the date hereof that are required to be included in the Collateral and pledged pursuant to this Agreement. As of the date hereof, such Lien Grantor holds all such Securities directly (i.e., not through a subsidiary, a Securities Intermediary or any other Person).

(e) All Pledged Securities owned by such Lien Grantor are owned by it free and clear of any Lien other than (i) the Security Interests, (ii) the Permitted Encumbrances and (iii) any tax liens and judgment liens that are CA Permitted Liens. None of such Pledged Securities is subject to any option to purchase or similar right of any Person other than the Permitted Encumbrances. Other than the Permitted Encumbrances, such Lien Grantor is not and will not become a party to or otherwise bound by any agreement (except the Loan Documents) which restricts in any material manner the rights of any present or future holder of any Pledged Securities with respect thereto.

(f) Except for the Disclosed Matters, such Lien Grantor has good title to, or valid license or leasehold interests in, all of its Collateral which is material to its business, free and clear of any Liens other than (i) the CA Permitted Liens, (ii) the Permitted Encumbrances and (iii) other defects that could not reasonably be expected to result in a Material Adverse Effect.

(g) Other than financing statements, mortgages or other similar or equivalent documents or instruments with respect to the Security Interests and other CA Permitted Liens, or that are in respect of consignments, sale of Accounts, operating leases or are otherwise precautionary, no financing statement, mortgage, security agreement or similar or equivalent document or instrument covering all or any part of the Collateral is on file or of record in any jurisdiction in which such filing or recording is effective to perfect or record a Lien on such Collateral except (i) Liens that have been released and (ii) Liens the obligations secured by which have been satisfied, in each case as

evidenced pursuant to the requirements of Section 4.01(f) of the Credit Agreement. After the Effective Date, no Collateral owned by such Lien Grantor will be in the possession or under the Control of any other Person having a claim thereto or security interest therein, other than CA Permitted Liens.

(h) The Security Interests in the United States on all Personal Property Collateral which is subject to the UCC or which constitutes Intellectual Property owned by such Lien Grantor (i) have been validly created, (ii) will attach to each item of such Collateral on the Effective Date (or, if such Lien Grantor first obtains rights thereto on a later date, on such later date) and (iii) when so attached, will constitute Collateral for the Secured Obligations or Secured Guarantee of such Lien Grantor.

(i) When the relevant Mortgages have been duly executed and delivered, the Security Interests on all Real Property Collateral owned by such Lien Grantor as of the Effective Date will have been validly created and will constitute Collateral for the Secured Obligations or Secured Guarantee of such Lien Grantor.

(j) Xerox has heretofore delivered the Perfection Certificate to the Collateral Agent. The information specified therein with the respect to such Lien Grantor is correct and complete in all material respects as of the Effective Date.

(k) When a UCC financing statement describing the Collateral and naming such Lien Grantor as debtor in the form attached to the Perfection Certificate has been filed in the office of the Secretary of State in such Lien Grantor's jurisdiction of organization specified in the Perfection Certificate, the Security Interests will constitute perfected security interests in the Personal Property Collateral owned by such Lien Grantor to the extent that a security interest therein may be perfected by filing pursuant to the UCC, prior to all Liens and rights of others therein except CA Permitted Liens. Except for (i) the filing of such UCC financing statement (and the filing of UCC continuation statements in respect thereof), (ii) the due recordation of the Mortgages and (iii) the recording of the Copyright Security Agreement, the Patent Security Agreement and the Trademark Security Agreement in the United States Copyright Office and the United States Patent and Trademark Office appropriately identifying the Recordable Intellectual Property covered thereby, and except with respect to (x) goods represented by a certificate of title and (y) receivables subject to the Federal Assignment of Claims Act, no registration, recordation or filing with any Governmental Authority is required in connection with the execution or delivery of the

Domestic Security Documents or is necessary for the validity or enforceability thereof or for the perfection or due recordation of the Security Interests in the United States (with respect to Personal Property Collateral, to the extent such Collateral is subject to the UCC or constitutes Intellectual Property) or for the enforcement of the Security Interests in the United States in such Collateral; provided, however, that the registration of Copyrights in the United States Copyright Office may be required to obtain a security interest therein that is effective against subsequent transfers under federal copyright law and, provided, further, that, to the extent that recordation of the Security Interest in the United States Patent and Trademark Office or the United States Copyright Office is necessary to perfect the Security Interest or render it effective against subsequent third parties, such recordations will not have been made with respect to the items that are not Recordable Intellectual Property.

(l) The Collateral Agent has Control of the Financial Assets and Security Entitlements (if any) held in the Collateral Account.

(m) As of the date hereof, the Inventory and Equipment are insured in accordance with the requirements of the Credit Agreement.

Section 4. The Security Interests. (a) Xerox, in order to secure the Xerox Secured Obligations, and each Secured Subsidiary Guarantor, in order to secure its Secured Subsidiary Guarantee, grants to the Collateral Agent for the benefit of the Secured Parties a continuing security interest in and to all of its respective right, title and interest in the following property of Xerox, or such Secured Subsidiary Guarantor, as the case may be, whether now owned or existing or hereafter acquired or arising and regardless of where located, but subject to the exclusions in Section 4(b):

- (i) Accounts;
- (ii) Chattel Paper;
- (iii) Documents;
- (iv) Equipment;
- (v) General Intangibles;
- (vi) Instruments;
- (vii) Inventory;

(viii) Securities directly owned by such Original Lien Grantor and issued by any subsidiary or Affiliate of such Original Lien Grantor or any other issuer over which such Original Lien Grantor exercises Control;

(ix) The Collateral Account, all Financial Assets credited to the Collateral Account from time to time and all Security Entitlements in respect thereof, all cash deposited therein from time to time, and the Liquid Investments made pursuant to Section 8(d);

(x) All books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records) of such Original Lien Grantor pertaining to any of the Collateral; and

(xi) All Proceeds of the Collateral described in Clauses 4(a)(i) through 4(a)(x) hereof.

(b) The Collateral shall not include:

(i) rights of such Original Lien Grantor in respect of any property or asset which is prohibited from being pledged to the Collateral Agent as part of the Collateral by any Permitted Encumbrances;

(ii) Transferred Receivables and (A) security interests or liens and property subject thereto purporting to secure payment of such Transferred Receivables, (B) leases, guaranties, insurance and other arrangements supporting payment of such Transferred Receivables, (C) rights to payment and collections in respect of such Transferred Receivables, (D) books, records and similar information relating to such Transferred Receivables or the obligors thereon, (E) with respect to any such Transferred Receivables, the transferee's interest in goods (including, without limitation, Equipment or Inventory) the sale of which gave rise to such Transferred Receivables and (F) if such Transferred Receivables arise from a lease financing or installment sale transaction, the Equipment or Inventory that is the subject of the underlying transaction and is transferred to a Receivables SPE;

(iii) Transferred Intellectual Property;

(iv) State and Local Government Receivables of such Original Lien Grantor;

(v) any Security owned by such Original Lien Grantor that is a voting Equity Interest issued by a Foreign Subsidiary that is a corporation

for United States Federal income tax purposes, if and to the extent that the Collateral pledged by Xerox to secure Xerox Secured Obligations or by any other Lien Grantor to secure any guarantee of the Secured Obligations pursuant to this Agreement or any other Domestic Security Document would include in the aggregate more than 65% of the shares of any class of voting securities of such Foreign Subsidiary (either directly or through any entity that is a disregarded entity for such purposes); and

(vi) Third Party Vendor Financing Assets of such Original Lien Grantor.

(c) With respect to each right to payment or performance included in the Collateral from time to time, the Security Interest granted therein includes, subject to Permitted Encumbrances, a continuing security interest in (i) any Supporting Obligation that supports such payment or performance and (ii) any Lien that (x) secures such right to payment or performance or (y) secures any such Supporting Obligation.

(d) The Security Interests are granted as security only and shall not subject the Collateral Agent or any Secured Party to, or transfer or in any way affect or modify, any obligation or liability of any Lien Grantor with respect to any of the Collateral or any transaction in connection therewith.

(e) Notwithstanding anything to the contrary contained herein or in any other Loan Document, Liens on Restricted Collateral granted pursuant to this Agreement and the other Domestic Security Documents will only secure, at any time, an amount of the Secured Obligations not to exceed the Basket Lien Available Amount at such time.

(f) It is the intention of the parties that the Liens granted pursuant to this Agreement and the other Domestic Security Documents shall comply with (i) Section 6.4 of the ESOP Guarantee Agreement and (ii) Section 20.8 of each of the XCFI Indentures.

Section 5. Further Assurances; Covenants. Each Lien Grantor covenants as follows:

(a) Such Lien Grantor will not (i) change its corporate, partnership, company or other legal name or location (determined as provided in UCC Section 9-307), (ii) change its identity or corporate structure, (iii) change its Federal Taxpayer Identification Number or (iv) become bound, as provided in UCC Section 9-203(d) or otherwise, by a security agreement entered into by another Person, except, if applicable, in accordance with Section 5.03(a) of the Credit Agreement.

(b) Such Lien Grantor will, from time to time, at its expense, execute, deliver, file and record any statement, assignment, instrument, document, agreement or other paper and take any other reasonable action (including, without limitation, any filings of financing or continuation statements under the UCC) that from time to time is required under the UCC or with respect to Recordable Intellectual Property to enable the Collateral Agent and the other Secured Parties to obtain the full benefits of the Domestic Security Documents or to enable the Collateral Agent to exercise and enforce any of its rights, powers and remedies under the Domestic Security Documents with respect to any of the Collateral. The Lien Grantor hereby authorizes the Collateral Agent to file a Record or Records (as defined in the UCC), including, without limitation, financing or continuation statements, and amendments thereto, in all jurisdictions and with all filing offices as the Collateral Agent may determine, in its sole discretion, are necessary or advisable to perfect the security interest granted to the Collateral Agent herein without such Lien Grantor's signature appearing thereon. Such financing statements may describe the Collateral in the same manner as described herein or may contain an indication or description of collateral that describes such property in any other manner as the Collateral Agent may determine, in its sole discretion, is necessary, advisable or prudent to ensure the perfection of the security interest in the Collateral granted to the Collateral Agent herein, including, without limitation, describing such property as "all assets" or "all personal property." Such Lien Grantor agrees that a carbon, photographic, photostatic or other reproduction of this Agreement is sufficient as a financing statement. Such Lien Grantor constitutes the Collateral Agent its attorney-in-fact to execute and file any filings required or so requested for the foregoing purposes, all acts of such attorney being hereby ratified and confirmed; and such power, being coupled with an interest, shall be irrevocable until all the Security Interests granted by such Lien Grantor terminate pursuant to Section 19. Such Lien Grantor shall pay the costs of, or reasonable costs incidental to, any recording or filing of any financing or continuation statements or other documents recorded or filed pursuant thereto concerning the Collateral.

(c) Upon the occurrence and during the continuance of an Event of Default, if any Collateral is in the possession or control of a warehouseman, bailee or agent, such Lien Grantor will upon request of the Required Lenders (i) notify such warehouseman, bailee or agent of the relevant Security Interests, (ii) instruct such warehouseman, bailee or agent to hold all such Collateral for the Collateral Agent's account subject to the Collateral Agent's instructions and to permit such Collateral to be removed by such Lien Grantor in the ordinary course of business until the Collateral Agent notifies such warehouseman, bailee or agent that an Event of Default has occurred and is continuing, (iii) use reasonable commercial efforts (without incurring material obligations or foregoing material rights) to cause such warehouseman, bailee or agent to Authenticate a Record

acknowledging that it holds possession of such Collateral for the Collateral Agent's benefit and (iv) make such Authenticated Record available to the Collateral Agent.

(d) If an Actionable Event of Default shall have occurred and be continuing, such Lien Grantor shall stamp or otherwise mark all books and records relating to the Collateral in such manner, if any, as the Required Lenders may reasonably require in order to reflect the Security Interests.

(e) Such Lien Grantor will, promptly upon request, provide to the Collateral Agent all information and evidence in such Lien Grantor's possession, or under such Lien Grantor's control, or that can be generated internally or, if an Actionable Event of Default has occurred and is continuing, can otherwise be obtained by such Lien Grantor, without unreasonable effort or expense, which the Collateral Agent may reasonably request concerning the Collateral to enable the Collateral Agent to enforce the provisions of the Domestic Security Documents.

(f) Such Lien Grantor will not Transfer, grant interests in, or grant any option with respect to, any of its Collateral; provided that such Lien Grantor may do any of the foregoing unless doing so would violate a covenant in the Credit Agreement. Concurrently with any such Transfer (except a Transfer to another Lien Grantor, a lease or a license) permitted by the foregoing proviso, the Security Interests on such assets Transferred (but not in any Proceeds arising from such Transfer) will cease immediately pursuant to Section 9.03 of the Credit Agreement.

Section 6. Recordable Intellectual Property. Each Lien Grantor covenants as follows:

(a) On the Effective Date (in the case of an Original Lien Grantor) or the date on which it signs and delivers its first Security Agreement Supplement (in the case of any other Lien Grantor), such Lien Grantor will sign and deliver to the Collateral Agent Intellectual Property Security Agreements with respect to all Recordable Intellectual Property then owned by it. Within 60 days after each March 31 and September 30 after December 31, 2002, it will sign and deliver to the Collateral Agent any Intellectual Property Security Agreement necessary to grant Security Interests on all Recordable Intellectual Property owned by it on such March 31 or September 30 that is not covered by any previous Intellectual Property Security Agreement so signed and delivered by it. In each case, it will promptly make all Intellectual Property Filings necessary to record the Security Interests on such Recordable Intellectual Property; provided, however, that any good faith omission to include any Recordable Intellectual Property in any such Intellectual Property Security Agreement shall not constitute an Event of Default if, within 15 days after the discovery by such Lien Grantor of such good faith

omission, such Lien Grantor signs and delivers to the Collateral Agent Intellectual Property Security Agreements with respect to such omitted Recordable Intellectual Property and promptly makes all Intellectual Property Filings necessary to record the Security Interests on such omitted Recordable Intellectual Property.

(b) Such Lien Grantor will notify the Collateral Agent promptly if it knows that any application or registration relating to any material Recordable Intellectual Property owned or licensed by it may become abandoned or dedicated to the public, or of any adverse determination or development (including the institution of, or any adverse determination or development in, any proceeding in the United States Copyright Office, the United States Patent and Trademark Office or any court) regarding such Lien Grantor's ownership of such material Recordable Intellectual Property, its right to register or patent the same, or its right to keep and maintain the same, except where the occurrence of any of the foregoing could not reasonably be expected to result in a Material Adverse Effect. If any of such Lien Grantor's rights to any material Recordable Intellectual Property are infringed, misappropriated or diluted by a third party, such Lien Grantor will, unless such Lien Grantor shall reasonably determine that such action would be of negligible value, economic or otherwise, or the failure to take such action could not reasonably be expected to result in a Material Adverse Effect, (i) promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, (ii) take such other actions as such Lien Grantor shall reasonably deem appropriate under the circumstances to protect such material Recordable Intellectual Property and (iii) notify the Collateral Agent thereof to the extent required by the Credit Agreement.

Unless an Actionable Event of Default shall exist and the Collateral Agent shall have notified such Lien Grantor that the Lien Grantor's right to do so is terminated, suspended or otherwise limited, the grant of Liens on Recordable Intellectual Property pursuant hereto and the Intellectual Property Security Agreements shall not preclude any Lien Grantor from entering into any Copyright License, Patent License or Trademark License or, subject to Section 5, from managing or maintaining its Recordable Intellectual Property in a manner that is in the ordinary course of such Lien Grantor's business and consistent with such Lien Grantor's historical practices as permitted by the Credit Agreement.

Section 7. Pledged Securities. Each Lien Grantor represents, warrants and covenants as follows:

(a) Certificated Securities. (i) With respect to each Original Lien Grantor, such Original Lien Grantor will deliver, (A) on the Effective Date, to the Collateral Agent as Collateral hereunder all certificates representing Pledged

Certificated Securities that are Equity Interests and (I) issued by any Domestic Subsidiary or (II) representing any other Pledged Securities, in each case, then directly owned by such Original Lien Grantor and identified on Schedule 1 of this Agreement as required to be pledged as part of the Effective Date Collateral and Guarantee Requirement, (B) in accordance with Section 5.13(a) of the Credit Agreement, within 90 days after the Effective Date, to the Collateral Agent as Collateral hereunder all certificates representing Pledged Certificated Securities that are Equity Interests and (I) issued by any Restricted Foreign Subsidiary or (II) representing any other Pledged Securities, in each case, then directly owned by such Original Lien Grantor and identified on Schedule 1 of this Agreement as required to be pledged as part of the Post-Closing Collateral and Guarantee Requirement and (C) in accordance with Section 5.13(b) of the Credit Agreement, within 90 days after the Restatement Date, to the Collateral Agent as Collateral hereunder all certificates representing Pledged Certificated Securities that are Equity Interests and issued by any Material Foreign Subsidiary then directly owned by such Original Lien Grantor (to the extent that such Securities have not been pledged and delivered pursuant to clause (i)(B) of this Section 7(a)).

(ii) With respect to any other Lien Grantor, such Lien Grantor will deliver, on the date on which it signs and delivers its first Security Agreement Supplement or, in the case of Pledged Certificated Securities that are Equity Interests in any Foreign Subsidiary, as promptly as practicable, to the Collateral Agent as Collateral hereunder all certificates representing Pledged Certificated Securities that are Equity Interests then directly owned by such Lien Grantor and required to be included in the Collateral.

(iii) After the pledge and delivery of Pledged Certificated Securities described in clause (i) or (ii) of this Section 7(a), whenever such Original Lien Grantor or such Lien Grantor, as the case may be, acquires any other certificate representing a Pledged Certificated Security that are Equity Interests and required to be included in the Collateral, such Original Lien Grantor or such Lien Grantor, as the case may be, will promptly deliver such certificate to the Collateral Agent as Collateral hereunder.

The provisions of this subsection are subject to the limitation in Section 7(g) in the case of Securities that are voting Equity Interests in a Foreign Subsidiary and to the limitation in Section 7(h) in the case of Equity Interests that are subject to Permitted Encumbrances.

(b) Uncertificated Securities. (i) With respect to each Original Lien Grantor, such Original Lien Grantor will, (A) on the Effective Date, in respect of each Pledged Uncertificated Security that is an Equity Interest and (I) issued by any Domestic Subsidiary or (II) representing any other Pledged Securities, in each case, then directly owned by such Original Lien Grantor and identified on

Schedule 1 of this Agreement as required to be pledged as part of the Effective Date Collateral and Guarantee Requirement, (B) in accordance with Section 5.13(a) of the Credit Agreement, within 90 days after the Effective Date, in respect of each Pledged Uncertificated Security that is an Equity Interest and (I) issued by any Restricted Foreign Subsidiary or (II) representing any other Pledged Securities, in each case, then directly owned by such Original Lien Grantor and identified on Schedule 1 of this Agreement as required to be pledged as part of the Post-Closing Collateral and Guarantee Requirement and (C) in accordance with Section 5.13(b) of the Credit Agreement, within 90 days after the Restatement Date, in respect of each Pledged Uncertificated Security that is an Equity Interest issued by any Material Foreign Subsidiary then directly owned by such Original Lien Grantor (to the extent that such Security has not been pledged pursuant to clause (i)(B) of this Section 7(b)), cause the issuer of any such Pledged Uncertificated Security to either (x) register the Collateral Agent as the registered owner of such security on the books and records of the issuer or (y) enter into an Issuer Control Agreement with respect to such Security, in each case as the Collateral Agent and such Original Lien Grantor may reasonably agree; provided that any Equity Interest issued by Xerox (Austria) Holdings GmbH shall not be required to be pledged.

(ii) With respect to any other Lien Grantor, such Lien Grantor will, on the date on which it signs and delivers its first Security Agreement Supplement or, in the case of Pledged Uncertificated Securities that are Equity Interests in any Foreign Subsidiary, as promptly as practicable, in respect of each Pledged Uncertificated Security that is an Equity Interest then directly owned by such Lien Grantor and required to be included in the Collateral, cause the issuer of any such Pledged Uncertificated Security to either (x) register the Collateral Agent as the registered owner of such security on the books and records of the issuer or (y) enter into an Issuer Control Agreement with respect to such Security, in each case as the Collateral Agent and such Lien Grantor may reasonably agree.

(iii) After the pledge of Pledged Uncertificated Securities described in clause (i) or (ii) of this Section 7(b), whenever such Original Lien Grantor or such Lien Grantor, as the case may be, acquires any other Pledged Uncertificated Security that is an Equity Interest and required to be included in the Collateral, such Original Lien Grantor or such Lien Grantor, as the case may be, will promptly cause the issuer of any such Pledged Uncertificated Security to either (x) register the Collateral Agent as the registered owner of such security on the books and records of the issuer or (y) enter into an Issuer Control Agreement with respect to such Security, in each case as the Collateral Agent and such Original Lien Grantor or such Lien Grantor, as the case may be, may reasonably agree.

The provisions of this subsection are subject to (X) the limitation in Section 7(g) in the case of Securities that are voting Equity Interests in a Foreign

Subsidiary, (Y) Section 9(c) and (Z) the limitation in Section 7(h) in the case of Equity Interests that are subject to Permitted Encumbrances.

(c) Perfection as to Certificated Securities. When such Lien Grantor delivers the certificate representing any Pledged Certificated Security that is an Equity Interest and owned by it to the Collateral Agent and complies with Section 7(e) in connection with such delivery, (i) the Security Interest on such Pledged Certificated Security will be perfected under the UCC, subject to no prior Liens or rights of others, (ii) the Collateral Agent will have Control of such Pledged Certificated Security and (iii) the Collateral Agent will be a protected purchaser (within the meaning of UCC Section 8-303) thereof if the Collateral Agent does not have notice of any adverse claim to the applicable security.

(d) Perfection as to Uncertificated Securities. When such Lien Grantor, the Collateral Agent and the issuer of any Pledged Uncertificated Security that is an Equity Interest and owned by such Lien Grantor enter into an Issuer Control Agreement with respect thereto, or when the Collateral Agent is registered as the registered owner of such Pledged Uncertificated Security, (i) the Security Interest on such Pledged Uncertificated Security will be perfected under the UCC, subject to no prior Liens or rights of others, (ii) the Collateral Agent will have Control of such Pledged Uncertificated Security and (iii) the Collateral Agent will be a protected purchaser (within the meaning of UCC Section 8-303) thereof if the Collateral Agent does not have notice of any adverse claim to the applicable security.

(e) Delivery of Pledged Certificates. Any certificate representing a Pledged Certificated Security that is an Equity Interest, when delivered to the Collateral Agent, will be in suitable form for transfer by delivery, or accompanied by duly executed instruments of transfer or assignment in blank signed by a Responsible Officer, all in form and substance reasonably satisfactory to the Collateral Agent.

(f) Communications. If an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have given notice to the Lien Grantors that it elects to exercise the remedies provided in Section 12, such Lien Grantor will promptly give to the Collateral Agent copies of any notices and other communications received by it with respect to Pledged Securities that are Equity Interests and registered in the name of such Lien Grantor or its nominee.

(g) Foreign Subsidiaries. Such Lien Grantor will not be obligated to comply with the provisions of this Section at any time with respect to any Security that is a voting Equity Interest in a Foreign Subsidiary if and to the extent (but only to the extent) that such Security is excluded from the Collateral at such time pursuant to Section 4(b)(v).

(h) Equity Interests Subject to Permitted Encumbrances. Such Lien Grantor will not be obligated to comply with the provisions of this Section at any time with respect to any Equity Interest issued by any Person if and to the extent (but only to the extent) that such Equity Interest is excluded from the Collateral at such time pursuant to Section 4(b)(i).

(i) Such Lien Grantor shall hold directly, and not through any subsidiary, Securities Intermediary or other Person, all Pledged Securities owned by it.

Section 8. Collateral Account. (a) There is hereby established with the Collateral Agent, with respect to each Lien Grantor, a cash collateral account (its "Collateral Account") in the name and under the exclusive control of the Collateral Agent into which there shall be deposited from time to time after the occurrence and during the continuance of an Actionable Event of Default and upon notice from the Collateral Agent that it elects to exercise the remedies provided in this Section 8 the cash proceeds of the Collateral required to be delivered to the Collateral Agent pursuant to subsection 8(b) hereof or any other provision of any Domestic Security Document. Any income received by the Collateral Agent with respect to the balance from time to time standing to the credit of each Collateral Account, including any interest or capital gains on Liquid Investments, shall remain, or be deposited, in the Collateral Account. All cash amounts on deposit in each Collateral Account from time to time after the occurrence and during the continuance of an Event of Default, together with any Liquid Investments from time to time made pursuant to subsection 8(d) hereof, shall at all times be within the exclusive possession, dominion and control of the Collateral Agent, shall constitute part of the Collateral hereunder and shall not constitute payment of the Secured Obligations until applied thereto as hereinafter provided.

(b) If an Actionable Event of Default shall have occurred and be continuing and if so requested by the Required Lenders, each Lien Grantor shall instruct all account debtors and other Persons obligated in respect of all Accounts then included in the Collateral to make all payments in respect of the Accounts either (i) directly to the Collateral Agent (by instructing that such payments be remitted to a post office box which shall be in the name of such Lien Grantor (with a notation that proceeds held therein are held in trust for and subject to the Liens of the Secured Parties) and under the control of the Collateral Agent) or (ii) under other arrangements, in form and substance satisfactory to the Collateral Agent, pursuant to which such Lien Grantor shall have irrevocably instructed such other bank (and such other bank shall have agreed) to remit all proceeds of such payments directly to the Collateral Agent for deposit into the Collateral Account or as the Collateral Agent may otherwise instruct such bank. All such

payments made to the Collateral Agent shall be deposited in such Lien Grantor's Collateral Account. In addition to the foregoing, such Lien Grantor agrees that if the proceeds of any Collateral hereunder (including the payments made in respect of Accounts) are received by it at a time when the foregoing provisions of this Section 8(b) are in effect, such Lien Grantor shall as promptly as possible deposit such proceeds into its Collateral Account. Until so deposited into the Collateral Account, all such proceeds shall, during the continuation of such Event of Default, be held in trust by such Lien Grantor for the Secured Parties and shall not be commingled with any other funds or property of such Lien Grantor.

(c) Upon acceleration of the Loans in accordance with the terms of the Credit Agreement, the Collateral Agent shall, if so instructed by the Required Lenders, apply or cause to be applied (subject to collection) any or all of the balance from time to time standing to the credit of each Collateral Account in the manner specified in Section 14.

(d) If an Actionable Event of Default shall have occurred and be continuing, amounts on deposit in each Collateral Account, to the extent not applied in the manner specified in Section 14 pursuant to paragraph (c) above, shall be invested and re-invested from time to time in such Liquid Investments as the relevant Lien Grantor shall determine, which Liquid Investments shall be held in the name and be under the control of the Collateral Agent, provided that the Collateral Agent shall, if instructed by the Required Lenders, liquidate any such Liquid Investments and apply or cause to be applied the proceeds thereof to the payment of the Secured Obligations in the manner specified in Section 14; and provided further that the Collateral Agent shall, if so instructed by relevant Lenders in the manner specified in Section 9.02 of the Credit Agreement, liquidate any such Liquid Investments and release the proceeds thereof to the relevant Lien Grantor. For this purpose, "Liquid Investments" means Permitted Investments; provided that each Liquid Investment shall mature within 30 days after it is acquired by the Collateral Agent.

Section 9. Transfer of Record Ownership. (a) If an Actionable Event of Default shall have occurred and be continuing, the Collateral Agent may (and to the extent that action by it is required, the relevant Lien Grantor, if directed to do so by the Collateral Agent, will as promptly as practicable) cause each of the Pledged Securities (or any portion thereof specified in such direction) to be transferred of record into the name of the Collateral Agent or its nominee.

(b) Perfection upon Transfer of Record Ownership. If and when any Pledged Security (whether certificated or uncertificated) owned by such Lien Grantor is transferred of record into the name of the Collateral Agent or its nominee pursuant to Section 7(b) or 9(a), (i) the Security Interest on such Pledged Security will be perfected, subject to no prior Liens or rights of others, (ii) the

Collateral Agent will have Control of such Pledged Security and (iii) the Collateral Agent will be a protected purchaser (within the meaning of UCC Section 8-303) thereof if the Collateral Agent does not have notice of any adverse claim to the applicable security.

(c) Provisions Inapplicable after Transfer of Record Ownership. If the provisions of Section 9(a) are implemented, Section 7(b) shall not thereafter apply to any Pledged Security that is registered in the name of the Collateral Agent or its nominee.

(d) Communications after Transfer of Record Ownership. The Collateral Agent will promptly give to the relevant Lien Grantor copies of any notices and other communications received by the Collateral Agent with respect to Pledged Securities registered in the name of the Collateral Agent or its nominee.

Section 10. Right to Vote Securities. (a) Unless an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, each Lien Grantor will have the right, from time to time, to vote and to give consents, ratifications and waivers with respect to any Pledged Security owned by it, and the Collateral Agent will, upon receiving a written request from such Lien Grantor, deliver to such Lien Grantor or as specified in such request such proxies, powers of attorney, consents, ratifications and waivers in respect of any such Pledged Security that is registered in the name of the Collateral Agent or its nominee, in each case as shall be reasonably requested by such Lien Grantor. Unless an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, the Collateral Agent will have no right to take any action which the owner of a Pledged Partnership Interest or Pledged LLC Interest is entitled to take with respect thereto, except the right to receive payments and other distributions to the extent provided herein.

(b) If an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, the Collateral Agent will have the right to the extent permitted by Applicable Law (and, in the case of Collateral consisting of any Security that is subject to any Permitted Encumbrances, by the relevant agreement or governing document to the extent of any Permitted Encumbrances contained in such agreement or governing document) to vote, to give consents, ratifications and waivers and to take any other action with respect to the Pledged Securities (if any) with the same force and effect as if the Collateral Agent were the absolute and sole owner thereof, and

each Lien Grantor will take all such action as the Collateral Agent may reasonably request from time to time to give effect to such right.

Section 11. General Authority. Each Lien Grantor hereby irrevocably appoints the Collateral Agent its true and lawful attorney, with full power of substitution, in the name of such Lien Grantor, the Collateral Agent, the Secured Parties or otherwise, for the use and benefit of the Secured Parties, but at the Borrowers' expense, to the extent permitted by law to exercise, upon the occurrence and during the continuance of an Actionable Event of Default or upon acceleration of the Loans in accordance with the terms of the Credit Agreement, all or any of the following powers with respect to all or any of the Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto,

(c) upon acceleration of the Loans in accordance with the terms of the Credit Agreement, to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if the Collateral Agent were the absolute owner of the Lien Grantor's right, title and interest therein, and

(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto;

provided that, except in the case of Personal Property Collateral that is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Collateral Agent will give the relevant Lien Grantor at least ten days' prior written notice of the time and place of any public sale thereof or the time after which any private sale or other intended disposition thereof will be made. Any such notice shall (i) contain the information specified in UCC Section 9-613, (ii) be Authenticated and (iii) be sent to the parties required to be notified pursuant to UCC Section 9-611(c); provided that, if the Collateral Agent fails to comply with this sentence in any respect, its liability for such failure shall be limited to the liability (if any) imposed on it as a matter of law under the UCC.

Section 12. Remedies upon Actionable Event of Default or Acceleration. (a) Upon acceleration of the Loans in accordance with the terms of the Credit Agreement, the Collateral Agent may exercise (or cause its sub-agents to exercise) any and all remedies available to it (or to such sub-agents) under the Security Documents. Without limiting the generality of the foregoing, upon acceleration of the Loans in accordance with the terms of the Credit Agreement,

the Collateral Agent may exercise (or cause its sub-agents to exercise) on behalf of the Secured Parties all rights of a secured party after default under the UCC (whether or not in effect in the jurisdiction where such rights are exercised) with respect to any Personal Property Collateral and, in addition, the Collateral Agent may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) withdraw all cash and Liquid Investments in the Collateral Accounts and apply such cash and Liquid Investments and other cash, if any, then held by it as Collateral as specified in Section 14 and (ii) if there shall be no such cash or Liquid Investments or if such cash and Liquid Investments shall be insufficient to pay all the Secured Obligations in full, take possession of, sell, lease, license or otherwise dispose of the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Collateral Agent may deem satisfactory. Any Secured Party may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). The relevant Lien Grantor will execute and deliver such documents and take such other action as the Collateral Agent deems reasonably necessary or proper in order that any such sale may be made in compliance with law. Upon any such sale the Collateral Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of the relevant Lien Grantor which may be waived, and such Lien Grantor, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The notice (if any) of such sale required by Section 11 shall comply with the requirements set forth in Section 11. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may determine. The Collateral Agent shall not be obligated to make any such sale pursuant to any such notice. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In the case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the selling price is paid by the purchaser thereof, but the Collateral Agent shall not incur any liability in the case of the failure of such purchaser to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may again be sold upon like notice. The Collateral Agent, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose

the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(b) For the purpose of enforcing any and all rights and remedies under the Security Documents upon the occurrence and during the continuance of an Actionable Event of Default or upon acceleration of the Loans in accordance with the terms of the Credit Agreement, as the case may be, the Collateral Agent may (i) require any Lien Grantor to, and such Lien Grantor agrees that it will, at its expense and upon the request of the Collateral Agent, forthwith take reasonable steps to assemble all or any part of the Collateral as directed by the Collateral Agent and make it available at a place designated by the Collateral Agent which is, in its opinion, reasonably convenient to the Collateral Agent and such Lien Grantor, whether at the premises of such Lien Grantor or otherwise, (ii) to the extent permitted by applicable law, enter, with or without process of law and without breach of the peace, any premise where any of the Collateral is or may be located, and without charge or liability to it seize and remove such Collateral from such premises, (iii) have access to and use such Lien Grantor's books and records relating to the Collateral upon reasonable prior notice and at reasonable times and (iv) prior to the disposition of the Collateral, store or transfer it without charge in or by means of any storage or transportation facility owned or leased by such Lien Grantor, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Collateral Agent reasonably deems appropriate and, in connection with such preparation and disposition, use without charge any trademark, trade name, copyright, patent or technical process used by such Lien Grantor in connection therewith and included in the Collateral, subject, with respect to products being sold under Trademarks, to standards of quality with respect to such products that are reasonably comparable to those prevailing at the time of such Actionable Event of Default.

(c) The remedies specified in this Section 12 do not affect, and are in addition to, remedies otherwise specified for or available to the Collateral Agent or the Secured Parties under this Agreement or any other Loan Document, including, but not limited to, remedies available upon the occurrence and during the continuance of an Event of Default or Actionable Event of Default, as the case may be.

(d) The Collateral Agent hereby agrees that, notwithstanding anything to the contrary set forth herein, the exercise of rights and remedies by the Collateral Agent pursuant to this Section 12 (or otherwise) with respect to any Collateral may be subject to the effect of any Permitted Encumbrances.

Section 13. Limitation on Duty of Collateral Agent in Respect of Collateral. Beyond the exercise of reasonable care in the custody thereof, the Collateral Agent shall have no duty as to any Collateral in its possession or

control or in the possession or control of any agent or bailee or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Collateral Agent shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by the Collateral Agent in good faith.

Section 14. Application of Proceeds. (a)(i) Upon (A) acceleration of the Loans in accordance with the terms of the Credit Agreement and (B) the exercise of remedies by the Collateral Agent under Section 12 hereof, the proceeds of any sale of, or other realization upon, all or any part of the Collateral, shall be applied by the Collateral Agent as follows:

first, to pay the expenses of such sale or other realization, including reasonable compensation to agents contemplated by Section 16 and counsel for the Collateral Agent, and all expenses, liabilities and advances incurred or made by the Collateral Agent in connection with the Domestic Security Documents, and then ratably to pay any other unreimbursed expenses for which the Collateral Agent is to be reimbursed pursuant to Section 17 hereof;

second, (w) in the case of proceeds of any sale of, or realization upon, Shared Collateral that includes both ESOP Restricted Collateral and XCFI Restricted Collateral remaining after the application of amounts pursuant to clause first above, in ratable amounts as follows:

(I) the ESOP Percentage thereof shall be applied to pay (or provide for the payment thereof pursuant to Section) the ESOP Secured Obligations in accordance with Section until payment in full of all ESOP Secured Obligations shall have been made (or so provided for);

(II) the XCFI Percentage thereof shall be applied to pay (or provide for the payment thereof pursuant to Section 14(b)) the XCFI Secured Obligations in accordance with Section 14(a)(iii) until payment in full of all XCFI Secured Obligations shall have been made (or so provided for); and

(III) the CA Percentage thereof shall be applied to pay (or provide for the payment thereof pursuant to Section 14(b)) the CA Secured Obligations in accordance with Section 14(a)(iv) until payment in full of all CA Secured Obligations shall have been made (or so provided for);

(x) in the case of proceeds of any sale of, or realization upon, ESOP Restricted Collateral that is not XCFI Restricted Collateral remaining after the application of amounts pursuant to clause first above, in ratable amounts as follows:

(I) the ESOP Percentage thereof shall be applied to pay (or provide for the payment thereof pursuant to Section 14(b)) the ESOP Secured Obligations in accordance with Section 14(a)(ii) until payment in full of all ESOP Secured Obligations shall have been made (or so provided for); and

(II) the CA Percentage thereof shall be applied to pay (or provide for the repayment thereof pursuant to Section 14(b)) the CA Secured Obligations in accordance with Section 14(a)(iv) until payment in full of all CA Secured Obligations shall have been made (or so provided for);

(y) in the case of proceeds of any sale of, or realization upon, XCFI Restricted Collateral that is not ESOP Restricted Collateral remaining after the application of amounts pursuant to clause first above, in ratable amounts as follows:

(I) the XCFI Percentage thereof shall be applied to pay (or provide for the payment thereof pursuant to Section 14 (b)) the XCFI Secured Obligations in accordance with Section 14(a)(iii) until payment in full of all XCFI Secured Obligations shall have been made (or so provided for); and

(II) the CA Percentage thereof shall be applied to pay (or provide for the repayment thereof pursuant to Section 14(b)) the CA Secured Obligations in accordance with Section 14(a)(iv) until payment in full of all CA Secured Obligations shall have been made (or so provided for); and

(z) in the case of proceeds of any sale of, or realization upon, any Collateral that is not Shared Collateral remaining after the application of amounts pursuant to clause first above, 100% thereof shall be applied to pay (or provide for the payment thereof pursuant to Section 14(b)) the CA Secured Obligations in accordance with Section 14(a)(iv) until payment in full of all CA Secured Obligations shall have been made (or so provided for); and

finally, to pay to the relevant Lien Grantor, or as a court of competent jurisdiction may direct, any surplus then remaining from the proceeds of the Collateral owned by it.

(ii) All amounts required to be applied to pay (or provide for the payment of) the ESOP Secured Obligations pursuant to Section 14(a)(i) shall be applied by the Collateral Agent in the following order of priorities:

first, to pay the unpaid principal of the ESOP Secured Obligations ratably (or provide for the payment thereof pursuant to Section 14(b)), until payment in full of the principal of all ESOP Secured Obligations shall have been made (or so provided for);

second, to pay ratably all interest on the ESOP Secured Obligations; and

third, to pay all other ESOP Secured Obligations ratably (or provide for the payment thereof pursuant to Section 14(b)), until payment in full of all such other ESOP Secured Obligations shall have been made (or so provided for).

(iii) All amounts required to be applied to pay (or provide for the payment of) the XCFI Secured Obligations pursuant to Section 14(a)(i) shall be paid by the Collateral Agent to the Trustee under each of the XCFI Indentures (and any successor Trustee thereunder) for application by such Trustee in accordance with the provisions of each of the XCFI Indentures (or provide for such payment pursuant to Section 14(b)), until payment in full of all XCFI Secured Obligations shall have been made (or so provided for).

(iv) All amounts required to be applied to pay (or provide for the payment of) the CA Secured Obligations pursuant to Section 14(a)(i) shall be applied by the Collateral Agent in the following order of priorities:

first, to ratably pay any unreimbursed expenses for which any Secured Party is to be reimbursed pursuant to Section 9.04 of the Credit Agreement, and any unpaid fees owing to the Agents under the Credit Agreement;

second, to pay the unpaid principal of Tranche B Term Loans (or provide for the payment thereof pursuant to Section 14(b)), until payment in full of the principal of all Tranche B Term Loans shall have been made (or so provided for);

third, to pay interest on Tranche B Term Loans, until payment in full of all such interest shall have been made;

fourth, to pay ratably the unpaid principal of Revolving Loans, Tranche A Term Loans and, if still outstanding, Tranche C Term Loans (or provide for the payment thereof pursuant to Section), until payment in full of the principal of such Loans shall have been made (or so provided for);

fifth, to pay ratably all interest and fees payable under the Credit Agreement to Revolving Lenders, Tranche A Lenders and, if still outstanding, Tranche C Lenders, until payment in full of all such interest and fees shall have been made; and

sixth, to pay all other CA Secured Obligations ratably (or provide for the payment thereof pursuant to Section), until payment in full of all such other CA Secured Obligations shall have been made (or so provided for).

(v) The Collateral Agent may make distributions under clauses (i), (ii) or (iii) above in cash or in kind or, on a ratable basis, in any combination thereof.

(b) If at any time any portion of any monies collected or received by the Collateral Agent would, but for the provisions of this Section 14(b), be payable in respect of a Contingent CA Secured Obligation or any other Secured Obligation that is not then due and payable (by reason of acceleration or otherwise), the Collateral Agent shall not apply any monies to pay such Secured Obligation but instead shall request the holder thereof, at least 10 days before each proposed distribution hereunder, to notify the Collateral Agent as to the maximum amount of such Secured Obligation if then ascertainable (e.g. in the case of a Letter of Credit, the maximum amount available for subsequent drawings thereunder, regardless of whether the conditions to drawing thereunder are then satisfied). If the holder of such Secured Obligation does not notify the Collateral Agent of the maximum ascertainable amount thereof at least two Business Days before such distribution, such holder will not be entitled to share in such distribution. If such holder does so notify the Collateral Agent as to the maximum ascertainable amount thereof, the Collateral Agent will allocate to such holder a portion of the monies to be distributed in such distribution, calculated as if such Secured Obligation were outstanding and then due and payable in such maximum ascertainable amount. However, the Collateral Agent will not apply such portion of such monies to pay such Secured Obligation, but instead will hold such monies or invest such monies in Liquid Investments. All such monies and Liquid Investments and all proceeds thereof will constitute Collateral hereunder, but will be subject to distribution in accordance with this Section 14(b) rather than Section 14(a). The Collateral Agent will hold all such monies and Liquid Investments and the net proceeds thereof in trust until all or part of such Secured Obligation becomes due and payable (or, in the case of a Contingent CA Secured Obligation,

becomes a Non-Contingent CA Secured Obligation), whereupon the Collateral Agent at the request of the relevant Secured Party will apply the amount so held in trust to pay such Secured Obligation; provided that, if the other Secured Obligations theretofore paid pursuant to the same clause of Section 14(a) were not paid in full, the Collateral Agent will apply the amount so held in trust to pay the same percentage of such Secured Obligation as the percentage of such other Secured Obligations theretofore paid pursuant to the same clause of Section 14(a). If (i) the holder of such Secured Obligation shall advise the Collateral Agent that no portion thereof (A) has not become due and payable or (B) remains in the category of a Contingent CA Secured Obligation, as the case may be, and (ii) the Collateral Agent still holds any amount held in trust pursuant to this Section 14(b) in respect of such Secured Obligation (after paying all amounts payable pursuant to the preceding sentence with respect to any portions thereof that have become due and payable or become Non-Contingent CA Secured Obligations, as the case may be), such remaining amount will be applied by the Collateral Agent in the order of priorities set forth in the relevant clause of Section 14(a).

(c) In making the payments and allocations required by this Section, the Collateral Agent may rely upon information supplied to it pursuant to Section 15(c). All distributions made by the Collateral Agent pursuant to this Section shall be final (except in the event of manifest error) and the Collateral Agent shall have no duty to inquire as to the application by any Secured Party of any amount distributed to it.

(d) Notwithstanding anything to the contrary contained herein or in any other Domestic Security Document, the aggregate amount of proceeds of all sales of, and other realizations upon, Restricted Collateral applied pursuant to this Section 14 shall not at any time exceed the Basket Lien Available Amount at such time.

Section 15. Concerning the Collateral Agent. The provisions of Article VIII of the Credit Agreement shall inure to the benefit of the Collateral Agent in respect of this Agreement (as if the Collateral Agent were the Administrative Agent referred to therein) and shall be binding upon the parties to the Credit Agreement. In furtherance and not in derogation of the rights, privileges and immunities of the Collateral Agent therein specified:

(a) The Collateral Agent is authorized to take all such action as is provided to be taken by it as Collateral Agent hereunder and all other action reasonably incidental thereto. As to any matters not expressly provided for herein (including, without limitation, the timing and methods of realization upon the Collateral) the Collateral Agent shall act or refrain from acting in accordance with written instructions from the Required

Lenders or, in the absence of such instructions, in accordance with its discretion.

(b) The Collateral Agent shall not be responsible for the existence, genuineness or value of any of the Collateral or for the validity, perfection, priority or enforceability of the Security Interests in any of the Collateral, whether impaired by operation of law or by reason of any action or omission to act on its part under the Security Documents. The Collateral Agent shall have no duty to ascertain or inquire as to the performance or observance of any of the terms of any Security Document by any Lien Grantor.

(c) For all purposes of the Domestic Security Documents, including determining the amounts of the Secured Obligations and whether a Secured Obligation is a Contingent CA Secured Obligation or not, the Collateral Agent will be entitled to rely on information from (i) its own records for information as to the Lender and Agents, their Secured Obligations and actions taken by them, (ii) any Secured Party for information as to its Secured Obligations and actions taken by it, to the extent that the Collateral Agent has not obtained such information from the foregoing sources, and (iii) Xerox, to the extent that the Collateral Agent has not obtained information from the foregoing sources.

Section 16. Appointment of Co-Collateral Agents. At any time or times, upon prior written notice to Xerox and in order to (a) comply with any legal requirement in any jurisdiction, (b) preserve or protect the Collateral, (c) exercise remedies specified in this Agreement or (d) otherwise carry out duties or exercise rights specified in this Agreement, the Collateral Agent may appoint another bank or trust company or one or more other Persons, either to act as co-agent or co-agents, jointly with the Collateral Agent, or to act as separate agent or agents on behalf of the Secured Parties with such power and authority as may be necessary for the effective operation of the provisions hereof and may be specified in the instrument of appointment (which may, in the discretion of the Collateral Agent, include provisions for the protection of such co-agent or separate agent similar to the provisions of Section 15).

Section 17. Expenses. Xerox agrees that it will forthwith upon demand pay to the Collateral Agent:

(i) the amount of any Taxes which the Collateral Agent may have been required to pay by reason of the Security Interests or to free any of the Collateral from any other Lien thereon; and

(ii) the amount of any and all reasonable out-of-pocket expenses, including the reasonable fees and disbursements of counsel and, upon the

occurrence and during the continuance of an Event of Default, of any other experts, which the Collateral Agent may incur in connection with (w) the administration or enforcement of the Security Documents, including such expenses as are incurred to preserve the value of the Collateral and the validity, perfection, rank and value of any Security Interest, (x) the collection, sale or other disposition of any of the Collateral, (y) the exercise by the Collateral Agent of any of the rights conferred upon it under the Security Documents or (z) any Event of Default.

Any such amount not paid on demand shall bear interest at the rate applicable to Base Rate Loans from time to time plus 2% and shall be an additional Secured Obligation hereunder.

Section 18. Taxes. Each Guarantor agrees that: (a) All payments of Secured Obligations and all other amounts payable on, under or in respect of this Agreement or any other Domestic Security Document by such Guarantor, including, without limitation, amounts payable by such Guarantor under clause (b) of this Section 18, shall be made free and clear of and without deduction for all present and future Taxes (other than income or franchise taxes imposed on (or measured by) the net income of a Secured Party by a Secured Party Jurisdiction of that Secured Party) including any such Taxes imposed with respect to this Agreement or any other Domestic Security Document, the execution, registration, enforcement, notarization or other formalization of any thereof, and any payments of principal, interest, charges, fees, commissions or other amounts made on, under or in respect thereof (hereinafter called "Covered Taxes"), provided that, if any Guarantor shall be required to deduct any Covered Taxes from such payments, then (i) the sum payable will be increased as necessary so that, after all required deductions (including deductions applicable to additional sums payable under this Section) are made, each relevant Secured Party receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Guarantor shall make such deductions and (iii) such Guarantor shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law. The parties agree to cooperate and provide information with respect to United States and foreign withholding tax matters relating to payments under this Agreement in a manner consistent with the principles of Section 2.16(e) of the Credit Agreement, mutatis mutandis. The parties also agree that the provisions of Section 2.16(f) of the Credit Agreement apply, mutatis mutandis, to Covered Taxes that are deducted, withheld or paid by a Guarantor pursuant to this Agreement.

(b) Each Guarantor shall indemnify each Secured Party, within 15 Business Days after written demand therefor, for the full amount of any Covered Taxes paid or incurred by such Secured Party with respect to any payment by or obligation of such Guarantor under or with respect to this Agreement or any other

Domestic Security Document (including Covered Taxes imposed or asserted on or attributable to amounts payable under this Section) and any expenses arising therefrom or with respect thereto, whether or not such Covered Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Each Secured Party shall make a good faith effort to verify that such Covered Taxes are correctly and legally imposed or asserted by the relevant Governmental Authority. An officer's certificate as to the amount of any such payment delivered to Xerox by a Secured Party on its own behalf, or by the Collateral Agent on behalf of a Secured Party, shall be conclusive absent manifest error.

(c) Within 15 Business Days after any Guarantor pays any Covered Taxes to a Governmental Authority, such Guarantor shall deliver to the Collateral Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment. Each Guarantor shall promptly furnish to each Secured Party any other information, documents and receipts that the Secured Party may from time to time reasonably request to establish to its satisfaction that full and timely payment of all Covered Taxes has been made. The applicable Guarantor will be deemed to have satisfied the requirement of this Section 18(c) if it has furnished such information, documents and/or receipts to the Collateral Agent.

(d) Notwithstanding paragraphs (a) and (b) above, the payment increases and indemnities pursuant to those paragraphs will not apply to the payment of any Secured Obligation to the extent that (in the absence of this paragraph (d)) the Secured Party would thereby receive a net cash payment in respect of that Secured Obligation greater than if that Secured Obligation had been paid by the relevant Borrower.

Section 19. Termination of Security Interests; Release of Collateral.

(a) Each Security Interest granted hereunder shall terminate, and all rights to the relevant Collateral shall revert to the relevant Lien Grantor, if, as and to the extent permitted by Section 9.02 and 9.03 of the Credit Agreement, as the case may be.

(b) Notwithstanding any contrary provision of this Agreement, if at any time prior to the termination of the Security Interests pursuant to this Section 19, the ESOP Secured Obligations are paid in full, all rights hereunder of the holders of ESOP Secured Obligations shall simultaneously terminate, and none of the Secured Subsidiary Guarantors shall thereafter be an ESOP Restricted Secured Subsidiary Guarantor.

(c) Notwithstanding any contrary provision of this Agreement, if at any time prior to the termination of the Security Interests pursuant to this Section 19,

the XCFI Secured Obligations are paid in full, all rights hereunder of the holders of XCFI Secured Obligations shall simultaneously terminate.

(d) Upon any termination of a Security Interest or release of Collateral, the Collateral Agent will, at the expense of the relevant Lien Grantor, execute and deliver to such Lien Grantor such documents as such Lien Grantor shall reasonably request to evidence the termination of such Security Interest or the release and reassignment of such Collateral, as the case may be.

Section 20. Additional Guarantors and Lien Grantors. Any Domestic Subsidiary may become a party hereto by signing and delivering to the Collateral Agent a Guarantee and Security Agreement Supplement, whereupon such Subsidiary shall become a "Subsidiary Guarantor" and a "Lien Grantor" as defined herein.

Section 21. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party at its address or telex or facsimile number set forth on the signature pages hereof or at such other address or facsimile number as such party may hereafter specify for the purpose by notice to the Collateral Agent and Xerox. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement will be deemed to have been given on the date of receipt.

Section 22. Waivers, Non-Exclusive Remedies. No failure on the part of the Collateral Agent or any Secured Party to exercise, and no delay in exercising and no course of dealing with respect to, any right or remedy under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise by the Collateral Agent or any Secured Party of any right under any Loan Document preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies in the Loan Documents are cumulative and are not exclusive of any other rights or remedies provided by law.

Section 23. Successors and Assigns. This Agreement is for the benefit of the Collateral Agent and the Secured Parties and their successors and, in the case of the Lenders, permitted assigns pursuant to Section 9.04 of the Credit Agreement and in the event of an assignment of all or any of the Secured Obligations, the rights hereunder, to the extent applicable to the obligation so assigned, shall be automatically transferred with such obligation. This Agreement shall be binding on Xerox, each Subsidiary Guarantor and its successors and assigns.

Section 24. Changes in Writing. Neither this Agreement nor any provision hereof may be waived, amended, modified or terminated except pursuant to an agreement or agreements in writing entered into by the parties hereto, with the consent of such Lenders as are required to consent thereto under Section 9.02 of the Credit Agreement.

Section 25. New York Law. This Agreement shall be construed in accordance with and governed by the laws of the State of New York, except as otherwise required by mandatory provisions of law and except to the extent that remedies provided by the laws of any jurisdiction other than New York are governed by the laws of such jurisdiction.

Section 26. WAIVER OF JURY TRIAL. EACH PARTY HERETO AND ANY OTHER SECURED PARTY BY ITS ACCEPTANCE OF THE BENEFITS HEREOF OR BY SEEKING TO ENFORCE THIS AGREEMENT WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY SECURITY DOCUMENT OR ANY TRANSACTION CONTEMPLATED THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY), AND EACH OF SUCH PARTIES (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 27. Severability. If any provision of any Security Document is invalid or unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (i) the other provisions of the Security Documents shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Collateral Agent and the Secured Parties in order to carry out the intentions of the parties hereto as nearly as may be possible; and (ii) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

XEROX CORPORATION

By: _____
Name: Gregory B. Tayler
Title: Vice President & Treasurer

BANK ONE, NA, as Collateral Agent

By: _____
Name:
Title:

Subsidiary Guarantors:

VRN INC.

XEROX FINANCE, INC.

XEROX FINANCIAL SERVICES, INC.

XEROX CAPITAL MANAGEMENT LLC

By: Xerox Corporation, as sole member

XEROX INVESTMENT MANAGEMENT LLC

By: Xerox Capital Management LLC, as
sole member

By: Xerox Corporation, as sole
member

XEROX EXPORT, LLC

By: Xerox Corporation, as sole member

By: _____

Name: Gregory B. Tayler

Titles: President & Treasurer of VRN Inc.,
President of Xerox Finance, Inc.,
Chairman & President of Xerox
Financial Services, Inc., and Vice
President & Treasurer of Xerox
Corporation

AMTX, INC.

XDI, INC.

By: _____

Name: Allan E. Dugan

Titles: Chairman & President of AMTX, Inc.
and Chairman of XDI, Inc.

BRADLEY COMPANY

By: _____
Name: Roy B. Larson
Title: Vice President

CARMEL VALLEY, INC.
CHRYSTAL SOFTWARE, INC.
INCONCERT, INC.
LIVEWORKS, INC.
SCC BURTON CORPORATION
TERABANK SYSTEMS, INC.
UPPERCASE, INC.

By: _____
Name: Thomas C. Little
Titles: Chairman, President & Treasurer of
Carmel Valley, Inc., President &
Treasurer of Chrystal Software,
Inc., InConcert, Inc., LiveWorks,
Inc., SCC Burton Corporation and
Uppercase, Inc., and President of
Terabank Systems, Inc.

PIXELCRAFT, INC.

By: _____
Name: Herve Gallaire
Title: Chairman, President & Treasurer

INTELLIGENT ELECTRONICS, INC.
INTELLINET, LTD.
RNTS, INC.
XEROX CONNECT, INC.

By: _____
Name: Robert Hope
Title: Treasurer

JEREMIAD CO.
SECURITIES INFORMATION CENTER, INC.
XTENDED MEMORY SYSTEMS

By: _____
Name: Martin S. Wagner
Title: President

XEROX INTERNATIONAL REALTY CORPORATION
XEROX REALTY CORP. (CALIFORNIA)
LANSDOWNE RESIDENTIAL LLC
By: Xerox Realty Corporation, as
sole member
XRC REALTY CORP. WEST
XEROX REALTY CORPORATION

By: _____
Name: David R. McLellan
Titles: President of Xerox International
Realty Corporation, Xerox Realty
Corp. (California) and XRC Realty
Corp. West, and Chairman &
President of Xerox Realty
Corporation

LOW-COMPLEXITY
MANUFACTURING GROUP, INC.
PALO ALTO RESEARCH CENTER INCORPORATED
PAGECAM, INC.
XEROX COLORGRAF X SYSTEMS, INC.
XEROX IMAGING SYSTEMS, INC.
XESYSTEMS, INC.

By: _____
Name: James J. Costello
Titles: Vice President of Low-Complexity
Manufacturing Group, Inc. and Palo
Alto Research Center Incorporated,
Vice President & Treasurer of
PageCam, Inc., Chairman, President
& Treasurer of Xerox Colorgraf X
Systems, Inc. and Xerox Imaging
Systems, Inc., and Chairman of
XESystems, Inc.

PACIFIC SERVICES AND DEVELOPMENT
CORPORATION

By: _____
Name: J. Terrance Daly
Title: President & Treasurer

TALEGEN HOLDINGS, INC.
TALEGEN PROPERTIES, INC.

By: _____
Name: George Rachmiel
Titles: Chairman, President & Treasurer of
Talegen Holdings, Inc. and
Chairman & President of Talegen
Properties, Inc.

VIA XEROX RELOCATION COMPANY,
INC.

By: _____
Name: David Owens
Title: President

XE HOLDINGS, INC.

By: _____
Name: John Duerden
Title: Chairman, President & Treasurer

XEROX COLOR PRINTING, INC.

By: _____
Name: John Vester
Title: Vice President

XEROX CREDIT CORPORATION

By: _____
Name: John Rivera
Title: Vice President & Treasurer

XEROX INTERNATIONAL JOINT
MARKETING, INC.

By: _____
Name: James Firestone
Title: President

XEROX LATINAMERICAN HOLDINGS, INC.

By: _____
Name: Enrique Cervetti
Title: President & Treasurer

XEROX REAL ESTATE SERVICES, INC.

By: _____
Name: David Pierson
Title: President

IGHI, INC.

By: _____
Name: Mark Sheivachman
Title: Treasurer

PLEGDED SECURITIES
(as of the Effective Date)

Issuer	Jurisdiction of Organization	Owner of Security	Percentage Owned	Number of Shares or Units
		S-1-1		

TERMS OF SUBORDINATION

SECTION 1. Agreement to Subordinate. The XCC Subordinated Obligations are subordinated in right of payment, to the extent and in the manner provided in this Schedule 2, to the prior payment in full of all XCC Senior Obligations. The subordination provisions are for the benefit of and enforceable by the holders of XCC Senior Obligations or their designated representatives.

SECTION 2. Liquidation, Dissolution, Bankruptcy. Upon any payment or distribution of the assets of XCC to creditors upon a total or partial liquidation or a total or partial dissolution of XCC or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to XCC or its property:

(1) holders of XCC Senior Obligations are entitled to receive payment in full in cash of all XCC Senior Obligations, including all interest accrued or accruing on XCC Senior Obligations after the commencement of any bankruptcy, insolvency or reorganization or similar case or proceeding at the contract rate (including, without limitation, any contract rate applicable upon default) specified in the XCC Indentures, whether or not the claim for the interest is allowed as a claim in the case or proceeding with respect to the XCC Senior Obligation (only such payment constituting "payment in full") before any holder of XCC Subordinated Obligations (the "XCC Secured Parties") will be entitled to receive any payment of XCC Subordinated Obligations; and

(2) until the XCC Senior Obligations are paid in full, any distribution from the assets of XCC to which XCC Secured Parties would be entitled but for these subordination provisions shall instead be made to holders of XCC Senior Obligations as their interests may appear.

SECTION 3. Payment Default at Final Maturity. XCC shall not pay any XCC Subordinated Obligations until such time as all the XCC Senior Obligations have been paid in full when due.

SECTION 4. When Distribution Must Be Paid Over. If a payment or other distribution is made to the XCC Secured Parties that because of these subordination provisions should not have been made to them, the XCC Secured Parties that receive the distribution shall hold it in trust for holders of XCC Senior Obligations and pay it over to them as their interests may appear.

SECTION 5. Subrogation. A distribution made under these subordination provisions to holders of XCC Senior Obligations which otherwise

would have been made to the XCC Secured Parties is not, as between XCC and the XCC Secured Parties, a payment by XCC on XCC Senior Obligations. After all XCC Senior Obligations are paid in full and until the XCC Subordinated Obligations are paid in full, the XCC Secured Parties will be subrogated to the rights of holders of XCC Senior Obligations to receive payments in respect of XCC Senior Obligations, which, to the extent received by the XCC Secured Parties, do not constitute, as between XCC and the XCC Secured Parties, payments by XCC on the XCC Subordinated Obligations.

SECTION 6. Relative Rights; Subordination Not to Prevent Events of Default or Limit Right to Accelerate. These subordination provisions define the relative rights of the XCC Secured Parties and holders of XCC Senior Obligations and do not impair, as between XCC and the XCC Secured Parties, the obligation of XCC, which is absolute and unconditional, to pay principal of and interest on the XCC Subordinated Obligations in accordance with their terms. The failure to make a payment pursuant to the XCC Subordinated Obligations by reason of these subordination provisions does not prevent the occurrence of a Default, nor do these subordination provisions have any effect on the right of the XCC Secured Parties or the Collateral Agent to accelerate the maturity of the XCC Subordinated Obligations upon an Event of Default or prevent the Collateral Agent or any XCC Secured Party from exercising its available remedies upon a Default, subject to the rights of holders of XCC Senior Obligations to receive distributions otherwise payable to the XCC Secured Parties.

SECTION 7. Subordination May Not Be Impaired by Company. No right of any holder of XCC Senior Obligations to enforce the subordination of the XCC Subordinated Obligations will be impaired by any act or failure to act by XCC or by its failure to comply with this Schedule 2.

SECTION 8. Rights of Collateral Agent. The Collateral Agent may continue to make payments on the XCC Subordinated Obligations and will not be charged with knowledge of the existence of facts that would prohibit the making of any such payments unless, not less than one Business Day prior to the date of such payment, the Collateral Agent receives notice satisfactory to it from XCC or a holder of XCC Senior Obligations that payments may not be made under this Schedule 2.

SECTION 9. Collateral Agent Not Fiduciary for Holders of XCC Senior Obligations. The Collateral Agent will not be deemed to owe any fiduciary duty to the holders of XCC Senior Obligations and will not be liable to any such holders if it mistakenly pays over or distribute to the XCC Secured Parties, or to XCC or any other Person, any money or assets to which holders of XCC Senior Obligations are entitled by virtue of this Schedule 2.

SECTION 10. Reliance by Holder of XCC Senior Obligations on Subordination Provisions; No Waiver. (a) Each XCC Secured Party acknowledges and agrees that these subordination provisions are, and are intended to be, an inducement and a consideration to each holder of XCC Senior Obligations, to acquire or to hold such XCC Senior Obligations, and each holder of XCC Senior Obligations will be deemed conclusively to have relied on these subordination provisions in acquiring and holding such XCC Senior Obligations.

(b) The holders of XCC Senior Obligations may, at any time and from time to time, without the consent of or notice to the Collateral Agent or the XCC Secured Parties, without incurring any liability or responsibility to the XCC Secured Parties, and without impairing the rights of holders of XCC Senior Obligations under these subordination provisions, do any of the following:

(1) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, XCC Senior Obligations or any instrument evidencing the same or any agreement under which XCC Senior Obligations is outstanding or secured;

(2) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing XCC Senior Obligations;

(3) release any Person liable in any manner for the payment of XCC Senior Obligations; or

(4) exercise or refrain from exercising any rights against XCC and any other Person.

PERFECTION CERTIFICATE

The undersigned is a duly authorized officer of XEROX CORPORATION ("Xerox"). With reference to the Guarantee and Security Agreement (the "Security Agreement") dated as of _____, 2002 among XEROX CORPORATION, the Subsidiary Guarantors party thereto and BANK ONE, NA, as Collateral Agent (terms defined therein being used herein as therein defined), the undersigned certifies to the Collateral Agent and each other Secured Party as follows:

A. Information Required for Filings and Searches for Prior Filings.

1. Jurisdiction of Organization. The jurisdiction of organization of each Lien Grantor is set forth in Schedule 3.12 to the Credit Agreement.

2. Name. The exact legal name of each Lien Grantor as it appears in its organizational documents is set forth in Schedule 3.12 to the Credit Agreement.

3. Prior Names. (a) Set forth below is each other corporate or other legal name that each of Xerox, Xerox Financial Services, Inc. ("XFSI"), Intelligent Electronics, Inc. ("IEI") and Xerox Connect, Inc. ("XCI") has had within the past 5 years, together with the date of the relevant change:

(b) Except as set forth in Schedule 1 hereto, none of Xerox, XFSI, IEI or XCI has changed its corporate structure in any way within the past five years.

4. Filing Office. In order to perfect, as of the Effective Date, the Security Interests granted by each Lien Grantor, to the extent that such Security Interests may be perfected by filing a financing statement pursuant to the UCC, a duly signed financing statement on Form UCC-1, with the collateral described as set forth on Schedule 2 hereto, should be on file with respect to each such Lien Grantor in the Office of the Secretary of State in the jurisdiction of organization of such Lien Grantor as set forth in Schedule 3.12 to the Credit Agreement.

B. Additional Information Required for Searches for Prior Filings Under Old Article 9.

Current Locations. The chief executive office of each of Xerox, XFSI, IEI and XCI is located at the following address:

Name of Lien Grantor	Mailing Address	County	State
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Xerox, XFSI, IEI and XCI [do] [do not] have a place of business in another county of the State where their respective chief executive offices are located.

C. Search Reports.

A true copy of a file search report from the central UCC filing office in each jurisdiction where Xerox, XFSI, IEI or XCI has any material assets with respect to Xerox, XFSI, IEI or XCI, as applicable (searches in local filing offices, if any, are not required), has been provided to the Collateral Agent. This file search report covers Xerox and Material Domestic Subsidiaries which, in aggregate and without giving effect to the Restatement, represent (1) more than 90% of the total revenues of Xerox and Domestic Subsidiaries for Fiscal Year ended December 31, 2001 and (2) more than 90% of the total assets of Xerox and Domestic Subsidiaries as of December 31, 2001.

D. UCC Filings.

Schedule 3.12 to the Credit Agreement sets forth filing information with respect to the filings referred to in Part A-4 above (including name, jurisdiction of organization and federal employer identification number of each Lien Grantor) and Schedule 3 hereto sets forth the address of the chief executive office of each Lien Grantor. All filing fees and taxes payable in connection with such filings will be paid by Xerox.

IN WITNESS WHEREOF, I have hereunto set my hand this __ day of _____, 2002

Name:
Title:

CHANGES IN CORPORATE STRUCTURE

A-3

DESCRIPTION OF COLLATERAL

All personal property, provided that, upon the sale, disposition, assignment, lease, license, conveyance or other transfer by the Debtor of personal property (including the sale, disposition, assignment, lease, license, conveyance or other transfer of accounts and other assets in connection with the monetization or other financing of such accounts and other assets) from time to time, such personal property shall be automatically released from the collateral pursuant to Section 9.03 of the Credit Agreement dated as of June __, 2002 among the Debtor, the Secured Party and the other borrowers, lenders and agents party thereto.

Schedule 3
to Perfection Certificate

CHIEF EXECUTIVE OFFICES OF LIEN GRANTORS

Name of Lien Grantor	Chief Executive Office
-----	-----

ISSUER CONTROL AGREEMENT

ISSUER CONTROL AGREEMENT dated as of _____, _____ among [NAME OF LIEN GRANTOR] (with its successors, the "Lien Grantor"), BANK ONE, NA, as Collateral Agent (with its successors, the "Secured Party"), and _____ (the "Issuer"). All references herein to the "UCC" refer to the Uniform Commercial Code as in effect from time to time in [Issuer's jurisdiction of incorporation].

W I T N E S S E T H :

WHEREAS, the Lien Grantor is the registered holder of [specify Pledged Uncertificated Securities issued by the Issuer] issued by the Issuer (the "Securities");

WHEREAS, pursuant to a Guarantee and Security Agreement dated as of [date of Security Agreement] (as such agreement may be amended and/or supplemented from time to time, the "Security Agreement"), the Lien Grantor has granted to the Secured Party a continuing security interest (the "Security Interest") in all right, title and interest of the Lien Grantor in, to and under the Securities, whether now existing or hereafter arising; and

WHEREAS, the parties hereto are entering into this Agreement in order to perfect the Security Interest on the Securities;

NOW, THEREFORE, the parties hereto agree as follows:

Section 1. Nature of Securities. The Issuer confirms that (i) the Securities are "uncertificated securities" (as defined in Section 8-102 of the UCC) and (ii) the Lien Grantor is registered on the books of the Issuer as the registered holder of the Securities.

Section 2. Instructions. The Issuer agrees to comply with any "instruction" (as defined in Section 8-102 of the UCC) originated by the Secured Party and relating to the Securities without further consent by the Lien Grantor or any other person. The Lien Grantor consents to the foregoing agreement by the Issuer.

Section 3. Waiver of Lien; Waiver of Set-off. The Issuer waives any security interest, lien or right of setoff that it may now have or hereafter acquire

in or with respect to the Securities. The Issuer's obligations in respect of the Securities will not be subject to deduction, set-off or any other right in favor of any person other than the Secured Party.

Section 4. Choice of Law. This Agreement shall be governed by the laws of [Issuer's jurisdiction of incorporation].

Section 5. Conflict with Other Agreements. There is no agreement (except this Agreement) between the Issuer and the Lien Grantor with respect to the Securities [except for [identify any existing other agreements] (the "Existing Other Agreements")]. In the event of any conflict between this Agreement (or any portion hereof) and any other agreement [(including any Existing Other Agreement)] between the Issuer and the Lien Grantor with respect to the Securities, whether now existing or hereafter entered into, the terms of this Agreement shall prevail.

Section 6. Amendments. No amendment or modification of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all the parties hereto.

Section 7. Notice of Adverse Claims. Except for the claims and interests of the Secured Party and the Lien Grantor in the Securities, the Issuer does not know of any claim to, or interest in, the Securities. If any person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, attachment, execution or similar process) against the Securities, the Issuer will promptly notify the Secured Party and the Lien Grantor thereof.

Section 8. Maintenance of Securities. In addition to, and not in lieu of, the obligation of the Issuer to honor instructions as agreed in Section 2 hereof, the Issuer agrees as follows:

(i) Lien Grantor Instructions; Notice of Exclusive Control. So long as the Issuer has not received a Notice of Exclusive Control (as defined below), the Issuer may comply with instructions of the Lien Grantor or any duly authorized agent of the Lien Grantor in respect of the Securities. After the Issuer receives a written notice from the Secured Party that it is exercising exclusive control over the Securities (a "Notice of Exclusive Control"), the Issuer will cease complying with instructions of the Lien Grantor or any of its agents.

(ii) Non-Cash Dividends and Distributions. After the Issuer receives a Notice of Exclusive Control, the Issuer shall deliver to the Secured Party all dividends, interest and other distributions paid or made upon or with respect to the Securities.

(iii) Voting Rights. Until the Issuer receives a Notice of Exclusive Control, the Lien Grantor shall be entitled to direct the Issuer with respect to voting the Securities.

Section 9. Representations, Warranties and Covenants of the Issuer. The Issuer makes the following representations, warranties and covenants:

(i) This Agreement is a valid and binding agreement of the Issuer enforceable in accordance with its terms.

(ii) The Issuer has not entered into, and until the termination of this Agreement will not enter into, any agreement with any other person relating to the Securities pursuant to which it has agreed, or will agree, to comply with instructions (as defined in Section 8-102 of the UCC) of such person. The Issuer has not entered into any other agreement with the Lien Grantor or the Secured Party purporting to limit or condition the obligation of the Issuer to comply with instructions as agreed in Section 2 hereof.

Section 10. Successors. This Agreement shall be binding upon, and shall inure to the benefit of, the parties hereto and their respective successors and assigns.

Section 11. Notices. Each notice, request or other communication given to any party hereunder shall be in writing (which term includes facsimile or other electronic transmission) and shall be effective (i) when delivered to such party at its address specified below, (ii) when sent to such party by facsimile or other electronic transmission, addressed to it at its facsimile number or electronic address specified below, and such party sends back an electronic confirmation of receipt or (iii) ten days after being sent to such party by certified or registered United States mail, addressed to it at its address specified below, with first class or airmail postage prepaid:

Lien Grantor:

Secured Party:

Issuer:

Any party may change its address, facsimile number and/or e-mail address for purposes of this Section by giving notice of such change to the other parties in the manner specified above.

Section 12. Termination. The rights and powers granted herein to the Secured Party (i) have been granted in order to perfect the Security Interest, (ii)

are powers coupled with an interest and (iii) will not be affected by any bankruptcy of the Lien Grantor or any lapse of time. The obligations of the Issuer hereunder shall continue in effect until the Secured Party has notified the Issuer in writing that the Security Interest in the Securities has been terminated pursuant to the Security Agreement, and the Secured Party agrees to provide such notice of termination upon the request of the Lien Grantor on or after such termination of the Security Interest.

Section 13. Counterparts. This Agreement may be executed in any number of counterparts, all of which shall constitute one and the same instrument, and any party hereto may execute this Agreement by signing and delivering one or more counterparts.

[NAME OF LIEN GRANTOR]

By: _____
Name:
Title:

BANK ONE, NA, as Collateral Agent

By: _____
Name:
Title:

[NAME OF ISSUER]

By: _____
Name:
Title:

[Letterhead of Secured Party]

[Date]

[Name and Address of Issuer]

Attention: _____

Re: Notice of Exclusive Control

Ladies and Gentlemen:

As referenced in the Issuer Control Agreement dated as of _____, _____ among [Name of Lien Grantor], us and you (a copy of which is attached), we notify you that we will hereafter exercise exclusive control over [specify Pledged Uncertificated Securities] registered in the name of [Name of Lien Grantor] (the "Securities"). You are instructed not to accept any directions or instructions with respect to the Securities from any person other than the undersigned unless otherwise ordered by a court of competent jurisdiction.

You are instructed to deliver a copy of this notice by facsimile transmission to [Name of Lien Grantor].

Very truly yours,

BANK ONE, NA, as Collateral Agent

By: _____
Title:

cc: [Name of Lien Grantor]

GUARANTEE AND SECURITY AGREEMENT SUPPLEMENT

GUARANTEE AND SECURITY AGREEMENT SUPPLEMENT dated as of _____, _____,
between [NAME OF LIEN GRANTOR] (the "Lien Grantor") and BANK ONE, NA, as
Collateral Agent.

WHEREAS, XEROX CORPORATION ("XEROX"), the Subsidiary Guarantors party
thereto and BANK ONE, NA, as Collateral Agent, are parties to a Guarantee and
Security Agreement dated as of _____, 2002 (as heretofore amended and/or
supplemented, the "Security Agreement") under which (1) Xerox (a) secures
certain Secured Obligations, (b) guarantees Overseas CA Secured Obligations and
(c) secures its guarantee thereof, (2) the Subsidiary Guarantors guarantee
certain of the foregoing obligations and (3) the Secured Subsidiary Guarantors
secure their respective guarantees thereof;

WHEREAS, [name of Lien Grantor] desires to become [is] a party to the
Security Agreement as a Secured Subsidiary Guarantor and Lien Grantor
thereunder; and

WHEREAS, terms defined in the Security Agreement (or whose definitions are
incorporated by reference in Sections 1(a) and 1(b) of the Security Agreement)
and not otherwise defined herein have, as used herein, the respective meanings
provided for therein;

NOW, THEREFORE, in consideration of the foregoing and other good and
valuable consideration, the receipt and sufficiency of which are hereby
acknowledged, the parties hereto agree as follows:

1. Secured Guarantee. The Lien Grantor unconditionally guarantees the full
and punctual payment of each Secured Obligation when due (whether at stated
maturity, upon acceleration or otherwise). If Xerox or any Overseas Borrower
fails to pay any Secured Obligation punctually when due, the Lien Grantor agrees
that it will forthwith on demand pay the amount not so paid at the place and in
the manner specified in the relevant Secured Agreement; provided, however, that
notwithstanding the foregoing, (A) if the Lien Grantor is not an ESOP Restricted
Secured Subsidiary Guarantor, then the ESOP Secured Obligations are not
guaranteed by the Lien Grantor and no holder of any ESOP Secured Obligation
shall have any claim against, or Lien on any asset of, the Lien Grantor by
virtue of this Guarantee and Security Agreement Supplement and (B) if the Lien
Grantor is not a Restricted Secured Subsidiary Guarantor, then the XCFI Secured
Obligations are not guaranteed by the Lien Grantor and no holder

of any XCFI Secured Obligation shall have any claim against, or Lien on any asset of, the Lien Grantor by virtue of this Guarantee and Security Agreement Supplement; provided, further, that if the Lien Grantor is an ESOP Restricted Secured Subsidiary Guarantor or a Restricted Secured Subsidiary Guarantor, then notwithstanding anything to the contrary contained herein, the liability and obligation of the Lien Grantor under this Section 1 with respect to the ESOP Secured Obligations (but not any other Secured Obligations) or with respect to the XCFI Secured Obligations (but not any other Secured Obligations), as the case may be, shall not be enforced by any action or proceeding wherein damages or any money judgment shall be sought against the Lien Grantor, except a foreclosure by the Collateral Agent upon the ESOP Restricted Collateral or the XCFI Restricted Collateral, as the case may be, of the Lien Grantor, and any judgment in any such foreclosure action shall be enforceable by the Collateral Agent against such ESOP Restricted Collateral or such XCFI Restricted Collateral, as the case may be, only to the extent of the ESOP Percentage of the Lien Grantor's interest in such ESOP Restricted Collateral or only to the extent of the XCFI Percentage of the Lien Grantor's interest in such XCFI Restricted Collateral, as the case may be, and the guarantee extended hereby for the benefit of any holder of ESOP Secured Obligations or XCFI Secured Obligations is provided to such holder under the express condition that the Collateral Agent has no right to sue for, seek or demand any deficiency judgement against the Lien Grantor with respect to the ESOP Secured Obligations or the XCFI Secured Obligations, as the case may be (but not any other Secured Obligations), in any such foreclosure action under or by reason of, or in connection with, this Guarantee and Security Agreement Supplement, the Security Agreement or otherwise with respect to such guarantee. The Lien Grantor acknowledges that, by signing this Security Agreement Supplement and delivering it to the Collateral Agent, the Lien Grantor becomes a "Subsidiary Guarantor" and "Lien Grantor" for all purposes of the Security Agreement and that its obligations under the foregoing Secured Guarantee are subject to all the provisions of the Security Agreement (including those set forth in Section 2 thereof) applicable to the obligations of a Subsidiary Guarantor thereunder. The obligations of the Lien Grantor under this Section 1 (and under Section 2(a) of the Security Agreement) shall be limited as provided in Section 2(i) of the Security Agreement.

2. Grant of Security Interests. (a) In order to secure its Secured Guarantee, the Lien Grantor grants to the Collateral Agent for the benefit of the Secured Parties a continuing security interest in and to all of its right, title and interest in the following property of the Lien Grantor, whether now owned or existing or hereafter acquired or arising and regardless of where located, but subject to the exclusions in Section 2(b) (the "New Collateral"):

- (i) Accounts, (ii) Chattel Paper, (iii) Documents, (iv) Equipment, (v) General Intangibles, (vi) Instruments, (vii) Inventory, (viii) Securities directly owned by the Lien Grantor and issued by any subsidiary or Affiliate of the Lien Grantor or any other issuer over which the Lien Grantor exercises Control, (ix) the Collateral Account, all

Financial Assets credited to the Collateral Account from time to time and all Security Entitlements in respect thereof, all cash deposited therein from time to time, and the Liquid Investments made pursuant to Section 8(d) of the Security Agreement, (x) all books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records) of the Lien Grantor pertaining to any of the New Collateral and (xi) all Proceeds of the New Collateral described in Clauses 2(a)(i) through 2(a)(x) hereof.

(b) The New Collateral shall not include:

(i) rights of the Lien Grantor in respect of any property or asset which is prohibited from being pledged to the Collateral Agent as part of the Collateral by any Permitted Encumbrances;

(ii) Transferred Receivables and (A) security interests or liens and property subject thereto purporting to secure payment of such Transferred Receivables, (B) leases, guaranties, insurance and other arrangements supporting payment of such Transferred Receivables, (C) rights to payment and collections in respect of such Transferred Receivables, (D) books, records and similar information relating to such Transferred Receivables or the obligors thereon, (E) with respect to any such Transferred Receivables, the transferee's interest in goods (including, without limitation, Equipment or Inventory) the sale of which gave rise to such Transferred Receivables and (F) if such Transferred Receivables arise from a lease financing or installment sale transaction, the Equipment or Inventory that is the subject of the underlying transaction and is transferred to a Receivables SPE;

(iii) Transferred Intellectual Property;

(iv) State and Local Government Receivables of the Lien Grantor;

(v) any Security owned by the Lien Grantor that is a voting Equity Interest issued by a Foreign Subsidiary that is a corporation for United States Federal income tax purposes, if and to the extent that the Collateral (including New Collateral) pledged by Xerox to secure Xerox Secured Obligations or by any other Lien Grantor to secure any guarantee of the Secured Obligations of Xerox pursuant to the Security Agreement or any other Domestic Security Document would include in the aggregate more than 65% of the shares of any class of voting securities of such Foreign

Subsidiary (either directly or through any entity that is a disregarded entity for such purposes); and

(vi) Third Party Vendor Financing Assets of the Lien Grantor.

(c) With respect to each right to payment or performance included in the New Collateral from time to time, the Security Interest granted therein includes, subject to Permitted Encumbrances, a continuing security interest in (i) any Supporting Obligation that supports such payment or performance and (ii) any Lien that (x) secures such right to payment or performance or (y) secures any such Supporting Obligation.

(d) The foregoing Security Interests are granted as security only and shall not subject the Collateral Agent or any other Secured Party to, or transfer or in any way affect or modify, any obligation or liability of the Lien Grantor with respect to any of the New Collateral or any transaction in connection therewith.

3. Delivery of Collateral. Concurrently with delivering this Guarantee and Security Agreement Supplement to the Collateral Agent, the Lien Grantor is complying with the provisions of either Section 7 or Section 9(a) (whichever is applicable) of the Security Agreement with respect to Pledged Securities, in each case if and to the extent included in the New Collateral at such time.

4. Party to Security Agreement. Upon delivering this Guarantee and Security Agreement Supplement to the Collateral Agent, the Lien Grantor will become a party to the Security Agreement and will thereafter have all the rights and obligations of a Subsidiary Guarantor and a Lien Grantor thereunder and be bound by all the provisions thereof as fully as if the Lien Grantor were one of the original parties thereto.

5. Representations and Warranties. (a) Each of the representations and warranties set forth in Sections 3, 5, 6, 7, 8 and 9 of the Security Agreement is true as applied to the Lien Grantor and the New Collateral. For purposes of the foregoing sentence, references in said Sections (and elsewhere in the Security Agreement) to a "Lien Grantor" or "Original Lien Grantor" shall be deemed to refer to the Lien Grantor, references to Schedules to the Security Agreement shall be deemed to refer to the corresponding Schedules to this Guarantee and Security Agreement Supplement, references to "Collateral" shall be deemed to refer to the New Collateral, and references to the "Effective Date" shall be deemed to refer to the date on which the Lien Grantor signs and delivers this Guarantee and Security Agreement Supplement.

(b) Schedule 1 hereto sets forth (i) the name and jurisdiction of organization of, and the ownership interest (including percentage owned and

number of shares or units) of the Lien Grantor in the Securities of, each of the Lien Grantor's direct Subsidiaries as of the date hereof which are required to be included in the New Collateral and pledged pursuant to the Security Agreement and this Guarantee and Security Agreement Supplement and (ii) all other Securities directly owned by the Lien Grantor that are required to be included in the New Collateral and pledged pursuant to the Security Agreement and this Guarantee and Security Agreement Supplement. The Lien Grantor holds all such Securities directly (i.e., not through a subsidiary, a Securities Intermediary or any other Person).

6. Governing Law. This Guarantee and Security Agreement Supplement shall be construed in accordance with and governed by the laws of the State of New York, except as otherwise required by mandatory provisions of law and except to the extent that remedies provided by the laws of any jurisdiction other than New York are governed by the laws of such jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Guarantee and Security Agreement Supplement to be duly executed by their respective authorized officers as of the day and year first above written.

[NAME OF LIEN GRANTOR]

By: _____
Name:
Title:

BANK ONE, NA, as Collateral Agent

By: _____
Name:
Title:

Schedule 1
to Guarantee and Security
Agreement Supplement

PLEDGED SECURITIES

Issuer	Jurisdiction of Organization	Percentage Owned	Number of Shares or Units
<hr/>			

COPYRIGHT SECURITY AGREEMENT

(Copyrights, Copyright Registrations and Copyright Licenses)

WHEREAS, Xerox and each of its subsidiaries party hereto (each, a "Lien Grantor") owns, or in the case of licenses is a party to, the Copyright Collateral (as defined below);

WHEREAS, XEROX CORPORATION ("Xerox"), the Overseas Borrowers party thereto, the Lenders party thereto, BANK ONE, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMORGAN CHASE BANK, as Documentation Agent and CITIBANK, N.A., as Syndication Agent, are parties to a Credit Agreement dated as of _____, 2002 (as amended from time to time, the "Credit Agreement"); and

WHEREAS, pursuant to (i) a Guarantee and Security Agreement dated as of _____, 2002 (as amended and/or supplemented from time to time, the "Security Agreement") among Xerox, the Subsidiary Guarantors party thereto and BANK ONE, NA, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "Grantee"), and (ii) certain other Domestic Security Documents (including this Copyright Security Agreement), each Lien Grantor has secured certain of its obligations (the "Secured Obligations") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of that Lien Grantor, including all right, title and interest of the Lien Grantor in and to the Copyright Collateral (as defined below);

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Lien Grantor grants to the Grantee for the benefit of the Secured Parties (as defined in the Security Agreement), to secure its Secured Obligations, a continuing security interest in and to all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "Copyright Collateral"), except to the extent (and only to the extent) prohibited by a Permitted Encumbrance (as defined in the Security Agreement), whether now owned or existing or hereafter acquired or arising:

(i) each Copyright (as defined in the Security Agreement) owned by the Lien Grantor, including, without limitation, each Copyright registration therefor referred to in Schedule 1 hereto;

(ii) each Copyright License (as defined in the Security Agreement) to which the Lien Grantor is a party; and

(iii) all proceeds of, revenues from, and accounts and general intangibles arising out of, the foregoing, including, without limitation, all proceeds of and revenues from any claim by the Lien Grantor against third parties for past, present or future infringement of any Copyright (including, without limitation, any Copyright owned by the Lien Grantor and identified in Schedule 1).

Each Lien Grantor hereby irrevocably appoints the Grantee its true and lawful attorney, with full power of substitution, in the name of the Lien Grantor, the Grantee, the Secured Parties or otherwise, for the use and benefit of the Secured Parties, but at the Borrowers' (as defined in the Credit Agreement) expense, to the extent permitted by law to exercise, upon the occurrence and during the continuance of an Actionable Event of Default (as defined in the Security Agreement) or upon acceleration of the Loans (as defined in the Credit Agreement) in accordance with the terms of the Credit Agreement, all or any of the following powers with respect to all or any of the Copyright Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto,

(c) to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if the Grantee were the absolute owner of the Lien Grantor's right, title and interest therein, and

(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto.

The foregoing security interest is granted in conjunction with the Security Interests (as defined in the Security Agreement) granted by each Lien Grantor to the Grantee pursuant to the Security Agreement. Each Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect to the security interest in the Copyright Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

IN WITNESS WHEREOF, each Lien Grantor has caused this Copyright Security Agreement to be duly executed by its officer thereunto duly authorized as of the ___ day of _____, ____.

[NAME OF LIEN GRANTORS]

By:

Name:
Title:

Acknowledged:

BANK ONE, NA, as Collateral Agent

By:

Name:
Title:

D-3

Schedule 1
to Copyright
Security Agreement

[NAME OF LIEN GRANTORS]

U.S. COPYRIGHT REGISTRATIONS

Registration No. -----	Registration Date -----	Title -----
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D-4

PATENT SECURITY AGREEMENT

(Patents, Patent Applications and Patent Licenses)

WHEREAS, XEROX CORPORATION ("Xerox") (the "Lien Grantor") owns, or in the case of licenses is a party to, the Patent Collateral (as defined below);

WHEREAS, Xerox, the Overseas Borrowers party thereto, the Lenders party thereto, BANK ONE, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMORGAN CHASE BANK, as Documentation Agent and CITIBANK, N.A., as Syndication Agent, are parties to a Credit Agreement dated as of _____, 2002 (as amended from time to time, the "Credit Agreement"); and

WHEREAS, pursuant to (i) a Guarantee and Security Agreement dated as of _____, 2002 (as amended and/or supplemented from time to time, the "Security Agreement") among Xerox, the Subsidiary Guarantors party thereto and BANK ONE, NA, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "Grantee"), and (ii) certain other Domestic Security Documents (including this Patent Security Agreement), the Lien Grantor has secured certain of its obligations (the "Secured Obligations") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of the Lien Grantor, including all right, title and interest of the Lien Grantor in and to the Patent Collateral (as defined below);

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Lien Grantor grants to the Grantee for the benefit of the Secured Parties (as defined in the Security Agreement), to secure the Secured Obligations, a continuing security interest in and to all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "Patent Collateral"), except to the extent (and only to the extent) prohibited by a Permitted Encumbrance (as defined in the Security Agreement), whether now owned or existing or hereafter acquired or arising:

(i) each Patent (as defined in the Security Agreement) owned by the Lien Grantor, including, without limitation, each Patent referred to in Schedule 1 hereto;

(ii) each Patent License (as defined in the Security Agreement) to which the Lien Grantor is a party; and

(iii) all proceeds of and revenues from the foregoing, including, without limitation, all proceeds of and revenues from any claim by the Lien Grantor against third parties for past, present or future infringement of any Patent owned by the Lien Grantor (including, without limitation, any Patent identified in Schedule 1 hereto).

The Lien Grantor hereby irrevocably appoints the Grantee its true and lawful attorney, with full power of substitution, in the name of the Lien Grantor, the Grantee, the Secured Parties or otherwise, for the use and benefit of the Secured Parties, but at the Borrowers' (as defined in the Credit Agreement) expense, to the extent permitted by law to exercise, upon the occurrence and during the continuance of an Actionable Event of Default (as defined in the Security Agreement) or upon acceleration of the Loans (as defined in the Credit Agreement) in accordance with the terms of the Credit Agreement, all or any of the following powers with respect to all or any of the Patent Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto,

(c) to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if the Grantee were the absolute owner of the Lien Grantor's right, title and interest therein, and

(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto.

The foregoing security interest is granted in conjunction with the Security Interests (as defined in the Security Agreement) granted by the Lien Grantor to the Grantee pursuant to the Security Agreement. The Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect to the security interest in the Patent Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

IN WITNESS WHEREOF, the Lien Grantor has caused this Patent Security Agreement to be duly executed by its officer thereunto duly authorized as of the ____ day of _____, ____.

[NAME OF LIEN GRANTOR]

By:

Name:
Title:

Acknowledged:

BANK ONE, NA, as Collateral Agent

By:

Name:
Title:

[NAME OF LIEN GRANTOR]

U.S. PATENTS AND DESIGN PATENTS

Patent No.	Date Issued	Title
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U.S. PATENT APPLICATIONS

Docket No.	Application No.	Date Filed
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TRADEMARK SECURITY AGREEMENT

(Trademarks, Trademark Registrations, Trademark
Applications and Trademark Licenses)

WHEREAS, Xerox and each of its subsidiaries party hereto (each, a "Lien Grantor") owns, or in the case of licenses is a party to, the Trademark Collateral (as defined below);

WHEREAS, XEROX CORPORATION ("Xerox"), the Overseas Borrowers party thereto, the Lenders party thereto, BANK ONE, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMORGAN CHASE BANK, as Documentation Agent and CITIBANK, N.A., as Syndication Agent, are parties to a Credit Agreement dated as of _____, 2002 (as amended from time to time, the "Credit Agreement"); and

WHEREAS, pursuant to (i) a Guarantee and Security Agreement dated as of _____, 2002 (as amended and/or supplemented from time to time, the "Security Agreement") among Xerox, the Subsidiary Guarantors party thereto and BANK ONE, NA, as Collateral Agent for the Secured Parties referred to therein (in such capacity, together with its successors in such capacity, the "Grantee"), and (ii) certain other Domestic Security Documents (including this Trademark Security Agreement), each Lien Grantor has secured certain of its obligations (the "Secured Obligations") by granting to the Grantee for the benefit of such Secured Parties a continuing security interest in personal property of that Lien Grantor, including all right, title and interest of the Lien Grantor in and to the Trademark Collateral (as defined below);

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, each Lien Grantor grants to the Grantee for the benefit of the Secured Parties (as defined in the Security Agreement), to secure its Secured Obligations, a continuing security interest in and to all of the Lien Grantor's right, title and interest in, to and under the following (all of the following items or types of property being herein collectively referred to as the "Trademark Collateral"), except to the extent (and only to the extent) prohibited by a Permitted Encumbrance (as defined in the Security Agreement), whether now owned or existing or hereafter acquired or arising:

(i) each Trademark (as defined in the Security Agreement) owned by the Lien Grantor, including, without limitation, each Trademark

registration and application referred to in Schedule 1 hereto, and all of the goodwill of the business symbolized by or associated with each Trademark;

(ii) each Trademark License (as defined in the Security Agreement) to which the Lien Grantor is a party, and all of the goodwill of the business symbolized by or associated with each Trademark licensed pursuant thereto; and

(iii) all proceeds of and revenues from the foregoing, including, without limitation, all proceeds of and revenues from any claim by the Lien Grantor against third parties for past, present or future unfair competition with, or violation of intellectual property rights in connection with or injury to, or infringement or dilution of, any Trademark owned by the Lien Grantor (including, without limitation, any Trademark identified in Schedule 1 hereto), or for injury to the goodwill associated with any of the foregoing.

Each Lien Grantor hereby irrevocably appoints the Grantee its true and lawful attorney, with full power of substitution, in the name of the Lien Grantor, the Grantee, the Secured Parties or otherwise, for the use and benefit of the Secured Parties, but at the Borrowers' (as defined in the Credit Agreement) expense, to the extent permitted by law to exercise, upon the occurrence and during the continuance of an Actionable Event of Default (as defined in the Security Agreement) or upon acceleration of the Loans (as defined in the Credit Agreement) in accordance with the terms of the Credit Agreement, all or any of the following powers with respect to all or any of the Trademark Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto,

(c) to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if the Grantee were the absolute owner of the Lien Grantor's right, title and interest therein, and

(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto.

The foregoing security interest is granted in conjunction with the Security Interests (as defined in the Security Agreement) granted by each Lien Grantor to the Grantee pursuant to the Security Agreement. Each Lien Grantor acknowledges and affirms that the rights and remedies of the Grantee with respect

to the security interest in the Trademark Collateral granted hereby are more fully set forth in the Security Agreement, the terms and provisions of which are incorporated by reference herein as if fully set forth herein.

IN WITNESS WHEREOF, each Lien Grantor has caused this Trademark Security Agreement to be duly executed by its officer thereunto duly authorized as of the ____ day of _____, ____.

[NAME OF LIEN GRANTORS]

By: _____
Name:
Title:

Acknowledged:

BANK ONE, NA, as Collateral Agent

By: _____
Name:
Title:

Schedule 1
to Trademark
Security Agreement

[NAME OF LIEN GRANTORS]

U.S. TRADEMARK REGISTRATIONS

TRADEMARK

REG. NO.

REG. DATE

U.S. TRADEMARK APPLICATIONS

TRADEMARK

APPLICATION NO.

DATE FILED

CANADIAN GUARANTEE AND SECURITY AGREEMENT

dated as of

June 21, 2002

among

XEROX CANADA CAPITAL LTD.

THE GUARANTORS PARTY HERETO

and

BANK ONE, NA, Canada Branch

as Collateral Agent

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CANADIAN GUARANTEE AND SECURITY AGREEMENT

AGREEMENT dated ., 2002 among XEROX CANADA CAPITAL LTD. (the "Canadian Borrower"), the GUARANTORS party hereto and BANK ONE, NA, Canada Branch, as Canadian Collateral Agent (with its successors, the "Collateral Agent").

WHEREAS, Xerox Corporation ("Xerox"), the Canadian Borrower and certain other Overseas Borrowers, certain financial institutions (each, a "Lender" and collectively, the "Lenders"), Bank One, NA, as Administrative Agent and Collateral Agent and LC Issuing Bank, JPMorgan Chase Bank, as Documentation Agent, and Citibank, N.A., as Syndication Agent, are parties to an Amended and Restated Credit Agreement dated as of June ., 2002 (as the same has been and may be amended from time to time, the "Credit Agreement"); and

WHEREAS, the Canadian Borrower has agreed to grant a continuing security interest in and to the Collateral (as hereafter defined) to secure its obligations under the Credit Agreement and any Notes that may be issued pursuant thereto by granting security interests on its assets to the Collateral Agent as provided in the Canadian Security Documents (such term and each other capitalized term used but not otherwise defined herein having the meaning assigned to it in Section 1); and

WHEREAS, Xerox is willing to cause each Canadian Guarantor, and each Canadian Guarantor, in its own interest recognizing the opportunity, directly or indirectly available to it from time to time, to obtain the use of amounts advanced to the Canadian Borrower under the Credit Agreement by way of further advance from the Canadian Borrower to it and otherwise as a member of the group of companies comprising the Canadian Borrower and the Canadian Subsidiaries directly or indirectly to benefit therefrom, is willing to, guarantee the foregoing obligations of the Canadian Borrower and, in the case of each Secured Guarantor, to secure its guarantee thereof by granting security interests on its assets which constitute Collateral to the Collateral Agent as provided in the Canadian Security Documents; and

WHEREAS, it is required under the Credit Agreement that the parties hereto enter into this Agreement to provide the guarantees and security interests provided herein;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Definitions.

(a) Terms Defined in Credit Agreement. Terms defined in the Credit Agreement and not otherwise defined in subsection (b) or (c) of this Section have, as used herein, the respective meanings provided for therein.

(b) Terms Defined in the PPSA. Terms defined in the PPSA and used herein shall, unless otherwise defined herein, have the same meaning as ascribed to such term in the PPSA, including "Accessions", "Chattel Paper", "Document of Title", "Goods", "Intangible", "Instruments", "Money", "Security", "financing statement" and "financing change statement".

However, the term "Goods" when used herein shall not include "consumer goods" as that term is defined in the PPSA.

(c) Additional Definitions. The following additional terms, as used herein, have the following meanings:

"Accounts" means all "accounts," as such term is defined in the PPSA, now owned or hereafter acquired by any Lien Grantor and, in any event, shall include all accounts due or accruing due and all agreements, books, accounts receivable, other receivables, book debts, claims and demands of every nature and kind and other forms of monetary obligations (other than forms of monetary obligations evidenced by Chattel Paper, Securities or Instruments) now owned or hereafter received or acquired by or belonging or owing to any Lien Grantor, whether or not yet earned by performance on the part of such Lien Grantor and all invoices, letters, documents and papers recording, evidencing or relating thereto.

"Actionable Event of Default" means an Event of Default specified in clause (a), (b), (h), (i) or (j) of Section 7.01 of the Credit Agreement.

"Business Day" means a day on which chartered banks are open for over-the-counter business in the jurisdiction of incorporation or principal place of business of the applicable Lien Grantor and excludes Saturdays, Sundays and statutory holidays therein.

"CA Permitted Liens" means the Security Interests and Liens on the Collateral permitted to be created, to be assumed or to exist pursuant to Section 6.02 of the Credit Agreement.

"Canadian CA Secured Obligations" means (a) all principal of and premium and interest (including, without limitation, any interest ("Post-Petition Interest") which accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of the Canadian Borrower (or would accrue but for the operation of applicable bankruptcy or insolvency laws), whether or not allowed or allowable as a claim in any such proceeding) on any Loan of the Canadian Borrower outstanding from time to time or any LC Reimbursement Obligations of the Canadian Borrower under, or any promissory note issued by the Canadian Borrower pursuant to, the Credit Agreement, and (b) all other amounts payable by the Canadian Borrower under the Credit Agreement or under any other Loan Document to which it is a party (as the same may hereafter be amended, restated, supplemented or otherwise modified from time to time) (including any Post-Petition Interest with respect to such amounts).

"Canadian Contingent CA Secured Obligations" means, at any time, any Canadian CA Secured Obligation (or portion thereof) that is contingent in nature at such time, including any Canadian CA Secured Obligation that is:

(i) an obligation to reimburse a Lender for drawings not yet made under a Letter of Credit issued by it;

(ii) any other obligation (including any guarantee) that is contingent in nature at such time; or

(iii) an obligation to provide collateral to secure any of the foregoing types of obligations.

"Canadian Effective Date" means the date of this Agreement.

"Canadian Non-Contingent CA Secured Obligations" means at any time any Canadian CA Secured Obligation (or portion thereof) that is not a Canadian Contingent CA Secured Obligations at such time.

"Canadian Secured Guarantor Obligations" means, in respect of a Secured Guarantor, all of its obligations under its guarantee of the Canadian CA Secured Obligations set forth in Section 2 of this Agreement.

"Canadian Secured Obligations" means, in respect of the Canadian Borrower, the Canadian CA Secured Obligations and in respect of the Secured Guarantors, the Canadian Secured Guarantor Obligations.

"Canadian Subsidiary" means any Subsidiary of Xerox (which may be a corporation, limited liability company, partnership or other legal entity) organized under the laws of Canada or one of the provinces or territories of Canada.

"Collateral" means all personal property, whether now owned or hereafter acquired, on which a Lien is granted or purports to be granted to the Collateral Agent pursuant to this Agreement. When used with respect to a specific Lien Grantor, the term "Collateral" means all its property on which such a Lien is granted or purports to be granted.

"Collateral Account" has the meaning specified in Section 8.

"Collateral Agent" means Bank One, NA, Canada Branch, in its capacity as collateral agent under the Canadian Security Documents.

"Copyright License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right to use, copy, reproduce, distribute, prepare derivative works, display or publish any records or other materials on which a Copyright is in existence or may come into existence.

"Copyrights" means all copyrights and Intangibles of like nature under the laws of Canada or any other country (whether or not the underlying works of authorship have been published) that any Lien Grantor now or hereafter owns or uses, including:

- (i) all registrations and recordings thereof, all copyrightable works of authorship (whether or not published), and all applications for copyrights under the laws of Canada or any other country, including all registrations, recordings and applications in the Canadian Intellectual Property Office or in any similar office or agency in any other country or any political subdivision thereof,
- (ii) all restorations, extensions or renewals of any of the foregoing,

- (iii) all claims for, and rights to sue for, past or future infringements of any of the foregoing, and
- (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Covered Taxes" has the meaning specified in Section 17(a).

"Design License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right with respect to any Design now or hereafter in existence, whether or not registered or recorded and whether or not an application shall, or is intended to be filed in respect thereof.

"Designs" means all industrial designs, design patents and other designs under the laws of Canada or any other country that any Lien Grantor now or hereafter owns or uses, including:

- (i) all registrations and recordings thereof and all applications in connection therewith including all registrations, recordings and applications that have been or shall be made or filed in the Canadian Intellectual Property Office or any similar office in any country or any political subdivision thereof,
- (ii) all records, reissues, extensions or renewals of any of the foregoing,
- (iii) all claims for and rights to sue for, past or future infringements of any of the foregoing, and
- (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Equipment" means "equipment", as such term is defined in the PPSA, whether now owned or hereafter acquired by any Lien Grantor, wherever located and, in any event, includes all such Lien Grantor's machinery and equipment, processing equipment, conveyors, machine tools, data processing and computer equipment with software and peripheral equipment, and all engineering, processing and manufacturing equipment, office machinery, furniture, materials handling equipment, tools, attachments, accessories, automotive equipment, trailers, trucks, forklifts, molds, dies, stamps, motor vehicles, rolling stock, trade fixtures and fixtures together with all additions and accessions thereto, replacements therefor, all parts therefor, all substitutes for any of the foregoing, fuel therefor, and all manuals, drawings, instructions, warranties and rights with respect thereto, and all products and proceeds thereof and condemnation awards and insurance proceeds with respect thereto.

"Equity Interest" means (i) in the case of a corporation, any shares of its capital stock, (ii) in the case of a partnership, any Partnership Interest therein, (iii) in the case of any other business entity, any participation or other interest in the equity or profits thereof or (iv) any warrant, option or other right to acquire, in any form whatsoever, any Equity Interest described in this definition.

"ESOP Guarantee Agreement" means the Guaranty and Agreement made by Xerox dated as of October 1, 1993 (as amended from time to time) relating to the Guaranteed ESOP Restructuring Notes due October 1, 2003 issued by Xerox Corporation Employee Stock Ownership Plan Trust.

"ESOP Restricted Guarantor" means a Guarantor that is a "Restricted Subsidiary" under the ESOP Guarantee Agreement.

"Federal and Provincial Government Receivables" means Accounts (including without limitation, proceeds of Inventory to the extent it also constitutes an Account, and Chattel Paper, Documents and Instruments and proceeds thereof) that are owed from federal and provincial governments and their subdivisions within Canada.

"Guarantee" means, with respect to each Guarantor, its guarantee of the Canadian CA Secured Obligations under Section 2 hereof or Section 1 of a Guarantee and Security Agreement Supplement.

"Guarantee and Security Agreement Supplement" means a Guarantee and Security Agreement Supplement, substantially in the form of Exhibit B, signed and delivered to the Collateral Agent for the purpose of adding a Canadian Subsidiary as a party hereto pursuant to Section 20 and/or adding additional property to the Collateral.

"Guarantors" means each entity listed on the signature pages hereof under the caption "Guarantors" and each entity that shall, at any time after the date hereof, become a "Guarantor" pursuant to Section 20.

"High Yield Indenture" means that certain Indenture dated as of January 17, 2002 among Xerox and Wells Fargo Bank Minnesota National Association as Trustee, with respect to the 9 3/4% Senior Notes due 2009 (denominated in U.S. dollars).

"Hypothec" means a deed of hypothec and issue of bonds substantially in the form of Exhibit C with such changes therein as the Agents and the Canadian Borrower shall reasonably agree.

"Intellectual Property" means (i) Patents, (ii) Patent Licenses, (iii) Trademarks, (iv) Trademark Licenses, (v) Designs, (vi) Design Licenses, (vii) Copyrights, (viii) Copyright Licenses, (ix) confidential information, (x) proprietary technology, (xi) trade secrets, (xii) domain names and (xiii) integrated circuit topographies, and all rights in or under any of the foregoing.

"Inventory" means any "inventory", as such term is defined in the PPSA, now or hereafter owned or acquired by any Lien Grantor, wherever located, and in any event including inventory, merchandise, Goods and other personal property which are held by or on behalf of any Lien Grantor for sale or lease or are to be furnished under a contract of service, or which constitute raw materials, work in process or materials used or consumed or to be used or consumed in such Lien Grantor's business or in the processing, production, packaging, promotion, delivery or shipping of the same, including other supplies.

"Lien Grantors" means the Canadian Borrower and the Secured Guarantors.

"Liquid Investments" has the meaning specified in Section 8(d).

"Original Lien Grantor" means any Lien Grantor that grants a Lien on any of its assets hereunder on the Canadian Effective Date.

"Partnership Interest" means a partnership interest, whether general or limited.

"Patent License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right with respect to any Patent or any invention now or hereafter in existence, whether patentable or not, whether a patent or application for patent is in existence on such invention or not, and whether a patent or application for patent on such invention may come into existence or not.

"Patents" means:

- (i) all letters patent of invention issued by Canada or any other country and all applications for letters patent and all registrations and recordings thereof pending before the Canadian Intellectual Property Office or in any similar office or agency in any other country or any political subdivision,
- (ii) all reissues, divisions, continuations, continuations-in-part, revisions and extensions of any of the foregoing,
- (iii) all claims for, and rights to sue for, past or future infringements of any of the foregoing, and
- (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof.

"Perfection Certificate" a certificate substantially in the form of Exhibit A hereto, completed and supplemented with the schedules and attachments contemplated thereby to the satisfaction of the Collateral Agent, and duly executed by an executive officer of a Lien Grantor on or before the Relevant Date applicable to such Lien Grantor.

"Permitted Encumbrances" means (i) any legally valid prohibitions on granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Qualified Turnaround Program Subsidiary pursuant to any agreement entered into in connection with the Turnaround Program with or for the benefit of any other Person owning or acquiring Equity Interests in such a Subsidiary, to the extent the Qualification Requirements have been met with respect to such prohibitions, (ii) (A) any legally valid contractual restrictions in connection with the Turnaround Program that do not prohibit the granting of a security interest in any Xerox Company's Equity Interests in a Turnaround Program Subsidiary to the Collateral Agent as part of the Collateral or (B) any legally valid contractual restrictions that do not prohibit the granting of a security interest in any Xerox Company's Equity Interests in any other Subsidiary that is not a Xerox Company, but, in each case, that otherwise restrict the Transfer by the Collateral Agent

of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interests as a consequence of restrictions imposed on the owner of such Equity Interests (including put and call arrangements, rights of first refusal, rights of first offer, tag-along rights and other similar rights to which such Equity Interest may be subject), (iii) any legally valid and customary contractual restrictions on granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Finance SPE or any Permitted Joint Venture created in connection with any Qualified Receivables Transaction or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Collateral, (iv) any legally valid contractual restrictions granting a security interest to the Collateral Agent as part of the Collateral in the Equity Interests of any Third Party Vendor Financing Subsidiary or any Permitted Joint Venture created in connection with the Third Party Vendor Financing Program or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Collateral, (v) any legally valid contractual restrictions existing on the date hereof on granting a security interest to the Collateral Agent as part of the Collateral in any Equity Interest or Intangible, owned by any Lien Grantor or any legally valid contractual restrictions existing on the date hereof that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interest or Intangible, (vi) any legally valid contractual restrictions permitted by Section 6.10 of the Credit Agreement on the grant of a security interest to the Collateral Agent in any of the Collateral, or on the transfer by the Collateral Agent of any Collateral (including put and call arrangements, rights of first refusal, rights of first offer, tag-along rights and other similar rights to which any Pledged Equity Interest may be subject) or (vii) the terms of any provision of Applicable Law which (A) prohibits the creation of a security interest in any property or asset, (B) requires the consent of any third party to the creation of a security interest in any property or asset, (C) gives rise to any right of termination (including, without limitation, the abandonment, invalidation, or rendering unenforceable any right, title or interest in any Intellectual Property) or default remedy by reason of the creation of a security interest in any property or asset or (D) does not prohibit the creation of a security interest in any property or asset but otherwise restricts the Transfer by the Collateral Agent of any such property or asset or any other rights and remedies of the Collateral Agent.

"Pledged", when used in conjunction with any type of asset, means at any time an asset of such type that is included (or that creates rights that are included) in the Collateral at such time. For example, "Pledged Security" means Security that is included in the Collateral at such time.

"PPSA" means the Personal Property Security Act as in effect from time to time in the Province of Ontario; provided that, if validity, perfection or the effect of perfection or non-perfection or the priority of any Lien on any Collateral and the rights and remedies of secured parties are governed by the PPSA or other similar legislation as in effect in a jurisdiction other than Ontario, "PPSA" means the Personal Property Security Act or other similar legislation as in effect from time to time in such other jurisdiction for purposes of the provisions hereof relating to such validity, perfection, effect of perfection or non-perfection or priority and to such rights and remedies.

"Proceeds" means all "proceeds", as such term is defined in the PPSA and, in any event, shall include all proceeds of, and all other profits, products, rents or receipts, in whatever form, arising from the collection, sale, lease, exchange, assignment, licensing or other disposition of, or other realization upon, any Collateral, including without limitation all claims of the relevant Lien Grantor against third parties for loss of, damage to, or destruction of, or for proceeds payable under, or unearned premiums with respect to, policies of insurance in respect of, any Collateral and any expropriation or requisition payments with respect to any Collateral, in each case whether now existing or hereafter arising.

"Program Receivables" means Receivables that are the subject of a Qualified Receivables Transaction or a Third Party Vendor Financing Program.

"Recordable Intellectual Property" means Intellectual Property, the transfer of which may be recorded with the Canadian Intellectual Property Office.

"Release Conditions" means the following conditions for releasing all the Guarantees and terminating all the Security Interests:

(i) either (A) all Revolving Commitments under the Credit Agreement with respect to the Canadian Borrower shall have expired or been terminated or (B) an Election to Terminate with respect to the Canadian Borrower has been delivered pursuant to Section 2.19(b) of the Credit Agreement;

(ii) all Canadian Non-Contingent CA Secured Obligations shall have been paid in full; and

(iii) no Canadian Contingent CA Secured Obligation shall remain outstanding;

provided that the condition in clause (iii) shall not apply to outstanding Letters of Credit if (x) no Event of Default has occurred and is continuing and (y) the Canadian Borrower has granted to the Collateral Agent, for the benefit of the Revolving Lenders (or if the obligations of the Revolving Lenders to reimburse the applicable Issuing Banks have been terminated, to such Issuing Banks), a security interest in Liquid Investments (or causes a bank acceptable to the Required Revolving Lenders or such Issuing Banks, as the case may be, to issue a letter of credit naming the Collateral Agent or such Issuing Banks as beneficiary) in an amount at least equal to 105% of the Canadian Borrower's LC Exposure (plus any accrued and unpaid interest thereon) as of the date of such termination, on terms and conditions and pursuant to documentation reasonably satisfactory to the Required Revolving Lenders or such Issuing Banks, as the case may be.

"Relevant Date" means, in the case of an Original Lien Grantor, the Canadian Effective Date, or, in the case of a Guarantor which is not an Original Lien Grantor, the date on which such Guarantor becomes a Secured Guarantor pursuant to Section 4(g) or 4(h), as the case may be, of this Agreement.

"Restricted Guarantor" means a Guarantor that is a "Specified Subsidiary" under the Reference Indenture or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under the new Reference Indenture.

"RPMRR" has the meaning specified in Section 3(j).

"Secured Guarantee" means, with respect to each Secured Guarantor, its Guarantee.

"Secured Guarantor" means (a) before the XCFI Release Date, a Guarantor other than (i) a Restricted Guarantor, (ii) an ESOP Restricted Guarantor and (iii) XCFI and (b) on or after the XCFI Release Date, a Guarantor other than (i) a Restricted Guarantor and (ii) an ESOP Restricted Guarantor.

"Secured Parties" means the Agents, the Lenders and the LC Issuing Banks.

"Secured Party Jurisdiction" means, with respect to any Secured Party:

(i) the jurisdiction under the laws of which such Secured Party is organised or in which its principal office is located;

(ii) the jurisdiction in which its applicable lending office is located; and

(iii) any jurisdiction in which it is treated as resident for purposes of income or franchise taxes imposed on (or measured by) net income (or is otherwise subject to such taxes) by reason of its business activities and operations that are unrelated to the Credit Agreement, the Existing Credit Agreement and the loans thereunder.

"Security Interests" means the security interests in the Collateral granted under the Canadian Security Documents securing the Canadian Secured Obligations.

"Third Party Vendor Financing Assets" means Equipment, Inventory and related assets that are the subject of a Third Party Vendor Financing Program.

"Trademark License" means any agreement now or hereafter in existence granting to any Lien Grantor, or pursuant to which any Lien Grantor grants to any other Person, any right to use any Trademark.

"Trademarks" means all of the following, whether registered or unregistered and whether now owned, used or hereafter acquired or used by any Lien Grantor:

(i) all trademarks, trade names, corporate names, company names, business names, fictitious business names, trade styles, service marks, logos, brand names, other source or business identifiers, prints and labels on which any of the foregoing have appeared or appear, designs and intangibles of like nature, all registrations and recordings thereof, and all applications in connection therewith, including registrations, recordings and applications in the Canadian Intellectual Property Office or in any similar office in any country or any political subdivision thereof,

(ii) all extensions or renewals of any of the foregoing,

- (iii) all claims for, and rights to sue for, past or future infringements of any of the foregoing,
- (iv) all income, royalties, damages and payments now or hereafter due or payable with respect to any of the foregoing, including damages and payments for past or future infringements thereof, and
- (v) all goodwill associated with or symbolized by any of the foregoing.

"Transferred Intellectual Property" means any Intellectual Property (including without limitation, proceeds thereof) that was Transferred as permitted by the Credit Agreement.

"Unrestricted Guarantor" means a Guarantor that is not a Restricted Guarantor.

"XCFI" means Xerox Canada Finance Inc., an Ontario corporation.

"XCFI Indentures" means (a) that certain Trust Indenture dated as of December 15, 1986, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee and (b) that certain Trust Indenture dated as of October 27, 1987, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee, in each case as amended, modified or supplemented from time to time.

"XCFI Release Date" means the first day after all obligations under the XCFI Indentures and all principal, interest and fees outstanding thereunder and under each of the debentures issued thereunder have been paid off.

SECTION 2. Guarantees by Guarantors.

(a) Guarantees.

(i) Each Guarantor unconditionally guarantees the full and punctual payment of the Canadian CA Secured Obligations when due (whether at stated maturity, upon acceleration or otherwise). If the Canadian Borrower fails to pay any Canadian CA Secured Obligation punctually when due, each Guarantor agrees that it will forthwith on demand pay the amount not so paid at the place and in the manner specified in the relevant Loan Document. The obligations of each Guarantor under this Section 2(a) shall be limited as provided in Section 2(j).

(b) Guarantees Unconditional. The obligations of each Guarantor under its Guarantee shall be unconditional and absolute and, without limiting the generality of the foregoing, shall not be released, discharged or otherwise affected by:

(i) any extension, renewal, settlement, compromise, waiver or release in respect of any obligation of Xerox, the Canadian Borrower, any other Overseas

Borrower, any other Guarantor or any other Person under any Loan Document, by operation of law or otherwise;

(ii) any modification or amendment of or supplement to any Loan Document;

(iii) any release, impairment, non-perfection or invalidity of any direct or indirect security for any obligation of Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person under any Loan Document;

(iv) any change in the corporate existence, structure or ownership of Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person or any of their respective subsidiaries, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person or any of their assets or any resulting release or discharge of any obligation of Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person under any Loan Document;

(v) the existence of any claim, set-off or other right that such Guarantor may have at any time against Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor, any Secured Party or any other Person, whether in connection with the Loan Documents or any unrelated transactions, provided that nothing herein shall prevent the assertion of any such claim by separate suit or counterclaim;

(vi) any invalidity or unenforceability relating to or against Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person for any reason of any Loan Document, or any provision of Applicable Law purporting to prohibit the payment of any Canadian Secured Obligation by Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person; or

(vii) any other act or omission to act or delay of any kind by Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor, any other party to any Loan Document, any Secured Party or any other Person, or any other circumstance whatsoever that might, but for the provisions of this Section 2(b)(vii), constitute a legal or equitable discharge of or defense to any obligation of any Guarantor hereunder.

(c) Release of Guarantees.

The Guarantees will be released in accordance with Section 9.02 and 9.03 of the Credit Agreement, as the case may be. In case of any release pursuant to Section 9.03 of the Credit Agreement, the Collateral Agent shall be fully protected in relying on a certificate of Xerox stating that the release of the Guarantee is in accordance with and permitted by the terms of Section 9.03 of the Credit Agreement. If at any time any payment of a Canadian Secured Obligation is rescinded or must be otherwise restored or returned upon the insolvency or receivership of Xerox, the Canadian Borrower, any other Overseas Borrower or otherwise, the relevant Guarantee or Guarantees shall be reinstated with respect thereto as though such payment had been due but not made at such time.

(d) Waiver by Guarantors. Each Guarantor irrevocably waives acceptance hereof, presentment, demand, protest and any notice not provided for herein, as well as any requirement that at any time any action be taken by any Person against Xerox, the Canadian Borrower, any other Overseas Borrower, any other Guarantor or any other Person.

(e) Subrogation. A Guarantor that makes a payment with respect to a Canadian Secured Obligation hereunder, shall be subrogated to the rights of the payee against the Canadian Borrower with respect to such payment; provided that no Guarantor shall enforce any payment by way of subrogation, or by reason of contribution against any other guarantor of such Canadian Secured Obligation (including without limitation any other Guarantor), until all the Release Conditions have been satisfied.

(f) Stay of Acceleration. If acceleration of the time for payment of any Canadian Secured Obligation by the Canadian Borrower is stayed by reason of the insolvency or receivership of the Canadian Borrower or otherwise, all Canadian CA Secured Obligations otherwise subject to acceleration under the terms of any Loan Document shall nonetheless be payable by the relevant Guarantors hereunder forthwith on demand by the Collateral Agent.

(g) Right of Set-Off. If any Canadian Secured Obligation is not paid promptly when due, each of the Secured Parties and their respective Affiliates is authorized, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Secured Party or Affiliate to or for the credit or the account of any Guarantor against the obligations of such Guarantor under its Guarantee, irrespective of whether or not such Secured Party shall have made any demand thereunder and although such deposits and other obligations may be unmatured. The rights of each Secured Party under this Section 2(g) are in addition to all other rights and remedies (including other rights of setoff) that such Secured Party may have.

(h) Payments. Each payment to be made by any Guarantor in respect of any of the Canadian CA Secured Obligations shall be payable in the currency or currencies in which such Canadian CA Secured Obligations are denominated at the office of the Collateral Agent and to the extent permitted by law, shall be made free and clear of and without deduction or withholding for or on account of any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any governmental authority excluding net income taxes or branch profit taxes or franchise taxes imposed in lieu of net income taxes imposed on the Collateral Agent or any of the Secured Parties as a result of a present or former connection between the Collateral Agent or any of the Secured Parties and the jurisdiction of the governmental authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any connection arising solely from the Collateral Agent or such Secured Party having executed, delivered or performed its obligations or received a payment under, or enforced, as provided herein).

(i) Continuing Guarantee. Each Guarantee is a continuing guarantee, shall be binding on the relevant Guarantor and its successors and assigns, and shall be enforceable by the Collateral Agent or the Secured Parties. If all or part of any Secured Party's interest in any Canadian Secured Obligation is assigned or otherwise transferred, the transferor's rights under

each Guarantee, to the extent applicable to the obligation so transferred, shall automatically be transferred with such obligation.

(j) Limitation on Obligations of Guarantor. Notwithstanding any other provision hereof, (i) the obligations of each Guarantor under its Guarantee shall be limited to an aggregate amount equal to the largest amount that would not render such Guarantee invalid or unenforceable under Applicable Laws and (ii) the amount of the liability of each Guarantor for the Canadian CA Secured Obligations (A) pursuant to Section 2.14(a) of the Credit Agreement or Section 2.14(b) of the Credit Agreement, to the extent Section 2.14(b) relates to Loans or Letters of Credit, shall be limited to amounts so owing with respect to the increased costs or reduced rates of return arising from Loans to, or Letters of Credit issued for the account of, the Canadian Borrower and (B) except as set out in (A) above, pursuant to Section 2.14(b), shall be limited, at any particular time, to the amount which is proportionate to the ratio of the aggregate outstanding principal amount of Loans to, and the aggregate of the LC Exposure and LC Reimbursement Obligations with respect to Letters of Credit issued for the account of, the Canadian Borrower to the aggregate outstanding principal amount of Loans to, and the aggregate of the LC Exposure and LC Reimbursement Obligations with respect to Letters of Credit issued for the account of, all Borrowers at such time.

SECTION 3. Representations and Warranties and Covenants.

Each Lien Grantor and Guarantor represents and warrants, at the times set forth below, and covenants where indicated below, as follows:

(a) It is duly organized, validly existing and in good standing under the laws of the jurisdiction identified as its jurisdiction of organization in the Perfection Certificate.

(b) The execution and delivery of this Agreement by it and the performance by it of its obligations under this Agreement are (i) within its corporate or other powers, (ii) have been duly authorized by all necessary corporate or other action, (iii) require no consent or approval of, registration or filing with, any Governmental Authority except (A) such as have been obtained or made and are in full force and effect and (B) filings, recordings and registrations necessary to perfect the Security Interests, (iv) do not violate any Applicable Law or its organizational documents, (v) do not violate any order of any Governmental Authority except in any such case where such violation could not reasonably be expected to result in a Material Adverse Effect, (vi) do not violate or result in a default under any indenture or material agreement or other instrument binding upon it and (vii) do not result in any Lien on any of its properties other than the Security Interests.

(c) This Agreement constitutes a valid and binding agreement of it, enforceable in accordance with its terms, except as limited by (A) applicable bankruptcy, insolvency, fraudulent conveyance or other similar laws affecting creditors' rights generally and (B) general principles of equity, regardless of whether considered in a proceeding at equity or at law.

(d) Schedule 1 of this Agreement sets forth the name and jurisdiction of organization of, and the ownership interest (including percentage owned and number of shares or units) of such Original Lien Grantor in the Securities issued by each of such Lien Grantor's direct

Subsidiaries as of the date hereof, which are required to be included in the Collateral and pledged pursuant to Section 5.13(a) of the Credit Agreement and the Post-Closing Collateral and Guarantee Requirement.

(e) All Pledged Securities owned by such Lien Grantor are owned by it free and clear of any Lien other than (i) the Security Interests (ii) the Permitted Encumbrances and (iii) any tax liens and judgment liens, that are CA Permitted Liens. None of such Pledged Securities is subject to any option to purchase or similar right of any Person other than Permitted Encumbrances, such Lien Grantor is not and covenants that it will not, become a party to or otherwise bound by any agreement (except the Loan Documents to which it is a party) which restricts in any material manner the rights of any present or future holder of any Pledged Securities with respect thereto.

(f) Except for the Disclosed Matters, such Lien Grantor has good title to, or valid license or leasehold interests in, all of its Collateral which is material to its business (other than after-acquired Collateral in which such Lien Grantor will own or have rights in such Collateral at the time so acquired) free and clear of any Liens other than the (i) the CA Permitted Liens, (ii) the Permitted Encumbrances and (iii) other defects that could not reasonably be expected to result in a Material Adverse Effect.

(g) Other than financing statements, financing change statements or other similar or equivalent documents or instruments with respect to the Security Interests and other CA Permitted Liens, or that are in respect of consignments, sale of Accounts, operating leases or are otherwise precautionary, no financing statement, financing change statement, security agreement or similar or equivalent document or instrument covering all or any part of the Collateral is on file or of record in any jurisdiction in which such filing or recording is effective to perfect or record a Lien on such Collateral except (i) Liens that have been released and (ii) Liens the obligations secured by which have been satisfied, in each case as evidenced pursuant to the requirements of Section 4.01(f) of the Credit Agreement. After the Relevant Date applicable to a Lien Grantor, no Collateral owned by such Lien Grantor will be in the possession or under the control of any other Person having a claim thereto or security interest therein, other than the CA Permitted Liens.

(h) The Security Interests on all Collateral to which the PPSA applies in which such Lien Grantor has rights (i) have been, or will on the Relevant Date applicable to such Lien Grantor be, validly created, (ii) will attach to each item of such Collateral on the Relevant Date applicable to such Lien Grantor (or, if such Lien Grantor first obtains rights thereto on a later date, on such later date) and (iii) when so attached, will constitute Collateral for the Canadian Secured Obligations of such Lien Grantor.

(i) The Canadian Borrower has heretofore delivered the Perfection Certificate to the Collateral Agent. The information specified therein with respect to such Lien Grantor is correct and complete in all material respects as of the Relevant Date applicable to such Lien Grantor. Each other Lien Grantor shall provide the Collateral Agent with a Perfection Certificate in respect of such Lien Grantor on or before the Relevant Date applicable to it.

(j) When a PPSA financing statement or financing change statement describing the Collateral and naming such Lien Grantor as debtor has been filed in the applicable offices located in the jurisdictions where such Lien Grantor's assets are located as specified in the Perfection Certificate and the security interests in Collateral located in or subject to, the laws of the Province of Quebec have been published in the Register of Personal and Movable Real Rights ("RPMRR"), the Security Interests will constitute perfected security interests in the Collateral in which such Lien Grantor has rights in favour of the Collateral Agent for the benefit of the Secured Parties to the extent that a security interest therein may be perfected by filing pursuant to the PPSA or the Civil Code of Quebec, as the case may be, prior to all Liens and rights of others therein except Permitted Liens. Except for the filing of such PPSA financing statements and financing change statements and the publication of the security interests in Collateral located in the Province of Quebec in the RPMRR, no registration, publication or filing with any Canadian, provincial or territorial governmental body, agency or official is required in connection with the execution or delivery of the Canadian Security Documents or is necessary for the validity or enforceability thereof or for the perfection or due recordation of the Security Interests in Canada or for the enforcement of the Security Interests.

(k) As of the date hereof, the Inventory and Equipment are insured in accordance with the requirements of the Credit Agreement.

SECTION 4. The Security Interests.

(a) The Canadian Borrower, in order to secure the Canadian CA Secured Obligations and each Guarantor, if and when it becomes a Secured Guarantor, in order to secure its Canadian Secured Guarantor Obligations, grants to the Collateral Agent for the benefit of the Secured Parties a continuing security interest in and to all of such Guarantor's respective right, title and interest in and to its now owned or hereafter acquired personal property, including all Proceeds, renewals, accretions and substitutions thereof, whether now owned or existing or hereafter acquired or arising and regardless of where located, but subject to the exclusions in Section 4(b), and including, without limitation, the following:

(i) all Accounts;

(ii) all Chattel Paper;

(iii) all deeds, documents, writings, papers, books of account and other books relating to or being records of debts, Chattel Paper or Documents of Title or by which such are or may hereafter be secured, evidenced, acknowledged or made payable;

(iv) all Documents of Title (whether negotiable or not);

(v) all Equipment;

(vi) all Goods (including all parts, accessories, attachments, special tools, additions and accessions thereto);

(vii) all Instruments;

(viii) all Inventory;

(ix) all Intangibles;

(x) all Securities directly owned by such Lien Grantor and issued by a Material Canadian Subsidiary;

(xi) the Collateral Account, all financial assets credited to the Collateral Account from time to time, all cash deposited therein from time to time and the Liquid Investments made pursuant to Section 8(d);

(xii) all books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records) of such Original Lien Grantor pertaining to any of the Collateral; and

(xiii) all Proceeds of the Collateral described in Clauses 4(a)(i) through 4(a)(xii) hereof.

(b) Notwithstanding anything to the contrary contained herein, the Collateral shall not include:

(i) rights of such Lien Grantor in respect of any property or asset which is prohibited from being pledged to the Collateral Agent as part of the Collateral by any Permitted Encumbrances;

(ii) Program Receivables and (A) security interests or liens and property subject thereto purporting to secure payment of such Program Receivables, (B) leases, guaranties, insurance and other arrangements supporting payment of such Program Receivables, (C) rights to payment and collections in respect of such Program Receivables, (D) books, records and similar information relating to such Program Receivables or the obligors thereon, (E) with respect to any such Program Receivables, the transferee's interest in goods (including, without limitation, Equipment or Inventory) the sale of which gave rise to such Program Receivables and (F) if such Program Receivables arise from a lease financing or installment sale transaction, the Equipment or Inventory that is the subject of the underlying transaction and is transferred to a Receivables SPE;

(iii) Transferred Intellectual Property;

(iv) Federal and Provincial Government Receivables of such Lien Grantor;

(v) Third Party Vendor Financing Assets of such Lien Grantor;

(vi) the last day of the term of any lease or any extension or renewal thereof, oral or written, or agreement therefor, now held or hereafter acquired by any Lien Grantor but upon the enforcement of the security interest hereunder, the applicable Lien Grantor shall stand possessed of such last day in trust to assign the same to any Person acquiring such term; and

(vii) Equity Interests in any Person that is not a Material Canadian Subsidiary or which are not directly owned by such Lien Grantor.

(c) With respect to each right to payment or performance included in the Collateral from time to time, the Security Interest granted therein includes, subject to Permitted Encumbrances, a continuing security interest in (i) any supporting obligation that supports such payment or performance and (ii) any Lien that (x) secures such right to payment or performance or (y) secures any such supporting obligation.

(d) The Security Interests are granted as security only and shall not subject the Collateral Agent or any Secured Party to, or transfer or in any way affect or modify, any obligation or liability of any Lien Grantor with respect to any of the Collateral or any transaction in connection therewith.

(e) If the Collateral is realized upon and the security interest in the Collateral is not sufficient to satisfy all Canadian Secured Obligations, each Lien Grantor acknowledges and agrees that, subject to the provisions of the PPSA, such Lien Grantor shall continue to be liable for any Canadian Secured Obligations remaining outstanding and Collateral Agent shall be entitled to pursue full payment thereof.

(f) Each Lien Grantor, on and from the Relevant Date applicable to such Lien Grantor, and the Collateral Agent hereby acknowledge that value has been given, such Lien Grantor has rights in the Collateral or, with respect to any after acquired Collateral, will have rights in such Collateral when so acquired and this Agreement constitutes a security agreement as that term is defined in the PPSA.

(g) Each Guarantor (other than XCFI) shall be a Secured Guarantor, and such Guarantor's grant of a Security Interest in its Collateral hereunder shall become effective, on the date hereof, unless such Guarantor (other than XCFI) is either (i) a Restricted Guarantor or (ii) an ESOP Restricted Guarantor on the date hereof and in each case such Guarantor's grant of a Security Interest in its Collateral hereunder shall not become effective until, and such Guarantor shall not become a Secured Guarantor hereunder until, the first day after the end of the first Fiscal Year during which such Guarantor ceases to be either a Restricted Guarantor or an ESOP Restricted Guarantor.

(h) XCFI's grant of a security interest in its Collateral hereunder shall not become effective until, and XCFI shall not become a Secured Guarantor hereunder until, the first day after the end of the first Fiscal Quarter after or containing the XCFI Release Date during which XCFI is not a Restricted Guarantor or an ESOP Restricted Guarantor.

(i) Liens on the Collateral of any Secured Guarantor granted pursuant to this Agreement shall lapse, and such Guarantor shall cease to be a Secured Guarantor, starting on the day such Guarantor becomes a Restricted Guarantor; provided, however, that such Guarantor's grant of a security interest in its Collateral hereunder shall revive, and such Guarantor shall become a Secured Guarantor again, on the first day after the end of the next first Fiscal Quarter during which such Guarantor ceases to be a Restricted Guarantor.

SECTION 5. Further Assurances; Covenants.

Each Lien Grantor covenants as follows:

(a) Such Lien Grantor will furnish to the Collateral Agent promptly (but in any event within 20 Business Days of the occurrence of such event) written notice of any change in (i) its corporate, partnership, company or other legal name, (ii) its place of business or chief executive office if there is more than one principal place of business (determined as provided in the PPSA applicable to such Lien Grantor) or, if applicable, its domicile (as defined in the Civil Code of Quebec) or (iii) its identity or corporate structure.

(b) Such Lien Grantor will, from time to time, at its expense, execute, deliver, file and record any statement, assignment, instrument, document, agreement or other paper and take any other reasonable action, (including, without limitation, any filings of financing or financing change statements under the PPSA) that from time to time is required under the PPSA or the Civil Code of Quebec to enable the Collateral Agent and the other Secured Parties to obtain the full benefits of the Canadian Security Documents or to enable the Collateral Agent to exercise and enforce any of its rights, powers and remedies under the Canadian Security Documents with respect to any of the Collateral. To the extent permitted by Applicable Law, such Lien Grantor hereby appoints the Collateral Agent as such Lien Grantor's attorney-in-fact to execute and file all filings in Canada, including financing statements and financing change statements with respect to the Collateral, required or requested for the purposes of creating, perfecting and preserving the Security Interests, all acts of such attorney being hereby ratified and confirmed; and such power, is coupled with an interest, includes the power of substitution and shall be irrevocable until all the Security Interests granted by such Lien Grantor terminate pursuant to Section 19. Such Lien Grantor shall pay the costs of, or reasonable costs incidental to, any filing of any financing or financing change statements, the publication of notice under the RPMRR or other documents registered, recorded or filed pursuant thereto concerning the Collateral.

(c) Upon the occurrence and during the continuance of an Event of Default, if any Collateral is in the possession or control of a warehouseman, bailee or agent, such Lien Grantor will upon request of the Required Revolving Lenders (i) notify such warehouseman, bailee or agent of the relevant Security Interests, (ii) instruct such warehouseman, bailee or agent to hold all such Collateral for the Collateral Agent's account subject to the Collateral Agent's instructions and to permit such Collateral to be removed by such Lien Grantor in the ordinary course of business until the Collateral Agent notifies such warehouseman, bailee or agent that an Event of Default has occurred and is continuing, (iii) use reasonable commercial efforts (without incurring material obligations or foregoing material rights) to cause such warehouseman, bailee or agent to enter into an agreement for the benefit of Collateral Agent and the Secured Parties acknowledging that it holds possession of such Collateral for the Collateral Agent's benefit and otherwise in form and substance satisfactory to the Collateral Agent.

(d) If an Actionable Event of Default shall have occurred and be continuing, such Lien Grantor shall stamp or otherwise mark all books and records relating to the Collateral in such manner, if any, as the Required Revolving Lenders may reasonably require in order to reflect the Security Interests.

(e) Such Lien Grantor will, promptly upon request, provide to the Collateral Agent all information and evidence in such Lien Grantor's possession, or under such Lien Grantor's control, or that can be generated internally or, if an Actionable Event of Default has occurred and is continuing, can otherwise be obtained by such Lien Grantor, without unreasonable effort or expense, which the Collateral Agent may reasonably request concerning the Collateral to enable the Collateral Agent to enforce the provisions of the Canadian Security Documents.

(f) Such Lien Grantor will not Transfer, grant interests in, or grant any option with respect to, any of its Collateral; provided that such Lien Grantor may do any of the foregoing unless doing so would violate a covenant in the Credit Agreement. Concurrently with any such Transfer (except a Transfer to another Lien Grantor, a lease or a license) permitted by the foregoing proviso, the Security Interests on such assets Transferred (but not in any Proceeds arising from such Transfer) will cease immediately pursuant to Section 9.03 of the Credit Agreement.

(g) Each Lien Grantor that owns or has rights in movable property situated in, or subject to the laws of, the Province of Quebec shall execute and deliver to the Collateral Agent a Hypothec in respect of movable property and bond certificates and pledge agreement, if necessary (all substantially in the form which the Collateral Agent may reasonably request) and all other ancillary and supplementary documents or documentation required for publication with respect to any of the foregoing.

SECTION 6. Recordable Intellectual Property.

Each Lien Grantor covenants as follows:

(a) Such Lien Grantor will notify the Collateral Agent promptly if it knows that any application or registration relating to any material Recordable Intellectual Property owned or licensed by it may become abandoned or dedicated to the public, or of any adverse determination or development (including the institution of, or any adverse determination or development in, any proceeding in the Canadian Intellectual Property Office) regarding such Lien Grantor's ownership of such material Recordable Intellectual Property, its right to register or patent the same, or its right to keep and maintain the same, except where the occurrence of the foregoing could not reasonably be expected to result in a Material Adverse Effect. If any of such Lien Grantor's rights to any material Recordable Intellectual Property are infringed, misappropriated or diluted, by a third party, such Lien Grantor will notify the Collateral Agent within 30 days after it learns thereof and will, unless such Lien Grantor shall reasonably determine that such action would be of negligible value, economic or otherwise, or the failure to take such action could not reasonably be expected to result in a Material Adverse Effect, (i) promptly sue for infringement, misappropriation or dilution and to recover any and all damages for such infringement, misappropriation or dilution, (ii) take such other actions as such Lien Grantor shall reasonably deem appropriate under the circumstances to protect such material Recordable Intellectual Property and (iii) notify the Collateral Agent thereof to the extent required by the Credit Agreement.

(b) Unless an Actionable Event of Default shall exist and the Collateral Agent shall have notified such Lien Grantor that the Lien Grantor's right to do so is terminated, suspended or

otherwise limited, the grant of Liens on Recordable Intellectual Property pursuant hereto shall not preclude any Lien Grantor from entering into any Copyright License, Design License, Patent License or Trademark License or, subject to Section 5, from managing or maintaining its Recordable Intellectual Property in a manner that is in the ordinary course of such Lien Grantor's business and consistent with such Lien Grantor's historical practices, as permitted by the Credit Agreement.

SECTION 7. Pledged Securities.

Each Lien Grantor represents, warrants and covenants as follows:

(a) Certificated Securities.

(i) With respect to each Original Lien Grantor, such Original Lien Grantor will deliver (A), on the Canadian Effective Date to the Collateral Agent as Collateral hereunder all certificates representing Pledged certificated Securities ("Pledged Certificated Securities") that are Equity Interests and issued by any Material Canadian Subsidiary then directly owned by such Original Lien Grantor and identified on Schedule 1 of this Agreement as required to be pledged under Section 5.13(a) of the Credit Agreement and the Post-Closing Collateral and Guarantee Requirement and (B) in accordance with Section 5.13(b) of the Credit Agreement within 90 days after the Restatement Date, to the Collateral Agent as Collateral hereunder all certificates representing Pledged Certificated Securities that are Equity Interests issued by any Material Canadian Subsidiary then directly owned by such Original Lien Grantor (to the extent such Securities have not been pledged and delivered pursuant to clause (i)(A) of this Section 7(a)).

(ii) With respect to any other Lien Grantor, such Lien Grantor will deliver, on the date on which it signs and delivers its first Guarantee and Security Agreement Supplement (or on its Relevant Date in the case of a Guarantor which is not an Original Lien Grantor) to the Collateral Agent as Collateral hereunder all certificates representing Pledged Certificated Securities that are Equity Interests issued by any Material Canadian Subsidiary then directly owned by such Lien Grantor and required to be included in the Collateral.

(iii) After the pledge and delivery of Pledged Certificated Securities described in clause (i) or (ii) of this Section 7(a), whenever such Original Lien Grantor or such Lien Grantor, as the case may be, acquires direct ownership of any other certificate representing a Pledged Certificated Security that is an Equity Interest and required to be included in the Collateral, such Original Lien Grantor or such Lien Grantor, as the case may be, will promptly deliver such certificate to the Collateral Agent as Collateral hereunder.

The provisions of this subsection are subject to the limitation in Section 7(g) in the case of Equity Interests that are subject to Permitted Encumbrances.

(b) Uncertificated Securities.

(i) With respect to each Original Lien Grantor, such Original Lien Grantor will, (A) on the Canadian Effective Date in respect of each Pledged uncertificated Security ("Pledged Uncertificated Security") that is an Equity Interest and issued by any Material Canadian Subsidiary then directly owned by such Original Lien Grantor and identified on Schedule 1 of this Agreement as required to be pledged under Section 5.13(a) of the Credit Agreement and the Post-Closing Collateral and Guarantee Requirement and (B) in accordance with Section 5.13(b) of the Credit Agreement within 90 days after the Restatement Date, in respect of each Pledged Uncertificated Security that is an Equity Interest issued by any Material Canadian Subsidiary then directly owned by such Original Lien Grantor (to the extent that such Security has not been pledged pursuant to clause (i)(B) of this Section 7(b)), (x) such Lien Grantor shall give written instructions to the relevant depository institution or other applicable Person, together with a written copy thereof to the Collateral Agent, sufficient for the depository institution or other applicable Person to record in its book entry system that the Collateral Agent is the pledgee of each Pledged Uncertificated Security or (y) register the Collateral Agent as the registered owner of such Security on the books and records of the issuer, in each case as the Collateral Agent and such Original Lien Grantor may reasonably agree.

(ii) With respect to any other Lien Grantor, such Lien Grantor will, on the date on which it signs and delivers its first Guarantee and Security Agreement Supplement (or on its Relevant Date in the case of a Guarantor which is not an Original Lien Grantor) in respect of each Pledged Uncertificated Security that is an Equity Interest issued by any Material Canadian Subsidiary then directly owned by such Lien Grantor and required to be included in the Collateral (x) give written instructions to the relevant depository institution or other applicable Person, together with a written copy thereof to the Collateral Agent, sufficient for the depository institution or other applicable Person to record in its book entry system that the Collateral Agent is the pledgee of each Pledged Uncertificated Security or (y) register the Collateral Agent as the registered owner of such Security on the books and records of the issuer, in each case as the Collateral Agent and such Lien Grantor may reasonably agree.

(iii) After the pledge of Pledged Uncertificated Securities described in clause (i) or (ii) of this Section 7(b), whenever such Original Lien Grantor or such Lien Grantor, as the case may be, acquires any other Pledged Uncertificated Security that is an Equity Interest and required to be included in the Collateral such Original Lien Grantor or such Lien Grantor, as the case may be, will promptly (x) give written instructions to the relevant depository institution or other applicable Person, together with a written copy thereof to the Collateral Agent, sufficient for the depository institution or other applicable Person to record in its book entry system that the Collateral Agent is the pledgee of each Pledged Uncertificated Security or (y) register the Collateral Agent as the registered owner of such Security on the books and records of the issuer, in each case as the Collateral Agent and such Original Lien Grantor or Lien Grantor, as the case may be, may reasonably agree.

The provisions of this subsection are subject to (X) Section 9(c), and (Y) the limitation in Section 7(g) in the case of Equity Interests that are subject to Permitted Encumbrances.

(c) Perfection as to Certificated Securities. When such Lien Grantor delivers the certificate representing any Pledged Certificated Security that is an Equity Interest issued by any Material Canadian Subsidiary, the Collateral Agent takes possession of the Pledged Certificated Securities or a person on its behalf other than such Lien Grantor or its agent, and, provided that the Collateral Agent has no notice of any adverse claim affecting the Pledged Certificated Securities, the Security Interest in the Pledged Certificated Securities has priority over any other security interest in the Pledged Certificated Securities.

(d) Perfection as to Uncertificated Securities. When the Collateral Agent takes possession or constructive possession or when the Collateral Agent is registered as the registered owner of any Pledged Uncertificated Security that is an Equity Interest issued by any Material Canadian Subsidiary owned by such Lien Grantor the Security Interest on such Pledged Uncertificated Security will be perfected, subject to no prior Liens or rights of others or a person on its behalf other than such Lien Grantor or its agent, if the Collateral Agent has no notice of any adverse claim affecting the Pledged Uncertificated Securities.

(e) Delivery of Pledged Certificates. Any certificate representing a Pledged Certificated Security that is an Equity Interest issued by any Material Canadian Subsidiary, when delivered to the Collateral Agent, will be in suitable form for transfer by delivery, or accompanied by duly executed instruments of transfer or assignment in blank, signed by an authorized officer, all in form and substance reasonably satisfactory to the Collateral Agent.

(f) Communications. If an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have given notice to the Lien Grantors that it elects to exercise the remedies provided in Section 12, such Lien Grantor will promptly give to the Collateral Agent copies of any notices and other communications received by it with respect to Pledged Certificated Securities that are Equity Interests issued by any Material Canadian Subsidiary registered in the name of such Lien Grantor or its nominee.

(g) Equity Interests subject to Permitted Encumbrances. Such Lien Grantor will not be obligated to comply with the provisions of this Section at any time with respect to any Equity Interest issued by any Person if and to the extent (but only to the extent) that such Equity Interest is excluded from the Collateral at such time pursuant to Sections 4(b)(i) or 4(b)(vii).

(h) Direct Holding of Pledged Securities. Such Lien Grantor shall hold directly, and not through any subsidiary, securities intermediary or other Person, all Pledged Securities owned by it.

SECTION 8. Collateral Account.

(a) There is hereby established with the Collateral Agent, with respect to each Lien Grantor, a cash collateral account (its "Collateral Account") in the name and under the exclusive control of the Collateral Agent into which there shall be deposited from time to time after the occurrence and during the continuance of an Actionable Event of Default and upon notice from the Collateral Agent that it elects to exercise the remedies provided in this Section 8 the cash proceeds of the Collateral required to be delivered to the Collateral Agent pursuant to subsection 8(b) hereof or any other provision of any Canadian Security Document. Any income

received by the Collateral Agent with respect to the balance from time to time standing to the credit of each Collateral Account, including any interest or capital gains on Liquid Investments, shall remain, or be deposited, in the Collateral Account. All cash amounts on deposit in each Collateral Account from time to time after the occurrence and during the continuance of an Event of Default, together with any Liquid Investments from time to time made pursuant to subsection 8(d) hereof, shall at all times be within the exclusive possession, dominion and control of the Collateral Agent, shall constitute part of the Collateral hereunder and shall not constitute payment of the Canadian Secured Obligations until applied thereto as hereinafter provided.

(b) If an Actionable Event of Default shall have occurred and be continuing and if so requested by the Required Lenders each Lien Grantor shall instruct all account debtors and other Persons obligated in respect of all Accounts then included in the Collateral to make all payments in respect of the Accounts either (i) directly to the Collateral Agent (by instructing that such payments be remitted to a post office box which shall be in the name of such Lien Grantor (with a notation that proceeds held therein are held in trust for and subject to the Liens of the Secured Parties) and under the control of the Collateral Agent) or (ii) under other arrangements, in form and substance satisfactory to the Collateral Agent, pursuant to which such Lien Grantor shall have irrevocably instructed such other bank (and such other bank shall have agreed) to remit all proceeds of such payments directly to the Collateral Agent for deposit into the Collateral Account or as the Collateral Agent may otherwise instruct such bank. All such payments made to the Collateral Agent shall be deposited in such Lien Grantor's Collateral Account. In addition to the foregoing, such Lien Grantor agrees that if the proceeds of any Collateral hereunder (including the payments made in respect of Accounts) are received by it at a time when the foregoing provisions of this Section 8(b) are in effect, such Lien Grantor shall as promptly as possible deposit such proceeds into its Collateral Account. Until so deposited into the Collateral Account, all such proceeds shall, during the continuation of such Event of Default, be held in trust by such Lien Grantor for the Secured Parties and shall not be commingled with any other funds or property of such Lien Grantor.

(c) Upon acceleration of the Loans in accordance with the terms of the Credit Agreement, the Collateral Agent shall, if so instructed by the Required Lenders, apply or cause to be applied (subject to collection) any or all of the balance from time to time standing to the credit of each Collateral Account in the manner specified in Section 14.

(d) If an Actionable Event of Default shall have occurred and be continuing, amounts on deposit in each Collateral Account, to the extent not applied in the manner specified in Section 14 pursuant to paragraph (c) above, shall if permitted by the terms of any agreement between the relevant Lien Grantor and the depository institution where such Collateral Account is held, be invested and re-invested from time to time in such Liquid Investments as the relevant Lien Grantor shall determine, which Liquid Investments shall be held in the name and be under the control of the Collateral Agent, provided that the Collateral Agent shall, if instructed by the Required Lenders, liquidate any such Liquid Investments and apply or cause to be applied the proceeds thereof to the payment of the Canadian Secured Obligations in the manner specified in Section 14; and provided further that the Collateral Agent shall, if so instructed by the relevant Lenders in the manner specified in Section 9.02 of the Credit Agreement, liquidate any such Liquid Investments and release the proceeds thereof to the relevant Lien Grantor. For this

purpose, "Liquid Investments" means Permitted Investments; provided that each Liquid Investment shall mature within 30 days after it is acquired by the Collateral Agent.

SECTION 9. Transfer of Record Ownership.

(a) If an Actionable Event of Default shall have occurred and be continuing, the Collateral Agent may (and to the extent that action by it is required, the relevant Lien Grantor, if directed to do so by the Collateral Agent, will as promptly as practicable) cause each of the Pledged Securities (or any portion thereof specified in such direction) to be transferred of record into the name of the Collateral Agent or its nominee.

(b) Perfection upon Transfer of Record Ownership. If and when any Pledged Security (whether certificated or uncertificated) owned by such Lien Grantor is transferred of record into the name of the Collateral Agent or its nominee pursuant to Section 7(b) or 9(a), the Security Interest on such Pledged Security will be perfected, subject to no prior Liens or rights of others.

(c) Provisions Inapplicable after Transfer of Record Ownership. If the provisions of Section 9(a) are implemented, Section 7(b) shall not thereafter apply to any Pledged Security that is registered in the name of the Collateral Agent or its nominee.

(d) Communications after Transfer of Record Ownership. The Collateral Agent will promptly give to the relevant Lien Grantor copies of any notices and other communications received by the Collateral Agent with respect to Pledged Securities registered in the name of the Collateral Agent or its nominee.

SECTION 10. Right to Vote Securities and Receive Dividends.

(a) Unless an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, each Lien Grantor will have the right, from time to time, to vote and to give consents, ratifications and waivers with respect to any Pledged Security owned by it, and the Collateral Agent will, upon receiving a written request from such Lien Grantor, deliver to such Lien Grantor or as specified in such request such proxies, powers of attorney, consents, ratifications and waivers in respect of any such Pledged Security that is registered in the name of the Collateral Agent or its nominee, in each case as shall be reasonably requested by such Lien Grantor. Unless an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, the Collateral Agent will have no right to take any action which the owner of a Pledged Partnership Interest is entitled to take with respect thereto, except the right to receive payments and other distributions to the extent provided herein.

(b) If an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, the Collateral Agent will have the right to the extent permitted by Applicable Law (and, in the case of Collateral consisting of any Security that is subject to any Permitted Encumbrances, by the relevant agreement or governing document to the extent of any Permitted Encumbrances contained in such agreement or governing document) to vote, to give

consents, ratifications and waivers and to take any other action with respect to the Pledged Securities (if any) with the same force and effect as if the Collateral Agent were the absolute and sole owner thereof, and each Lien Grantor will take all such action as the Collateral Agent may reasonably request from time to time to give effect to such right.

(c) Unless an Actionable Event of Default shall have occurred and be continuing and the Collateral Agent shall have notified such Lien Grantor that it elects to exercise the remedies provided in this Section 10, dividends or other distributions paid on Pledged Equity Interests owned directly by such Lien Grantor shall be paid to such Lien Grantor.

SECTION 11. General Authority.

Each Lien Grantor hereby irrevocably appoints the Collateral Agent its true and lawful attorney, and such power is coupled with an interest with full power of substitution, in the name of such Lien Grantor, the Collateral Agent, the Secured Parties or otherwise, for the use and benefit of the Secured Parties, but at the Borrowers' expense, to the extent permitted by law to exercise, upon the occurrence and during the continuance of an Actionable Event of Default or upon acceleration of the Loans in accordance with the terms of the Credit Agreement, all or any of the following powers with respect to all or any of the Collateral:

(a) to demand, sue for, collect, receive and give acquittance for any and all monies due or to become due thereon or by virtue thereof,

(b) to settle, compromise, compound, prosecute or defend any action or proceeding with respect thereto,

(c) upon acceleration of the Loans in accordance with the terms of the Credit Agreement, to sell, transfer, assign or otherwise deal in or with the same or the proceeds thereof, as fully and effectually as if the Collateral Agent were the absolute owner of the Lien Grantor's right, title and interest therein, and

(d) to extend the time of payment of any or all thereof and to make any allowance and other adjustments with reference thereto;

provided that, except in the case of Collateral that is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Collateral Agent will give the relevant Lien Grantor at least ten days' prior written notice of the time and place of any public sale thereof or the time after which any private sale or other intended disposition thereof will be made. Any such notice comply with the provisions of the PPSA and all other mandatory requirements of Applicable Law; provided that, if the Collateral Agent fails to comply with this sentence in any respect, its liability for such failure shall be limited to the liability (if any) imposed on it as a matter of law under the PPSA.

SECTION 12. Remedies upon Actionable Event of Default or Acceleration.

(a) Upon acceleration of the Loans in accordance with the terms of the Credit Agreement, the Collateral Agent may exercise (or cause its sub-agents to exercise) any and all remedies available to it (or to such sub-agents) under the Canadian Security Documents.

Without limiting the generality of the foregoing, upon acceleration of the Loans in accordance with the terms of the Credit Agreement, the Collateral Agent may exercise (or cause its sub-agents to exercise) on behalf of the Secured Parties all rights of a secured party after default under the PPSA (whether or not in effect in the jurisdiction where such rights are exercised) with respect to any Collateral and, in addition, the Collateral Agent may, without being required to give any notice, except as herein provided or as may be required by mandatory provisions of law, (i) withdraw all cash and Liquid Investments in the Collateral Accounts and apply such cash and Liquid Investments and other cash, if any, then held by it as Collateral as specified in Section 14 and (ii) if there shall be no such cash or Liquid Investments or if such cash and Liquid Investments shall be insufficient to pay all the Canadian Secured Obligations in full, take possession of, sell, lease, license or otherwise dispose of the Collateral or any part thereof at public or private sale, for cash, upon credit or for future delivery, and at such price or prices as the Collateral Agent may deem satisfactory. Any Secured Party may be the purchaser of any or all of the Collateral so sold at any public sale (or, if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, at any private sale). The relevant Lien Grantor will execute and deliver such documents and take such other action as the Collateral Agent deems reasonably necessary or proper in order that any such sale may be made in compliance with law. Upon any such sale the Collateral Agent shall have the right to deliver, assign and transfer to the purchaser thereof the Collateral so sold. Each purchaser at any such sale shall hold the Collateral so sold to it absolutely and free from any claim or right of whatsoever kind, including any equity or right of redemption of the relevant Lien Grantor which may be waived, and such Lien Grantor, to the extent permitted by law, hereby specifically waives all rights of redemption, stay or appraisal which it has or may have under any law now existing or hereafter adopted. The notice (if any) of such sale required by Section 11 shall comply with the requirements set forth in Section 11. Any such public sale shall be held at such time or times within ordinary business hours and at such place or places as the Collateral Agent may fix in the notice of such sale. At any such sale the Collateral may be sold in one lot as an entirety or in separate parcels, as the Collateral Agent may determine. The Collateral Agent shall not be obligated to make any such sale pursuant to any such notice. The Collateral Agent may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for the sale, and such sale may be made at any time or place to which the same may be so adjourned. In the case of any sale of all or any part of the Collateral on credit or for future delivery, the Collateral so sold may be retained by the Collateral Agent until the selling price is paid by the purchaser thereof, but the Collateral Agent shall not incur any liability in the case of the failure of such purchaser to take up and pay for the Collateral so sold and, in the case of any such failure, such Collateral may again be sold upon like notice. The Collateral Agent, instead of exercising the power of sale herein conferred upon it, may proceed by a suit or suits at law or in equity to foreclose the Security Interests and sell the Collateral, or any portion thereof, under a judgment or decree of a court or courts of competent jurisdiction.

(b) For the purpose of enforcing any and all rights and remedies under the Canadian Security Documents upon the occurrence and during the continuance of an Actionable Event of Default or upon acceleration of the Loans in accordance with the terms of the Credit Agreement, as the case may be, the Collateral Agent may (i) require any Lien Grantor to, and such Lien Grantor agrees that it will, at its expense and upon the request of the Collateral Agent, forthwith take reasonable steps to assemble all or any part of the Collateral as directed by the Collateral

Agent and make it available at a place designated by the Collateral Agent which is, in its opinion, reasonably convenient to the Collateral Agent and such Lien Grantor, whether at the premises of such Lien Grantor or otherwise, (ii) to the extent permitted by Applicable Law, enter, with or without process of law and without breach of the peace, any premise where any of the Collateral is or may be located, and without charge or liability to it seize and remove such Collateral from such premises, (iii) have access to and use such Lien Grantor's books and records relating to the Collateral upon reasonable notice and at reasonable times and (iv) prior to the disposition of the Collateral, store or transfer it without charge in or by means of any storage or transportation facility owned or leased by such Lien Grantor, process, repair or recondition it or otherwise prepare it for disposition in any manner and to the extent the Collateral Agent reasonably deems appropriate and, in connection with such preparation and disposition, use without charge any Intellectual Property or technical process used by such Lien Grantor in connection therewith and included in the Collateral, subject, with respect to products being sold under Trademarks, to standards of quality with respect to such Products that are reasonably comparable to those prevailing at the time of such Actionable Event of Default. The Collateral Agent may also render any or all of the Collateral unusable at such Lien Grantor's premises and may dispose of such Collateral on such premises without liability for rent or costs.

(c) If an Actionable Event of Default exists, the Collateral Agent may appoint or reappoint by instrument in writing, any person or persons, whether an officer or officers or an employee or employees of the Collateral Agent or not, to be a receiver or receivers (hereinafter called a "Receiver", which term when used herein shall include a receiver and manager) of the Collateral (including any interest, income or profits therefrom) and may remove any Receiver so appointed and appoint another in his/her or its stead. Any such Receiver shall, so far as concerns responsibility for his/her or its acts, be deemed the agent of the Lien Grantors and not the Collateral Agent or any Secured Party, and neither the Collateral Agent nor any Secured Party shall be in any way responsible for any misconduct, negligence or non-feasance on the part of any such Receiver, his/her or its servants, agents or employees. Subject to the provisions of the instrument appointing him/her or it, any such Receiver shall (i) have such powers as have been granted to the Collateral Agent under subsection (a) and (b) above, and (ii) shall be entitled to exercise such powers at any time that such powers would otherwise be exercisable by the Collateral Agent under subsection (a) and (b) above, as applicable, which powers shall include the power to preserve Collateral or its value, and to carry on or concur in carrying on all or any part of the business of such Lien Grantor. To facilitate the foregoing powers, any such Receiver may, to the exclusion of all others, including such Lien Grantor, enter upon, use and occupy all premises owned or occupied by such Lien Grantor wherein Collateral may be situate, maintain Collateral upon such premises, and borrow money on a secured or unsecured basis and use Collateral directly in carrying on such Lien Grantor's business or as security for loans or advances to enable the Receiver to carry on such Lien Grantor's business or otherwise, as such Receiver shall, in its discretion, determine. Except as may be otherwise directed by the Collateral Agent, all money received from time to time by such Receiver in carrying out his/her or its appointment shall be received in trust for and paid over to the Collateral Agent. Every such Receiver may, in the discretion of the Collateral Agent, be vested with all or any of the rights and powers of the Collateral Agent.

(d) The remedies specified in this Section 12 do not affect, and are in addition to, remedies otherwise specified for or available to the Collateral Agent or the Secured Parties under

this Agreement or any other Loan Document, including, but not limited to, remedies available upon the occurrence and during the continuance of an Event of Default, or Actionable Event of Default, as the case may be.

(e) The Collateral Agent hereby agrees that, notwithstanding anything to the contrary set forth herein, the exercise of rights and remedies by the Collateral Agent pursuant to this Section 12 (or otherwise) with respect to any Collateral may be subject to the effect of any Permitted Encumbrances.

SECTION 13. Limitation on Duty of Collateral Agent in Respect of Collateral.

Beyond the exercise of reasonable care in the custody thereof, the Collateral Agent shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or any income thereon or as to the preservation of rights against prior parties or any other rights pertaining thereto. The Collateral Agent shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by the Collateral Agent in good faith.

SECTION 14. Application of Proceeds.

(a) Upon (A) acceleration of the Loans in accordance with the terms of the Credit Agreement and (B) the exercise of remedies by the Collateral Agent under Section 12 hereof, the proceeds of any sale of, or other realization upon, all or any part of the Collateral, shall be applied by the Collateral Agent as follows:

first, to pay the expenses of such sale or other realization, including reasonable compensation to agents contemplated by Section 16 and counsel for the Collateral Agent, and all expenses, liabilities and advances incurred or made by the Collateral Agent in connection with the Canadian Security Documents, and then ratably (based on the proportion of the Loans to the Canadian Borrower to all Loans) to pay any other unreimbursed expenses for which the Collateral Agent is to be reimbursed pursuant to Section 18 hereof;

second, to pay the unpaid principal of Revolving Loans to the Canadian Borrower (or provide for the payment thereof pursuant to Section 14(b)), until payment in full of the principal of such Loans shall have been made (or so provided for);

third, to pay all interest on the Loans to the Canadian Borrower and fees (to the extent payable by the Canadian Borrower or by Xerox on behalf of the Canadian Borrower) payable under the Credit Agreement to Revolving Lenders until payment in full of all such interest and fees shall have been made;

fourth, to pay all other Canadian Secured Obligations ratably (or provide for the payment thereof pursuant to Section 14(b)), until payment in full of all

such other Canadian Secured Obligations shall have been made (or so provided for); and

finally, to pay to the relevant Lien Grantor, or as a court of competent jurisdiction may direct, any surplus then remaining from the proceeds of the Collateral owned by it.

The Collateral Agent may make distributions hereunder in cash or in kind or, on a ratable basis, in any combination thereof.

(b) If at any time any portion of any monies collected or received by the Collateral Agent would, but for the provisions of this Section 14(b), be payable in respect of a Canadian Contingent CA Secured Obligation or any other Canadian Secured Obligation that is not then due and payable (by reason of acceleration or otherwise), the Collateral Agent shall not apply any monies to pay such Canadian Secured Obligation but instead shall request the holder thereof, at least 10 days before each proposed distribution hereunder, to notify the Collateral Agent as to the maximum amount of such Canadian Secured Obligation if then ascertainable (e.g., in the case of a Letter of Credit, the maximum amount available for subsequent drawings thereunder, regardless of whether the conditions to drawing thereunder are then satisfied). If the holder of such Canadian Secured Obligation does not notify the Collateral Agent of the maximum ascertainable amount thereof at least two Business Days before such distribution, such holder will not be entitled to share in such distribution. If such holder does so notify the Collateral Agent as to the maximum ascertainable amount thereof, the Collateral Agent will allocate to such holder a portion of the monies to be distributed in such distribution, calculated as if such Canadian Secured Obligation were outstanding and then due and payable in such maximum ascertainable amount. However, the Collateral Agent will not apply such portion of such monies to pay such Canadian Secured Obligation, but instead will hold such monies or invest such monies in Liquid Investments. All such monies and Liquid Investments and all proceeds thereof will constitute Collateral hereunder, but will be subject to distribution in accordance with this Section 14(b) rather than Section 14(a). The Collateral Agent will hold all such monies and Liquid Investments and the net proceeds thereof in trust until all or part of such Canadian Secured Obligation becomes due and payable (or, in the case of a Canadian Contingent CA Secured Obligation, becomes a Canadian Non-Contingent CA Secured Obligation), whereupon the Collateral Agent at the request of the relevant Secured Party will apply the amount so held in trust to pay such Canadian Secured Obligation; provided that, if the other Canadian Secured Obligations theretofore paid pursuant to the same clause of Section 14(a) were not paid in full, the Collateral Agent will apply the amount so held in trust to pay the same percentage of such Canadian Secured Obligation as the percentage of such other Canadian Secured Obligations theretofore paid pursuant to the same clause of Section 14(a). If (i) the holder of such Canadian Secured Obligation shall advise the Collateral Agent that no portion thereof (A) has not become due and payable or (B) remains in the category of a Canadian Contingent CA Secured Obligation, as the case may be, and (ii) the Collateral Agent still holds any amount held in trust pursuant to this Section 14(b) in respect of such Canadian Secured Obligation (after paying all amounts payable pursuant to the preceding sentence with respect to any portions thereof that have become due and payable or become Canadian Non-Contingent CA Secured Obligations, as the case may be), such remaining amount will be applied by the Collateral Agent in the order of priorities set forth in Section 14(a).

(c) In making the payments and allocations required by this Section, the Collateral Agent may rely upon information supplied to it pursuant to Section 15(c). All distributions made by the Collateral Agent pursuant to this Section shall be final (except in the event of manifest error) and the Collateral Agent shall have no duty to inquire as to the application by any Secured Party of any amount distributed to it.

SECTION 15. Concerning the Collateral Agent.

The provisions of Article VIII of the Credit Agreement shall inure to the benefit of the Collateral Agent in respect of this Agreement (as if the Collateral Agent were the Administrative Agent referred to therein) and shall be binding upon the parties to this Agreement. In furtherance and not in derogation of the rights, privileges and immunities of the Collateral Agent therein specified:

(a) The Collateral Agent is authorized to take all such action as is provided to be taken by it as Collateral Agent hereunder and all other action reasonably incidental thereto. As to any matters not expressly provided for herein (including, without limitation, the timing and methods of realization upon the Collateral) the Collateral Agent shall act or refrain from acting in accordance with written instructions from the Required Lenders or, in the absence of such instructions, in accordance with its discretion.

(b) The Collateral Agent shall not be responsible for the existence, genuineness or value of any of the Collateral or for the validity, perfection, priority or enforceability of the Security Interests in any of the Collateral, whether impaired by operation of law or by reason of any action or omission to act on its part under the Canadian Security Documents. The Collateral Agent shall have no duty to ascertain or inquire as to the performance or observance of any of the terms of any Canadian Security Document by any Lien Grantor.

(c) For all purposes of the Canadian Security Documents, including determining the amounts of the Canadian Secured Obligations and whether a Canadian Secured Obligation is a Canadian Contingent CA Secured Obligation or not, the Collateral Agent will be entitled to rely on information from (i) its own records for information as to the Lender and Agents, their Canadian Secured Obligations and actions taken by them, (ii) any Secured Party for information as to its Canadian Secured Obligations and actions taken by it, to the extent that the Collateral Agent has not obtained such information from the foregoing sources, and (iii) Xerox, to the extent that the Collateral Agent has not obtained information from the foregoing sources.

SECTION 16. Appointment of Co-Collateral Agents.

At any time or times, upon prior written notice to Xerox and in order (a) to comply with any legal requirement in any jurisdiction, (b) preserve or protect the Collateral, (c) exercise remedies specified in this Agreement or (d) otherwise carry out duties or exercise rights specified in this Agreement, the Collateral Agent may appoint another bank or trust company or one or more other Persons, either to act as co-agent or co-agents, jointly with the Collateral Agent, or to act as separate agent or agents on behalf of the Secured Parties with such power and authority as may be necessary for the effective operation of the provisions hereof and may be specified in the instrument of appointment (which may, in the discretion of the Collateral Agent, include

provisions for the protection of such co-agent or separate agent similar to the provisions of Section 15).

SECTION 17. Taxes

Each Guarantor agrees that:

(a) All payments of Canadian Secured Obligations and all amounts payable on, under or in respect of this Agreement by such Guarantor, including, without limitation, amounts payable by such Guarantor under clause (b) of this Section 17, shall be made free and clear of and without deduction for all present and future Taxes (other than income or franchise taxes imposed on (or measured by) the net income of a Secured Party by a Secured Party Jurisdiction of that Secured Party) including any such Taxes imposed with respect to this Agreement, the execution, registration, enforcement, notarization or other formalization of any thereof, and any payments of principal, interest, charges, fees, commissions or other amounts made on, under or in respect thereof (hereinafter called "Covered Taxes"), provided that, if any Guarantor shall be required to deduct any Covered Taxes from such payments, then (i) the sum payable will be increased as necessary so that, after all required deductions (including deductions applicable to additional sums payable under this Section) are made, each relevant Secured Party receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Guarantor shall make such deductions and (iii) such Guarantor shall pay the full amount deducted to the relevant Governmental Authority in accordance with Applicable Law. The parties agree to cooperate and provide information with respect to Canadian and foreign withholding tax matters relating to payments under this Agreement in a manner consistent with the principles of Section 2.16(e) of the Credit Agreement, mutatis mutandis. The parties also agree that the provisions of Section 2.16(f) of the Credit Agreement apply, mutatis mutandis, to Covered Taxes that are deducted, withheld or paid by a Guarantor pursuant to this Agreement.

(b) Each Guarantor shall indemnify each Secured Party, within 15 Business Days after written demand therefor, for the full amount of any Covered Taxes paid or incurred by such Secured Party with respect to any payment by or obligation of such Guarantor under or with respect to this Agreement or any other Canadian Security Document (including Covered Taxes imposed or asserted on or attributable to amounts payable under this Section 17) and any expenses arising therefrom or with respect thereto, whether or not such Covered Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Each Secured Party shall make a good faith effort to verify that such Covered Taxes are correctly and legally imposed or asserted by the relevant Governmental Authority. An officer's certificate as to the amount of any such payment delivered to Xerox by a Secured Party on its own behalf, or by the Collateral Agent on behalf of a Secured Party, shall be conclusive absent manifest error.

(c) Within 15 Business Days after any Guarantor pays any Covered Taxes to a Governmental Authority, such Guarantor shall deliver to the Collateral Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment. Each Guarantor shall promptly furnish to each Secured Party any other information, documents and receipts that the Secured Party may from time to time reasonably request to establish to its satisfaction that full and timely payment of all Covered Taxes has been made. The applicable

Guarantor will be deemed to have satisfied the requirement of this Section 17(c) if it has furnished such information, documents and/or receipts to the Collateral Agent.

(d) Notwithstanding paragraphs (a) and (b) above, the payment increases and indemnities pursuant to those paragraphs will not apply to the payment of any Canadian Secured Obligation to the extent that (in the absence of this paragraph (d)) the Secured Party would thereby receive a net cash payment in respect of that Canadian Secured Obligation greater than if that Canadian Secured Obligation had been paid by the Borrower.

SECTION 18. Expenses.

The Canadian Borrower agrees that it will forthwith upon demand pay to the Collateral Agent:

(i) the amount of any Taxes which the Collateral Agent may have been required to pay by reason of the Security Interests or to free any of the Collateral from any other Lien thereon; and

(ii) the amount of any and all reasonable out-of-pocket expenses, including the reasonable fees and disbursements of counsel and, upon the occurrence and during the continuation of an Event of Default, and of any other experts, which the Collateral Agent may incur in connection with (w) the administration or enforcement of the Canadian Security Documents, including such expenses as are incurred to preserve the value of the Collateral and the validity, perfection, rank and value of any Security Interest, (x) the collection, sale or other disposition of any of the Collateral, (y) the exercise by the Collateral Agent of any of the rights conferred upon it under the Canadian Security Documents or (z) any Event of Default.

Any such amount not paid on demand shall, unless prohibited by Applicable Law, bear interest at the rate applicable to Base Rate Loans from time to time plus 2% and shall be an additional Canadian Secured Obligation hereunder.

SECTION 19. Termination of Security Interests; Release of Collateral.

(a) Each Security Interest granted hereunder shall terminate, and all rights to the relevant Collateral shall revert to the relevant Lien Grantor, if, as and to the extent permitted by Section 9.02 and 9.03 of the Credit Agreement, as the case may be.

(b) Upon any termination of a Security Interest or release of Collateral, the Collateral Agent will, at the expense of the relevant Lien Grantor, execute and deliver to such Lien Grantor such documents as such Lien Grantor shall reasonably request to evidence the termination of such Security Interest or the release of such Collateral, as the case may be.

SECTION 20. Additional Guarantors and Lien Grantors.

Any Canadian Subsidiary may become a party hereto by signing and delivering to the Collateral Agent a Guarantee and Security Agreement Supplement, whereupon such Subsidiary shall become (a) a "Guarantor" or (b) a "Guarantor" and a "Lien Grantor" as defined herein.

SECTION 21. Change of Status.

(a) Notwithstanding any contrary provision of this Agreement, if any Unrestricted Guarantor (other than XCFI before the XCFI Release Date) shall become a "Specified Subsidiary" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under the new Reference Indenture) after the Canadian Effective Date, such Guarantor shall be treated as a Restricted Guarantor for the purpose of this Agreement, and Liens on the Collateral of such Guarantor shall lapse.

(b) Notwithstanding any contrary provision of this Agreement, if any Restricted Guarantor (other than XCFI before the XCFI Release Date) shall cease to be a "Specified Subsidiary" under the Reference Indenture (or if the High Yield Indenture ceases to be the Reference Indenture, a corresponding category under the new Reference Indenture) at the end of any Fiscal Year, such Guarantor shall be treated as an Unrestricted Guarantor for the purpose of this Agreement, and, unless such Guarantor is still an ESOP Restricted Guarantor, its grant of a Security Interest in its Collateral pursuant hereto shall become effective, starting the first day after the end of such Fiscal Year.

(c) Notwithstanding any contrary provision of this Agreement, a Guarantor shall cease to be an ESOP Restricted Guarantor immediately after it or Xerox's obligations under the ESOP Guarantee Agreement have been terminated.

(d) Upon becoming a Secured Guarantor under this Section 21, each such Secured Guarantor shall at its own expense, promptly execute and deliver all further documents and take all further action necessary or appropriate to give effect to the provisions and intent of this Agreement and to complete the transactions contemplated by this Agreement, including, without limitation, deliver to Collateral Agent all documents and instruments required to be delivered under Section 7 in respect of Pledged Securities.

SECTION 22. Notices.

All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party at its address or telex or facsimile number set forth on the signature pages hereof or at such other address or facsimile number as such party may hereafter specify for such purpose by notice to the Collateral Agent and the Canadian Borrower. All notices and other communication given to any party hereto in accordance with the provisions of this Agreement will be deemed to have been given on the date of receipt.

SECTION 23. Waivers, Non-Exclusive Remedies.

No failure on the part of the Collateral Agent or any Secured Party to exercise, and no delay in exercising and no course of dealing with respect to, any right or remedy under any Loan Document shall operate as a waiver thereof; nor shall any single or partial exercise by the Collateral Agent or any Secured Party of any right under any Loan Document preclude any other or further exercise thereof or the exercise of any other right or remedy. The rights and remedies in the Loan Documents are cumulative and are not exclusive of any other rights or remedies provided by law.

SECTION 24. Successors and Assigns.

This Agreement is for the benefit of the Collateral Agent and the Secured Parties and their successors and, in the case of the Lenders, permitted assigns pursuant to Section 9.04 of the Credit Agreement and in the event of an assignment of all or any of the Canadian Secured Obligations, the rights hereunder, to the extent applicable to the obligation so assigned, shall be automatically transferred with such obligation. This Agreement shall be binding on the Canadian Borrower, each Guarantor and its successors and assigns.

SECTION 25. Changes in Writing.

Neither this Agreement nor any provision hereof may be waived, amended, modified or terminated except pursuant to an agreement or agreements in writing entered into by the parties hereto, with the consent of such Lenders as are required to consent thereto under Section 9.02 of the Credit Agreement.

SECTION 26. Ontario Law.

This Agreement shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein, except as otherwise required by mandatory provisions of law and except to the extent that remedies provided by the laws of any jurisdiction other than Ontario are governed by the laws of such jurisdiction.

SECTION 27. Judgment Currency

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due from a Guarantor or the Canadian Borrower in the currency expressed to be payable in any Loan Document (the "specified currency") into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Collateral Agent could purchase the specified currency with such other currency at the Collateral Agent's Toronto office on the domestic Business Day preceding that on which final judgment is given. The obligations of the Guarantor or the Canadian Borrower in respect of any sum due to the Collateral Agent hereunder shall, notwithstanding any judgment in a currency other than the specified currency, be discharged only to the extent that on the domestic Business Day following receipt by the Collateral Agent of any sum adjudged to be so due in such other currency the Collateral Agent may in accordance with normal banking procedures purchase the specified currency with such other currency; if the amount of the specified currency so purchased is less than the sum originally due to the Collateral Agent, in the specified currency, the Guarantor or the Canadian Borrower agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify the Collateral Agent, against such loss, and if the amount of the specified currency so purchased exceeds the sum originally due to the Collateral Agent, in the specified currency, then the Collateral Agent agrees to remit such excess to the Guarantor or the Canadian Borrower.

SECTION 28. Interest Act

For purposes of disclosure pursuant to the Interest Act (Canada), the annual rates of interest or fees to which the rates of interest or fees provided in the Credit Agreement and in this Agreement (and stated herein as applicable to be computed on the basis of a 365 day year or any other period of time less than a calendar year) are equivalent are the rates so determined multiplied by the actual number of days in the applicable calendar year and divided by 365 or such other period of time.

SECTION 29. Saskatchewan

It is hereby agreed that The Limitation of Civil Rights Act of the Province of Saskatchewan, or any provision thereof, shall have no application to this Agreement or any agreement or instrument renewing or extending or collateral to this Agreement.

SECTION 30. WAIVER OF JURY TRIAL.

EACH PARTY HERETO AND ANY OTHER SECURED PARTY BY ITS ACCEPTANCE OF THE BENEFITS HEREOF OR BY SEEKING TO ENFORCE THIS AGREEMENT, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO ANY CANADIAN SECURITY DOCUMENT OR ANY TRANSACTION CONTEMPLATED THEREBY AND FOR ANY COUNTERCLAIM THEREIN (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY), AND OF EACH OF SUCH PARTIES (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR COUNSEL OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 31. Severability.

If any provision of any Canadian Security Document is invalid or unenforceable in any jurisdiction, then, to the fullest extent permitted by law, (i) the other provisions of the Canadian Security Documents shall remain in full force and effect in such jurisdiction and shall be liberally construed in favor of the Collateral Agent and the Secured Parties in order to carry out the intentions of the parties hereto as nearly as may be possible; and (ii) the invalidity or unenforceability of any provision hereof in any jurisdiction shall not affect the validity or enforceability of such provision in any other jurisdiction.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ADDRESS:

XEROX CANADA CAPITAL LTD.

By: _____
Name:
Title:

BANK ONE, NA, Canada Branch, as
Collateral Agent

By: _____
Name:
Title:

Guarantors:

[NAMES OF GUARANTORS]

By: _____
Name:
Title:

SCHEDULE 1
to Guarantee and
Security Agreement

PLEGGED SECURITIES
(as of the Canadian Effective Date)

Issuer -----	Jurisdiction of Organization -----	Owner of Security -----	Percentage Owned -----	Number of Shares or Units -----
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Schedule 1-1

PERFECTION CERTIFICATE

The undersigned is a duly authorized officer of [Insert Name of Lien Grantor] ("Lien Grantor"). With reference to the Guarantee and Security Agreement dated as of _____, 2002 among XEROX CANADA CAPITAL LTD., the Guarantors party thereto and BANK ONE, NA, Canada Branch, as Collateral Agent (terms defined therein being used herein as therein defined), the undersigned certifies to the Collateral Agent and each other Secured Party as follows:

A. Information Required for Filings and Searches for Prior Filings.

1. Jurisdiction of Organization. The jurisdiction of organization of the Lien Grantor is set forth in Schedule 3.12 to the Credit Agreement.

2. Name. The exact legal name of the Lien Grantor as it appears in its organizational documents is set forth in Schedule 3.12 to the Credit Agreement.

3. Prior Names. (a) Set forth below is each other corporate or other legal name that the Lien Grantor has had within the past five years, together with the date of the relevant change:

(b) Except as set forth in Schedule 1 hereto, the Lien Grantor has not changed its corporate structure/1/ in any way within the past five years.

4. Filing Office. In order to perfect, as of its Relevant Date, the Security Interests granted by the Lien Grantor, a duly completed financing statement in the prescribed form or publication of a notice in the RPMRR, with the collateral described as set forth on Schedule 2 hereto, should be on file in the case of Xerox Canada Capital Ltd., in the personal property security registry ("PPSR") or RPMRR office in each of the following provinces.

B. Additional Information Required for Searches for Prior Filings.

1. Current Locations. (a) The principal place of business or, if more than one, the chief executive office and, if applicable, the registered head office or domicile (as defined in the Civil Code of Quebec), as the case may be, of the Lien Grantor is located at the following address:

Name of Lien Grantor	Mailing Address	Province
-----	-----	-----

/1/ Changes in corporate structure would include mergers, amalgamations and consolidations, as well as any change in the Lien Grantor's form of organization. If any such change has occurred, include in Schedule ___ the information required by Part A of this certificate as to each constituent party to a merger or consolidation and any other predecessor organization.

(b) The following are all current locations in Canada not identified above where the Lien Grantor maintains any Inventory or Equipment:

Name of Lien Grantor	Mailing Address	Province
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2. Prior Locations. Set forth below is the information required by paragraphs (c) and (d) of Part B-1 above with respect to each other location or bailee where or with whom any Inventory or Equipment of the Lien Grantor has been lodged at any time during the past four months:

C. Search Reports.

A true copy of a file search report from the PPSR and RPMRR filing office in each jurisdiction identified in Part A-4 and Part B above with respect to each name set forth in Part A-2 and Part A-3 above has been provided to the Collateral Agent. This file search report covers the Lien Grantor.

D. Canadian Filings

Schedule 3 hereto sets forth the Lien Grantor's place of business or chief executive office if there is more than one principal place of business (determined as provided in the PPSA applicable to such Lien Grantor) or, if applicable, its domicile (as defined in the Civil Code of Quebec).

IN WITNESS WHEREOF, I have hereunto set my hand this ___ day of _____, 2002

Name:
Title:

Exhibit A-2

Schedule 1
to Perfection Certificate

CHANGES IN CORPORATE STRUCTURE

Schedule 2
to Exhibit A

DESCRIPTION OF COLLATERAL

[Complete if required for registration]

Schedule 2
to Exhibit A

Schedule 3
to Perfection Certificate

PRINCIPAL PLACE OF BUSINESS/CHIEF EXECUTIVE OFFICE/DOMICILE
OF LIEN GRANTOR

Name of Lien Grantor

Principal Place of Business/Chief Executive Office/Domicile

Schedule 3
to Exhibit A

GUARANTEE AND SECURITY AGREEMENT SUPPLEMENT

GUARANTEE AND SECURITY AGREEMENT SUPPLEMENT dated as of _____, _____, between [NAME OF GUARANTOR OR GUARANTOR AND LIEN GRANTOR] (the "Guarantor" [and "Lien Grantor"]]) and BANK ONE, NA, Canada Branch, as Collateral Agent.

WHEREAS, XEROX CANADA CAPITAL LTD. ("XEROX"), the Guarantors party thereto and BANK ONE, NA, Canada Branch, as Collateral Agent, are parties to a Canadian Guarantee and Security Agreement dated as of _____, 2002 (as heretofore amended and/or supplemented, the "Guarantee and Security Agreement") under which (1) Xerox secures certain of its obligations, (2) the Guarantors guarantee certain obligations and (3) the Secured Guarantors secure their respective guarantees thereof;

WHEREAS, [name of Guarantor or Guarantor and Lien Grantor] desires to become [is] a party to the Guarantee and Security Agreement as a Guarantor [and Lien Grantor] thereunder; and

WHEREAS, terms defined in the Guarantee and Security Agreement (or whose definitions are incorporated by reference in Sections 1(a) and 1(b) of the Guarantee and Security Agreement) and not otherwise defined herein have, as used herein, the respective meanings provided for therein;

NOW, THEREFORE, in consideration of the foregoing and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

[1. Guarantee. The Guarantor unconditionally guarantees the full and punctual payment of each Canadian CA Secured Obligation when due (whether at stated maturity, upon acceleration or otherwise). The Guarantor acknowledges that, by signing this Guarantee and Security Agreement Supplement and delivering it to the Collateral Agent, the Guarantor becomes a ["Guarantor" and/or "Lien Grantor"] for all purposes of the Guarantee and Security Agreement and that its obligations under the foregoing Guarantee are subject to all the provisions of the Guarantee and Security Agreement (including those set forth in Section 2 thereof) applicable to the obligations of a Guarantor thereunder.]

2. Grant of Security Interests.

(a) In order to secure its [Canadian Secured Guarantor Obligations], the Lien Grantor grants to the Collateral Agent for the benefit of the Secured Parties a continuing security interest in all the following property of the Lien Grantor, whether now owned or existing or hereafter acquired or arising and regardless of where located, but subject to the exclusions in Section 2(b) (the "New Collateral"): (i) all Accounts, (ii) all Chattel Paper, (iii) all deeds, documents, writings, papers, books of account and other books relating to or being records of

debts, Chattel Paper or Documents of Title or by which such are or may hereafter be secured, evidenced, acknowledged or made payable, (iv) all Documents of Title (whether negotiable or not), (v) all Equipment, (vi) all Goods (including all parts, accessories, attachments, special tools, additions and accessions thereto), (vii) all Instruments, (viii) all Inventory, (ix) all Intangibles, (x) all Securities directly owned by the Lien Grantor and issued by a Material Canadian Subsidiary, (xi) the Collateral Account, all financial assets credited to the Collateral Account from time to time, all cash deposited therein from time to time and the Liquid Investments made pursuant to Section 8(d) of the Guarantee and Security Agreement, (xii) all books and records (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records) of such Lien Grantor pertaining to any of the New Collateral and (xiii) all Proceeds of the New Collateral described in Clauses 2(a)(i) through 2(a)(xii) hereof.

(b) The New Collateral shall not include:

(i) rights of the Lien Grantor in respect of any property or asset which is prohibited from being pledged to the Collateral Agent as part of the New Collateral by any Permitted Encumbrances;

(ii) Program Receivables and (A) security interests or liens and property subject thereto purporting to secure payment of such Program Receivables, (B) leases, guaranties, insurance and other arrangements supporting payment of such Program Receivables, (C) rights to payment and collections in respect of such Program Receivables, (D) books, records and similar information relating to such Program Receivables or the obligors thereon, (E) with respect to any such Program Receivables, the transferee's interest in goods (including, without limitation, Equipment or Inventory) the sale of which gave rise to such Program Receivables and (F) if such Program Receivables arise from a lease financing or installment sale transaction, the Equipment or Inventory that is the subject of the underlying transaction and is transferred to a Receivables SPE;

(iii) Transferred Intellectual Property;

(iv) Federal and Provincial Government Receivables of the Lien Grantor;

(v) Third Party Vendor Financing Assets of the Lien Grantor;
and

(vi) the last day of the term of any lease or any extension or renewal thereof, oral or written, or agreement therefor, now held or hereafter acquired by any Lien Grantor but upon the enforcement of the security interest hereunder, the applicable Lien Grantor shall stand possessed of such last day in trust to assign the same to any person acquiring such term.

(vii) Equity Interests in any Person that is not a Material Canadian Subsidiary or which are not directly owned by such Lien Grantor.

(c) With respect to each right to payment or performance included in the New Collateral from time to time, the Security Interest granted therein includes, subject to Permitted Encumbrances, a continuing security interest in (i) any supporting obligation that supports such payment or performance and (ii) any Lien that (x) secures such right to payment or performance or (y) secures any such supporting obligation.

(d) The foregoing Security Interests are granted as security only and shall not subject the Collateral Agent or any other Secured Party to, or transfer or in any way affect or modify, any obligation or liability of the Lien Grantor with respect to any of the New Collateral or any transaction in connection therewith.

(e) The Guarantor shall be a Secured Guarantor, and the Guarantor's grant of a Security Interest in its New Collateral hereunder shall become effective, on the date first above written, unless such Guarantor is either (i) a Restricted Guarantor or (ii) an ESOP Restricted Guarantor on such date, in which case the Guarantor's grant of a Security Interest in its New Collateral hereunder shall not become effective until, and such Guarantor shall not become a Secured Guarantor hereunder until, the first day after the end of the first Fiscal Year after the date first above written during which such Guarantor ceases to be either a Restricted Guarantor or an ESOP Restricted Guarantor.

(f) [Liens on the New Collateral of the Lien Grantor granted pursuant to this Guarantee and Security Agreement Supplement shall lapse and such Lien Grantor shall cease to be a Secured Guarantor starting on the day which the Lien Grantor becomes a Restricted Guarantor, and such Liens on such New Collateral shall revive starting the first day after the end of the next Fiscal Year after the Canadian Effective Date during which the Lien Grantor ceases to be a Secured Guarantor.]/1/

3. Delivery of Collateral. [Concurrently with delivering this Guarantee and Security Agreement Supplement to the Collateral Agent] [As soon as the Guarantor becomes a Secured Guarantor], the Guarantor [is] [will be] complying with the provisions of either Section 7 or Section 9(a) (whichever is applicable) of the Guarantee and Security Agreement with respect to Pledged Securities, in each case if and to the extent included in the New Collateral at such time.

4. Party to Guarantee and Security Agreement. Upon delivering this Guarantee and Security Agreement Supplement to the Collateral Agent, the Guarantor [and Lien Grantor] will become a party to the Guarantee and Security Agreement and will thereafter have all the rights and obligations of a "Guarantor" [and "Lien Grantor"] thereunder and be bound by all the provisions thereof as fully as if the Guarantor [and Lien Grantor] were one of the original parties thereto.

5. Representations and Warranties./2/ (a) Each of the representations and warranties set forth in Sections 3, 5, 6, 7, 8 and 9 of the Security Agreement is true as applicable as applied to

/1/ Include this paragraph if the Guarantor is a Lien Grantor.

/2/ Modify as needed if the Lien Grantor is not a corporation.

the Guarantor and [Lien Grantor] and the New Collateral. For purposes of the foregoing sentence, references in said Sections (and elsewhere in the Security Agreement) to a "Lien Grantor" shall be deemed to refer to the Lien Grantor, references to a "Guarantor" shall be deemed to refer to the Guarantor, references to Schedules to the Security Agreement shall be deemed to refer to the corresponding Schedules to this Guarantee and Security Agreement Supplement, references to "Collateral" shall be deemed to refer to the New Collateral, and references to the "Canadian Effective Date" shall be deemed to refer to the date on which the Guarantor [and Lien Grantor] signs and delivers this Guarantee and Security Agreement Supplement.

(b) Schedule 1 hereto sets forth (i) the name and jurisdiction of organization of, and the ownership interest (including percentage owned and number of shares or units) of the Lien Grantor in the Securities issued by each of the Lien Grantor's direct Subsidiaries as of the date hereof which are required to be included in the New Collateral pledged pursuant to Section 5.13 of the Credit Agreement and the Post-Closing Collateral and Guarantee Requirement and this Guarantee and Security Agreement Supplement. The Lien Grantor holds all such Securities directly (i.e., not through a subsidiary, a securities intermediary or any other Person).

6. Governing Law. This Guarantee and Security Agreement Supplement shall be construed in accordance with and governed by the laws of the Province of Ontario and the laws of Canada applicable therein.

IN WITNESS WHEREOF, the parties hereto have caused this Guarantee and Security Agreement Supplement to be duly executed by their respective authorized officers as of the day and year first above written.

[NAME OF LIEN GRANTOR and/or GUARANTOR]

By: _____

Name:

Title:

BANK ONE, NA, Canada Branch, as
Collateral Agent

By: _____

Name:

Title:

Schedule 1
to Guarantee and Security Agreement
Supplement

PLEDGED SECURITIES

Issuer -----	Jurisdiction of Organization -----	Percentage Owned -----	Number of Shares or Units -----
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Schedule 1-1
to Exhibit B

EXHIBIT C
to Guarantee and
Security Agreement

FORM OF DEED OF HYPOTHEC

Exhibit C-1

THIS DEED OF GUARANTEE AND INDEMNITY is made on June 21, 2002

BETWEEN

1. BANK ONE, NA of One Bank One Plaza-IL 1-0631, 17th Floor, Chicago, IL 60670 USA as administrative agent for the Lenders (as defined in the Credit Agreement) (the "Administrative Agent", which expression includes the Administrative Agent's successors in title and assigns)

AND

2. XEROX OVERSEAS HOLDINGS LIMITED of Bridge House, Oxford Road, Uxbridge, Middlesex UB8 1HS England (registered in England no. 3275267); and XEROX UK HOLDINGS LIMITED of Bridge House, Oxford Road, Uxbridge, Middlesex UB8 1HS England (registered in England no. 3545477) (each a "Guarantor" but together referred to as the "Guarantors").

NOW THIS DEED WITNESSES as follows:

1. Interpretation

- 1.1 Definitions

In this Deed:

"Administration" means administration under Part II of the Insolvency Act 1986.

"Business Day" means a day (other than a Saturday or a Sunday) on which banks are open for business in London.

"Cash Collateralised Letter of Credit" means, at any time, any outstanding Letter of Credit if (x) no Event of Default has occurred and is continuing and (y) Xerox or the Principal shall have (i) granted to the Collateral Agent, for the benefit of the Revolving Lenders (or, if the obligations of the Revolving Lenders to reimburse the applicable LC Issuing Banks have been terminated, to such LC Issuing Banks), a security interest in Liquid Investments or (ii) caused a bank acceptable to the Required Revolving Lenders or such LC Issuing Banks, as the case may be, to issue a letter of credit naming the Collateral Agent or such LC Issuing Banks as beneficiary) in either case in an amount at least equal to 105% of the LC Exposure with respect to such Letter of Credit (plus any accrued and unpaid interest thereon) as of the date of release pursuant to Clause 7.1, on terms and conditions and pursuant to documentation reasonably satisfactory to the Required Revolving Lenders or such LC Issuing Banks, as the case may be.

"Contingent Guaranteed Moneys" means, at any time, any Guaranteed Moneys that are contingent in nature at such time, including (without limitation) any obligation under any Loan Document which is:

- (i) an obligation to reimburse a Lender for drawings not yet made under a Letter of Credit;
- (ii) any other obligation (including any guarantee) that is contingent in nature at such time; or
- (iii) any obligation to provide collateral to secure any of the foregoing types of obligation.

"Credit Agreement" means the amended and restated credit agreement dated [], 2002 and made between Xerox Corporation, a New York corporation, Xerox Capital (Europe) PLC and certain other Overseas Borrowers, the Lenders party thereto, Bank One, NA, as Administrative Agent, LC Issuing Bank and Collateral Agent, JPMorgan Chase Bank, as Documentation Agent and Citibank, N.A., as Syndication Agent. References to the "Credit Agreement" include that agreement as it has been and may be novated and amended from time to time.

"Dissolution" of a person includes the bankruptcy, insolvency, liquidation, amalgamation, reconstruction, reorganisation, administration, administrative or other receivership, or dissolution of that person, and any equivalent or analogous proceeding by whatever name known and in whatever jurisdiction.

"Domestic Guarantee and Security Agreement" means the guarantee and security agreement dated [] 2002 among Xerox Corporation, the Subsidiary Guarantors party thereto and Bank One, NA as Collateral Agent.

"Guaranteed Moneys" means amounts expressed to be due owing and payable (including, without limitation, any obligation under any guarantee or any obligation to provide collateral) by the Principal under any of the Loan Documents (as amended, restated, supplemented or otherwise modified from time to time) or under any promissory note issued by the Principal pursuant to the Credit Agreement (as amended, restated, supplemented or otherwise modified from time to time) to the extent that such amounts are unpaid or, as the case may be, such obligation is unfulfilled. These include amounts and obligations currently due, those due in the future and those which may become due.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Letters of Credit outstanding at such time plus (b) the aggregate amount of all payments made by an LC Issuing Bank in respect of a drawing under a Letter of Credit that have not yet been reimbursed by the Principal at such time. The LC Exposure of any Revolving Lender at any time will be its Revolving Percentage of the total LC Exposure at such time.

"Letter of Credit" means any Letter of Credit issued for the account of the Principal pursuant to the Credit Agreement.

"Liquid Investments" has the meaning given to it in the Domestic Guarantee and Security Agreement.

"Non-Contingent Guaranteed Moneys" means, at any time, any Guaranteed Moneys that are not Contingent Guaranteed Moneys.

"Opinions" means [the Lovells opinion and the in-house opinion]

"Principal" means XEROX CAPITAL (EUROPE) PLC of Bridge House, Oxford Road, Uxbridge, Middlesex UB8 1HS England (registered in England No. 3070508).

"Proceedings" means any proceeding, suit or action arising out of or in connection with this Deed.

"Release Conditions" has the meaning given to it in Clause 7.1.

"Required Revolving Lenders" means, at any time, Revolving Lenders holding at least a majority of the aggregate amount of the Revolving Commitments with respect to the Principal or, if such Revolving Commitments have been terminated, the Revolving Exposures with respect to the Principal.

"Revolving Lender" means a Lender with a Revolving Commitment with respect to the Principal or, if such Revolving Commitments have been terminated or expired, a Lender with a Revolving Exposure with respect to the Principal.

"Revolving Percentage" means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments with respect to the Principal represented by such Revolving Lender's Revolving Commitment with respect to the Principal. If the Revolving Commitments with respect to the Principal have terminated or expired, the Revolving Percentages will be determined based on Revolving Exposures with respect to the Principal.

"Secured Party Jurisdiction" has the meaning given to it in the Domestic Guarantee and Security Agreement.

1.2 Definitions in the Credit Agreement

Expressions defined in the Credit Agreement have the same meanings when used in this Deed. This does not, however, apply where the same expression is also defined in this Deed.

1.3 References and Construction

In this Deed, unless otherwise specified:

- (A) references to clauses are to clauses of this Deed;
- (B) headings to clauses are for convenience only and are to be ignored in construing this Deed;
- (C) references to a "person" are to be construed so as to include any individual, firm, company, government, state or agency of a state, local or municipal authority, or any

joint venture, association or partnership (whether or not having separate legal personality);

- (D) references to a "company" are to be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (E) references to any statute or statutory provision are to be construed as a reference to the same as it may have been, or may from time to time be, amended, modified or re-enacted, and shall include a reference to all bye-laws, instruments, orders and regulations for the time being made thereunder or deriving validity therefrom; and
- (F) references to times of the day are to London time.

2. Guarantee

The Guarantors unconditionally and irrevocably jointly and severally guarantee to the Administrative Agent the due and punctual payment of the Guaranteed Moneys and agree that, if at any time or from time to time any of the Guaranteed Moneys are not paid in full on the due date therefor (whether at their stated date of payment, by acceleration, on demand or otherwise), they will immediately upon demand therefor unconditionally pay to the Administrative Agent the moneys which have not been paid as aforesaid.

3. Indemnity

As an original and independent obligation under this Deed, the Guarantors jointly and severally shall:

- (A) indemnify the Administrative Agent and keep the Administrative Agent indemnified against any cost, loss, expense or liability of whatever kind resulting from the failure by the Principal to make due and punctual payment of any of the Guaranteed Moneys or resulting from any of the obligations under the Credit Agreement being or becoming void, voidable, unenforceable or ineffective against the Principal (including, but without limitation, all legal and other costs, charges and out of pocket expenses reasonably incurred by the Administrative Agent in connection with preserving or enforcing, or attempting to preserve or enforce, its rights under this Deed); and
- (B) pay on demand the amount of such cost, loss, expense or liability whether or not the Administrative Agent has attempted to enforce any rights against the Principal or any other person or otherwise.

4. Limitation on guarantee and indemnity

The guarantee contained in Clause 2, the indemnity contained in Clause 3 and each other right of recovery against the Guarantors under this Deed:

- (A) do not extend to any payment to be made by the Principal under the terms of the Credit Agreement in respect of any cost, loss, expense or liability but which the Principal fails to make, unless such failure results from any of the obligations under the Credit Agreement being or becoming void, voidable, unenforceable or ineffective against the Principal; and
- (B) do not entitle the Administrative Agent to recover the same amount more than once under separate provisions of this Deed.

5. Joint and several obligations

- (A) The Guarantors' obligations expressed to be owed under this Deed shall take effect as joint and several obligations and any demand for payment made by the Administrative Agent to any one or more of the Guarantors shall be deemed to be a demand made to each of the Guarantors. This Guarantee shall not be revoked or impaired as to any of the Guarantors by the Dissolution of any other.
- (B) The Administrative Agent may release or discharge any Guarantor from its obligations under this Guarantee or accept any composition from or make any other arrangements with any Guarantor without releasing or discharging any other or otherwise prejudicing or affecting the Administrative Agent's rights and remedies against any other.

6. Continuing Obligations

The obligations of the Guarantors under this Deed shall be continuing obligations and shall not be satisfied, discharged or affected by any intermediate payment or settlement of account.

7. Releases of Security

7.1 Subject to Clause 7.2, each Guarantor shall be released from the guarantee given by it under this Deed in accordance with Section 9.02 or 9.03, as the case may be, of the Credit Agreement. "Release Conditions" means, in relation to each Guarantor, each of the following being true:

- (A) all Non-Contingent Guaranteed Moneys have been paid or discharged in full;
- (B) (i) the Revolving Commitments with respect to the Principal have been terminated or otherwise reduced to zero; or
(ii) an Election to Terminate has been delivered in respect of the Principal pursuant to Section 2.19 of the Credit Agreement; and
- (C) no Contingent Guaranteed Moneys, other than with respect to any Cash Collateralised Letter of Credit, remain outstanding.

7.2 Release Void if Payment Avoided

Any release of a Guarantor shall be subject to the condition that if any payment of Guaranteed Moneys shall be avoided, reduced or invalidated by virtue of any applicable law or for any other reason whatsoever, then such release shall be void and of no effect, and the Administrative Agent may recover immediately the value or amount, or (as the case may be) the reduction in value or amount, thereof from that Guarantor as if such release had not occurred.

8. Other Guarantees and Security

The obligations of each Guarantor under this Deed:

- (A) are in addition to and not in substitution for any other guarantee and/or indemnity or any security which the Administrative Agent may at any time hold for the payment of the Guaranteed Moneys; and
- (B) may be enforced by the Administrative Agent in its discretion without first having recourse to any such other guarantee and/or indemnity or any such security, without taking any steps or proceedings against the Principal or any other person, and without resorting to any other means of payment.

9. Payments in Gross

All dividends, compositions and moneys received by the Administrative Agent from the Principal or from any other person which are capable of being applied by the Administrative Agent in reduction of the Guaranteed Moneys shall be regarded for all purposes as payments in gross and accordingly shall not prejudice the right of the Administrative Agent to recover from the Guarantors to the full extent of this Deed the ultimate balance which, after the receipt of such dividends, compositions and moneys, may remain owing to the Administrative Agent.

10. Suspense Account

For the purpose of enabling the Administrative Agent to sue the Principal or any other surety or prove in the Dissolution of the Principal or any other surety for the whole of the Guaranteed Moneys, or to preserve intact the liability of any other party, the Administrative Agent may, for as long as the Guaranteed Moneys have not been discharged and satisfied in full, at its sole discretion, place and retain on a suspense account, for as long as it considers fit, any moneys received, recovered or realised under or in connection with this Deed or under any other guarantee and/or indemnity or any security without any obligation on the part of the Administrative Agent to apply the same in or towards the discharge of the Guaranteed Moneys except when such moneys would be sufficient to discharge the Guaranteed Moneys in full in which case they shall be applied to such discharge and without any right on the part of the Guarantors to sue the Principal or any other surety or to prove in the Dissolution of the Principal or any other surety in competition with or so as to diminish any dividend or other

advantage that would or might come to the Administrative Agent, or to treat the liability of the Principal or any other surety as diminished.

11. Certificate to Be Conclusive Evidence

A copy of a certificate signed by an officer of the Administrative Agent as to the amount of any indebtedness comprised in the Guaranteed Moneys:

- (A) calculated in accordance with Section 2.08(e) of the Credit Agreement shall, in the absence of manifest error, be prima facie evidence; and
- (B) decided pursuant to any judgment against the Principal shall, in the absence of manifest error, be conclusive evidence for the purposes of any Proceedings,

against the Guarantors that such amount is in fact due and payable by the Principal to the Administrative Agent.

12. Principal Debtor

As an original and independent obligation under this Deed and without prejudice to any other provision in this Deed, the Guarantors jointly and severally agree that any of the Guaranteed Moneys which may not be recoverable from the Guarantors on the footing of a guarantee whether by reason of any legal limitation or incapacity on or of the Principal or by reason of any other fact or circumstance whatsoever (and whether any such fact or circumstance shall have been known to the Administrative Agent or not) shall nevertheless be recoverable from the Guarantors as though the same had been incurred by the Guarantors as sole or principal debtor and shall be paid by the Guarantors on demand.

13. No Discharge of Guarantors

Subject to the terms of Clause 7, no Guarantor shall be released or discharged from any of its obligations under this Deed, nor shall any of such obligations be in any way prejudiced or affected, by:

- (A) any invalidity, unenforceability, illegality or voidability of any obligation expressed to be assumed or owed by the Principal under or in connection with the Credit Agreement; or
- (B) any variation or amendment of, or waiver or release granted under or in connection with, the Credit Agreement or other document; or
- (C) time being given, or any other indulgence or concession being granted, by the Administrative Agent to the Principal or any other person; or
- (D) the taking, holding, failure to take or hold, varying, realisation, non-enforcement, non-perfection or release by the Administrative Agent or any other person of any other guarantee and/or indemnity or any security for any of the Guaranteed Moneys; or

- (E) the Dissolution of the Principal or any other person; or
- (F) any change in the constitution of the Principal; or
- (G) any amalgamation, merger or reconstruction that may be effected by the Administrative Agent with any other person or any sale or transfer of the whole or any part of the undertaking and assets of the Administrative Agent to any other person; or
- (H) the existence of any claim, set-off or other rights which any of the Guarantors may have at any time against the Principal, the Administrative Agent or any other person, or which the Principal may have at any time against the Administrative Agent, whether in connection with the Credit Agreement or otherwise; or
- (I) the granting by the Administrative Agent to the Principal of any other financial accommodation or the withdrawal or restriction by the Administrative Agent of any financial accommodation, or the absence of any notice to any of the Guarantors of any such granting, withdrawal or restriction; or
- (J) any arrangement or compromise entered into by the Administrative Agent with the Principal or any other person; or
- (K) any other thing done or omitted or neglected to be done by the Administrative Agent or any other person or any other dealing, fact, matter or thing (including, but without limitation, any circumstances whatsoever affecting or preventing recovery of amounts under the Credit Agreement) which, but for this provision, might operate to exonerate or discharge any of the Guarantors from, or otherwise prejudice or affect, any of the Guarantors' obligations under this Deed.

14. Guarantors Not to Take Security

14.1 No Security Presently Held

Each of the Guarantors represents and warrants that it has not taken or received any security from the Principal or any other surety for or in respect of that Guarantor's obligations under this Deed.

14.2 Guarantors Shall Not Take Security

No Guarantor shall take or receive any security from the Principal or any other surety for or in respect of that Guarantor's obligations under this Deed.

14.3 Security Held on Trust

If at any time any of the Guarantors has the benefit of any security in breach of this clause 14, it shall hold such security on trust for the Administrative Agent, and shall, upon request by the Administrative Agent, transfer or assign such security to the Administrative Agent as security for that Guarantor's obligations under this Deed.

This clause 14.3 is intended to give rise to rights in contract and equitable rights only and is not intended to constitute, create or give rise to a security interest of any kind over any asset of Guarantor. If and to the extent that any right conferred under this clause 14.3 would, notwithstanding the foregoing sentence, constitute, create or give rise to any security interest, such right shall be of no effect.

15. No Right of Subrogation

Until the Guaranteed Moneys have been discharged and satisfied in full no Guarantor shall, without the Administrative Agent's prior written consent (acting on the instructions of each of the Revolving Lenders):

- (A) be subrogated to any rights of the Administrative Agent arising under the Credit Agreement, or in respect of any proof in the Dissolution of the Principal, or otherwise howsoever; or
- (B) in respect of any moneys payable or paid under this Deed, seek to enforce repayment from the Principal or any other surety, whether by subrogation, indemnity, contribution or otherwise, or to exercise any other right, claim or remedy of any kind which may accrue to it in respect of the amount so paid or payable; or
- (C) claim payment of any other moneys for the time being due to it by the Principal or any other surety on any account whatsoever, or exercise any other right, claim or remedy which it has in respect thereof; or
- (D) be entitled to any right of a surety (including any right of contribution from any other surety) discharging, in whole or in part, its liability in respect of the principal debt; or
- (E) be entitled to have or exercise any right as a surety (including any right of contribution from any other surety) in competition with the Administrative Agent; or
- (F) claim any set-off or assert any counterclaim against the Principal or any other surety in relation to any liability of such Guarantor to the Principal or any other surety.

16. No Competing Proofs

Until the Guaranteed Moneys have been discharged and satisfied in full, no Guarantor shall, in the event of the Dissolution of the Principal or any other surety, claim or prove in competition with the Administrative Agent, or accept any direct or indirect payment or distribution, in respect of any moneys owing to such Guarantor by the Principal or any such other surety on any account whatsoever provided that such Guarantor may, with the prior written consent (such consent not to be unreasonably withheld or delayed) of the Administrative Agent, claim or prove for the purposes of preserving a claim it may have, and shall, if so directed by the Administrative Agent, prove for the whole or any part of the moneys due to such Guarantor from the Principal or any other surety on terms that the benefit of such proof and of all moneys to be received by such Guarantor in respect thereof shall be held on trust for the Administrative Agent and applied in discharging such Guarantor's obligations

under this Deed. If any balance of such moneys shall remain after such Guarantor's obligations have been discharged in full, such balance shall forthwith be released from such trust and shall belong absolutely and beneficially to that Guarantor.

17. Representations and Warranties

17.1 Initial Representations

Each Guarantor confirms that each of the following is true:

(A) Legal Status

It is a company duly incorporated and validly existing under the laws of England.

(B) Corporate powers, Authorisations and Contraventions

The execution and delivery of this Deed by it and the performance by it of its obligations under this Deed (i) are within its corporate or other powers, (ii) have been duly authorised by all necessary corporate or other action, (iii) require no consent or approval of, registration or filing with, any Governmental Authority except such as have been obtained or made and are in full force and effect, (iv) do not violate any Applicable Law or its Memorandum or Articles of Association, (v) do not violate any order of any Governmental Authority except in any such case where such violation could not reasonably be expected to result in a Material Adverse Effect, (vi) do not violate or result in a default under any indenture, trust deed in relation to debt securities or material agreement or other instrument binding upon it and (vii) do not result in, or oblige it to create, any Security over its assets.

(C) Binding obligations

This Deed has been duly signed and delivered by it. Its obligations described in this Deed are its legal, valid and binding obligations in accordance with their terms except as may be limited by:

- (i) bankruptcy, insolvency or other laws of general application affecting creditors' rights;
- (ii) application of equitable principles;
- (iii) the non-availability of the equitable remedies of specific performance or any other relief; or
- (iv) any qualification contained in [the Opinions].

(D) Ranking of obligations

Its obligations under this Deed rank (subject to the next sentence) at least equally with all its other present and future unsecured and unsubordinated obligations. Certain categories of its

other obligations will, however, be preferred in a liquidation by virtue of mandatory provisions of statute.

(E) Correctness of information

All information supplied and to be supplied on its behalf to the Administrative Agent in connection with this Deed is true, accurate and complete in all material respects.

(F) Stamp duty

No stamp, registration or similar tax is payable, and no filing or registration is required, in connection with the execution, performance or enforcement of this Deed in the United Kingdom.

(G) Insolvency

No steps have been taken, and no proceedings started or (to the best of the Guarantor's knowledge and belief) threatened, for the winding-up, or for the appointment of a receiver, administrator, liquidator or other officer, of the Guarantor or any of its assets. No analogous event has occurred in any jurisdiction.

17.2 Repetition

The representations in clause 17.1 will be deemed repeated by each of the Guarantors on the date of each Borrowing by the Principal and the date of each issuance, amendment, renewal or extension of a Letter of Credit issued to the Principal. This repetition will be with reference to the facts on that day.

18. Currency

18.1 Payments to be Made in Same Currency

All payments to be made under this Deed shall be made in the currency or currencies in which the Guaranteed Moneys were expressed to be payable by the Principal, and strictly in accordance with the terms of the Credit Agreement.

18.2 Currency Indemnity

If, under any applicable law, whether pursuant to a judgment against any of the Guarantors or the Dissolution of any of the Guarantors or for any other reason, any payment under or in connection with this Deed is made or falls to be satisfied in a currency (the "Other Currency") other than the currency in which the relevant payment is expressed to be payable (the "Required Currency"), then, to the extent that the payment actually received by the Administrative Agent (when converted into the Required Currency at the rate of exchange on the date of payment or, if it is not practicable for the Administrative Agent to make the conversion on that date, at the rate of exchange as soon afterwards as it is practicable for the Administrative Agent to do so or, in the case of a Dissolution, at the rate of exchange on the

latest date permitted by applicable law for the determination of liabilities in such Dissolution) falls short of the amount expressed to be due or payable under or in connection with this Deed, the Guarantors jointly and severally shall, as an original and independent obligation under this Deed, indemnify and hold the Administrative Agent harmless against the amount of such shortfall. For the purpose of this clause 18, "rate of exchange" means the rate at which the Administrative Agent is able on the relevant date to purchase the Required Currency with the Other Currency and shall take into account any commission, premium and other costs of exchange and Taxes payable in connection with such purchase.

19. No Set-off or Withholding by Guarantors

19.1 No Set-off

All payments to be made by any Guarantor under this Deed shall be made in full without any set-off, restriction or condition and without any deduction for or on account of any counterclaim.

19.2 No Withholding, Gross-Up and Tax Indemnity

In this Clause 19.2 "Covered Taxes" means all present and future Taxes (other than income or franchise taxes imposed on (or measured by) the net income of a Revolving Lender by a Lender Party Jurisdiction of that Revolving Lender) including any such Taxes imposed with respect to this Deed, the execution, registration, enforcement, notarization or other formalization of any thereof, and any payments of principal, interest, charges, fees, commissions or other amounts made on, under or in respect thereof. Each Guarantor agrees that:-

(a) All payments of Guaranteed Moneys and all other amounts payable on, under or in respect of this Deed by such Guarantor, including, without limitation, amounts payable by such Guarantor under paragraph (b) of this Clause 19.2, shall be made free and clear of and without deduction or withholding for or on account of Covered Taxes save as may be required by law, provided that, if any Guarantor shall be required by law to deduct or withhold any Covered Taxes from such payments, then (i) the sum payable will be increased as necessary so that, after all required deductions or withholdings (including deductions or withholdings applicable to additional sums payable under this Section) are made, each relevant Revolving Lender receives an amount equal to the sum it would have received had no such deductions or withholdings been made, (ii) such Guarantor shall make such deductions or withholdings and (iii) such Guarantor shall pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law. The parties agree to co-operate and provide information with respect to United Kingdom, United States and foreign withholding tax matters relating to payments under this Deed in a manner consistent with the principles of Section 2.16(e) of the Credit Agreement, mutatis mutandis. The parties also agree that the provisions of Section 2.16(f) of the Credit Agreement apply, mutatis mutandis, to Covered Taxes that are deducted, withheld or paid by a Guarantor pursuant to this Deed.

(b) Each Guarantor shall indemnify each Revolving Lender, within 15 Business Days after written demand therefor, for the full amount of any Covered Taxes paid or incurred by such

Revolving Lender with respect to any payment by or obligation of such Guarantor under or with respect to this Deed (including Covered Taxes imposed or asserted on or attributable to amounts payable under this Clause 19.2) and any expenses arising therefrom or with respect thereto, whether or not such Covered Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. Each Revolving Lender shall make a good faith effort to verify that such Covered Taxes are correctly and legally imposed or asserted by the relevant Governmental Authority. An officer's certificate as to the amount of any such payment delivered to Xerox by a Revolving Lender on its own behalf, or by the Administrative Agent on behalf of a Revolving Lender, shall be conclusive absent manifest error.

(c) Within 15 Business Days after any Guarantor pays any Covered Taxes to a Governmental Authority in accordance with this Clause 19.2, such Guarantor shall certify to the Administrative Agent's reasonable satisfaction that it has so paid such Covered Taxes. If an original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment is available, the Guarantor shall deliver the same to the Administrative Agent as soon as is practicable. Each Guarantor shall promptly furnish to each Revolving Lender any other information, documents and receipts that the Revolving Lender may from time to time reasonably request to establish to its satisfaction that full and timely payment of all Covered Taxes has been made. The applicable Guarantor will be deemed to have satisfied the requirements of this Clause 19.2(c) if it has furnished such information, documents and/or receipts to the Administrative Agent.

(d) Notwithstanding paragraphs (a) and (b) above, the payment increases and indemnities pursuant to those paragraphs will not apply to the payment of any Guaranteed Moneys to the extent that (in the absence of this paragraph (d)) the Revolving Lender would thereby receive a net cash payment in respect of the Guaranteed Moneys greater than if the Guaranteed Moneys had been paid by the Borrower.

20. Set-off by Revolving Lenders

20.1 Revolving Lenders May Set-off

Each of the Revolving Lenders and their respective Affiliates may, without notice to the Guarantors and without prejudice to any of the other rights of such Revolving Lender or its Affiliate, set off any matured obligation owed by any Guarantor under this Deed to such Revolving Lender or its Affiliate against any obligation (whether or not matured) owed by such Revolving Lender or its Affiliate to such Guarantor, regardless of the place of payment, booking branch or currency of such obligations.

20.2 Different Currencies

If the obligations referred to in clause 20.1 are in different currencies, then, for the purpose of any such set-off, such Revolving Lender or its Affiliate may convert any such obligations at the rate of exchange determined by such Revolving Lender or its Affiliate, acting reasonably to be prevailing at the date of set-off.

20.3 No Security Interest

This clause 20 is intended to give rise to rights in contract only and is not intended to constitute, create or give rise to a security interest of any kind over any asset of Guarantor. If and to the extent that any right conferred under this clause 20 would, notwithstanding the foregoing sentence, constitute, create or give rise to any security interest, such right shall be of no effect.

21. Communications

21.1 Communications to Be in Writing

Any communication given or made under or in connection with the matters contemplated by this Deed shall be in writing (other than writing on the screen of a visual display unit or other similar device which shall not be treated as writing for the purposes of this clause 21.1).

21.2 Deemed Delivery

Any such communication shall be addressed as provided in clause 21.3 and, if so addressed, shall be deemed to have been duly given on the date of receipt.

21.3 Parties' Details

The relevant details of each party for the purposes of this Deed, subject to clause 21.4, are:

Party -----	Attention -----	Address -----	Telex No. -----	Fax No. -----
BANK ONE, NA	[]	[]	[]	[]
XEROX OVERSEAS HOLDINGS LIMITED				
XEROX UK HOLDINGS LIMITED				

21.4 Change of Details

Any party may notify the other parties at any time of a change to its details for the purposes of clause 21.3 provided that such notification shall only be effective on:

- (A) the date specified in the notification as the date on which the change is to take place; or

(B) if no date is specified or the date specified is less than five Business Days after the date on which notice is given, the date falling five Business Days after notice of any such change has been given.

22. Remedies and Waivers

22.1 Delay

No delay or omission on the part of the Administrative Agent in exercising any right, power or remedy provided by law or under this Deed shall impair such right, power or remedy or operate as a waiver thereof or of any other right, power or remedy.

22.2 Single or Partial Exercise

The single or partial exercise by the Administrative Agent of any right, power or remedy provided by law or under this Deed shall not preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

22.3 Remedies to Be Cumulative

The rights, powers and remedies provided in this Deed are cumulative with, and not exclusive of, any rights, powers and remedies provided by law.

23. Invalidity

If at any time any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither:

(A) the legality, validity or enforceability in that jurisdiction of any other provision of this Deed; nor

(B) the legality, validity or enforceability under the law of any other jurisdiction of that or any other provision of this Deed,

shall be affected or impaired.

24. Assignment

The Administrative Agent may at any time, without the consent of the Guarantors, assign or transfer the whole or, as the case may be, any part of the Administrative Agent's rights under this Deed to any person to whom the whole or any part of the Administrative Agent's rights under the Credit Agreement may be assigned or transferred.

25. Deed the Property of the Administrative Agent

The paper on which this Deed is written shall remain at all times the property of the Administrative Agent.

26. Contracts (Rights of Third Parties) Act 1999

The parties to this agreement do not intend that any term of this agreement should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this agreement.

27. Governing Law

This Deed shall be governed by and construed in accordance with English law.

28. Jurisdiction

28.1 The courts of England are to have jurisdiction to settle any dispute arising out of or in connection with this Deed. Any Proceedings may therefore be brought in the English courts. This jurisdiction agreement is irrevocable and is for the exclusive benefit of the Administrative Agent. The Administrative Agent therefore is to retain the right to bring Proceedings in any court which has jurisdiction by virtue of rules which would be applicable apart from this jurisdiction agreement. Nothing contained in this clause 28 shall limit the right of the Administrative Agent to take Proceedings against any Guarantor in any other court or in the courts of more than one jurisdiction at the same time.

28.2 Each Guarantor irrevocably waives (and irrevocably agrees not to raise) any objection, on the ground of forum non conveniens or on any other ground, to the taking of Proceedings in any court referred to in this clause 28. Each party also irrevocably agrees that a judgement against it in Proceedings brought in any jurisdiction referred to in this clause 28 shall be conclusive and binding upon it and may be enforced in any other jurisdiction.

IN WITNESS WHEREOF the Guarantors have executed this document as a deed the day and year first before written.

GUARANTORS

Executed as a deed by XEROX OVERSEAS HOLDINGS LIMITED acting by [a director and its secretary/two directors]

Director

[Secretary/Director]

Executed as a deed by XEROX UK HOLDINGS
LIMITED acting by [a director and its
secretary/two directors]

Director

[Secretary/Director]

ADMINISTRATIVE AGENT

Executed as a deed by
BANK ONE, NA
acting by
under its authority

Authorised Signatory(ies)

DATED 2002

BANK ONE, NA
as Administrative Agent

and

XEROX OVERSEAS HOLDINGS LIMITED
XEROX UK HOLDINGS LIMITED

DEED OF GUARANTEE
AND INDEMNITY

relating to obligations
of

XEROX CAPITAL (EUROPE) PLC
under the CREDIT AGREEMENT dated
[] 2002

Slaughter and May
One Bunhill Row
London EC1Y 8YY

RS/GMS

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DEBENTURE

DATE: June 21, 2002

PARTIES

1. XEROX CAPITAL (EUROPE) PLC, a company incorporated in England (number 3070508) of Bridge House, Oxford Road, Uxbridge, Middlesex UB8 1HS, England, as chargor ("XCE").
2. BANK ONE, NA of One Bank One Plaza - IL 1-0631, 17th Floor, Chicago, IL 60670 as collateral agent and trustee for the Revolving Lenders (together with its successors in title and assigns, the "Collateral Agent").

BACKGROUND

This Debenture is made as a deed to secure amounts expressed to be owed by XCE and outstanding under any of the Loan Documents.

The parties agree by way of deed as follows:

PART I: INTERPRETATION

1. Interpretation

1.1 Definitions

In this Debenture:

"Actionable Event of Default" means an Event of Default specified in clause (a), b), (h), (i) or (j) of Section 7.01 of the Credit Agreement.

"Assigned Agreements" means the Loan Agreements specified in Schedule 2 and any Further Loan Agreements including in each case:

- (a) any form of security, bond, guarantee, indemnity or other support of any kind issued to or expressed to be for the benefit of XCE under or in respect of any such document;
- (b) any and all rights to make claims or otherwise require payment of any amount under, or performance of, any provision of any such document;
- (c) the benefit of the right to sue on all representations, warranties, undertakings or other assurances given to XCE under or in respect of any such document; and
- (d) all causes and rights of action arising under or in respect of any such document against any counterparty to that document.

"Book Debts" means all debts (including, among other things, book debts) due or owing to XCE other than pursuant to any Assigned Agreement. The expression includes the proceeds of all Book Debts and the benefit of all Security, guarantees, indemnities, letters of credit and insurance held by XCE in relation to Book Debts.

"Cash Collateralised Letter of Credit" means, at any time, any outstanding Letter of Credit if (x) no Event of Default has occurred and is continuing and (y) Xerox or XCE shall have (i) granted to the Collateral Agent, for the benefit of the Revolving Lenders (or, if the obligations of the Revolving Lenders to reimburse the applicable LC Issuing Banks have been terminated, to such LC Issuing Banks), a security interest in Liquid Investments or (ii) caused a bank acceptable to the Required Revolving Lenders or such LC Issuing Banks, as the case may be, to issue a letter of credit naming the Collateral Agent or such LC Issuing Banks as beneficiary) in either case in an amount at least equal to 105% of the LC Exposure with respect to such Letter of Credit (plus any accrued and unpaid interest thereon) as of the date of release pursuant to Clause 6.1, on terms and conditions and pursuant to documentation reasonably satisfactory to the Required Revolving Lenders or such LC Issuing Banks, as the case may be.

"Charge" means any type of Security created by, or pursuant to, this Debenture.

"Charged Derived Assets" means Derived Assets which are Collateral.

"Charged Investments" means Investments which are Collateral.

"Collateral" means the assets subject, or expressed or required to be subject, to the Charges, or any part of those assets.

"Collateral Account" means the cash collateral account established with the Collateral Agent and notified to XCE.

"Contingent Secured Sums" means, at any time, any Secured Sums that are contingent in nature at such time, including (without limitation) any obligation under any Loan Document which is:

(i) an obligation to reimburse a Lender for drawings not yet made under a Letter of Credit;

(ii) any other obligation (including any guarantee) that is contingent in nature at such time; or

(iii) any obligation to provide collateral to secure any of the foregoing types of obligation

"Credit Agreement" means the amended and restated credit agreement dated [], 2002 and made between Xerox Corporation, a New York corporation, XCE and certain other Overseas Borrowers, the Lenders party thereto, Bank One, NA, as Administrative Agent, LC Issuing Bank and Collateral Agent, JPMorgan Chase Bank, as Documentation Agent and Citibank, N.A., as Syndication Agent. References to the "Credit Agreement" include that agreement as it has been and may be novated and amended from time to time.

"Debt Securities" means debt securities including bonds, notes, certificates of deposit, loan stock and debenture stock;

"Delegate" means a delegate or sub-delegate appointed pursuant to Clause 14.5.

"Derived Assets" means all Investments, rights or other property of a capital nature which accrue or are offered, issued or paid in respect of any Investments or any Derived Assets. This may occur, among other ways, by way of bonus, rights, redemption, conversion, exchange, substitution, consolidation, sub-division, preference, warrant, option or purchase.

"Domestic Guarantee and Security Agreement" means the guarantee and security agreement dated [], 2002 among Xerox Corporation, the Subsidiary Guarantors party thereto and Bank One, NA as Collateral Agent.

"Dissolution" of a person includes the bankruptcy, insolvency, liquidation, amalgamation, reconstruction, reorganisation, administration under Part II of the Insolvency Act 1986, administrative or other receivership, or dissolution of that person,

and any equivalent or analogous proceeding by whatever name known and in whatever jurisdiction.

"Equity Securities" means all Equity Interests in each Material Foreign Subsidiary directly owned by XCE and incorporated in any part of the United Kingdom.

"Excluded Assets" means:

- (i) rights of XCE in respect of any asset which is prohibited from being charged to the Collateral Agent as part of the Collateral by any Permitted Encumbrance;
- (ii) Transferred Receivables and (A) any Security and property subject to such Security thereto purporting to secure payment of such Transferred Receivables, (B) leases, guarantees, insurance and other arrangements supporting payment of such Transferred Receivables, (C) rights to payment and collections in respect of such Transferred Receivables, (D) books, records and similar information relating to such Transferred Receivables or to the obligors under such Transferred Receivables, (E) with respect to any such Transferred Receivables, the transferee's interest in assets the sale of which gave rise to such Transferred Receivables and (F) if such Transferred Receivables arise from a lease financing or instalment sale transaction, the assets that are the subject of the underlying transaction and are transferred to a Receivables SPE;
- (iii) Transferred Intellectual Property Rights;
- (iv) government and local government Receivables of XCE;
- (v) Third Party Vendor Financing Assets of XCE;
- (vi) cash; and
- (vii) Permitted Investments.

"Fixtures" means fixtures, fittings (including trade fixtures and fittings) and fixed plant, machinery and equipment.

"Further Loan Agreement" means any Loan Agreement entered into after the date of this Debenture.

"General Intangible" has the meaning given to it in Section 1(b) of the Domestic Guarantee and Security Agreement.

"Insolvency Act" means the Insolvency Act 1986.

"Intellectual Property Rights" means patents, designs, copyrights, rights in trade marks and service marks, rights in confidential information, rights in know how and any interests (including by way of licence) in any of them. It also includes any associated or similar rights (whether registered or not) and all applications for any of these rights.

"Intra-Group Loan Agreement" means any Loan Agreement under which each borrower or beneficiary is a Xerox Company.

"Investments" means each of the following:

- (A) Equity Securities;
- (B) Debt Securities issued to XCE by (i) any subsidiary of XCE, (ii) any Affiliate of XCE or (iii) any other issuer over which XCE exercises Control;
- (C) rights to acquire Investments, including warrants and options;
- (D) rights to participate in a return from Investments held through a unit trust scheme or other scheme involving the sharing of investment returns among participants; and
- (E) any Derived Assets,

including, in each case, rights to Investments which are held by a nominee, depository, custodian or clearing system. These rights may simply be rights to the delivery of Investments which are held on a fungible basis.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Letters of Credit outstanding at such time plus (b) the aggregate amount of all payments made by an LC Issuing Bank in respect of a drawing under a Letter of Credit that have not yet been reimbursed by XCE at such time. The LC Exposure of any Revolving Lender at any time will be its Revolving Percentage of the total LC Exposure at such time.

"Letter of Credit" means any Letter of Credit issued for the account of XCE pursuant to the Credit Agreement.

"Liquid Investments" has the meaning given to it in the Domestic Guarantee and Security Agreement.

"Loan Agreement" means any agreement pursuant to which XCE agrees to lend moneys to any person and any letter of credit or letter of credit facility agreement provided by XCE to any person.

"LPA" means the Law of Property Act 1925.

"Negotiable Instruments" means all bills of exchange, promissory notes and other negotiable instruments of any description beneficially owned by XCE (but excluding any Investments).

"Non-Contingent Secured Sums" means, at any time, any Secured Sums that are not Contingent Secured Sums.

"Permitted Encumbrances" means (i) any legally valid prohibitions on the Charge to the Collateral Agent as part of the Collateral of the Equity Interests of any Qualified Turnaround Program Subsidiary pursuant to any agreement entered into in connection with the Turnaround Program with or for the benefit of any other Person owning or acquiring Equity Interests in such a Subsidiary, to the extent the Qualification Requirements have been met with respect to such prohibitions, (ii) (A) any legally valid contractual restrictions in connection with the Turnaround Program that do not prohibit any Xerox Company's Equity Interests in a Turnaround Program Subsidiary from being charged to the Collateral Agent as part of the Collateral or (B) any legally valid contractual restrictions that do not prohibit the granting of a security interest in any Xerox Company's Equity Interests in any other Subsidiary that is not a Xerox Group Company, but, in each case, that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interests as a consequence of restrictions imposed on the owner of such Equity Interests (including put and call arrangements, rights of first refusal, right of first offer, tag-along rights and other similar rights to which such Equity Interest may be subject), (iii) any legally valid and customary contractual restrictions on the Charge to the Collateral Agent as part of the Collateral of the Equity Interests of any Finance SPE or any Permitted Joint Venture created in connection with any Qualified Receivables Transaction or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Collateral, (iv) any legally valid contractual restrictions on the charge to the Collateral Agent as part of the Collateral of the Equity Interests of any Third Party Vendor Financing Subsidiary or any Permitted Joint Venture created in connection with the Third Party Vendor Financing Program or that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Collateral, (v) any legally valid contractual restrictions existing on the date hereof on the Charge to the Collateral Agent as part of the Collateral of any Equity Interest or General Intangible owned by XCE, or any legally valid contractual restrictions existing on the date hereof that otherwise restrict the Transfer by the Collateral Agent of, or other rights (including voting rights) and remedies of the Collateral Agent with respect to, such Equity Interest or General Intangible, (vi) any legally valid contractual restrictions permitted by Section 6.10 of the Credit Agreement on the Charge to the Collateral Agent of any of the Collateral, or on the Transfer by the Collateral Agent of any Collateral (including put and call arrangements, rights of first refusal, rights of first offer, tag-along rights and other similar rights to which any Equity Interest which is Collateral may be subject) or (vii) the terms of any legally valid provision of Applicable Law which (A) prohibits the creation of any Security over any property or asset, (B) requires the consent of any third party to the creation of any Security over any property or asset, (C) gives rise to any right of termination (including, without limitation, the abandonment, invalidation or rendering unenforceable any right, title of interest in any Intellectual Property Right) or default remedy by reason of the creation of Security over any property or asset or (D) does not prohibit the creation of Security over any property or asset but otherwise restricts the Transfer by the Collateral Agent of any such property or asset or any other rights and remedies of the Collateral Agent.

"Policies" means all contracts or policies of insurance which XCE may from time to time take out in respect of any Collateral to the extent that such contracts or policies are not Excluded Assets.

"Proceedings" has the meaning given to it in Clause 28.1

"Receiver" means a receiver appointed under Clause 13. It also includes any other receiver or receiver and manager appointed by the Collateral Agent, or by a court at the request of the Collateral Agent, in respect of the Collateral.

"Release Conditions" has the meaning given to it in Clause 6.1

"Required Revolving Lenders" means, at any time, Revolving Lenders holding at least a majority of the aggregate amount of the Revolving Commitments with respect to XCE or, if such Revolving Commitments have been terminated, the Revolving Exposures with respect to XCE.

"Revolving Lender" means a Lender with a Revolving Commitment with respect to XCE or, if such Revolving Commitments have terminated or expired, a Lender with a Revolving Exposure with respect to XCE.

"Revolving Percentage" means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments with respect to XCE represented by such Revolving Lender's Revolving Commitment with respect to XCE. If the Revolving Commitments with respect to XCE have terminated or expired, the Revolving Percentages will be determined based on Revolving Exposures with respect to XCE.

"Secured Sums" means amounts expressed to be due owing and payable (including, without limitation, any obligation under any guarantee or any obligation to provide collateral) by XCE under any of the Loan Documents (as amended, restated, supplemented or otherwise modified from time to time) or under any promissory note issued by XCE pursuant to the Credit Agreement (as amended, restated, supplemented or otherwise modified from time to time). These include amounts and obligations currently due, those due in the future and those which may become due.

"Security" means any mortgage, fixed or floating charge, encumbrance, lien, pledge, hypothecation, assignment by way of security, or title retention arrangement (other than in respect of goods purchased in the ordinary course of trading), and any agreement or arrangement having substantially the same economic or financial effect as any of the foregoing (including any "hold back" or "flawed asset" arrangement) and any purchase option, call or similar right of a third party with respect to securities.

"Transferred Intellectual Property Rights" means any Intellectual Property Rights (including, without limitation, proceeds thereof) Transferred as permitted by the Credit Agreement.

"Transferred Receivables" means any Receivables Transferred in connection with a Qualified Receivables Transaction or the Third Party Vendor Financing Program.

1.2 Definitions in the Credit Agreement

Expressions defined in the Credit Agreement have the same meanings when used in this Debenture. This does not, however, apply where the same expression is defined differently in this Debenture.

1.3 References and Construction

(A) In this Debenture, unless otherwise specified:

- (i) references to assets are to present and future assets and include business, undertaking, property, rights, uncalled capital and revenues and any interest in any of them;
- (ii) references to rights include easements, quasi-easements and appurtenances;
- (iii) references to Clauses and Schedules are to Clauses of and Schedules to this Debenture;
- (iv) headings to Clauses are for convenience only and are to be ignored in construing this Debenture;
- (v) references to a "person" are to be construed so as to include any individual, firm, company, government, state or agency of a state, local or municipal authority, or any joint venture, association or partnership (whether or not having separate legal personality);
- (vi) references to a "company" are to be construed so as to include any company, corporation or other body corporate, wherever and however incorporated or established;
- (vii) references to any statute or statutory provision are to be construed as references to the same as it may have been, or may from time to time be, amended, modified or re-enacted, and include references to all bye-laws, instruments, orders and regulations for the time being made thereunder or deriving validity therefrom; and
- (viii) references to times of the day are to London time.

(B) Except to the extent that the context otherwise requires, any reference in this Debenture to "this Debenture" or any other deed, agreement or instrument is a reference to this Debenture or, as the case may be, the relevant deed, agreement or instrument as amended, supplemented, replaced or novated from time to time and includes a reference to any document which amends, supplements, replaces, novates or is entered into, made or given pursuant to or in accordance with any of the terms of this Debenture or, as the case may be, the relevant deed, agreement or instrument.

1.4 Reimbursements

If a party wishes to claim reimbursement of any amount to which it is entitled it will deliver a demand to the reimbursing party. This will set out the losses, expenses or other amounts in respect of which it is entitled to be reimbursed. The reimbursing party agrees to pay the amounts to which such party is entitled no later than two Business Days after the delivery of the certificate to the reimbursing party.

PART II: AGREEMENT TO PAY SECURED SUMS AND CREATION OF SECURITY

2. Agreement to pay Secured Sums

XCE agrees to pay to the Collateral Agent (in its capacity as the Administrative Agent under the Credit Agreement) all Secured Sums in accordance with the Loan Documents to which it is a party.

3. Security

3.1 Creation of security

(A) Fixed Charge

XCE with full title guarantee (except to the extent that any Permitted Encumbrance conflicts with such full title guarantee) and as continuing security for the payment and discharge of all Secured Sums charges in favour of the Collateral Agent (for the benefit of itself and the Revolving Lenders) by way of first fixed charge:

- (i) all plant, machinery and equipment owned by XCE and XCE's interest in any plant, machinery or equipment in its possession;
- (ii) all Investments beneficially owned by XCE, and all dividends, interest and other distributions paid or payable in respect of those Investments;
- (iii) moneys (including interest) now or hereafter standing to the credit of the Collateral Account, and the debts represented by such moneys;
- (iv) all the goodwill of XCE;
- (v) all the uncalled capital of XCE;
- (vi) all the Intellectual Property Rights of XCE;
- (vii) all Book Debts;
- (viii) all Negotiable Instruments;
- (ix) all its rights under or in connection with all licences held in connection with the business of XCE or the use of any Charged Asset. This does not, however, include any licence which requires the consent of the licensor for the creation of this Charge where that consent has not been obtained; and
- (x) if not effectively assigned by Clause 3.2 all its rights and benefits under or in connection with each of the Assigned Agreements;

(xi) if not effectively assigned by Clause 3.2, all its rights and benefits under or in connection with each of the Policies,

including, in each case both those assets currently held by XCE and those held in the future but excluding, in each case, any Excluded Assets.

(B) Floating charge

XCE with full title guarantee (except to the extent that any Permitted Encumbrance conflicts with such full title guarantee) and as continuing security for the payment and discharge of all Secured Sums charges in favour of the Collateral Agent (for the benefit of itself and the Revolving Lenders) by way of first floating charge ranking behind all the fixed charges created by or pursuant to this Debenture but ranking, to the extent permitted by law, in priority to any other Security created after the date of this Debenture, except:

(i) Security permitted by Clause 3.5(A); and

(ii) Security ranking in priority in accordance with Clause 13.2(E)

all its assets, including assets expressed to be charged by Clause 3.1(A) but excluding any Excluded Assets.

3.2 Security Assignment

(A) As further continuing security for the payment of the Secured Sums, XCE assigns (to the fullest extent capable of assignment and subject to Clause 3.2(B)) with full title guarantee in favour of the Collateral Agent (for the benefit of itself and the Revolving Lenders) all its rights, title and interest in:

(i) the Assigned Agreements; and

(ii) the Policies, including (without limitation):

(a) all payments (including bonuses) that may become due under the Policies; and

(b) all amounts due to XCE in connection with the Policies pursuant to section 76 of the Insurance Companies Act 1982,

except, in each case, to the extent that such rights, title and interest in the Assigned Agreements or the Policies (as the case may be) are Excluded Assets,

(B) (i) Until (y) the occurrence of an Actionable Event of Default which is continuing or acceleration of the Loans in accordance with the terms of the Credit Agreement and (z) receipt of notice from the Collateral

Agent, XCE shall be entitled to continue to deal with the counterparties to the Assigned Agreements and the Policies.

- (ii) On payment or discharge in full of the Secured Sums the Collateral Agent will at the request and cost of XCE re-assign the Assigned Agreements and the Policies to XCE (or as it shall direct).

3.3 Conversion of floating charge into fixed charge

- (A) Conversion: The floating charge created by Clause 3.1(B) will convert into a fixed charge in the circumstances described in this Clause 3.3. This conversion may relate to all of the assets expressed to be charged pursuant to Clause 3.1(B) or only some of them.
- (B) Notice: The Collateral Agent may give notice of conversion to XCE. This notice must describe the assets which are affected by the conversion. This description can be general or specific. A notice may only be given under this paragraph in either of the following cases:
 - (i) An Event of Default has occurred and is continuing.
 - (ii) The Collateral Agent considers that the assets which are affected by the conversion are in danger of being seized or sold under any legal process or to be otherwise in jeopardy.

In this case conversion will occur in accordance with the terms of the notice. It will take effect on the date of delivery of the notice or, if later, the date specified in the notice.

- (C) Automatic conversion: Conversion will occur automatically if:
 - (i) any Security (other than Security permitted by Clause 3.5(A) or Clause 13.2(E) exists over XCE's interest in the assets covered by the floating charge; or
 - (ii) any person levies or attempts to levy any distress, attachment, execution or other legal process against any of the assets covered by the floating charge.

The conversion will affect those assets affected by the matter described in sub-paragraph (i) or (ii). It will take effect the instant before sub-paragraph (i) or (ii) applies.

- (D) Re-conversion: Any fixed charge created over any asset pursuant to Clause 3.3(C)(ii) will be re-converted to a floating charge if the distress, attachment, execution or other legal process which gave rise to the conversion under Clause 3.3(C)(ii) has been discharged, discontinued, removed or vacated or

has, in the reasonable opinion of the Collateral Agent, otherwise ceased to affect such asset.

3.4 Nature of Security

- (A) Continuing Security: The Charges are continuing security. No payment or other settlement will discharge the Charges until the Secured Sums have been discharged in full.
- (B) Other Security: The Charges are in addition to, and independent of, any other Security or guarantee.
- (C) Charges not to be affected: The Charges will only be discharged upon their release in accordance with this Debenture. They will not be discharged by any other action, omission or fact. They will not, therefore, be affected by any of the following:
 - (i) Any variation or amendment of, or waiver or release granted under or in connection with, any other Security or any guarantee or indemnity or other document.
 - (ii) Time being given, or any other indulgence or concession being granted, by the Collateral Agent or the Lenders.
 - (iii) The taking, holding, failure to take or hold, varying, realisation, non-enforcement, non-perfection or release by the Collateral Agent or any other person of any other Security, or any guarantee or indemnity or other document.
 - (iv) Any amalgamation, merger or reconstruction that may be effected by the Collateral Agent with any other person or any sale or transfer of the whole or any part of the assets of the Collateral Agent to any other person.
 - (v) The existence of any claim, set-off or other right which XCE may have at any time against the Collateral Agent or any other person.
 - (vi) The making or absence of any demand for payment of any Secured Sums on XCE or any other person, whether by the Collateral Agent or any other person.
 - (vii) Any arrangement or compromise entered into by the Collateral Agent with XCE or any other person.
 - (viii) Any other thing done or omitted or neglected to be done by the Collateral Agent or any other person or any other dealing, fact, matter or thing which, but for this provision, might operate to prejudice or affect the liability of XCE for the Secured Sums.

- (ix) The winding-up or re-organisation of XCE or any other person.
- (x) Any change in the constitution, condition, nature or status of XCE.
- (xi) Any other matter which might discharge the Charges other than a release from the Charges in accordance with the terms of this Debenture.

3.5 Restrictions on other Security and disposals

XCE agrees that except with the prior written consent of the Collateral Agent:

- (A) Security: It will not create or permit to subsist any Security on, over or with respect to any of its assets except (i) for Permitted Encumbrances, (ii) over Excluded Assets and (iii) as permitted by Section 6.02 of the Credit Agreement.
- (B) Disposal: It will not dispose of any of its assets other than as permitted by the Credit Agreement.

4. Perfection of the Charges

4.1 Plant and machinery

- (A) Leasehold premises: This paragraph applies where any plant, machinery or equipment which is covered by a fixed Charge is located on leasehold premises. In this case XCE agrees to obtain written confirmation from the lessor of those premises that the lessor waives absolutely all rights it may have over any of that plant, machinery or equipment.
- (B) Notice of charge: XCE agrees that it will, if requested by the Collateral Agent, place and maintain a notice on each item of plant, machinery and equipment covered by a fixed Charge. This notice must be in a conspicuous place and contain the following wording:

"NOTICE OF CHARGE

This [] and additions and ancillary equipment are subject to a first fixed charge in favour of BANK ONE, NA."

XCE agrees that it will not allow this notice to be concealed, altered or removed.

4.2 Notices of Charge in respect of Assigned Agreements and the Policies

XCE agrees as follows:

- (A) It will give notice to each counterparty to each Assigned Agreement that it has assigned its rights under that Assigned Agreement to the Collateral Agent

pursuant to this Debenture. Such notice will be given in or substantially in the form set out in Part 1 of Schedule 2, duly completed. Such notice will:

- (i) in relation to each Assigned Agreement which is an Intra-Group Loan Agreement, be given as promptly as reasonably practicable and delivered together with a copy of this Debenture; and
 - (ii) in relation to each Assigned Agreement which is not an Intra-Group Loan Agreement, be given upon the occurrence of an Event of Default which is continuing and receipt of notice from the Collateral Agent and delivered together with a summary of the material terms of this Debenture in a form agreed between the Collateral Agent and XCE.
- (B) It will use all reasonable endeavours to procure that each person to whom it gives a notice referred to in paragraph (A) promptly acknowledges receipt of that notice in or substantially in the form set out in Part 2 of Schedule 2.
- (C) It will promptly give notice to each counterparty to each Policy that it has assigned its rights under that Policy to the Collateral Agent pursuant to this Debenture. Such notice will be given in or substantially in the form set out in Part 1 of Schedule 3, duly completed.
- (D) It will use all reasonable endeavours to procure that each person to whom it gives a notice referred to in paragraph (C) promptly delivers to the Collateral Agent a letter of acknowledgement and undertaking in or substantially in the form set out in Part 2 of Schedule 3.

4.3 Deposit of Charged Investments

- (A) XCE agrees to deposit with the Collateral Agent each of the following:
- (i) All certificates, documents of title and other documentary evidence of ownership in relation to the Charged Investments charged by it.
 - (ii) Transfers of the Charged Investments duly executed by it or its nominee with the name of the transferee left blank or, if the Collateral Agent so requires, with the name of the Collateral Agent (or the Collateral Agent's nominee) included as transferee. Each transfer must be duly stamped.
 - (iii) All other documents the Collateral Agent may require to enable the Collateral Agent (or the Collateral Agent's nominee) or any purchaser to be registered as the owner of, or otherwise to obtain legal title to, the Charged Investments.
- (B) The deposit required by paragraph (A) will be made promptly at the request of the Collateral Agent following an Event of Default which is continuing.

4.4 Derived Assets

XCE agrees that it shall, upon the occurrence of an Actionable Event of Default or acceleration of the Loans in accordance with the terms of the Credit Agreement, deliver or pay, or procure the delivery or payment, to the Collateral Agent of the following:

- (A) all Charged Derived Assets or the certificates, documents of title and other documentary evidence of ownership in relation to them,
- (B) transfers of any Investments comprised in the Charged Derived Assets duly executed by it with the name of the transferee left blank or, if the Collateral Agent so requires, with the name of the Collateral Agent (or the Collateral Agent's nominee) included as transferee. Each transfer must be duly stamped; and
- (C) all other documents the Collateral Agent may require to enable the Collateral Agent (or the Collateral Agent's nominee) or any purchaser to be registered as the owner of, or otherwise to obtain legal title to, the Investments comprised in those Charged Derived Assets.

This delivery or payment will be made promptly after the Collateral Agent's request.

5. Further Advances

The Charges are intended to secure further advances. The Collateral Agent (acting in its capacity as Administrative Agent under the Credit Agreement) agrees to make further advances in respect of Revolving Loans in accordance with the Credit Agreement. The Collateral Agent (acting in its capacity as Administrative Agent under the Credit Agreement) will, however, only have an obligation under this Clause to the extent it receives funds from the Lender or Lenders making such Revolving Loan or Revolving Loans in accordance with Section 2.05 of the Credit Agreement.

6. Release of the Collateral

6.1 Release Pursuant to the Credit Agreement

Subject to Clause 6.2, the Collateral shall be released from the Charges, and XCE shall be released from its obligations under this Debenture, in accordance with Section 9.02 or 9.03, as the case may be, of the Credit Agreement. "Release Conditions" means each of the following being true:

- (A) all Non-Contingent Secured Sums have been paid or discharged in full;
- (B) (i) the Revolving Commitments with respect to XCE have been terminated or otherwise reduced to zero; or
(ii) an Election to Terminate has been delivered in respect of XCE pursuant to Section 2.19 of the Credit Agreement; and

(C) no Contingent Secured Sums, other than with respect to any Cash Collateralised Letter of Credit, remain outstanding.

6.2 Release Void if Payment Avoided

Any release of XCE shall be subject to the condition that if any payment of Secured Sums shall be avoided, reduced or invalidated by virtue of any applicable law or for any other reason whatsoever, then such release shall be void and of no effect, and the Charges shall be reinstated with respect to such Secured Sums as though payment had been due but not made at that time.

6.3 Expenses

XCE agrees to reimburse the Collateral Agent for all reasonable out-of-pocket costs and expenses incurred by the Collateral Agent as a result of it performing its obligations under this Clause. Any such amount not paid on demand shall bear interest at the rate applicable to Base Rate Loans from time to time plus 2%.

PART III: REPRESENTATIONS AND COVENANTS

7. Representations

7.1 Initial representations

XCE confirms that each of the following is true:

- (A) Legal Status: it is a company duly incorporated and validly existing under the laws of England.
- (B) Corporate Powers, Authorisations and Contraventions: The execution and delivery of this Deed by it and the performance by it of its obligations under this Deed (i) are within its corporate or other powers, (ii) have been duly authorised by all necessary corporate or other action, (iii) require no consent or approval of, registration or filing with, any Governmental Authority except (a) such as have been obtained or made and are in full force and effect and (b) registrations such as are necessary with respect to the Charges, (iv) do not violate any Applicable Law or its Memorandum or Articles of Association, (v) do not violate any order of any Governmental Authority except in any such case where such violation could not reasonably be expected to result in a Material Adverse Effect, (vi) do not violate or result in a default under any indenture or material agreement or other instrument binding upon it and (vii) do not result in, or oblige it to create, any Security over its assets (other than Charges).
- (C) Binding Obligations: Its obligations under this Deed and (subject to all necessary registrations thereof being made) the Charges are and will be until fully discharged valid, legal, binding and enforceable in accordance with their terms and, in the case of the Charges, have and will have the effect and the priority and ranking which they are expressed to have except, in each case, as limited by (i) applicable bankruptcy, insolvency, fraudulent conveyance or other similar laws affecting creditors' rights generally and (ii) general principles of equity.
- (D) Beneficial Owner:
 - (i) It is the sole beneficial owner of the Collateral.
 - (ii) No Security exists over any of the Collateral except for Permitted Encumbrances and as permitted by Section 6.02 of the Credit Agreement.
- (E) Disposals of Collateral: It has not disposed of any of the Collateral other than as permitted by the Credit Agreement.
- (F) Insurance: The Policies (if any) are valid and in full force and effect.

- (G) Loan Agreements: No Loan Agreement exists which is not an Assigned Agreement.

7.2 Repetition

The representations in Clause 7.1 will be deemed to be repeated on the date of each Borrowing by XCE and the date of each issuance, amendment, renewal or extension of a Letter of Credit issued to XCE. This repetition will be by reference to the facts on that day.

8. Covenants applicable to all Collateral

8.1 General covenants

XCE agrees as follows:

- (A) Payments: It will, to the extent required by Section 5.05 of the Credit Agreement, punctually pay all rent, rates, taxes, assessments, impositions and outgoings payable in respect of the Collateral. It will also produce to the Collateral Agent on demand the related receipts.
- (B) Priority debts: It will, to the extent required by Section 5.05 of the Credit Agreement, punctually pay all debts and liabilities which by law would have priority over any of the Secured Sums.
- (C) Prejudicial acts: It will not, unless permitted by the Credit Agreement, do, or allow, anything which could prejudice the Charges or the position of the Collateral Agent under this Debenture.

9. Covenants applicable to other property

9.1 Book Debts

(A) Collection of Book Debts: XCE agrees as follows:

- (i) It will, upon the occurrence of an Actionable Event of Default which is continuing, get in and realise:
- (a) all Book Debts;
 - (b) all Negotiable Instruments;
 - (c) all Charged Investments; and
 - (d) all income arising from its Intellectual Property Rights,

in the ordinary course of its business. The proceeds of getting in and realisation of such Collateral will be held (until payment in accordance with sub-paragraph (ii)) upon trust for the Collateral Agent.

- (ii) It will, upon the occurrence of an Actionable Event of Default which is continuing and receipt of notice from the Collateral Agent to the effect that the Collateral Agent elects to exercise its rights under Clause 9.1, pay the proceeds of the getting in and realisation of the assets referred to in sub-paragraph (i) into the Collateral Account.

(B) Other restrictions

XCE agrees that upon the occurrence of an Actionable Event of Default which is continuing and receipt of notice from the Collateral Agent to the effect that the Collateral Agent elects to exercise its rights under Clause 9.1:

- (i) It will deliver to the Collateral Agent on demand any document relating to the Book Debts specified by the Collateral Agent.
- (ii) It will execute and deliver to the Collateral Agent on demand a statutory assignment of the Book Debts specified by the Collateral Agent. This assignment must be in the form reasonably required by the Collateral Agent. XCE will also give notice of the assignment to the debtors concerned and take all other steps reasonably required to perfect or protect that assignment.

9.2 Assigned Agreements:

XCE agrees that upon receipt of notice from the Collateral Agent during the continuance of an Actionable Event of Default it will:

- (A) Perform all its obligations under each of the Assigned Agreements in a diligent and timely manner;
- (B) Not, except with the prior written consent of the Collateral Agent (acting with the prior written consent of each of the Revolving Lenders): (i) transfer, assign or otherwise dispose (except pursuant to Clause Error! Reference source not found.) of its rights, title or interest in any of the Assigned Agreements; (ii) make or agree to make any material amendments or modifications to any of the Assigned Agreements; (iii) waive any of its material rights under any of the Assigned Agreements; or (iv) exercise any right to terminate any of the Assigned Agreements; and
- (C) Use its reasonable endeavours to maintain and enforce its rights and exercise its discretions under each of the Assigned Agreements.

9.3 Charged Investments

- (A) Covenants: XCE agrees as follows:

- (i) It will reimburse the Collateral Agent for all calls and other moneys which the Collateral Agent (or its nominee) is required to pay in respect of any of the Charged Investments.
 - (ii) It will, upon reasonable request, deliver to the Collateral Agent a copy of every document received by it or its nominee in connection with any of the Charged Investments.
 - (iii) It will not, after the occurrence of an Actionable Event of Default which is continuing or upon acceleration of the Loans in accordance with the terms of the Credit Agreement, do or omit to do anything in relation to any Charged Investment which would adversely affect, or diminish the value of, that Charged Investment.
- (B) Voting rights, dividends, etc.: Unless an Actionable Event of Default shall have occurred and be continuing and XCE shall have received notice from the Collateral Agent, all voting and other rights relating to the Charged Investments may be exercised by XCE, or in accordance with its direction, for any purpose not inconsistent with the terms of this Debenture.

10. Further assurance

The Collateral Agent may issue a notice to XCE specifying action to be taken by XCE. This action must be for one or more of the following purposes:

- (A) To perfect, preserve or protect the Charges or the priority of the Charges.
- (B) To facilitate the realisation of the Collateral or the exercise of any rights of the Collateral Agent or any Receiver.
- (C) To create Security over any of the assets of XCE which are expressed to be subject to the Charges. Any such Security shall be on terms no more onerous than the terms of the Charges to which such asset is expressed to be subject pursuant to the terms of this Debenture.

The action required may include the execution and delivery of transfers, mortgages or charges of the Collateral or other documents or the giving of notices or directions. XCE agrees to comply promptly with the Collateral Agent's reasonable request.

11. Duration of covenants

The obligations of XCE under Clauses 8 and 9 will cease to have effect upon satisfaction of the Release Conditions.

PART IV: ENFORCEMENT AND OTHER RIGHTS

12. Enforcement

12.1 Notice of payment

The Collateral Agent may, upon the occurrence of an Actionable Event of Default which is continuing or acceleration of the Loans in accordance with the terms of the Credit Agreement, give a notice directing each counterparty to the Assigned Agreements to make payments under the Assigned Agreements to the Collateral Agent. Each notice must be copied to XCE at the same time as it is sent to the counterparty concerned. Payments under any Assigned Agreement made to the Collateral Agent will be paid into the Collateral Account.

12.2 Charges becoming enforceable

The Charges will be enforceable at any time upon acceleration of the Loans in accordance with the terms of the Credit Agreement. At this time the powers conferred by section 101 of the LPA, as varied and extended by this Debenture, will be exercisable.

12.3 Section 101 LPA

The powers conferred by section 101 of the LPA, as varied and extended by this Debenture, arise on the date of this Debenture.

12.4 Sections 93 and 103 LPA

Sections 93 and 103 of the LPA do not apply to this Debenture.

12.5 Enforcement

This sub-clause applies when the Charges are enforceable pursuant to Clause 12.2. In this case each of the following applies:

- (A) Application of Book Debts, Assigned Agreements and the Collateral Account: The Collateral Agent may apply:
 - (i) the Book Debts;
 - (ii) payments under the Assigned Agreements made to the Collateral Agent; and
 - (iii) moneys standing to the credit of the Collateral Account, in payment of the Secured Sums.
- (B) Charged Investments

- (i) The Collateral Agent may receive and retain any dividends, interest and other distributions paid in respect of the Charged Investments. These may be applied in payment of the Secured Sums.
- (ii) If any dividends, interest and other distributions paid in respect of the Charged Investments are received by XCE, XCE agrees to pay the amount received to the Collateral Agent. Until that payment is made XCE agrees that the amount received will be segregated from the other property of XCE and held in trust for the Collateral Agent.
- (iii) XCE agrees to procure that all voting and other rights relating to the Charged Investments are exercised in accordance with the instructions of the Collateral Agent or the Receiver. XCE also agrees to deliver to the Collateral Agent forms of proxy or other appropriate forms of authorisation to enable the Collateral Agent or the Receiver to exercise those voting and other rights.

13. Receivers

13.1 Appointment

- (A) Appointment: The Collateral Agent may appoint a receiver in any of the following circumstances:
 - (i) The Charges are enforceable pursuant to Clause 12.2. (whether or not the Collateral Agent has taken possession of the Collateral).
 - (ii) XCE requests the appointment.
- (B) Method of appointment: In these circumstances, the Collateral Agent may appoint a Receiver by deed or by a document signed by any officer or manager of the Collateral Agent or any other person authorised by the Collateral Agent. A Receiver may be removed in the same way (even if no person is appointed as a replacement in his place). If the Receiver is an administrative receiver this removal will only take effect following any necessary order of the court.
- (C) More than one person: The Collateral Agent may appoint more than one person as Receiver. In this case the Collateral Agent may give those persons power to act either jointly or severally.
- (D) Scope of appointment: A Receiver may be appointed in respect of all the Collateral or any part of them specified in the appointment. In the case of an appointment in relation to part of the Collateral, the rights conferred on a Receiver by Clause 14.2. will have effect as though every reference in that clause to the "Collateral" were a reference to the part of the Collateral so specified.

13.2 Rights

Each Receiver appointed under this Debenture will (unless the appointment specifies otherwise) have the rights set out in this sub-clause. These rights may be exercised either in the Receiver's own name or in the name of XCE or otherwise. They may be exercised in any manner, and upon the terms and conditions, determined by the Receiver.

- (A) Possession: To enter upon, take possession of, and collect and get in the Collateral.
- (B) Carry on business: To manage and carry on any business of XCE. This includes the right to enter into, perform, repudiate, rescind or vary any contract or arrangement to which XCE is a party.
- (C) Deal with Collateral:
 - (i) To sell, transfer, assign, redeem, exchange, hire out and lend the Collateral.
 - (ii) To grant leases, tenancies, licences, rights of user and renewals and accept surrenders of and re-enter upon leases, tenancies, licences and rights of user of the Collateral.
 - (iii) To dispose of or realise the Collateral in any other way.

For the purpose of this paragraph any fixtures may be sold separately from the land containing it. Any transaction under this paragraph may be carried out by public offer or auction, tender or private contract (with or without advertisement and in any lots). The transaction may be conducted with any person (including the Collateral Agent) and for rents, premiums or other compensation or consideration of any kind (whether payable or deliverable in a lump sum or by instalments). For the purposes of this paragraph the Receiver may complete any transfers of the Charged Investments.

- (D) Hive down:
 - (i) To promote or procure the formation of a new company, whether or not a wholly owned Subsidiary of the Collateral Agent.
 - (ii) To subscribe for or acquire (for cash or otherwise) any Investment in or of that new company.
 - (iii) To:
 - (a) sell, transfer, assign, redeem, hire out and lend the Collateral;
 - (b) grant leases, tenancies, licences and rights of user of the Collateral,

to that new company or any other person. The Receiver may also accept as consideration any Investments in or of that new company or person and allow the payment of that consideration to remain deferred or outstanding.

- (iv) To sell, transfer, assign, exchange and otherwise dispose of or realise any of those Investments or deferred consideration or any rights relating to them.

This paragraph is not to be construed as limiting the scope of paragraph (C).

- (E) Borrow money: To borrow or raise money on terms and conditions determined by the Receiver. This borrowing or raising money may be unsecured or on the security of the Collateral (either in priority to the Charges or otherwise). It may be undertaken for the purpose of any of the following:
 - (i) exercising any of the rights conferred on the Receiver by or pursuant to this Debenture; or
 - (ii) defraying any costs, charges, losses, liabilities or expenses (including the Receiver's remuneration) incurred by, or due to, the Receiver.
- (F) Calls: To make or require the directors of XCE to make calls in respect of any uncalled capital of XCE and to enforce payment of any call so made by action (in the name of XCE or the Receiver) or otherwise.
- (G) Covenants and guarantees: To enter into bonds, covenants, commitments, guarantees, indemnities and like matters and to make all payments needed to effect, maintain or satisfy the same, in each case for the purpose of any of the following:
 - (i) exercising any of the rights conferred on the Receiver by or pursuant to this Debenture; or
 - (ii) defraying any costs, charges, losses, liabilities or expenses (including the Receiver's remuneration) incurred by, or due to, the Receiver.
- (H) Dealings with tenants: To reach agreements and make arrangements with, and to make allowances to, any lessees, tenants or other persons from whom any rents or profits may be receivable. These may include agreements and arrangements relating to the grant of any licences, or the review of rent in accordance with the terms of, and the variation of, any leases, tenancies, licences or rights of user affecting the Collateral.
- (I) Rights of ownership:
 - (i) To manage and use the Collateral.

- (ii) To exercise all the rights and do all the things (or permit XCE or its nominee to exercise and do) as the Receiver would be capable of exercising or doing if he were the absolute beneficial owner of the Collateral. This includes, among other things:
 - (a) exercising or directing the exercise of all voting and other rights relating to the Charged Investments;
 - (b) exercising any rights of enforcing any Security by foreclosure, sale or otherwise and any rights relating to Investments; and
 - (c) arranging for or providing all services which the Receiver may deem proper for the efficient management or use of the Collateral or the exercise of those rights.
- (J) Repairs, improvements, etc.:
 - (i) To make and effect decorations, repairs, structural and other alterations, improvements and additions in or to the Collateral. This may include the development or redevelopment of any Land.
 - (ii) To purchase or otherwise acquire any materials, articles or things.
 - (iii) To do anything else in connection with the Collateral as the Receiver may think desirable for the purpose of making them productive or more productive, increasing their letting or market value, or protecting the Charges.
- (K) Claims: To settle, adjust, refer to arbitration, compromise and arrange any claims, accounts, disputes, questions and demands with or by any person who is or claims to be a creditor of XCE or relating in any way to the Collateral.
- (L) Legal actions: To bring, prosecute, enforce, defend and abandon actions, suits and proceedings in relation to the Collateral or any of the businesses of XCE.
- (M) Redemption of Security: To redeem any Security (whether or not having priority to the Charges) over the Collateral and to settle the accounts of encumbrancers. Any accounts so settled will be conclusive and binding on XCE.
- (N) Employees, etc.:
 - (i) To appoint, hire and employ officers, employees, contractors, Collateral Agents and advisors of all kinds.
 - (ii) To discharge any of these persons and any of those persons appointed, hired or employed by XCE.

- (O) Insolvency Act: To exercise all the powers set out in Schedule 1 to the Insolvency Act as in force at the date of this Debenture. This paragraph applies whether or not that Act is in force at the date of exercise and whether or not the Receiver is an administrative receiver.
- (P) Other rights:
 - (i) To do all other acts and things which the Receiver considers necessary or expedient:
 - (a) for the realisation of the Collateral; or
 - (b) incidental to the exercise of any right conferred on the Receiver under or in connection with this Debenture, the LPA or the Insolvency Act,
 - (ii) To concur in the doing of anything which the Receiver has the right to do and to do any of those things jointly with any other person.

13.3 Agent of XCE

Each Receiver will be the agent of XCE for all purposes. XCE will be solely responsible for the Receiver's contracts, engagements, acts, omissions, defaults and losses and for all liabilities incurred by the Receiver other than such as result from the Receiver's gross negligence or wilful misconduct.

13.4 Remuneration

The Collateral Agent may determine the remuneration of any Receiver. This remuneration is not to be limited to the maximum rate specified in section 109(6) of the LPA. The Collateral Agent may direct payment of this remuneration out of moneys accruing to the Receiver as Receiver but XCE alone will be liable for the payment of that remuneration and for all other costs, charges and expenses of the Receiver. This sub-clause is subject to section 36 of the Insolvency Act.

14. Rights of the Collateral Agent

14.1 Same rights as a Receiver

All rights conferred by this Debenture upon a Receiver may, when the Charges are enforceable, be exercised by the Collateral Agent. This applies whether or not the Collateral Agent has taken possession or appointed a Receiver.

14.2 Prior Security

This sub-clause applies if there is any other Security (other than Permitted Encumbrances and as permitted by Section 6.02 of the Credit Agreement) over the

Collateral ranking ahead of the Charges. In this case the Collateral Agent may do any of the following:

- (A) Redeem that other Security.
- (B) Procure the transfer of that other Security to the Collateral Agent.
- (C) Discharge the debts secured by that other Security. In this case the discharge of those debts will be conclusive and binding on XCE.

XCE agrees that it will reimburse the Collateral Agent for:

- (i) all amounts paid or committed by the Collateral Agent in exercise of its rights under this sub-clause; and
- (ii) all losses, liabilities and expenses incurred in connection with the exercise of these rights.

14.3 Subordinate Security

This sub-clause applies when either of the following has occurred:

- (A) The Collateral Agent receives actual or constructive notice of any other Security over the Collateral ranking behind the Charges or created after the Charges.
- (B) The Dissolution of XCE.

When this sub-clause applies the Collateral Agent may open a new account in the name of XCE (whether or not it permits any existing account to continue). If the Collateral Agent does not open a new account, it will be treated as if it had done so at the time (the "cut-off time") it received notice or, as the case may be, the Dissolution commenced. After that time all payments made by XCE to the Collateral Agent, or received by the Collateral Agent for the account of XCE, will be credited, or treated as having been credited, to the extent permitted by law, to the new account. Those payments will not operate to reduce the amount secured by this Debenture at the cut-off time.

14.4 Suspense Account

The Collateral Agent may, for as long as any of the Secured Sums for which any other person may be liable as principal debtor or as co-surety with XCE have not been paid or discharged in full, at its sole discretion, place and retain on a suspense account, for as long as it considers fit, any moneys received, recovered or realised under or in connection with this Debenture to the extent of such Secured Sums without any obligation on the part of the Collateral Agent to apply the same in or towards the discharge of such Secured Sums except when such moneys would be sufficient to

discharge the Secured Sums in full in which case they shall be applied to such discharge.

14.5 Delegation

The Collateral Agent may delegate any of the rights which it may exercise under this Debenture. The delegation will be on terms determined by the Collateral Agent to any person chosen by the Collateral Agent. It may allow the delegate to sub-delegate his powers.

15. Application of moneys

Amounts received by the Collateral Agent under this Debenture are to be applied in the following order:

- (A) Towards payment of all losses, liabilities and expenses:
 - (i) incurred by any Receiver; or
 - (ii) incidental to the appointment of any Receiver, including the remuneration of that Receiver.
- (B) Towards the payment of the Secured Sums in an order determined by the Collateral Agent.
- (C) After all the Secured Sums have been paid or discharged in full, any surplus will be paid to XCE or other person entitled to it.

This Clause does not affect any right of the Collateral Agent under this Debenture.

16. Liability of the Collateral Agent and other persons

16.1 Possession of the Collateral

If the Collateral Agent, any Receiver or any Delegate takes possession of the Collateral, it may relinquish that possession at any time.

16.2 Limitation of the Collateral Agent's liability

- (A) The Collateral Agent will not be liable to account to XCE or any other person for anything except the Collateral Agent's actual receipts.
- (B) The Collateral Agent will not be liable to XCE or any other person for any losses, liabilities or expenses arising from or connected with:
 - (i) any realisation of the Collateral; or

- (ii) any act, default, omission or misconduct of the Collateral Agent, its officers, employees or Collateral Agents in relation to the Collateral.

This paragraph does not, however, apply to the extent that a loss, liability or expense is determined in a final, non-appealable judgment by a court of competent jurisdiction to have been caused by the Collateral Agent's gross negligence or wilful misconduct or that of its officers or employees.

- (C) This sub-clause applies where the loss, liability or expense:
 - (i) arises because of the taking of possession of Collateral; or
 - (ii) arises in the Collateral Agent's capacity as mortgagee in possession.

It also applies in all other cases where the Collateral Agent would otherwise be liable.

16.3 Limitation of the liability of other persons

No Receiver or Delegate or any officer, employee or agent of the Collateral Agent, any Receiver or any Delegate will be liable to XCE or any other person in relation to this Debenture except for their own negligence or wilful misconduct.

16.4 Indemnity

Each of the Collateral Agent and every Receiver, Delegate, attorney, manager, agent or other person appointed by the Collateral Agent is entitled to be reimbursed out of the Collateral in respect of all losses, liabilities (except to the extent that such loss or liability is determined in a final non-appealable judgment by a court of competent jurisdiction to have been caused by the gross negligence or wilful misconduct of that person or that of its officers or employees) and reasonable out of pocket expenses incurred by any of them:

- (A) in the execution or purported execution of any of its rights; or
- (B) relating to the Collateral.

Each amount to be reimbursed under this sub-clause may be deducted from any moneys received in respect of the Collateral.

17. Protection of third parties

No person dealing with the Collateral Agent, any Receiver or any Delegate is to be concerned to enquire about any of the following:

- (A) Whether any right under or in connection with this Debenture, the LPA or the Insolvency Act is exercisable.

- (B) Whether any consent, regulation, restriction or direction relating to those rights has been obtained or complied with.
- (C) As to the propriety or regularity of acts purporting or intended to be in exercise of those rights or as to the application of any money borrowed or raised or other proceeds of enforcement.

All the protections to purchasers contained in sections 104 and 107 of the LPA, section 42(3) of the Insolvency Act or in any other legislation applies to any person purchasing from, or dealing with, the Collateral Agent, any Receiver or any Delegate.

PART V: MISCELLANEOUS

18. Power of Attorney

18.1 Appointment

- (A) XCE appoints as its attorney each of the Collateral Agent, each Receiver and each Delegate. Each attorney may act without the others and may do any of the following on behalf of XCE:
- (i) Anything which XCE is obliged to do under this Debenture to create Security over any of the assets of XCE which are expressed to be subject to the Charges, or to perfect, preserve or protect the Security over the Collateral, or to preserve or protect the rights of the Collateral Agent therein, but has not done within 14 days of receipt of notice from the Collateral Agent.
 - (ii) Anything necessary to facilitate the exercise by the Collateral Agent, any Receiver or any Delegate of its rights in relation to the Collateral or under or in connection with this Debenture, the LPA or the Insolvency Act, provided that anything done pursuant to this paragraph (ii) shall be done at such time or times as are permitted by, and in accordance with the terms of, this Debenture, the LPA or the Insolvency Act, as the case may be.

The attorney may act in the name of XCE or in any other manner determined by the attorney.

- (B) The power of attorney in paragraph (A) is irrevocable and granted by way of security.
- (C) Each attorney has full powers of substitution and delegation.

18.2 Ratification

XCE agrees to ratify and confirm everything each attorney does, or purports to do, in the exercise, or purported exercise, of the power of attorney in Clause 18.1.

19. Notices

- (A) A notice under this Debenture shall be made in writing by letter or facsimile transmission.
- (B) Notices under this Debenture shall (unless that other party has by five days' written notice specified another address) be sent to a party addressed as follows:
- (i) if to XCE to:

[]

Attention: []

Facsimile: []

(ii) if to the Collateral Agent to:

[]

Attention: []

Facsimile: []

(C) Any notice given under this Debenture shall be deemed to have been duly given on the date of receipt.

20. Invalidity

This clause applies if any part of this Debenture is or becomes illegal, invalid or unenforceable under the law of any jurisdiction. In this case neither of the following will be affected or impaired:

(A) The legality, validity or enforceability in that jurisdiction of any other part of this Debenture.

(B) The legality, validity or enforceability under the law of any other jurisdiction of that or any other part of this Debenture.

21. Assignment

The Collateral Agent may, without the consent of XCE, assign or transfer any of its rights under this Debenture to any person to whom its rights under the Credit Agreement are assigned or transferred.

22. Miscellaneous

22.1 Exercise of rights

If the Collateral Agent does not exercise a right or power when it is able to do so this will not prevent it exercising that right or power. When it does exercise a right or power it may do so again in the same or a different manner. The Collateral Agent's rights and remedies under this Debenture are in addition to any other rights and remedies it may have. Those other rights and remedies are not affected by this Debenture.

23. Currency Indemnity

If, under any applicable law, whether pursuant to a judgment against XCE or the Dissolution of XCE or for any other reason, any payment under or in connection with this Debenture is made or falls to be satisfied in a currency (the "Other Currency") other than the currency in which the relevant payment is expressed to be payable (the "Required Currency"), then, to the extent that the payment actually received by the Collateral Agent (when converted into the Required Currency at the rate of exchange on the date of payment or, if it is not practicable for the Collateral Agent to make the conversion on that date, at the rate of exchange as soon afterwards as it is practicable for the Collateral Agent to do so or, in the case of a Dissolution, at the rate of exchange on the latest date permitted by applicable law for the determination of liabilities in such Dissolution) falls short of the amount expressed to be due or payable under or in connection with this Debenture, XCE shall, as an original and independent obligation under this Debenture, indemnify and hold the Collateral Agent harmless against the amount of such shortfall. For the purpose of this Clause 23, "rate of exchange" means the rate at which the Collateral Agent is able on the relevant date to purchase the Required Currency with the Other Currency and shall take into account any commission, premium and other costs of exchange and Taxes payable in connection with such purchase.

24. Certificate to Be Conclusive Evidence

A copy of a certificate signed by an officer of the Collateral Agent as to the amount of any indebtedness comprised in the Secured Sums:

- (A) calculated in accordance with Section 2.08(e) of the Credit Agreement shall, in the absence of manifest error, be prima facie evidence; and
- (B) decided pursuant to any judgment against XCE shall, in the absence of manifest error, be conclusive evidence for the purposes of any Proceedings,

against XCE that such amount is in fact due and payable by XCE to the Collateral Agent.

25. Stamp Duty

XCE shall pay promptly, and in any event before any penalty becomes payable, all stamp, documentary and similar Taxes, if any, payable in connection with the entry into, performance, enforcement or admissibility in evidence of this deed or any other document referred to in this deed, and shall indemnify the Collateral Agent against any liability with respect to, or resulting from any delay in paying or omission to pay, any such Tax.

25.1 Counterparts

There may be several signed copies of this Debenture. There is intended to be a single Debenture and each signed copy is a counterpart of that Debenture.

26. Contracts (Rights of Third Parties) Act 1999

The parties to this Debenture do not intend that any term of this Debenture should be enforceable, by virtue of the Contracts (Rights of Third Parties) Act 1999, by any person who is not a party to this Debenture.

27. Governing Law

This Debenture is to be governed by and construed in accordance with English law.

28. Jurisdiction

28.1 The courts of England are to have jurisdiction to settle any dispute arising out of or in connection with this Debenture ("Proceedings"). Any proceedings may therefore be brought in the English courts. This jurisdiction agreement is irrevocable and is for the exclusive benefit of the Collateral Agent. The Collateral Agent therefore is to retain the right to bring Proceedings in any court which has jurisdiction by virtue of rules which would be applicable apart from this jurisdiction agreement. Nothing contained in this Clause 28. shall limit the right of the Collateral Agent to take Proceedings against XCE in any other court or in the courts of more than one jurisdiction at the same time.

28.2 XCE irrevocably waives (and irrevocably agrees not to raise) any objection, on the ground of forum non conveniens or on any other ground, to the taking of Proceedings in any court referred to in this Clause 28 Each party also irrevocably agrees that a judgement against it in Proceedings brought in any jurisdiction referred to in this Clause 28 shall be conclusive and binding upon it and may be enforced in any other jurisdiction.

SCHEDULE 1

ASSIGNED AGREEMENTS

[Details of loan agreements to be inserted]

SCHEDULE 2
NOTICE OF ASSIGNMENT OF ASSIGNED AGREEMENTS

Part 1
FORM OF NOTICE OF ASSIGNMENT

To: [Name of counterparty to Assigned Agreement]

From: Xerox Capital (Europe) plc (the "Company")
and

Bank One, NA (the "Collateral Agent")

NOTICE OF ASSIGNMENT

We refer to the [describe agreement(s)] made between ourselves and you on [date] pursuant to which [briefly describe agreement] (the "Relevant Agreement")

We, the Company, hereby give you notice that pursuant to a debenture dated [], 2002, and made between ourselves and the Collateral Agent as agent and trustee for itself and certain lenders the "Secured Parties" (such debenture, as it may from time to time be amended, assigned, novated or supplemented, being below called the "Debenture"), we have assigned by way of security and charged and agreed to assign by way of security and charge, to the Collateral Agent, as agent and trustee for itself and the Secured Parties, all our rights, title, interest and benefit, present and future, under, to and in the Relevant Agreement.

Words and expressions defined in the Debenture shall have the same meaning when used in this letter.

A copy of [the Debenture/1/] [a summary of the material terms of the Debenture/2/] [is enclosed for your attention] [has previously been provided to you] and we request that you take note of its provisions.

Please note the following:

- (a) The Company shall at all times remain solely liable to you for the performance of all of the obligations assumed by it under or in respect of the Relevant Agreement. Neither the Collateral Agent nor any of the Secured Parties will be under any liability or obligation of any kind in the event of any breach or failure by us to perform any obligation under the Relevant Agreement.
- (b) The Collateral Agent has agreed that, notwithstanding the Debenture, the Company remains entitled to exercise all of the rights, powers, discretions and remedies which

/1/ Delete this text if the Assigned Agreement is not an Intra-Group Loan Agreement.

/2/ Delete this text if the Assigned Agreement is an Intra-Group Loan Agreement.

would (but for the Debenture) be vested in the Company under and in respect of the Relevant Agreement unless and except to the extent that the Collateral Agent gives you written notice of the occurrence of an Actionable Event of Default which is continuing or the acceleration of the Loans in accordance with the terms of the Credit Agreement (an "Event Notice"). Upon and after the giving of any such Event Notice, the Collateral Agent shall be entitled to exercise and give directions regarding the exercise of all or any of those rights, powers, discretions and remedies (to the exclusion of the Company and to the exclusion of any directions given at any time by or on behalf of the Company) to the extent specified in such notice.

- (c) The Company irrevocably and unconditionally instructs you to pay the full amount of any sum which you are (or would, but for the Debenture, be) at any time obliged to pay to it under or in respect of the Relevant Agreement at all times after the Collateral Agent has given you an Event Notice, to such bank account as the Collateral Agent may from time to time specify to you.
- (d) The Company has irrevocably and unconditionally appointed the Collateral Agent to be its attorney to do (among other things) all things which the Company itself could do in relation to the Relevant Agreement.
- (e) The Company confirms to you that:
 - (i) in the event of any conflict between communications received from the Company and from the Collateral Agent, you shall treat the communication from the Collateral Agent as prevailing over the communication from the Company;
 - (ii) you are and will at all times be permitted to assume and rely upon the correctness of anything communicated to you by the Collateral Agent including without limitation statements as to the occurrence of an Actionable Event of Default or acceleration of the Loans in accordance with the terms of the Credit Agreement; and
 - (iii) none of the instructions, authorisations and confirmations in this notice can be revoked or varied in any way except with the Collateral Agent's specific prior written consent.

Please acknowledge receipt of this notice, and confirm your agreement to it, by executing and returning to the Collateral Agent an original copy of the Form of Acknowledgement attached to this notice of assignment.

This notice is governed by English law.

Yours faithfully,

.....
For and on behalf of
Xerox Capital (Europe) plc

.....
For and on behalf of
Bank One, NA
as agent and trustee for itself and the Revolving Lenders

Part 2
FORM OF ACKNOWLEDGEMENT

[LETTERHEAD OF CONTRACT COUNTERPARTY]

To: Bank One, NA
One Bank One Plaza - IL 1-0631
17th Floor
Chicago,
IL 60670

(as agent and trustee for the Secured Parties referred to below)

Attn: []

Fax: []

Dear Sirs,

We acknowledge receipt of the notice dated [], (a copy of which is attached to this letter) and the copy of the Debenture enclosed with that notice. Words and expressions defined in the Debenture have the same meanings in this letters.

[In consideration of the Secured Parties agreeing to provide finance and financial support pursuant to the Credit Agreement,] we confirm to you in the terms set out in this letter:

1. We consent to the assignment of the Relevant Agreement and have noted, and will act in accordance with, the terms of that notice.
2. We have not previously received notice of any other assignment of the Relevant Agreement and we are not aware of any interest of any third party in any of the Company's rights, benefits, interests or claims under or in respect of the Relevant Agreement.
3. We irrevocably and unconditionally agree to pay the full amount of any sum which we are (or would, but, for the Debenture, be) at any time obliged to pay under or in respect of the Relevant Agreement at all times after the Collateral Agent has given us an Event Notice, to such bank account as the Collateral Agent may from time to time specify.
4. We acknowledge that the Company shall at all times remain [solely] liable to us for the performance of all of the obligations assumed by it under the Relevant Agreement, and that neither the Collateral Agent nor any other Secured Party is or will be under any liability or obligation whatever in the event of any breach or failure by the Company to perform its obligations under the Relevant Agreement.

This letter is for the benefit of the Collateral Agent as agent and trustee for the Secured Parties and is governed by English Law.

Yours faithfully,

Signed for and on behalf of
[counterparty to Relevant Agreement]

By

.....

(print name)

SCHEDULE 3
PART A: FORM OF NOTICE TO INSURERS

To: [Name and address of insurers]

[Date]

Dear Sirs,

Notice of Assignment
Policy Number [] (the "Policy")

We are writing to give you notice that Xerox Capital (Europe) plc ("XCE") has by a debenture dated [], 2002 and made between XCE and Bank One, NA (the "Collateral Agent"), acting as Collateral Agent and trustee for certain lenders (the "Secured Parties") assigned its interest under the Policy to the Collateral Agent as first chargee and assignee.

We authorise and request you to issue a letter of undertaking, in the form attached, to the Collateral Agent and to act on the instructions of the Collateral Agent in the manner provided in that letter without any further reference to an authorisation from us and to arrange for the Collateral Agent's interest to be noted on the Policy.

You may, without notice to us, disclose to the Collateral Agent any information concerning the Policy. We instruct you to make any disclosure concerning the Policy requested by the Collateral Agent. These instructions are irrevocable.

We continue to be responsible for the performance of all our obligations under the Policy. Neither the Collateral Agent nor any of the Secured Parties has assumed any liability under the Policy and they are not responsible for any default under the terms of the Policy.

Please sign the attached form of acknowledgement and undertaking and send it to the Collateral Agent at the address marked on that form.

Yours faithfully,

Xerox Capital (Europe) plc

PART B: FORM OF ACKNOWLEDGEMENT AND UNDERTAKING FROM INSURERS

To: Bank One, NA
One Bank One Plaza - IL-1-0631
17th Floor
Chicago
IL 60670

Attention:

[Date]

Dear Sirs,

Xerox Capital (Europe) plc
Policy Number [] (the "Policy")

We acknowledge receipt of the notice of assignment dated [] informing us of your interest in the Policy.

1. We confirm that we have not received any other notice of any assignment of the Policy or the creation of any other security interest over it.
2. We have, as requested in the notice of charge noted your interest on the Policy. This note of your interest will remain on the Policy, and any renewals of the Policy, for so long as it, or those renewals, remain in force.
3. We undertake to give you:
 - (a) seven days prior notice of any cancellation of this policy; and
 - (b) prompt notice of each of the following:
 - (i) any notice of cancellation;
 - (ii) any non-payment of premium;
 - (iii) any restriction or reduction of the cover under the policy which diminishes the protection given by the policy to a material extent; and
 - (iv) any matter of which the [Insurer] has knowledge which could invalidate the policy or make the policy unenforceable in whole or part."
4. We confirm that we regard Xerox Capital (Europe) plc as solely liable for the performance of all its obligations under the Policy and acknowledge that neither you nor any of the Lenders (as defined in the notice of charge) have any liability under the Policy.

We have issued this acknowledgement in the knowledge that it is required by you in connection with the security granted to you.

Yours faithfully,

[Name of insurer]

EXECUTION AS A DEED

XCE

Executed as a deed by
XEROX CAPITAL (EUROPE) PLC
acting by [a director and its
secretary/two directors]

Director

[Secretary/Director]

COLLATERAL AGENT

Executed as a deed by
BANK ONE, NA
acting by
under its authority

Authorised Signatory(ies)

DATE: , 2002

XEROX CAPITAL (EUROPE) PLC

and

BANK ONE, NA
as Collateral Agent

DEBENTURE CREATING
FIXED AND FLOATING CHARGES

Slaughter and May
One Bunhill Row
London
EC1Y 8YY

RS/GMS

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This instrument was prepared by the attorney described below and, when recorded, the recorded counterparts should be returned to:

Susan D. Kennedy, Esq.
Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017

=====

MORTGAGE, ASSIGNMENT OF LEASES
AND RENTS, SECURITY AGREEMENT, FINANCING STATEMENT
AND FIXTURE FILING

dated as of June 21, 2002

by
XEROX CORPORATION
the Mortgagor,

to

BANK ONE, NA
as Collateral Agent for the Lenders,
the Mortgagee

Property:
County of Monroe
State of New York

=====

THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS AND SECURES
OBLIGATIONS CONTAINING PROVISIONS FOR CHANGES IN INTEREST RATES.

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Exhibit A - Description of the Land
Exhibit B - Permitted Encumbrances

THIS MORTGAGE, ASSIGNMENT OF LEASES AND RENTS, SECURITY AGREEMENT AND FIXTURE FILING (this "Mortgage") is dated as of _____, 2002 by XEROX CORPORATION, a New York corporation, having an address at 800 Long Ridge Road, Stamford, Connecticut 06904 ("Xerox" or the "Mortgagor"), to BANK ONE, NA, a national banking association, as Collateral Agent for itself and the other Secured Parties (hereinafter defined) (the "Mortgagee"), having an address at 1 Bank One Plaza, Chicago, Illinois 60670.

W I T N E S S E T H:

RECITALS

WHEREAS, Xerox, Xerox Credit Corporation, a Delaware corporation ("XCC"), the Overseas Borrowers party thereto and certain financial institutions are parties to a Revolving Credit Agreement dated as of October 22, 1997 (the "Existing Credit Agreement"), pursuant to which the Lenders had \$7,000,000,000 of loans outstanding; and

WHEREAS, Xerox, the Overseas Borrowers from time to time party thereto, the Lenders party thereto, Bank One, NA, as Administrative Agent, Collateral Agent and LC Issuing Bank, JPMorgan Chase Bank, as Documentation Agent, and Citibank, N.A., as Syndication Agent, are parties to an Amended and Restated Credit Agreement dated as of June __, 2002 (as amended from time to time, the "Credit Agreement") pursuant to which the Existing Credit Agreement and the loans outstanding thereunder have been refinanced; and

WHEREAS, pursuant to the Credit Agreement, Xerox, the Subsidiary Guarantors party thereto and Bank One, NA, as Collateral Agent, have entered into the Security Agreement; and

WHEREAS, the maximum amount of principal indebtedness that may be secured by this Mortgage at execution hereof or which under any contingency may become secured hereby at any time hereafter is \$[] (the "Secured Loan Amount"); and

WHEREAS, the scheduled maturity date of the latest to mature of the Secured Obligations is April 30, 2005 or, if such day is not a Business Day, the next preceding Business Day.

GRANTING CLAUSES

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, for the purpose of securing the due and punctual payment, performance and observance of the Secured Obligations and intending to be bound hereby, the Mortgagor does hereby GRANT, BARGAIN, SELL, CONVEY, MORTGAGE, ASSIGN, TRANSFER and WARRANT to the Mortgagee and its successors as collateral agent, with power of sale and right of entry as hereinafter provided, and, to the extent covered by the UCC, does hereby GRANT and WARRANT to the Mortgagee a continuing first security interest in and to all of the property and rights described in the following Granting Clauses (all of which property and rights are collectively called the "Mortgaged Property"), to wit:

I. GRANTING CLAUSE

Land. All estate, right, title and interest of the Mortgagor in, to, under or derived from: the lots, pieces, tracts or parcels of land located in Monroe County, New York, more particularly described in Exhibit A (the "Land").

II. GRANTING CLAUSE

Improvements. All estate, right, title and interest of the Mortgagor in, to, under or derived from: all buildings, structures, facilities and other improvements of every kind and description now or hereafter located on or attached to the Land, including all parking areas, roads, driveways, walks, fences, walls, berms, recreation facilities, drainage facilities, lighting facilities and other site improvements; all water, sanitary and storm sewer, drainage, electricity, steam, gas, telephone, telecommunications and other utility equipment and facilities; all plumbing, lighting, heating, ventilating, air-conditioning, refrigerating, incinerating, compacting, fire protection and sprinkler, surveillance and security, vacuum cleaning, public address and communications equipment and systems; all screens, awnings, floor coverings, partitions, elevators, escalators, motors, electrical, computer and other wiring, machinery, pipes, fittings and racking and shelving; and all other items of fixtures, equipment and personal property of every kind and description, in each case now or hereafter located on the Land or affixed (actually or constructively) to the buildings and other improvements located on the Land which by the nature of their location thereon or affixation thereto are real property under Applicable Law; and including all materials intended for the construction, reconstruction, repair, replacement, alteration, addition or improvement of or to such buildings, equipment, fixtures, structures and improvements, all of which materials shall be deemed to be part of the Mortgaged Property immediately upon delivery thereof on the Land and to be part of the improvements immediately upon their incorporation therein (the foregoing being collectively called the "Improvements").

III. GRANTING CLAUSE

Equipment. All estate, right, title and interest of the Mortgagor in, to, under or derived from: all equipment, fixtures, chattels and articles of personal property owned by the Mortgagor or in which the Mortgagor has or shall acquire an interest, wherever situated, and now or hereafter located on, or in, or affixed (actually or constructively) to, the Land or the Improvements, whether or not affixed thereto and which are not real property under Applicable Law, including all partitions, shades, blinds, curtains, draperies, carpets, rugs, furniture and furnishings; all heating, lighting, plumbing, ventilating, air conditioning, refrigerating, gas, steam, electrical, incinerating and compacting plants, systems, fixtures and equipment; all elevators, stoves, ranges, other kitchen and laundry appliances, vacuum and other cleaning systems, call systems, switchboards, sprinkler systems and other fire prevention, alarm and extinguishing apparatus and materials; and all motors, machinery, pipes, conduits, dynamos, engines, compressors, generators, boilers, stokers, furnaces, pumps, trunks, ducts, appliances, equipment, utensils, tools, implements, fittings and fixtures, and including any of the foregoing that is temporarily removed from the Land or Improvements to be repaired and later reinstalled thereon or therein (the foregoing being collectively called the "Equipment"; and the Land with the Improvements thereon and the Equipment therein being collectively called the "Property"). If any of the Equipment under this Granting Clause is covered by an equipment lease, title retention or security agreement, (i) the grant under this Granting Clause (but not the definition of "Equipment" for the other purposes hereof) excludes any Equipment which cannot be transferred or encumbered by the Mortgagor without causing a termination of such agreement or default thereunder, otherwise (ii) the grant under this Granting Clause includes Mortgagor's right, title and interest in, to and under such agreement, together with the benefits of all deposits and payments now or hereafter made thereunder by or on behalf of the Mortgagor and subject to all of the terms and conditions of such agreement and the Liens and security interests thereunder, except as otherwise provided under the Security Agreement and the Credit Agreement.

IV. GRANTING CLAUSE

Appurtenant Rights. All estate, right, title and interest of the Mortgagor in, to, under or derived from: all tenements, hereditaments and appurtenances now or hereafter relating to the Property; the streets, roads, sidewalks and alleys abutting the Property; all strips and gores within or adjoining the Land; all land in the bed of any body of water adjacent to the Land; all land adjoining the Land created by artificial means or by accretion; all air space and rights to use air space above the Land; all development or similar rights now or hereafter appurtenant to the Land; all rights of ingress and egress now or hereafter appertaining to the Property; all easements, servitudes, privileges and rights of way now or hereafter appertaining to the

Property; and all royalties and other rights now or hereafter appertaining to the use and enjoyment of the Property, including alley, party walls, support, drainage, crop, timber, agricultural, horticultural, oil, gas and other mineral, water stock, riparian and other water rights now or hereafter appertaining to the use and enjoyment of the Property.

V. GRANTING CLAUSE

Agreements. All estate, right, title and interest of the Mortgagor in, to, under or derived from: all Insurance Policies (including all unearned premiums and dividends thereunder); all guarantees and warranties relating to the Property; all supply and service contracts for water, sanitary and storm sewer, drainage, electricity, steam, gas, telephone and other utilities now or hereafter relating to the Property; and all other contracts and agreements affecting or relating to the use, enjoyment or occupancy of the Property except to the extent that the grant of a security interest therein would constitute a material violation of a valid and enforceable restriction in favor of a third party unless and until all required consents shall have been obtained (all of the foregoing being collectively called the "Agreements").

VI. GRANTING CLAUSE

Leases. All estate, right, title and interest of the Mortgagor (under which Mortgagor is landlord, sublandlord or licensor) in, to, under or derived from: all Leases now or hereafter in effect, whether or not of record, for the use or occupancy of all or any part of the Property except to the extent that the grant of a security interest therein would constitute a material violation of a valid and enforceable lease with a third party unless and until all required consents shall have been obtained.

VII. GRANTING CLAUSE

Rents, Issues and Profits. All estate, right, title and interest of the Mortgagor in, to, under or derived from: all rents, royalties, issues, profits, receipts, revenue, income and other benefits now or hereafter accruing with respect to the Property, including all rents and other sums now or hereafter payable pursuant to the Leases; all other sums now or hereafter payable with respect to the use, occupancy, management, operation or control of the Property; and all other claims, rights and remedies now or hereafter belonging or accruing with respect to the Property, including fixed, additional and percentage rents, occupancy charges, security deposits, parking, maintenance, common area, tax, insurance, utility and service charges and contributions (whether collected under

the Leases or otherwise), proceeds of sale of electricity, gas, heating, air-conditioning and other utilities and services (whether collected under the Leases or otherwise), and deficiency rents and liquidated damages following default or cancellation (the foregoing rents and other sums described in this Granting Clause being collectively called the "Rents"), all of which the Mortgagor hereby irrevocably directs be paid to the Mortgagee, subject to the license granted to the Mortgagor pursuant to Section 5.07(b), to be held, applied and disbursed as provided in this Mortgage.

VIII. GRANTING CLAUSE

Permits. All estate, right, title and interest of the Mortgagor in, to, under or derived from all licenses, authorizations, certificates, variances, consents, approvals and other permits now or hereafter appertaining to the Property (the foregoing being collectively called the "Permits"), excluding from the grant under this Granting Clause (but not the definition of the term "Permits" for the other purposes hereof) any Permits which cannot be transferred or encumbered by the Mortgagor without causing a default thereunder or a termination thereof.

IX. GRANTING CLAUSE

Books and Records. All estate, right, title and interest of the Mortgagor in, to, under or derived from all books and records, including tenant files, credit files, customer files, computer print outs, files, programs and other computer and electronic materials and records, now or hereafter relating to the Property.

X. GRANTING CLAUSE

Intangible Property. All estate, right, title and interest of the Mortgagor in, to, under or derived from the Property and other intangible property not described in the foregoing Granting Clauses now or hereafter relating to the use and operation of the Property as a going concern.

XI. GRANTING CLAUSE

Deposits, Proceeds and Awards. All estate, right, title and interest of the Mortgagor in, to, under or derived from all amounts deposited with the Mortgagee under the Loan Documents with respect to the Property, including all Insurance Proceeds, Awards and title insurance proceeds under any title insurance policy now or hereafter held by the Mortgagor (the foregoing being collectively called "Deposits"), proceeds of any Transfer, financing, refinancing or conversion into cash or liquidated claims, whether voluntary or involuntary, of any of the Mortgaged Property; and all rights, dividends and other claims of any kind

whatsoever (including damage, secured, unsecured, priority and bankruptcy claims) now or hereafter relating to any of the Mortgaged Property (except to the extent that the grant of a security interest therein would constitute a material violation of a valid and enforceable restriction in favor of a third party unless and until all required consents shall have been obtained), all of which the Mortgagor hereby irrevocably directs be paid to the Mortgagee to the extent provided hereunder, to be held, applied and disbursed as provided in this Mortgage.

XII GRANTING CLAUSE

Refunds, Credits or Reimbursements. All estate, right, title and interest of the Mortgagor in and to any and all real estate tax refunds payable to the Mortgagor with respect to the Property, and refunds, credits or reimbursements payable with respect to bonds, escrow accounts or other sums payable in connection with the use, development, or ownership of the Property.

XIII GRANTING CLAUSE

Additional Property. All greater, additional or other estate, right, title and interest of the Mortgagor in, to, under or derived from the Mortgaged Property hereafter acquired by the Mortgagor, including all right, title and interest of the Mortgagor in, to, under or derived from all extensions, improvements, betterments, renewals, substitutions and replacements of, and additions and appurtenances to, any of the Mortgaged Property hereafter acquired by or released to the Mortgagor or constructed or located on, or attached to, the Property, in each case, immediately upon such acquisition, release, construction, location or attachment; all estate, right, title and interest of the Mortgagor in, to, under or derived from any other property and rights which are, by the provisions of the Security Documents, required to be subjected to the Lien hereof.

TO HAVE AND TO HOLD the Mortgaged Property, together with all estate, right, title and interest of the Mortgagor and anyone claiming by, through or under the Mortgagor in, to, under or derived from the Mortgaged Property and all rights and appurtenances relating thereto, to the Mortgagee and its successors and assigns, forever, subject to Permitted Liens.

PROVIDED ALWAYS that this Mortgage is upon the express condition that the Mortgaged Property shall be released from the Lien of this Mortgage in full or in part in the manner and at the time provided in Section 7.02; and provided further, that notwithstanding anything herein to the contrary, the Mortgaged Property shall include only the real property (including fixtures) hereinabove described and the Collateral described in the Security Agreement.

THE MORTGAGOR ADDITIONALLY COVENANTS AND AGREES WITH THE MORTGAGEE AS FOLLOWS:

ARTICLE 1
Definitions and Interpretations

Section 1.1. Definitions. (a) Capitalized terms used in this Mortgage, but not otherwise defined herein, are defined in, or are defined by reference in, the Credit Agreement or, if not therein, in the Security Agreement, and have the same meanings herein as therein.

(b) In addition, as used herein, the following terms have the following meanings:

"Actionable Event of Default" means an Event of Default specified in clause (a), (b), (h), (i) or (j) of Section 7.01 of the Credit Agreement.

"Agreements" is defined in Granting Clause V.

"Awards" means, at any time, all awards or payments paid or payable by reason of any Condemnation or in connection with any agreement with any condemning authority which has been made in settlement of any proceeding relating to a Condemnation.

"Bankruptcy Code" (or "Code") means the Bankruptcy Code of 1978, as amended.

"Borrowers" means Xerox and the Overseas Borrowers.

"Business Day" is defined in the Credit Agreement.

"CA Secured Obligations" means (a) all principal of and premium and interest (including, without limitation, any Post-Petition Interest) on any Loan outstanding from time to time under any LC Reimbursement Obligations (as defined in the Credit Agreement) or any promissory note issued pursuant to, the Credit Agreement, (b) all other amounts payable by any Borrower under the Credit Agreement or under any other Loan Document (as the same may be amended, restated, supplemented or otherwise modified from time to time) (including any Post-Petition Interest with respect to such amounts), and (c) any renewals, refinancings or extensions of any of the foregoing (including Post-Petition Interest).

"Casualty" means any damage to, or destruction of, the Property by reason of fire or any other cause or event.

"Collateral" is defined in the Security Agreement.

"Collateral Account" is defined in the Security Agreement.

"Collateral Agent" is defined in the Recitals.

"Condemnation" means any condemnation or other taking or temporary or permanent requisition of the Property, any interest therein or right appurtenant thereto, or any change of grade affecting the Property, as the result of the exercise of any right of condemnation or eminent domain. A Transfer to a governmental authority in lieu or anticipation of Condemnation shall be deemed to be a Condemnation.

"Contingent CA Secured Obligation" means, at any time, any CA Secured Obligation (or portion thereof) that is contingent in nature at such time, including any CA Secured Obligation that is: (i) an obligation to reimburse a bank for drawings not yet made under a letter of credit issued by it, (ii) any other obligation (including any guarantee) that is contingent in nature at such time, or (iii) an obligation to provide collateral to secure any of the foregoing types of obligations.

"Credit Agreement" is defined in the second WHEREAS clause.

"Deposits" is defined in Granting Clause XI.

"Domestic Security Documents" means the Security Agreement, this Mortgage, the Other Mortgages and each other Security Document (as defined in the Credit Agreement) executed and delivered by a Domestic Credit Party (as defined in the Credit Agreement) pursuant to the Credit Agreement.

"Equipment" is defined in Granting Clause III.

"ESOP Guarantee Agreement" means the Guaranty and Agreement made by Xerox dated as of October 1, 1993 (as amended from time to time) relating to the Guaranteed ESOP Restructuring Notes due October 1, 2003 issued by Xerox Corporation Employee Stock Ownership Plan Trust.

"ESOP Notes" means the 7.89% (7.82% since January 1, 1993) Guaranteed Series B ESOP Notes due October 1, 2002 and the Guaranteed ESOP

Restructuring Notes due October 1, 2003, each issued by Xerox Corporation Employee Stock Ownership Plan Trust, a Massachusetts trust.

"ESOP Secured Obligations" means the obligations of Xerox under the ESOP Guarantee Agreement and shall include all outstanding amounts of the loans guaranteed under the ESOP Guarantee Agreement and accrued and unpaid interest and other amounts owing with respect thereto.

"Event of Default" means an "Event of Default" under the Credit Agreement.

"Existing Credit Agreement" is defined in the first WHEREAS clause.

"GAAP" is defined in the Credit Agreement.

"Hazardous Materials" is defined in Credit Agreement.

"Impositions" means all taxes (including real estate taxes and transfer taxes), assessments (including all assessments for public improvements or benefits, whether or not commenced or completed prior to the date hereof), gas, electricity, steam, water, sewer or other rents, rates and charges, excises, levies, license fees, permit fees, inspection fees and other authorization fees and other charges, in each case whether general or special, ordinary or extraordinary, foreseen or unforeseen, of every character (including all interest and penalties thereon), which at any time may be assessed, levied, confirmed or imposed on or in respect of, or be a Lien upon, (i) the Property, any other Mortgaged Property or any interest therein, (ii) any occupancy, use or possession of, or activity conducted on, the Property, (iii) the Rents, or (iv) the Secured Obligations or the Security Documents, but excluding income, excess profits, franchise, capital stock, estate, inheritance, succession, gift or similar taxes of the Mortgagor or any Secured Party, except to the extent that such taxes of the Mortgagor or any Secured Party are imposed in whole or in part in lieu of, or as a substitute for, any taxes which are or would otherwise be Impositions.

"Improvements" is defined in Granting Clause II.

"Insurance Policies" means the insurance policies and coverages required to be maintained by the Mortgagor with respect to the Property pursuant to Section 5.07 of the Credit Agreement.

"Insurance Premiums" means all premiums payable under the Insurance Policies.

"Insurance Proceeds" means, at any time, all insurance proceeds or payments to which the Mortgagor may be or become entitled under the Insurance Policies by reason of any Casualty plus all insurance proceeds and payments to which the Mortgagor may be or become entitled by reason of any Casualty under any other insurance policies or coverages maintained by the Mortgagor with respect to the Property.

"Insurance Requirements" means all provisions of the Insurance Policies, all requirements of the issuer of any of the Insurance Policies and all orders, rules, regulations and any other requirements of the National Board of Fire Underwriters (or any other body exercising similar functions) applicable to the Property, any adjoining vaults, sidewalks, parking areas or driveways, or any use or condition thereof.

"Land" is defined in Granting Clause I.

"LC Disbursement" means a payment made by an LC Issuing Bank in respect of a drawing under a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all Letters of Credit outstanding at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by the Borrowers at such time. The LC Exposure of any Revolving Lender (as defined in the Credit Agreement) at any time will be its Revolving Percentage (as defined in the Credit Agreement) of the total LC Exposure at such time.

"Lease" means each lease, sublease, tenancy, subtenancy, license, franchise, concession or other occupancy agreement relating to the Property, together with any guarantee of the obligations of the tenant thereunder or any right to possession under the Bankruptcy Code or any other Applicable Law in the event of the rejection of any Lease by the landlord or its trustee pursuant to said Code or said Applicable Law.

"Legal Requirements" means all provisions of the Leases, Agreements, Permits and all provisions of Applicable Laws, statutes, codes, acts, ordinances, orders, judgments, decrees, injunctions, rules, regulations, directions and requirements of, and agreements with, governmental bodies, agencies or officials, now or hereafter applicable to the Property, or any use or condition thereof.

"Lenders" means the "Lenders" under the Credit Agreement.

"Letter of Credit" means any letter of credit issued pursuant to the Credit Agreement.

"Lien" is defined in the Credit Agreement.

"Loan Documents" is defined in the Credit Agreement.

"Loans" means loans made by the Lenders to the Borrowers pursuant to the Credit Agreement.

"Material Adverse Effect" is defined in Credit Agreement.

"Mortgage" is defined in the Preamble.

"Mortgaged Property" is defined in the Granting Clauses.

"Mortgagee" is defined in the Preamble.

"Mortgagor" is defined in the Preamble.

"Non-Contingent CA Secured Obligation" means at any time any CA Secured Obligation (or portion thereof) that is not a Contingent CA Secured Obligation at such time.

"Other Mortgages" is defined in Section 7.10.

"Overseas Borrowers" means (i) XCE, (ii) XCD and (iii) any other Qualified Foreign Subsidiary (as defined in the Credit Agreement) as to which an Election to Participate shall have been delivered to the Administrative Agent in accordance with Section 2.19 of the Credit Agreement; provided that the status of any of the foregoing as an Overseas Borrower shall terminate if and when an Election to Terminate (as defined in the Credit Agreement) is delivered to the Administrative Agent in accordance with Section 2.19 of the Credit Agreement.

"Permits" is defined in Granting Clause VIII.

"Permitted Encumbrances" means the Security Interests, Liens and other matters described in Exhibit B hereto.

"Permitted Liens" means the Security Interests and Liens on the Collateral permitted to be created or assumed or to exist pursuant Section 6.02 of the Credit Agreement or pursuant to the Security Agreement.

"Person" is defined in the Credit Agreement.

"Post-Default Rate" means a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate (as defined in the Credit Agreement) Loans from time to time.

"Post-Petition Interest" means, with respect to any obligation of any Person, any interest that accrues after the commencement of any case, proceeding or other action relating to the bankruptcy, insolvency or reorganization of such Person (or would accrue but for the operation of applicable bankruptcy or insolvency laws), whether or not such interest is allowed or allowable as a claim in any such proceeding.

"Proceeds" is defined in the Security Agreement.

"Property" is defined in Granting Clause III.

"Receiver" is defined in Section 5.02(a)(iv).

"Release Conditions" means the following conditions for releasing all the Mortgaged Property and terminating the Security Interests:

(i) all Revolving Commitments under the Credit Agreement shall have expired or been terminated;

(ii) all Non-Contingent CA Secured Obligations shall have been paid in full; and

(iii) no Contingent CA Secured Obligation shall remain outstanding;

provided that the condition in clause (iii) shall not apply to outstanding Letters of Credit if (x) no Event of Default has occurred and is continuing and (y) Xerox or the applicable Borrower has granted to the Collateral Agent, for the benefit of the Revolving Lenders (or, if the obligations of the Revolving Lenders to reimburse the applicable LC Issuing Banks have been terminated, to such LC Issuing Banks), a Security Interest in Liquid Investments (as defined in the Security Agreement) (or causes a bank acceptable to the Required Revolving Lenders or such LC Issuing Banks, as the case may be, to issue a letter of credit naming the Collateral Agent or such LC Issuing Banks as beneficiary) in an amount at least equal to 105% of the LC Exposure (plus any accrued and unpaid interest thereon) as of the date of such termination, on terms and conditions and pursuant to documentation reasonably satisfactory to the Required Revolving Lenders (as defined in the Credit Agreement) or such LC Issuing Banks, as the case may be.

"Rents" is defined in Granting Clause VII.

"Required Lenders" is defined in the Credit Agreement.

"Restoration" means the restoration, repair, replacement or rebuilding of the Property after a Casualty or Condemnation and "Restore" means to restore, repair, replace or rebuild the Property after a Casualty or Condemnation, in each case as nearly as possible to a value, utility and condition existing immediately prior to such Casualty or Condemnation.

"Revolving Commitment" is defined in the Credit Agreement.

"Subsidiary" means any subsidiary of Xerox.

"Secured Loan Amount" is defined in the fourth WHEREAS clause of this Mortgage.

"Secured Obligations" means CA Secured Obligations of the Mortgagor, the Xerox Guarantee, the ESOP Secured Obligations and the XCFI Secured Obligations.

"Secured Parties" means (i) with respect to the CA Secured Obligations, the Agents, the Lenders and the LC Issuing Banks (as defined in the Credit Agreement), (ii) with respect to the ESOP Secured Obligations, the holders of the ESOP Notes and (iii) with respect to the XCFI Secured Obligations, the Trustee under each of the XCFI Indentures (and any successor Trustee thereunder) for the benefit of the holders of the XCFI Debentures.

"Secured Subsidiary Guarantor" means a Subsidiary Guarantor other than XCC.

"Security Agreement" means the Guarantee and Security Agreement dated as of June __, 2002, among the Mortgagor, the Subsidiary Guarantors party thereto and the Mortgagee pursuant to which the Mortgagor and the Secured Subsidiary Guarantors grant to the Mortgagee a security interest in certain personal property.

"Security Interests" means the security interests in the Collateral granted under the Domestic Security Documents securing the Secured Obligations.

"Security Deposit" means any payment, note, letter of credit or other security or deposit made or given by or on behalf of a tenant under a Lease as

security for the performance of its obligations thereunder, and any interest accrued thereon.

"Subsidiary Guarantors" means each Domestic Subsidiary listed on the signature pages of the Security Agreement under the caption "Guarantors" and each Domestic Subsidiary that shall, at any time, after the date thereof, become a "Guarantor" pursuant to Section 19 of the Security Agreement.

"Transfer" means, when used as a noun, any sale, conveyance, disposition, assignment, lease, license or other transfer and, when used as a verb, to sell, convey, dispose, assign, lease, license or otherwise transfer, in each case (i) whether voluntary or involuntary, (ii) whether direct or indirect and (iii) including any agreement providing for a Transfer or granting any right or option providing for a Transfer.

"Unavoidable Delays" means delays due to acts of God, fire, flood, earthquake, explosion or other Casualty, inability to procure or shortage of labor, equipment, facilities, sources of energy (including electricity, steam, gas or gasoline), materials or supplies, failure of transportation, strikes, lockouts, action of labor unions, Condemnation, litigation relating to Legal Requirements, inability to obtain Permits or other causes beyond the reasonable control of the Mortgagor, provided that lack of funds shall not be deemed to be a cause beyond the control of the Mortgagor.

"UCC" means the Uniform Commercial Code as in effect in the State in which the Mortgaged Property is located, provided that if by reason of mandatory provisions of law, the perfection or the effect of perfection or non-perfection or the priority of any Security Interest in any Collateral is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State in which the Mortgaged Property is located, "Uniform Commercial Code" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection, effect of perfection or non-perfection or priority.

"XCD" means Xerox Canada Capital Ltd., a Canadian corporation.

"XCE" means Xerox Capital (Europe) plc, a company incorporated in England and Wales.

"XCFI Debentures" means (a) the 10.70% Sinking Fund Debentures due 2006 issued pursuant to that certain Trust Indenture dated as of December 15, 1986, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox

Canada Holdings Inc. and National Trust Company, as Trustee and (b) the 12.15% Sinking Fund Debentures due 2007 issued pursuant to that certain Trust Indenture dated as of October 27, 1987, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee.

"XCFI Indentures" means (a) that certain Trust Indenture dated as of December 15, 1986, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee and (b) that certain Trust Indenture dated as of October 27, 1987, as supplemented and amended by the First through Fourth Supplemental Trust Indentures, among Xerox Canada Finance Inc., Xerox Canada Inc., Xerox Canada Holdings Inc. and National Trust Company, as Trustee.

"XCFI Secured Obligations" means the obligations of the Mortgagor under the XCFI Indentures and shall include all amounts outstanding under the XCFI Debentures and accrued and unpaid interest and other amounts owing with respect thereto.

"Xerox Guarantee" means the Mortgagor's guarantee of the Overseas CA Secured Obligations (as defined in the Security Agreement).

(c) In this Mortgage, unless otherwise specified, references to this Mortgage, other Loan Documents, Leases, Permits and Agreements include all amendments, supplements, consolidations, replacements, restatements, extensions, renewals and other modifications thereof, in whole or in part.

Section 1.2. Interpretation. In this Mortgage, unless otherwise specified: (a) singular words include the plural and plural words include the singular; (b) words which include a number of constituent parts, things or elements, including the terms Leases, Improvements, Land, Secured Obligations, Property and Mortgaged Property, shall be construed as referring separately to each constituent part, thing or element thereof, as well as to all of such constituent parts, things or elements as a whole; (c) words importing any gender include the other genders; (d) references to any Person include such Person's successors and assigns and in the case of an individual, the word "successors" includes such Person's heirs, devisees, legatees, executors, administrators and personal representatives; (e) references to any statute or other law include all applicable rules, regulations and orders adopted or made thereunder and all statutes or other laws amending, consolidating or replacing the statute or law referred to; (f) the words "consent", "approve", "agree" and "request", and derivations thereof or words of similar import, mean the prior written consent, approval, agreement or

request of the Person in question; (g) the words "include" and "including", and words of similar import, shall be deemed to be followed by the words "without limitation"; (h) the words "hereto", "herein", "hereof" and "hereunder", and words of similar import, refer to this Mortgage in its entirety; (i) references to Articles, Sections, Schedules, Exhibits, subsections, paragraphs and clauses are to the Articles, Sections, Schedules, Exhibits, subsections, paragraphs and clauses of this Mortgage; (j) the Schedules and Exhibits to this Mortgage are incorporated herein by reference; (k) the titles and headings of Articles, Sections, Schedules, Exhibits, subsections, paragraphs and clauses are inserted as a matter of convenience and shall not affect the construction of this Mortgage; (l) all obligations of the Mortgagor hereunder shall be satisfied by the Mortgagor at the Mortgagor's sole cost and expense; and (m) all rights and powers granted to the Mortgagee hereunder shall be deemed to be coupled with an interest and be irrevocable.

Section 1.3. Resolution of Drafting Ambiguities. The Mortgagor acknowledges that it was represented by counsel in connection with this Mortgage, that it and its counsel reviewed and participated in the preparation and negotiation of this Mortgage and that any rule of construction to the effect that ambiguities are to be resolved against the drafting party or the Mortgagee shall not be employed in the interpretation of this Mortgage.

ARTICLE 2 Certain Representations, Warranties and Covenants

Section 2.1. Title, Authority and Effectiveness. (a) The Mortgagor represents and warrants that (i) the Mortgagor has good and marketable title to the fee simple interest in the Land and the Improvements, free and clear of all Liens other than the Permitted Liens and defects in title that could not reasonably be expected to result in a Material Adverse Effect; (ii) the Mortgagor is the owner of, or has a valid leasehold interest in, the Equipment and all other items constituting the Mortgaged Property, in each case free and clear of all Liens other than the Permitted Liens and defects in title that could not reasonably be expected to result in a Material Adverse Effect; (iii) to the knowledge of the appropriate property management personnel of the Mortgagor, as of the date hereof, neither the Mortgaged Property nor any interest therein is subject to any right of first refusal, option or other contractual right to purchase such Mortgaged Property or interest therein except as permitted under the Credit Agreement; and (iv) this Mortgage constitutes a valid, binding and enforceable agreement of the Mortgagor, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization or moratorium or other

similar laws relating to the enforcement of creditors' rights generally and by general equitable principles, regardless of whether considered in a proceeding in equity or at law.

(b) The Mortgagor shall for as long as the Secured Obligations remain outstanding and except as otherwise permitted by the Credit Agreement, preserve, protect, warrant and defend (i) its estate, right, title and interest in and to the Mortgaged Property, (ii) the validity, enforceability and priority of the Lien of this Mortgage on the Mortgaged Property, and (iii) the right, title and interest of the Mortgagee and any purchaser at any sale of the Mortgaged Property hereunder or relating hereto, in each case, against all other Liens, subject only to the Permitted Liens.

(c) The Mortgagor, at its sole cost and expense, shall (i) upon the request of the Mortgagee, promptly correct any defect or error which may be discovered in this Mortgage or any financing statement or other document relating hereto; and (ii) promptly execute, acknowledge, deliver, record and re-record, register and re-register, and file and re-file this Mortgage and any financing statements or other documents which the Mortgagee may require from time to time (all in form and substance reasonably satisfactory to the Mortgagee) in order (A) to effectuate, complete, perfect, continue or preserve the Lien of this Mortgage as a first Lien on the Mortgaged Property, whether now owned or hereafter acquired, subject only to the Permitted Liens, or (B) to effectuate, complete, perfect, continue or preserve any right, power or privilege granted or intended to be granted to the Mortgagee hereunder or otherwise accomplish the purposes of this Mortgage. To the fullest extent permitted by Applicable Law, the Mortgagor hereby authorizes the Mortgagee to execute and file financing statements or continuation statements without the Mortgagor's signature appearing thereon. The Mortgagor shall pay on demand the costs of, or incidental to, any recording or filing of any financing or continuation statement, or amendment thereto, concerning the Mortgaged Property.

(d) Upon the recording of this Mortgage in the appropriate county recording offices, the Lien of this Mortgage and the Security Interest in the Mortgaged Property constituting real property and fixtures granted hereby shall be a perfected first Lien on and Security Interest in such Mortgaged Property prior to all Liens on and security interests in such Property other than the Permitted Liens and defects in title that could not reasonably be expected to result in a Material Adverse Effect.

(e) Nothing herein shall be construed to subordinate the Lien of this Mortgage to any Permitted Lien to which the Lien of this Mortgage is not otherwise subordinate.

Section 2.02. Secured Obligations. The Mortgagor shall duly and punctually pay, perform and observe the Secured Obligations at the time and place and in the manner specified in the Credit Agreement and the other Loan Documents.

Section 2.03. Impositions. Except as may be otherwise permitted under the Credit Agreement, the Mortgagor shall (i) duly and punctually pay all Impositions that if not paid, could result in a Material Adverse Effect, other than Impositions that are being contested in accordance with the Credit Agreement; (ii) not make any deduction from or claim any credit on any Secured Obligation by reason of any Imposition and, to the extent permitted under Legal Requirements, hereby irrevocably waives any right to do so; and (iii) upon request, promptly deliver to the Mortgagee such information and documents with respect to the matters referred to in this Section as the Mortgagee shall reasonably request.

Section 2.04. Insurance Requirements. The Mortgagor represents and warrants that (i) as of the date hereof, the Property and the use and operation thereof comply in all material respects with all Insurance Requirements; (ii) as of the date hereof, there is no material default under any Insurance Requirement; and (iii) the execution, delivery and performance of this Mortgage will not contravene in any material respect any provision of or constitute a material default under any Insurance Requirement.

Section 2.05. Care of the Property. The Mortgagor shall (i) operate and maintain the Property, or use commercially reasonable efforts to cause the same to be operated and maintained, in good working order and condition in accordance with past practice, ordinary wear and tear excepted, except where failure to do so could not reasonably be expected to have a Material Adverse Effect; (ii) promptly make, or cause to be made, all Restorations of and to the Property required by the Credit Agreement and all other Restorations of and to the Property, whether interior or exterior, structural or nonstructural, foreseen or unforeseen, which may be necessary or appropriate to keep the Property in good order, repair and condition in accordance with past practice, which Restoration shall be equal in quality to or better than the Property as of the date hereof except where failures to do so could not reasonably be expected to have a Material Adverse Effect; and (iii) upon request, promptly deliver to the Mortgagee such information and documents with respect to the matters referred to in this Section as the Mortgagee shall reasonably request.

Section 2.06. Liens. The Mortgagor shall not create or permit to be created or to remain, and shall immediately discharge or cause to be discharged, any Lien on the Mortgaged Property or any interest therein, in each case (i)

whether voluntarily or involuntarily created, (ii) whether directly or indirectly a Lien thereon and (iii) whether or not subordinated hereto, except, in each case, for Permitted Liens. The provisions of this Section shall apply to each and every Lien (other than Permitted Liens on the Mortgaged Property or any interest therein, regardless of whether or not a consent to, or waiver of a right to consent to, any other Lien thereon has been previously obtained in accordance with the terms of the Loan Documents. Nothing herein shall obligate the Mortgagor to remove any inchoate statutory Lien in respect of obligations not yet due and payable.

Section 2.07. Transfer. The Mortgagor shall not Transfer, or suffer any Transfer of, the Mortgaged Property or any part thereof or interest therein, except as permitted or contemplated by Section 6.05 of the Credit Agreement or any other Loan Document. The provisions of this Section shall apply to each and every Transfer of the Mortgaged Property or any interest therein, regardless of whether or not a consent to, or waiver of a right to consent to, any other Transfer thereof has been previously obtained in accordance with the provisions of the Loan Documents.

Section 2.08. Certain Amounts. If the Mortgagee exercises any of its rights or remedies under this Mortgage, or if any actions or proceedings (including any bankruptcy, insolvency or reorganization proceedings) are commenced in which the Mortgagee is made a party and is obliged to defend or uphold or enforce this Mortgage or the rights of the Mortgagee hereunder or the terms of any Lease (and at such time an Event of Default shall have occurred and is continuing), or if a condemnation proceeding is instituted affecting the Mortgaged Property (and at such time an Event of Default shall have occurred and is continuing), the Mortgagor will pay all reasonable sums, including reasonable attorneys' fees and disbursements, incurred by the Mortgagee related to the exercise of any remedy or right of the Mortgagee pursuant hereto and the reasonable expenses of any such action or proceeding together with all statutory or other costs, disbursements and allowances, interest thereon from the date of demand for payment thereof at the Post-Default Rate, and such sums and the interest thereon shall, to the extent permissible by law, be a Lien on the Mortgaged Property prior to any right, title to, interest in or claim upon the Mortgaged Property attaching or accruing subsequent to the recording of this Mortgage and shall be secured by this Mortgage to the extent permitted by law. Any payment of amounts due under this Mortgage not made on or before the due date for such payments (including any applicable notice and grace period) shall accrue interest daily without notice from the due date until paid at the Post-Default Rate, and such interest at the Post-Default Rate shall be immediately due upon demand by the Mortgagee.

ARTICLE 3
Insurance, Casualty and Condemnation

Section 3.01. Insurance. (a) The Mortgagor shall maintain in full force and effect Insurance Policies with respect to the Property as required by Section 5.07 of the Credit Agreement.

(b) If at any time the area in which any Improvement is located is designated a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), the Mortgagor shall obtain flood insurance in such total amount as the Mortgagee may from time to time reasonably require, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended from time to time. As of the date hereof, the Mortgagee acknowledges that the Improvements are not located in a "flood hazard area."

Section 3.02. Casualty. The Mortgagor represents and warrants that, as of the date hereof, there is no material Casualty affecting the Property.

Section 3.03. Insurance Proceeds. Any Insurance Proceeds received by the Mortgagor shall be collected and applied in accordance with Section 2.10(b)(iii) of the Credit Agreement and Section 14 of the Security Agreement.

Section 3.04. Condemnation. The Mortgagor represents and warrants that, as of the date hereof, (i) it has not received any written notice of any Condemnation affecting the Property, (ii) to the knowledge of the appropriate property management personnel of the Mortgagor, there are no negotiations or proceedings which might result in such a Condemnation, and (iii) to the knowledge of the appropriate property management personnel of the Mortgagor, no such Condemnation is proposed or threatened.

Section 3.05. Condemnation Awards. Any Award received by the Mortgagor shall be collected and applied in accordance with Section 2.10(b)(iii) of the Credit Agreement and Section 14 of the Security Agreement.

ARTICLE 4
Certain Secured Obligations

Section 4.01. Maximum Amount of Indebtedness. The maximum aggregate principal amount of indebtedness that is, or under any contingency may be, secured by this Mortgage (including a Borrower's obligation to reimburse advances made by any Lender following the occurrence and during the continuance of an Event of Default), either at execution or at any time thereafter, shall not exceed the Secured Loan Amount, plus, to the extent permissible under Applicable Law, amounts that Mortgagee expends after an Event of Default under this Mortgage to the extent that any such amounts shall constitute payment of (i) taxes, charges or assessments that may be imposed by law upon any Mortgaged Property; (ii) premiums on insurance policies covering any Mortgaged Property; (iii) expenses incurred in upholding the Lien of this Mortgage, including the expenses of any litigation to prosecute or defend the rights and Lien created by this Mortgage; or (iv) any amount, cost or charge to which Mortgagee becomes subrogated, upon payment, whether under recognized principles of law or equity, or under express statutory authority; then, and in each such event, such amounts or costs, together with interest thereon, shall be added to the indebtedness secured hereby and shall be secured by this Mortgage.

Section 4.02. Treatment of Borrowing and Repayments. Pursuant to the Credit Agreement, the amount of the Secured Obligations may increase and decrease from time to time as Lenders advance, Borrowers repay, and Lenders readvance sums on account of the Secured Obligations, all as more fully described in the Credit Agreement; provided that, as more fully described in the Credit Agreement, the Term Loans under the Credit Agreement may not be reborrowed after they are repaid. For purposes of this Mortgage, so long as the unpaid balance of the Secured Obligations equal or exceed the Secured Loan Amount, the amount of the Secured Obligations secured by this Mortgage shall at all times equal only the Secured Loan Amount as more fully described in Section 4.01. Such Secured Loan Amount represents only a portion of the first sums advanced by Lenders with respect to the Secured Obligations.

Section 4.03. Reduction of Secured Loan Amount. The Secured Loan Amount shall be reduced only by the last and final sums that Borrowers repay with respect to the Secured Obligations and shall not be reduced by any intervening repayments of the Secured Obligations by Borrowers. As of the Effective Date, the total amount of the Secured Obligations exceeds the Secured Loan Amount, so that the Secured Loan Amount represents only a portion of the Secured Obligations actually outstanding.

Section 4.04. Application of Payments and Repayments. Notwithstanding anything herein or in any Domestic Security Document to the contrary, so long as the balance of the Secured Obligations exceeds the Secured Loan Amount, any payments and repayments of any Secured Obligation by any Borrower shall not be deemed to be applied against, or to reduce, the portion of the Secured Obligations secured by this Mortgage, as more fully described in Section 4.01. Such payments shall instead be deemed to reduce only such portions of the Secured Obligations as are secured by mortgages encumbering real property located outside the State of New York, which mortgages secure the entire Secured Obligations (except to the extent, if any, that specific mortgages in such states contain specific limitations on the amount secured).

Section 4.05. Limitation on Prepayment; Effect of Excessive Prepayment. In the event the aggregate unpaid balance of the Secured Obligations is reduced (as provided in Sections 4.03 and 4.04) below the Secured Loan Amount this Mortgage shall not thereafter secure any further advances or readvances of Secured Obligations thereafter made pursuant to the Credit Agreement unless and until an additional instrument which evidences such further advances or readvances, if any, is recorded in the Office of the County Clerk of the county or counties of New York in which the Mortgaged Property is located and any mortgage recording taxes payable with respect to such instrument and/or such further advances or readvances are paid. Notwithstanding anything herein to the contrary, in the event the aggregate unpaid balance of the Secured Obligations is reduced (as provided in Sections 4.03 and 4.04) below the Secured Loan Amount and a Borrower thereafter requests further advances or readvances, the Mortgagor shall execute, acknowledge and record such an instrument in form and substance reasonably satisfactory to the Mortgagee and pay any additional mortgage recording taxes attributable thereto and/or to such further advances or readvances.

Section 4.06. No Limitation on Certain Rights. Nothing in the foregoing paragraphs relating to the Secured Loan Amount and treatment of payments, repayments, advances and readvances shall be deemed or construed to: (i) prevent Borrowers from fully prepaying the Loans in accordance with the Credit Agreement; (ii) prevent Borrowers from obtaining the release of the Mortgaged Property to the extent otherwise provided for in the Loan Documents; or (iii) limit or impair any Lender's remedies, including any Lender's right to require repayment of the Loans (as more fully described in the Credit Agreement) upon an Event of Default.

Section 4.07. Right to Perform Obligations. If an Event of Default arises as a result of the failure by Mortgagor to pay or perform any of its obligations under Section 2.03 or if an Actionable Event of Default shall have occurred and is continuing or upon an acceleration of the Loans in accordance with the terms of

the Credit Agreement, the Mortgagee shall have the right, (i) with simultaneous notice if such payment or performance is necessary in the reasonable opinion of the Mortgagee to preserve the Mortgagee's rights under this Mortgage or with respect to the Mortgaged Property, or (ii) after notice given reasonably in advance to allow the Mortgagor an opportunity to cure, to pay or perform such obligation, provided the Mortgagor is not contesting payment or performance in accordance with the Credit Agreement, and further provided that no such payment or performance shall be construed to be a cure of any Default or waiver of any Default or Secured Obligation. If pursuant to this Section 4.07, the Mortgagee shall make any payment on behalf of the Mortgagor or shall incur hereunder any expense for which the Mortgagee is entitled to reimbursement pursuant to the provisions of the Loan Documents, such Secured Obligation shall be repayable on demand and shall bear interest from the date incurred at the Post-Default Rate. Such interest, and any other interest on the Secured Obligations payable at the Post-Default Rate pursuant to the terms of the Loan Documents, shall accrue through the date paid notwithstanding any intervening judgment of foreclosure or sale. All such interest shall be part of the Secured Obligations and shall be secured by this Mortgage.

Section 4.08. Changes in the Laws Regarding Taxation. If after the date hereof there is enacted any Applicable Law deducting from the value of the Property for the purpose of taxation the Lien of any Security Document or changing in any way the Applicable Law for the taxation of mortgages, deeds of trust or other Liens or obligations secured thereby, or the manner of collection of such taxes, so as to adversely affect this Mortgage, the CA Secured Obligations, or any Secured Party holding CA Secured Obligations, upon demand by the Mortgagee or any other affected Secured Party holding CA Secured Obligations and to the fullest extent permitted under Applicable Law, the Mortgagor shall pay all taxes, assessments or other charges resulting therefrom or shall reimburse such Secured Party for all such taxes, assessments or other charges which such Secured Party is obligated to pay as a result thereof.

Section 4.09. Indemnification. The Mortgagor shall indemnify and hold harmless each Indemnitee (as defined in the Credit Agreement) from and against all losses, claims, damages, liabilities and related expenses, including reasonable fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee, arising out of, in connection with, or as a result of, (a) the Mortgagee's exercise of any of its rights and remedies hereunder; (b) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Mortgaged Property or any part thereof or on the adjoining sidewalks, curbs, adjacent property or adjacent parking areas, street or ways (other than to the extent the same may occur from and after ownership and possession of the Mortgaged Property is transferred to a purchaser at a foreclosure

sale or otherwise); and (c) any other conduct or misconduct of the Mortgagor, any lessee or other occupant of any of the Mortgaged Property, or any of their respective agents, contractors, subcontractors, servants, employees, licensees or invitees (other than to the extent the same may occur from and after ownership and possession of the Mortgaged Property is transferred to a purchaser at a foreclosure sale or otherwise); provided, however, such indemnity shall not be available to any Indemnitee to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction in a final and unappealable judgment to have resulted from such Indemnitee's gross negligence or willful misconduct. Any amount payable under this Section will be payable on demand, be deemed a CA Secured Obligation and will bear interest pursuant to Section 4.07. The obligations of the Mortgagor under this Section shall survive the release of this Mortgage.

ARTICLE 5
Defaults, Remedies and Rights

Section 5.01. Events of Default. (a) Any Event of Default under the Credit Agreement shall constitute an Event of Default hereunder.

(b) All notice and cure periods provided in the Credit Agreement shall run concurrently with any notice or cure periods provided under Applicable Law.

Section 5.02. Remedies. (a) Upon an acceleration of the Loans in accordance with the terms of the Credit Agreement, the Mortgagee shall have the right and power to exercise any of the following remedies and rights, subject to mandatory provisions of Applicable Law, to wit:

(i) to institute a proceeding or proceedings, by advertisement judicial process or otherwise as provided under Applicable Law, for the complete or partial foreclosure of this Mortgage or the complete or partial sale of the Mortgaged Property under the power of sale hereunder or under any Applicable Law; or

(ii) to sell the Mortgaged Property, and all estate, right, title, interest, claim and demand of the Mortgagor therein and thereto, and all rights of redemption thereof, at one or more sales, as an entirety or in parcels, with such elements of real or personal property, at such time and place and upon such terms as the Mortgagee may deem expedient or as may be required under Applicable Law, and in the event of a sale hereunder or under any Applicable Law of less than all of the Mortgaged Property,

this Mortgage shall continue as a Lien on the remaining Mortgaged Property; or

(iii) to institute a suit, action or proceeding for the specific performance of any of the provisions of this Mortgage; or

(iv) to be entitled to the appointment of a receiver, supervisor, trustee, liquidator, conservator or other custodian (a "Receiver") of the Mortgaged Property, without notice to Mortgagor, to the fullest extent permitted by law, as a matter of right and without regard to, or the necessity to disprove, the adequacy of the security for the Secured Obligations or the solvency of the Mortgagor or any other Borrower, and the Mortgagor hereby, to the fullest extent permitted by Applicable Law, irrevocably waives such necessity and consents to such appointment, without notice, said appointee to be vested with the fullest powers permitted under Applicable Law, including to the fullest extent permitted under Applicable Law those under Section 5.02(a)(v); or

(v) to enter upon the Property, by the Mortgagee or a Receiver (whichever is the Person exercising the rights under this clause), and, to the extent permitted under Applicable Law, exclude the Mortgagor and its managers, employees, contractors, agents and other representatives therefrom in accordance with Applicable Law, without liability for trespass, damages or otherwise, and take possession of all other Mortgaged Property and all books, records and accounts relating thereto, and upon demand the Mortgagor shall surrender possession of the Property, the other Mortgaged Property and such books, records and accounts to the Person exercising the rights under this clause; and having and holding the same, the Person exercising the rights under this clause may use, operate, manage, preserve, control and otherwise deal therewith and conduct the business thereof, either personally or by its managers, employees, contractors, agents or other representatives, without interference from the Mortgagor or its managers, employees, contractors, agents and other representatives; and, upon each such entry and from time to time thereafter, at the expense of the Mortgagor and the Mortgaged Property, without interference by the Mortgagor or its managers, employees, contractors, agents and other representatives, the Person exercising the rights under this clause may, as such Person deems expedient, (A) insure or reinsure the Property, (B) make all necessary or proper repairs, renewals, replacements, alterations, additions, Restorations, betterments and improvements to the Property and (C) in such Person's own name or, at the option of such Person, in the Mortgagor's name, exercise all rights, powers and privileges of the Mortgagor with respect to the Mortgaged

Property, including the right to enter into Leases with respect to the Property, including Leases extending beyond the time of possession by the Person exercising the rights under this clause; and the Person exercising the rights under this clause shall not be liable to account for any action taken hereunder, other than for Rents actually received by such Person, and shall not be liable for any loss sustained by the Mortgagor resulting from any failure to let the Property or from any other act or omission of such Person, except to the extent such loss is caused by such Person's own willful misconduct or gross negligence; or

(vi) with or, to the fullest extent permitted by Applicable Law without entry upon the Property, in the name of the Mortgagee or a Receiver (as required by law and whichever is the Person exercising the rights under this clause) or, at such Person's option, in the name of the Mortgagor, to collect, receive, sue for and recover all Rents and proceeds of or derived from the Mortgaged Property, and after deducting therefrom all costs, expenses and liabilities of every character incurred by the Person exercising the rights under this clause in collecting the same and in using, operating, managing, preserving and controlling the Mortgaged Property and otherwise in exercising the rights under Section 5.02(a)(v) or any other rights hereunder, including all amounts necessary to pay Impositions, Rents, Insurance Premiums and other costs, expenses and liabilities relating to the Property, as well as compensation for the services of such Person and its managers, employees, contractors, agents or other representatives, to apply the remainder as provided in Section 5.06; or

(vii) to take any action with respect to any Mortgaged Property permitted under the UCC in accordance with the terms and conditions of the Domestic Security Agreement; or

(viii) to take any other action, or pursue any other remedy or right, as the Mortgagee may have under Applicable Law, and the Mortgagor does hereby grant the same to the Mortgagee; or

(ix) to exercise any rights and remedies pursuant to Article 14 of RPAPL entitled "Foreclosure of Mortgage by Power of Sale"; or

(x) to declare all sums secured hereby to be immediately due and payable, without presentment, demand, notice of any kind, protest or notice of protest, all of which are expressly waived.

(b) To the fullest extent permitted by Applicable Law,

(i) each remedy or right hereunder shall be in addition to, and not exclusive or in limitation of, any other remedy or right hereunder, under any other Loan Document or under Applicable Law;

(ii) every remedy or right hereunder, under any other Loan Document or under Applicable Law may be exercised concurrently or independently and whenever and as often as deemed appropriate by the Mortgagee;

(iii) no failure to exercise or delay in exercising any remedy or right hereunder, under any other Loan Document or under Applicable Law shall be construed as a waiver of any Default hereunder or under any other Loan Document;

(iv) no waiver of, failure to exercise or delay in exercising any remedy or right hereunder, under any other Loan Document or under Applicable Law upon any Default hereunder or under any other Loan Document shall be construed as a waiver of, or otherwise limit the exercise of, such remedy or right upon any other or subsequent Default hereunder or under any other Loan Document;

(v) no single or partial exercise of any remedy or right hereunder, under any other Loan Document or under Applicable Law upon any Default hereunder or under any other Loan Document shall preclude or otherwise limit the exercise of any other remedy or right hereunder, under any other Loan Document or under Applicable Law upon such Default or upon any other or subsequent Default hereunder or under any other Loan Document;

(vi) the acceptance by the Mortgagee or any other Secured Party of any payment less than the amount of the Secured Obligation in question shall be deemed to be an acceptance on account only and shall not be construed as a waiver of any Default hereunder or under any other Loan Document with respect thereto; and

(vii) the acceptance by the Mortgagee or any other Secured Party of any payment of, or on account of, any Secured Obligation shall not be deemed to be a waiver of any Default hereunder or under any other Loan Document with respect to any other Secured Obligation.

(c) If the Mortgagee has proceeded to enforce any remedy or right hereunder or with respect hereto by foreclosure, sale, entry or otherwise, it may compromise, discontinue or abandon such proceeding for any reason without

notice to the Mortgagor or any other Person (other than other Secured Parties as may be required by the other Loan Documents or the ESOP Guarantee Agreements or the XCFI Indentures), and, in the event that any such proceeding shall be discontinued, abandoned or determined adversely for any reason, the Mortgagor and the Mortgagee shall retain and be restored to their former positions and rights hereunder with respect to the Mortgaged Property, subject to the Lien hereof except to the extent any such adverse determination specifically provides to the contrary.

(d) For the purpose of carrying out any provisions of Section 2.01(c), 4.07, 5.02(a)(v), 5.02(a)(vi), 5.05 or 5.07 or any other provision hereunder authorizing the Mortgagee or any other Person to perform any action on behalf of the Mortgagor upon an Actionable Event of Default or upon an acceleration of the Loans in accordance with the terms of the Credit Agreement, the Mortgagor hereby irrevocably appoints the Mortgagee or a Receiver appointed pursuant to Section 5.02(a)(vi) or such other Person (as the case may be as the Person appointed under this subsection) as the attorney-in-fact of the Mortgagor (with a power to substitute any other Person in its place as such attorney-in-fact) to act in the name of the Mortgagor or, at the option of the Person appointed to act under this subsection, in such Person's own name, to take the action authorized under Section 2.01(c), 4.07, 5.02(a)(v), 5.02(a)(vi), 5.05 or 5.07 or such other provision, and to execute, acknowledge and deliver any document in connection therewith or to take any other action incidental thereto as the Person appointed to act under this subsection shall deem appropriate in its discretion; and the Mortgagor hereby irrevocably authorizes and directs any other Person to rely and act on behalf of the foregoing appointment and a certificate of the Person appointed to act under this subsection that such Person is authorized to act under this subsection.

Section 5.03. Waivers by the Mortgagor. To the fullest extent permitted under Applicable Law, the Mortgagor shall not assert, and hereby irrevocably waives, any right or defense the Mortgagor may have under any statute or rule of law or equity now or hereafter in effect relating to (i) appraisal, valuation, homestead exemption, extension, moratorium, stay, statute of limitations, redemption, marshalling of the Mortgaged Property or the other assets of the Mortgagor, sale of the Mortgaged Property in any order or notice of deficiency or intention to accelerate any Secured Obligation; (ii) impairment of any right of subrogation or reimbursement; (iii) any requirement that at any time any action must be taken against any other Person, any portion of the Mortgaged Property or any other asset of the Mortgagor or any other Person; (iv) any provision barring or limiting the right of the Mortgagee to sell any Mortgaged Property after any other sale of any other Mortgaged Property or any other action against the Mortgagor or any other Person; (v) any provision barring or limiting the recovery by the Mortgagee of a deficiency after any sale of the Mortgaged Property; (vi) any other

provision of Applicable Law which might defeat, limit or adversely affect any right or remedy of the Mortgagee or the holders of the Secured Obligations under or with respect to this Mortgage or any other Security Document as it relates to any Mortgaged Property; or (vii) the right of the Mortgagee to foreclose this Mortgage in its own name on behalf of all of the Secured Parties by judicial action as the real party in interest without the necessity of joining any other Secured Party.

Section 5.04. Jurisdiction and Process. (a) To the extent permitted under Applicable Law, in any suit, action or proceeding arising out of or relating to this Mortgage or any other Security Document as it relates to any Mortgaged Property, the Mortgagor irrevocably consents to (i) the jurisdiction of any state or federal court sitting in the State in which the Property is located and irrevocably waives any defense or objection which it may now or hereafter have to the jurisdiction of such court or the venue of such court for or the convenience of such court as the forum for any such suit, action or proceeding, and (ii) the service of (A) any process in any such suit, action or proceeding, or (B) any notice relating to any sale, or the exercise of any other remedy by the Mortgagee hereunder by sending a copy of such process or notice by prepaid overnight courier or United States registered or certified mail, postage prepaid, return receipt requested to the Mortgagor at its address specified in or pursuant to Section 7.03, such service to be effective when received at the address specified or when delivery at such address is refused.

(b) Nothing in this Section shall affect the right of the Mortgagee to bring any suit, action or proceeding arising out of or relating to this Mortgage or any other Security Document in any court having jurisdiction under the provisions of any other Security Document or Applicable Law or to serve any process, notice of sale or other notice in any manner permitted by any other Security Document or Applicable Law.

Section 5.05. Sales. Subject to Section 4.01 and 5.02(a) and except as otherwise provided herein, to the fullest extent permitted under Applicable Law, at the election of the Mortgagee, the following provisions shall apply to any sale of the Mortgaged Property hereunder, whether made pursuant to the power of sale hereunder, any judicial proceeding or any judgment or decree of foreclosure or sale or otherwise:

(a) The Mortgagee or the court officer (whichever is the Person conducting any sale) may conduct any number of sales from time to time. The power of sale hereunder shall not be exhausted by any sale as to any part or parcel of the Mortgaged Property which is not sold, unless and until the Secured Obligations shall have been paid in full, and shall not be exhausted or impaired by any sale which is not completed or is defective. Any sale may be as a whole or in

part or parcels and as provided in Section 5.03, the Mortgagor has thereby waived its right to direct the order in which the Mortgaged Property or any part or parcel thereof is sold.

(b) Any sale may be postponed or adjourned by public announcement at the time and place appointed for such sale or for such postponed or adjourned sale without further notice.

(c) After each sale, the Person conducting such sale shall execute and deliver to the purchaser or purchasers at such sale a good and sufficient instrument or instruments granting, conveying, assigning and transferring all right, title and interest of the Mortgagor in and to the Mortgaged Property sold and shall receive the proceeds of such sale and apply the same as provided in Section 5.06. The Mortgagor hereby irrevocably appoints the Person conducting such sale as the attorney-in-fact of the Mortgagor (with full power to substitute any other Person in its place as such attorney-in-fact) to act in the name of the Mortgagor or, at the option of the Person conducting such sale, in such Person's own name, to make without warranty by such Person any conveyance, assignment, transfer or delivery of the Mortgaged Property sold, and to execute, acknowledge and deliver any instrument of conveyance, assignment, transfer or delivery or other document in connection therewith or to take any other action incidental thereto, as the Person conducting such sale shall deem appropriate in its discretion; and the Mortgagor hereby irrevocably authorizes and directs any other Person to rely and act upon the foregoing appointment and a certificate of the Person conducting such sale that such Person is authorized to act hereunder. Nevertheless, upon the request of such attorney-in-fact the Mortgagor shall promptly execute, acknowledge and deliver any documentation which such attorney-in-fact may reasonably require for the purpose of ratifying, confirming or effectuating the powers granted hereby or any such conveyance, assignment, transfer or delivery by such attorney-in-fact.

(d) Any statement of fact or other recital made in any instrument referred to in Section 5.05(c) given by the Person conducting any sale as to the nonpayment of any Secured Obligation, the occurrence of any Event of Default, the amount of the Secured Obligations due and payable, the request to the Mortgagee to sell, the notice of the time, place and terms of sale and of the Mortgaged Property to be sold having been duly given, the refusal, failure or inability of the Mortgagee to act, the appointment of any substitute or successor agent, any other act or thing having been duly done by the Mortgagor, the Mortgagee or any other such Person, shall be taken as conclusive and binding against all other Persons as evidence of the truth of the facts so stated or recited. The Person conducting any sale may appoint or delegate any other Person as agent to perform any act necessary or incident to such sale, including the posting of

notices and the conduct of such sale, but in the name and on behalf of the Person conducting such sale.

(e) The receipt by the Person conducting any sale of the purchase money paid at such sale shall be sufficient discharge therefor to any purchaser of any Mortgaged Property sold, and no such purchaser, or its representatives, grantees or assigns, after paying such purchase price and receiving such receipt, shall be bound to see to the application of such purchase price or any part thereof upon or for any trust or purpose of this Mortgage or, in any manner whatsoever, be answerable for any loss, misapplication or nonapplication of any such purchase money or be bound to inquire as to the authorization, necessity, expediency or regularity of such sale.

(f) Subject to mandatory provisions of Applicable Law, any sale shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of the Mortgagor in and to the Mortgaged Property sold, and shall be a perpetual bar both at law and in equity against the Mortgagor and any and all Persons claiming such Mortgaged Property or any interest therein by, through or under the Mortgagor.

(g) At any sale, the Mortgagee may bid for and acquire the Mortgaged Property sold and, in lieu of paying cash therefor, may make settlement for the purchase price by causing the Secured Parties to credit against the Secured Obligations, including the expenses of the sale and the cost of any enforcement proceeding hereunder, the amount of the bid made therefor to the extent necessary to satisfy such bid.

(h) If the Mortgagor or any Person claiming by, through or under the Mortgagor shall transfer or fail to surrender possession of the Mortgaged Property, after the exercise by the Mortgagee of the Mortgagee's remedies under Section 5.02(a)(v) or after any sale of the Mortgaged Property pursuant hereto, then the Mortgagor or such Person shall be deemed a tenant at sufferance of the purchaser at such sale, subject to eviction by means of summary process for possession of land, or subject to any other right or remedy available hereunder or under Applicable Law.

(i) Upon any sale, it shall not be necessary for the Person conducting such sale to have any Mortgaged Property being sold present or constructively in its possession.

(j) If a sale hereunder shall be commenced by the Mortgagee, the Mortgagee may at any time before the sale abandon the sale, and may institute suit for the collection of the Secured Obligations or for the foreclosure of this

Mortgage; or if the Mortgagee should institute a suit for collection of the Secured Obligations or the foreclosure of this Mortgage, the Mortgagee may at any time before the entry of final judgment in said suit dismiss the same and sell the Mortgaged Property in accordance with the provisions of this Mortgage.

Section 5.6. Proceeds. Subject to Section 4.01 and except as otherwise provided herein or required under Applicable Law, the proceeds of any sale of, or other realization upon, the Mortgaged Property hereunder, whether made pursuant to the power of sale hereunder, any judicial proceeding or any judgment or decree of foreclosure or sale or otherwise shall be applied and paid in accordance with Section 14 of the Security Agreement.

Section 5.7. Assignment of Leases. (a) Subject to paragraph 5.07(d) below, the assignments of the Leases and the Rents under Granting Clauses VI and VII are and shall be present, absolute and irrevocable assignments by the Mortgagor to the Mortgagee and, subject to the license to the Mortgagor under Section 5.07(b), the Mortgagee or a Receiver appointed pursuant to Section 5.02(a)(iv) (as the case may be as the Person exercising the rights under this Section) shall have the absolute, immediate and continuing right to collect and receive all Rents now or hereafter, including during any period of redemption, accruing with respect to the Property. At the request of the Mortgagee or such Receiver, the Mortgagor shall promptly execute, acknowledge, deliver, record, register and file any additional general assignment of the Leases or specific assignment of any Lease which the Mortgagee or such Receiver may reasonably require from time to time (all in form and substance satisfactory to the Mortgagee or such Receiver) to effectuate, complete, perfect, continue or preserve the assignments of the Leases and the Rents under Granting Clauses VI and VII. Neither the acceptance hereof nor the exercise of the rights and remedies hereunder nor any other action on the part of the Mortgagee or any Person exercising the rights of the Mortgagee hereunder shall be construed to be an assumption by the Mortgagee or any such Person of, or to otherwise make the Mortgagee or such Person liable or responsible for, any of the obligations of the Mortgagor under or with respect to the Leases or for any Rent, Security Deposit or other amount delivered to the Mortgagor, provided that the Mortgagee or any such Person exercising the rights of the Mortgagee hereunder shall be accountable as provided in Section 5.07(c) for any Rents, Security Deposits or other amounts actually received by the Mortgagee or such Person, as the case may be. Neither the acceptance hereof nor the exercise of the rights and remedies hereunder nor any other action on the part of the Mortgagee or any Person exercising the rights of the Mortgagee hereunder shall be construed to obligate the Mortgagee or any such Person to take any action under or with respect to the Leases or with respect to the Property, to incur any expense or perform or discharge any duty or obligation under or with respect to the Leases or with respect to the Property, to

appear in or defend any action or proceeding relating to the Leases or the Property, to constitute the Mortgagee as a mortgagee in possession (unless the assignee hereunder actually enters and takes possession of the Property), or to be liable in any way for any injury or damage to person or property sustained by any Person in or about the Property other than to the extent caused by the willful misconduct or gross negligence of the Mortgagee or any Person exercising the rights of the Mortgagee hereunder.

(b) Prior to the occurrence of an Actionable Event of Default or the acceleration of the Loans in accordance with the terms of the Credit Agreement, the Mortgagor shall have a license granted hereby to collect and receive all Rents and apply the same subject to the provisions of the Loan Documents. This license shall terminate, at the option of the Mortgagee, upon the occurrence and during the continuance of an Actionable Event of Default or upon an acceleration of the Loans in accordance with the terms of the Credit Agreement.

(c) If an Actionable Event of Default has occurred and is continuing or upon an acceleration of the Loans in accordance with the terms of the Credit Agreement, the Mortgagee or a Receiver appointed pursuant to Section 5.02(a)(iv) (as the case may be as the Person exercising the rights under this Section) shall have the right to terminate the license granted under Section 5.07(b) by notice to the Mortgagor and to exercise the rights and remedies provided under Sections 5.07(a), 5.02(a)(v), 5.02(a)(vi) or any Applicable Law. If an Actionable Event of Default is continuing or upon an acceleration of the Loans in accordance with the terms of the Credit Agreement, upon demand by the Person exercising the rights under this Section, the Mortgagor shall promptly pay to such Person all Security Deposits under the Leases and all Rents allocable to any period after such Actionable Event of Default or acceleration of the Loans. Subject to Sections 5.02(a)(v) and 5.02(a)(vi) and any applicable requirement of law, any Rents received hereunder by such Receiver shall be promptly paid to the Mortgagee, and any Rents received hereunder by the Mortgagee shall be deposited in the applicable Collateral Account, to be held, applied and disbursed as provided in the Security Agreement, provided that, subject to Sections 5.02(a)(v) and 5.02(a)(vi) and any applicable requirement of law, any Security Deposits actually received by such Receiver shall be promptly paid to the Mortgagee, and any Security Deposits actually received by the Mortgagee shall be held, applied and disbursed as provided in the applicable Leases and Applicable Law.

(d) Nothing herein shall be construed to be an assumption by the Person exercising the rights under this Section, or otherwise to make such Person liable for the performance, of any of the obligations of the Mortgagor under the Leases, provided that such Person shall be accountable as provided in Section 5.07(c) for any Rents or Security Deposits actually received by such Person.

Section 5.08. Dealing with the Mortgaged Property. Subject to Section 7.02, the Mortgagee shall have the right to release any portion of the Mortgaged Property to or at the request of the Mortgagor, for such consideration as the Mortgagee may reasonably require without, as to the remainder of the Mortgaged Property, in any way impairing or affecting the Lien or priority of this Mortgage, or improving the position of any subordinate lienholder with respect thereto, or the position of any guarantor, endorser, co-maker or other obligor of the Secured Obligations, except to the extent that the Secured Obligations shall have been reduced by any actual monetary consideration received for such release and applied to the Secured Obligations, and may accept by assignment, pledge or otherwise any other property in place thereof as the Mortgagee may reasonably require without being accountable therefor to any other lienholder.

Section 5.09. Information and Right of Entry. (a) Upon reasonable request by the Mortgagee, the Mortgagor shall deliver to the Mortgagee promptly after such request or, if requested by the Mortgagee, on a continuing or periodic basis, any information, certificates and documents with respect to the matters referred to in this Mortgage as the Mortgagor shall reasonably request in order to protect its rights under this Mortgage or with respect to the Mortgaged Property.

(b) The Mortgagee and the representatives of the Mortgagee shall have the right, (i) with simultaneous notice, if any payment or performance is necessary in the reasonable opinion of the Mortgagee to preserve the Mortgagee's rights under this Mortgage or with respect to the Mortgaged Property, or (ii) after reasonable notice, in all other cases, to enter upon the Property at reasonable times, and with reasonable frequency, to inspect the Mortgaged Property or, subject to the provisions hereof, to exercise any right, power or remedy of the Mortgagee hereunder, provided that any Person so entering the Property shall not unreasonably interfere with the ordinary conduct of the Mortgagor's business, and provided further that no such entry on the Property, for the purpose of performing obligations under Section 4.07 or for any other purpose, shall be construed to be (x) possession of the Property by such Person or to constitute such Person as a mortgagee in possession, unless such Person exercises its right to take possession of the Property under Section 5.02(a)(v), or (y) a cure of any Default or waiver of any Default or Secured Obligation.

ARTICLE 6
Security Agreement and Fixture Filing

Section 6.01. Security Agreement. (a) To the extent that the Mortgaged Property constitutes or includes personal property and equipment, including goods or items of personal property or equipment which are or are to become fixtures under Applicable Law, in each case to the extent the same constitutes "Collateral" under the Security Agreement, the Mortgagor hereby grants a security interest therein (and any Proceeds thereof) and this Mortgage shall also be construed as a pledge and a security agreement under the UCC; the Mortgagee shall be entitled with respect to such personal property and equipment to all remedies available under the Security Agreement in the manner and to the extent provided therein.

(b) Notwithstanding the foregoing, to the extent that the Mortgaged Property includes personal property or equipment covered by provisions in the Security Agreement or any other Security Document and such provisions are inconsistent with this Article 6, the provisions of the Security Agreement or such other Security Document shall govern with respect to such personal property and equipment. Mortgagee shall have all rights with respect to the part of the Mortgaged Property that constitutes Collateral under the Security Agreement and is subject of a security interest afforded by the UCC.

Section 6.02. Fixture Filing. To the extent that the Mortgaged Property includes goods or items of personal property which are or are to become fixtures under Applicable Law, and to the extent permitted under Applicable Law, the filing of this Mortgage in the real estate records of the county in which the Mortgaged Property is located shall also operate from the time of filing as a fixture filing with respect to such Mortgaged Property, and the following information is applicable for the purpose of such fixture filing, to wit:

(a) Name and Address of the debtor:

Xerox Corporation
800 Long Ridge Road
P.O. Box 1600
Stanford, Connecticut 06905

(b) Name and Address of the secured party:

Bank One, NA
1 Bank One Plaza
Chicago, Illinois 60670

(c) This document covers goods or items of personal property which are or are to become fixtures upon the Property.

(d) The name of the record owner of the real estate on which such fixtures are or are to be located is Xerox Corporation.

ARTICLE 7
Miscellaneous

Section 7.01. Concerning the Mortgagee. (a) The provisions of Article VIII of the Credit Agreement shall inure to the benefit of the Mortgagee in respect of this Mortgage (as if the Mortgagee was an Administrative Agent referred to therein) and shall be binding upon the parties to the Credit Agreement. In furtherance and not in derogation of the rights, privileges and immunities of the Mortgagee therein set forth:

(i) The Mortgagee is authorized to take all such action as is provided to be taken by it as Mortgagee hereunder and all other action incidental thereto. As to any matters not expressly provided for herein (including the timing and methods of realization upon the Mortgaged Property) the Mortgagee shall act or refrain from acting in accordance with written instructions from the Required Lenders or, in the absence of such instructions, in accordance with its discretion.

(ii) The Mortgagee shall not be responsible for the existence, genuineness or value of any of the Mortgaged Property or for the validity, perfection, priority or enforceability of the Lien of this Mortgage on any of the Mortgaged Property, whether impaired by operation of law or by reason of any action or omission to act on its part hereunder. The Mortgagee shall have no duty to ascertain or inquire as to the performance or observance of any of the terms of this Mortgage by the Mortgagor.

(iii) For all purposes of the Domestic Security Documents, including determining the amounts of the Secured Obligations and whether a Secured Obligation is a Contingent CA Secured Obligation or not, the Mortgagee will be entitled to rely on information from (i) its own records for information as to the Lender and Agents, their Secured Obligations and actions taken by them, (ii) any Secured Party for information as to its Secured Obligations and actions taken by it, to the extent that the Mortgagee has not obtained such information from the

foregoing sources, and (iii) Xerox, to the extent that the Mortgagee has not obtained information from the foregoing sources.

(b) At any time or times, solely in order to comply with any Applicable Law, the Mortgagee may appoint another bank or trust company or one or more other Persons, either to act as co-agent or co-agents, jointly with the Mortgagee, or to act as separate agent or agents on behalf of the Lenders with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment (which may, in the discretion of the Mortgagee, include provisions for the protection of such co-agent or separate agent similar to the provisions of this Section 7.01).

Section 7.02. Release of Mortgaged Property. (a) Each Security Interest granted hereunder shall terminate, and all rights to the relevant Mortgaged Property shall revert to the Mortgagor, if, as and to the extent permitted by Sections 9.02 and 9.03 of the Credit Agreement, as the case may be.

(b) The Mortgagee may conclusively rely on any certificate delivered to it by the Mortgagor stating that the release of the Mortgaged Property is in accordance with and permitted by the terms of this Mortgage and the other Loan Documents.

(c) Notwithstanding anything to the contrary herein, if at any time prior to the termination of this Mortgage pursuant to this Section 7.02, the ESOP Secured Obligations are paid in full, all rights hereunder of the holders of ESOP Secured Obligations shall simultaneously terminate, and none of the Secured Subsidiary Guarantors shall thereafter be an ESOP Restricted Secured Subsidiary Guarantor.

(d) Notwithstanding anything to the contrary herein, if at any time prior to the termination of this Mortgage pursuant to this Section 7.02, the XCFI Secured Obligations are paid in full, all rights hereunder of the holders of XCFI Secured Obligations shall simultaneously terminate.

(e) Upon certification by the Mortgagor that an easement, right-of-way, restriction, reservation, permit, servitude or other similar encumbrance granted or to be granted by the Mortgagor does not materially detract from the value of or materially impair the use by the Mortgagor of the Mortgaged Property subject to such encumbrance, the Mortgagee shall execute such documents as are reasonably requested to subordinate this Mortgage to such encumbrance.

(f) Upon any termination of this Mortgage or release of Mortgaged Property as described in this Section 7.02, the Mortgagee shall, within fifteen (15) Business Days of written request therefor, at the expense of the Mortgagor,

execute, acknowledge and deliver to the Mortgagor such documents, without warranty, as the Mortgagor shall reasonably request to evidence the release and reassignment of Mortgaged Property or termination of this Mortgage, as the case may be.

Section 7.03. Notices. All notices, approvals, requests, demands and other communications hereunder shall be given in accordance with Section 21 of the Security Agreement. Any party may change its address, facsimile and/or e-mail address as provided in the Security Agreement.

Section 7.04. Amendments in Writing. No provision of this Mortgage shall be modified, waived or terminated, and no consent to any departure by the Mortgagor from any provision of this Mortgage shall be effective, unless the same shall be by an instrument in writing and signed by the Mortgagor and the Mortgagee in accordance with the Credit Agreement.

Section 7.05. Severability. All rights, powers and remedies provided in this Mortgage may be exercised only to the extent that the exercise thereof does not violate Applicable Law, and all the provisions of this Mortgage are intended to be subject to all mandatory provisions of Applicable Law and to be limited to the extent necessary so that they will not render this Mortgage illegal, invalid, unenforceable or not entitled to be recorded, registered or filed under Applicable Law. If any provision of this Mortgage or the application thereof to any Person or circumstance shall, to any extent, be illegal, invalid or unenforceable, or cause this Mortgage not to be entitled to be recorded, registered or filed, the remaining provisions of this Mortgage or the application of such provision to other Persons or circumstances shall not be affected thereby, and each provision of this Mortgage shall be valid and be enforced to the fullest extent permitted under Applicable Law.

Section 7.06. Binding Effect. (a) The provisions of this Mortgage shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors and assigns.

(b) To the fullest extent permitted under Applicable Law, the provisions of this Mortgage binding upon the Mortgagor shall be deemed to be covenants which run with the land.

(c) Nothing in this Section shall be construed to permit the Mortgagor to Transfer or grant a Lien upon the Mortgaged Property contrary to the provisions of the Credit Agreement.

Section 7.07. GOVERNING LAW. THIS MORTGAGE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

SECTION 7.08. Waiver of Jury Trial. EACH PARTY HERETO WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS MORTGAGE OR ANY TRANSACTION CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 7.09. Local Law Provisions. This Mortgage is not a mortgage of real property principally improved or to be improved by one or more structures containing in the aggregate not more than six residential dwelling units, each dwelling unit having its own separate cooking facilities.

Section 7.10. Multisite Real Estate Transaction. The Mortgagor acknowledges that this Mortgage is one of a number of Mortgages and other Security Documents ("Other Mortgages") that secure the Secured Obligations. Mortgagor agrees that the Lien of this Mortgage shall be absolute and unconditional and shall not in any manner be affected or impaired by any acts or omissions whatsoever of Mortgagee, and without limiting the generality of the foregoing, the Lien hereof shall not be impaired by any acceptance by the Mortgagee of any security for or guarantees of the Secured Obligations, or by any failure, neglect or omission on the part of Mortgagee to realize upon or protect any Secured Obligation or any collateral security therefor including the Other Mortgages. The Lien hereof shall not in any manner be impaired or affected by any release (except as to the property released), sale, pledge, surrender, compromise, settlement, renewal, extension, indulgence, alteration, changing, modification or disposition of any of the Secured Obligations or of any of the collateral security therefor, including the Other Mortgages or of any guarantee thereof, and, to the fullest extent permitted by Applicable Law, Mortgagee may at its discretion foreclose, exercise any power of sale, or exercise any other remedy available to it under any or all of the Other Mortgages without first exercising or enforcing any of its rights and remedies hereunder. Such exercise of Mortgagee's rights and remedies under any or all of the Other Mortgages shall not in any

manner impair the indebtedness hereby secured or the Lien of this Mortgage and any exercise of the rights or remedies of Mortgagee hereunder shall not impair the Lien of any of the Other Mortgages or any of Mortgagee's rights and remedies thereunder. To the fullest extent permitted by Applicable Law, Mortgagor specifically consents and agrees the Mortgagee may exercise its rights and remedies hereunder and under the Other Mortgages separately or concurrently and in any order that it may deem appropriate and waives any rights of subrogation.

IN WITNESS WHEREOF, the Mortgagor has executed and delivered this Mortgage as of the day first set forth above.

XEROX CORPORATION

By: _____

Name:

Title:

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UNIFORM FORM CERTIFICATE OF ACKNOWLEDGMENT
(Within New York State)

STATE OF NEW YORK)
COUNTY OF NEW YORK) ss.:

On this ____ day of _____, in the year 2002, before me, the undersigned, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

Notary Public

UNIFORM FORM CERTIFICATE OF ACKNOWLEDGMENT
(Outside of New York State)

_____ /2/) ss.:

On this ____ day of _____, in the year 20__, before me, the undersigned, personally appeared _____, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument, and that such individual made such appearance before the undersigned in the _____/3/.

Notary Public

[Notary Seal]

/2/ Insert state, commonwealth, district, territory, possession or country where the acknowledgment is taken.

/3/ Insert the city, county or other political subdivision and the state, commonwealth, district, territory, possession or country where the acknowledgment is taken.

EXHIBIT A

Description of the Land

EXHIBIT B

Permitted Encumbrances

Those security interests, liens and other matters described in the commitment to issue title insurance of First American Title Insurance Company, Title No. 905-M-73,848 (Henrietta), 905-M-86,772 (Webster) and 905-M-_____ (Rochester), dated _____, 2002 as "marked" and updated as of the date hereof.