

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2008
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from: _____ to _____
001-04471 (Commission File Number)

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State of incorporation)

16-0468020
(I.R.S. Employer Identification No.)

P.O. Box 4505, 45 Glover Avenue, Norwalk, Connecticut 06856-4505
(Address of principal executive offices)

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

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

Title of each Class
Common Stock, \$1 par value

Name of Each Exchange on
Which Registered
New York Stock Exchange
Chicago Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the voting stock of the registrant held by non-affiliates as of June 30, 2008 was: \$11,827,485,514.

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

Class
Common Stock, \$1 par value

Outstanding at
January 31, 2009
864,785,853 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

<u>Document</u>	<u>Part of Form 10-K in Which Incorporated</u>
Xerox Corporation 2008 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2009 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10-K)	III

Forward-Looking Statements

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K, which are deemed to be “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: the unprecedented volatility in the global economy; the risk that unexpected costs will be incurred; the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to protect our intellectual property rights; our ability to maintain and improve cost efficiency of operations, including savings from restructuring actions; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

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PART I

Item 1. Business Overview

References in this section to “we,” “us,” “our,” the “Company” and “Xerox” refer to Xerox Corporation and its subsidiaries unless the context specifically states or implies otherwise.

We are a \$17.6 billion technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

We provide the document industry’s broadest portfolio of document systems and services for businesses of any size. Digital systems include high-end printing and publishing systems; digital presses, advanced and basic multifunctional devices (“MFD’s”) which can print, copy, scan and fax; digital copiers; laser and solid ink printers and fax machines. We provide software and workflow solutions with which businesses can easily and affordably print books, create personalized documents for their customers, and scan and route digital information. Our services expertise is unmatched and includes helping businesses develop online document archives, analyzing how employees can most efficiently share documents and knowledge in the office, operating in-house print shops or mailrooms, and building Web-based processes for personalizing direct mail, invoices, brochures and more. We also offer software, support and supplies, such as toner, paper and ink.

We serve a \$132 billion market

(in billions)



This estimate, and the market estimates that follow, are calculated by leveraging third-party forecasts from firms such as International Data Corporation and InfoSource in conjunction with our assumptions about our markets.

The document industry is transitioning to digital systems, to color, and to an increased reliance on electronic documents. More and more, businesses are creating and storing documents digitally and using the Internet to exchange electronic documents. We believe these trends play to the strengths of our product and service offerings and represent opportunities for future growth in the \$132 billion market we serve.

Our Strategy



We are well-positioned to lead in this large and growing market through:

Executing on Growth Initiatives

- **Accelerating the transition to color** – We have the broadest color portfolio in the industry and leading technologies.
 - Color is the fastest growing portion of our market and estimated at \$44 billion.
 - Economic cost and quality improvements are driving the transition from black-and-white to color.
 - We continue to capture growth opportunities within the black-and-white segment of our core markets, which we estimate is a \$62 billion market.
- **Building on services leadership** – We lead the industry with end-to-end Document Management Services and we participate in three areas of the outsourcing services market:
 - **Infrastructure Outsourcing**, where we help our customers to reduce their enterprise spend through differentiated technology, skills and automation.
 - **Application Outsourcing**, where we help our customers to streamline their document intensive business processes through automation and deployment of software applications and tools.
 - **Business Process Outsourcing**, where our customers leverage our global delivery capability and proprietary production imaging software to manage both high volume standardized activities as well as lower volume complex workflows.
- **Driving the New Business of Printing®** – We continue to create new market opportunities with digital printing as a complement to traditional offset printing through a market transition we call the “New Business of Printing”.
 - We are driving the New Business of Printing opportunity by identifying applications which are suitable for digital production.
 - Our leading business development tools, workflow and digital technology, led by our market-making Xerox iGen® technology, uniquely positions us to meet the increasing demand for short-run, customized and quick-turnaround offset quality printing.

Expanding our Distribution Channels

- We continue to expand our presence in the small and mid-size business (“SMB”) market through the acquisition of Veenman B.V. in the European market, as well as additional acquisitions made by Global Imaging Systems, Inc. in the U.S. markets.
- We are maintaining our investments in Developing Markets, a high-growth market opportunity.
- We are capitalizing on our Graphic Arts coverage investments to capture the opportunity associated with the New Business of Printing.

Securing Future Technology Leadership

- Through advancing our heritage of innovation, we are yielding a broad technology portfolio.
- We are capitalizing on breakthrough ink technologies such as Solid Ink and Cured Gel Ink and
- Expanding our Document Management Technologies that optimize the capabilities of our products and streamline customers' processes.

Optimizing Productivity and Infrastructure

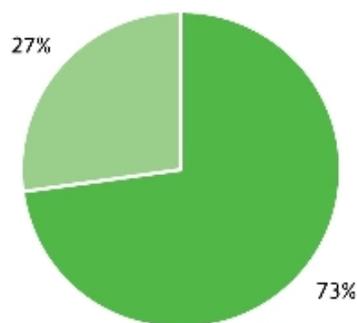
- We are improving the efficiency and effectiveness of our infrastructure and
- Optimizing our resources to support innovation and growth.

Our Business Model Fundamentals



One fundamental of our business model is our annuity model. Post sale revenue growth is driven by increasing equipment installation which increases the number of page-producing machines in the field ("MIF") and by expanding the document management services we offer our customers. 73% of our 2008 total revenue was post sale revenue that includes equipment maintenance and consumable supplies, among other elements. We sell the majority of our equipment through sales-type leases that we record as equipment sale revenue. Equipment sales represented 27% of our 2008 total revenue.

Revenue stream



- **73%**
Approximately 73% of our revenue, "post sale" includes annuity-based revenue from maintenance, services, supplies and financing, as well as revenue from rentals and operating lease arrangements.
- **27%**
The remaining 27% of our revenue comes from equipment sales, from either lease arrangements that qualify as sales for accounting purposes or outright cash sales.

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The number of equipment installations and the growth in document management services are key indicators of post sale revenue trends. The mix of color pages is also a significant indicator of post sale revenue trends because color pages use more consumables per page than black-and-white. In addition, expanding our market, particularly within the New Business of Printing, is key to increasing pages and we have developed tools and resources to be the leader in this large market opportunity.

Our consistent cash flow from operations is driven by recurring revenues; this, along with modest capital investments, enables us to provide a return to shareholders through:

- Expanding our distribution through acquisitions;
- Buying back shares under our share repurchase program and
- Maintaining our quarterly dividend.

We anticipate expanding our future earnings through:

- Modest revenue growth;
- Driving cost efficiencies to balance gross profit and expense;
- Leveraging our share repurchase and
- Making accretive acquisitions.

Acquisitions

To further strengthen our distribution capacity, in 2008 we completed several acquisitions.

We acquired Veenman B.V. ("Veenman"), expanding our reach into the small and mid-size business market in the Netherlands. Veenman is the Netherlands' leading independent distributor of office printers, copiers and multifunction devices serving small and mid-size businesses.

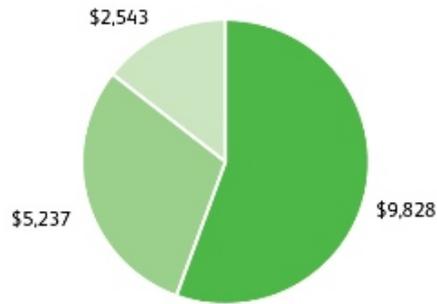
Global Imaging Systems, Inc. ("GIS") acquired Saxon Business Systems, an office equipment supplier with offices throughout Florida and three smaller acquisitions: Better Quality Business Systems, Precision Copier Service Inc. DBA Sierra Office Solutions and Inland Business Systems of Chico.

Segment Information

Our reportable segments are Production, Office and Other. We present operating segment financial information in Note 2 – Segment Reporting in the Consolidated Financial Statements, which we incorporate by reference here. We have a very broad and diverse base of customers by both geography and industry, ranging from SMB to graphic communications companies, governmental entities, educational institutions and large fortune 1000 corporate accounts. None of our business segments depends upon a single customer, or a few customers, the loss of which would have a material adverse effect on our business.

Revenues by business segment

(in millions)



■ \$9,828 Office

Our Office segment serves global, national and small to mid-size commercial customers, as well as government, education and other public sector customers.

■ \$5,237 Production

Our Production segment provides high-end digital monochrome and color systems designed for customers in the graphic communications industry and for large enterprises.

■ \$2,543 Other

Our Other segment primarily includes revenue from paper sales, wide-format systems, value-added services and Global Imaging Systems network integration solutions and electronic presentation systems.

Production

We provide high-end digital monochrome and color systems designed for customers in the graphic communications industry and for large enterprises. These high-end devices enable digital on-demand printing, digital full-color printing and enterprise printing. We are the only manufacturer in the market that offers a complete family of cut sheet monochrome production systems from 65 to 288 pages per minute ("ppm"), color production systems from 40 to 110 ppm and a complete line of continuous feed printers from 250 to 1,064 ppm. In addition, we offer a variety of pre-press and post-press options and the industry's broadest set of workflow software.

With our Freeflow[®] digital workflow collection of software technology solutions, our customers can improve all aspects of their processes, from content creation and management to production and fulfillment. Our digital technology, combined with total document solutions and services that enable personalization and printing on demand, delivers value that improves our customers' business results.

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2008 Production Goals

Our 2008 goals for the Production segment were to continue to strengthen our leadership position in monochrome and color and to build on the power of digital printing. Our New Business of Printing strategy complements the traditional offset market and continues to transform our industry. We are enabling print providers in graphic communications and large enterprises to profit and grow by meeting their customers' specific business needs with just-in-time, one-to-one and e-based services – rather than simply manufacturing a printed piece. Having the right business modelSM, the right workflowSM and the right technologySM are fundamental to this transformation.

We continued our application-focused approach to assist our customers in implementing solutions in four major categories. This approach provided our customers end-to-end applications for Collaterals by Request, Books, Transactional/Promotional and Direct Mail.

During the 2008 drupa tradeshow that is held every four years, we announced 12 new offerings and 50 applications; building on our heritage of innovation and our in-depth understanding of both the printing industry and customer requirements.

We continued to increase installations of our flagship Digital Color Production Presses. We are the industry leader in the number of pages produced on digital production color presses, with our flagship Xerox iGen4[®] Digital Production Press, iGen3[®] Digital Production Press and DocuColor[®] Digital Presses. Over 325 customers have installed two or more iGen presses to meet their increased demand.

In 2008, we continued to build on our unmatched product breadth, world class market and business development tools and integrated end-to-end applications. Below are some of the key accomplishments that enabled us to achieve our goals:

Our 2008 Production Accomplishments

Right Business Model

Our commitment to our customers starts before technology is discussed and extends long after a solution is installed. It includes sharing with them resources, strategies and tools that will help them grow their businesses with digital printing.

- **ProfitAccelerator[®]:** This robust set of tools and programs designed to maximize our customers' investment in digital printing equipment expanded in 2008 and now includes more than 80 tools. It brings together Xerox's unparalleled experience and expertise, world-class resources and industry-leading support. Some of the newest additions include a "Value-Based Pricing Guide," the "Picture Me Profitable Kit" to assist customers in pursuing the personalized photo products opportunity, and the "ProfitQuick[®] Investment Planner" financial modeling tool that will help customers increase productivity and achieve cost and efficiency savings.
- **New Business of Printing Services:** Business Development Services was created in direct response to customer demand and provides both training and professional services to help print providers increase page volume and revenue. Service offerings are available to support Sales & Marketing, Workflow and Application Development efforts, and are delivered at the customers' location or via the web. These offerings include creating marketing and sales management plans, sales force training, designing for digital, color management, implementing direct mail/marketing campaigns, Transpromo applications and more. The offerings are deployed by a dedicated team of Xerox business development consultants and industry experts.

Right Workflow

We lead the digital production workflow market by helping customers become more profitable – reducing costs, streamlining operations and enabling new applications. Our FreeFlow Digital Workflow Collection makes it easy for customers to complement traditional offset printing through the integration of digital printing into existing environments for efficient hybrid print manufacturing. In 2008 we enhanced our collection to include:

- **Xerox FreeFlow Process Manager[®]:** Software that provides automated, "touchless" file preparation and decision making to automate prepress and eliminate manual production steps.

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- **Xerox FreeFlow Variable Information Suite:** Software that delivers the maximum productivity for personalized and customized documents including the award winning specialty effects that help print providers minimize document security concerns. These effects include MicroText marks, Correlation Marks, Glossmark®, FlorescentMark, and InfraRed text.
- **FreeFlow Print Server:** A powerful print server that delivers superior performance, advanced workflow interoperability, state-of-the-art color management, and a common workflow for Xerox production printers.
- **FreeFlow Express to Print:** A simple prepress automation tool designed specifically for the light and mid production environments. Easily add tabs, covers, inserts, barcodes, page numbers and more and see changes through the robust visual interface. Simple automation is provided with over 50 pre-built templates that make Express to Print easy to use and easy to install on a computer.

Right Technology

For more than two decades, we have delivered innovative technologies that have revolutionized the production printing industry. In 2008 we continued to bring innovative products to the markets that included:

- **Xerox iGen4 Digital Production Press:** We unveiled in May at drupa the new iGen4, the industry's most productive and highest quality cut sheet digital press. The iGen4 features advanced color management that allows print providers to consistently achieve and maintain offset and photo image quality. With new patented technologies, the iGen4 automates many operator tasks for greater uptime. With productivity gains of 25-35 percent, the iGen4 increases the run-length to be break-even with offset for greater press utilization and capacity. For commercial printers, photo finishers, book printers, direct mail houses and digital service providers, the iGen4 delivers a more efficient and cost-effective way to produce more pages and achieve greater profits.
- **Xerox 700 Digital Color Press:** We expanded our full color offerings with the launch of the Xerox 700 Digital Color Press at drupa in May. The Xerox 700 at 70 ppm offers enhanced color reproduction capabilities as well as an exceptional matte finish that is winning over customers worldwide. A wide range of feeding and finishing options at an entry level price enables print providers to adopt digital technology or expand their digital printing business.
- **Xerox DocuColor 5000AP:** In July we launched a 50 ppm full-color production system which provides excellent print resolution, color reproduction and reliability for a wide range of application and weights, all at rated speed.
- **Automated Color Quality Suite:** In May, we introduced the Automated Color Quality Suite ("ACQS") Press Matching System for our flagship Xerox iGen3 90 and 110 Digital Production Presses, offering high performance plus quality that match offset printing. The new ACQS enables faster press set up, quicker time to production, greater color stability and automated Pantone color matching. In November, we launched this offering on the Xerox 8000AP and 7000AP, bringing these new quality capabilities to these Digital Color Presses.
- **Xerox 490/980 Color Continuous Feed Printing System:** We launched the world's fastest toner based full color roll fed printer that produces up to 986 full color duplex images per minute in May for Europe and part of developing markets and in November for North America and the rest of developing markets. With its Flash Fusing Technology, this system is ideal for the Transactional/Promotional and Direct Mail market segments that require high speed, high volume variable data printing.
- **Xerox 650/1300 Continuous Feed Printing System:** In February, this new monochrome continuous feed printer was made available worldwide. This monochrome roll feed printer also leverages flash fusing technology to print a wide variety of substrates up to 1300 images per minute. This system supports numerous applications within the transactional/promotional and direct mail segments and is ideal for books and manuals.
- **Xerox Nuvera® 288 Digital Perfecting System:** In October, the fastest cut sheet monochrome duplex printer in the market expanded its sheet feed capability up to 12.6" x 19.3" and added a new Roll Feed DocuConverter with Grain Rotation supporting a host of new applications. This system, with its benchmark image quality, flexibility of substrates and reliability, enables applications such as book publishing.
- **Xerox Nuvera 100/120/144 EA Digital Production Systems:** With its Emulsion Aggregate ("EA") toner for greater reliability and image quality, the Nuvera EA family expanded its portfolio of finishing alternatives. In October we announced the availability of Xerox Tape Bind, CEM DocuConverter and C.P. Bourg/Watkiss Power Square 200® Booklet Maker. This modular, scalable print engine also expands digital printing applications due to its high quality and flexibility of substrates.

Office

Xerox develops and manufactures a range of color and black-and-white multifunction, printer, copier and fax products. Our Office segment serves global, national and small to mid-size commercial customers as well as government, education and other

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public sector customers. Office systems and services, which include monochrome devices at speeds up to 95 ppm and color devices up to 70 ppm, include our family of CopyCentre®, WorkCentre® and WorkCentre Pro digital multifunction systems, Phaser® desktop printers and MFD's as well as DocuColor printer/copiers for the specific needs of graphic intensive organizations and facsimile products.

We offer a complete range of services and solutions in partnership with independent software vendors that allow our customers to analyze, streamline, automate, secure and track their digital workflows, which we then use to identify the most efficient, productive mix of office equipment and software for that business, helping to reduce the customer's document-related costs.

2008 Office Goals

Our 2008 Office goals were to drive to a leadership position in color to extend our market reach, particularly in the SMB market and continue to expand our Office Services and Solutions business. We broadened our product line and complemented our industry-leading product offerings with expanded distribution in order to increase our machines-in-field ("MIF") and capture more pages, building the foundation for future post sale revenue growth.

We continued to drive color in our Office segment by significantly enhancing our already strong color product portfolio, making color more affordable, easier to use, faster and more reliable while maintaining our leadership position in black-and-white. The breadth of our product portfolio is unmatched. Our color-capable laser devices provide an attractive color entry point, our patented solid ink technology offers unmatched ease of use, vibrant color image quality and economic color run costs, and our top of the line color laser products provide superior image quality coupled with industry-leading productivity and reliability. Below are some of the key accomplishments that enabled us to achieve our goals:

2008 Office Accomplishments

- **Phaser 6125:** In February, we announced the Phaser 6125, a 12 ppm color, 16 ppm black-and-white printer. This product is an extension of the Phaser 6130 line, and offers a small footprint, strong processing capability and Emulsion Aggregate High Quality ("EA-HQ") toner technology for clear, crisp printing.
- **Phaser 3635 MFP:** Launched in May, the Phaser 3635MFP is a 35 ppm printer that provides advanced security options such as image overwriting, encryption and authentication. This product is designed for small and mid-size business workgroups, and offers features like a color touchscreen user interface and robust scanning features to promote ease-of-use and productivity.
- **Phaser 5550:** Launched in May, this 50 ppm printer offers tabloid and letter/legal printing, as well as advanced software features like PhaserSMART®. PhaserSMART is an online troubleshooting tool that helps diagnose and solve potential issues, prevent maintenance calls and increase reliability. This product also offers duplex printing and optional additional paper handling features.
- **WorkCentre 5016/5020:** In May, Xerox introduced its first sub-\$1,000 A3/tabloid MFD family in developing markets. The 16/20 ppm family offers basic copying, printing and scanning capabilities for small workgroups that are price sensitive.
- **WorkCentre 5222/5225/5230:** In May, we introduced a new 25/30 ppm monochrome platform designed to help SMB and enterprise workgroups increase productivity on an entry-level device with high-end features such as our Extensible Interface Platform, full-system common criteria certification, and booklet making capabilities. In September, the 5200 series was expanded with the addition of a 22 ppm configuration as well as color scanning capability on the Workcentre 5225A/5230A configurations.
- **WorkCentre 5600 Series:** We refreshed the 5600 series monochrome platform with updated controller software to keep pace with today's ever changing IT standards and protocols. With support for IPv6 and compatibility with Microsoft's Web Services on Devices, the WorkCentre 5600 series – with speeds ranging from 32 ppm to 87 ppm – becomes even more powerful for IT professionals.
- **WorkCentre Bookmark 40/55 Multifunction Copier/Printer:** A robust book copier at its core, it is the ideal solution for libraries, universities, and other public vending environments. It features an angled side panel support that protects books' spines while copying, and offers solid durability, ease-of-use and powerful solutions for streamlining unique workflows.
- **WorkCentre 7346 Multifunction Printer & EFI Workflows:** In May we introduced a high-end version of the WorkCentre 7300 series system featuring fast print speeds of up to 40 ppm in color and 45 ppm in black-and-white for busy workgroups. The WorkCentre 7300 series was also enhanced with optional EFI workflow capabilities.
- **Xerox 700 Digital Color Press:** Launched in May, this light production color device with an embedded controller brings productivity, excellent print quality and flexibility to those looking to adopt digital technology or expand their digital capabilities.
- **Workcentre 4260:** Launched in September, the WC 4260 is Xerox's fastest desktop multifunction system with speeds up to 55 ppm. It offers workflow tools such as ID Copy Card, Fax

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Forward to Email, automatic two sided printing and competitive security features. This product is designed to promote productivity in small and medium business workgroups.

- **Phaser 3300 MFP:** Launched in September, the Phaser 3300 MFP offers print/copy speeds up to 30 ppm and offers automatic two-sided printing. This product offers color scanning to USB, email or the network. It is equipped with Xerox Scan to PC Desktop® which allows users to send a document from the MFP to their desktop for viewing, editing or storing.

Other

The Other segment primarily includes revenue from paper sales, value-added services, wide-format systems and GIS network integration solutions and electronic presentation systems.

We sell cut-sheet paper to our customers for use in their document processing products. The market for cut-sheet paper is highly competitive and revenues are significantly affected by pricing. Our strategy is to charge a premium over mill wholesale prices, which is adequate to cover our costs and the value we add as a distributor, as well as to provide unique products that enhance the New Business of Printing and color output.

An increasingly important part of our offering is value-added services, which utilizes our document industry knowledge and experience. Our value-added services deliver solutions that optimize our customers' document output and infrastructure costs while streamlining, simplifying, and digitizing their document-intensive business processes. Through Xerox's imaging centers, a company can scan and digitize documents to create secure, accessible and searchable online information archives, such as a library of car-rental contracts or construction blueprints. Often our value-added services solutions lead to larger managed services contracts which include our equipment, supplies, service, and labor. We report revenue from managed services contracts in the Production or Office segments. In 2008, the combined value-added services and managed services revenue, including equipment, totaled \$3.8 billion.

In our wide-format systems business, we offer document processing products and devices designed to reproduce large engineering and architectural drawings up to three feet by four feet in size. In 2008 we launched:

- **The Xerox 8254E and 8264E Wide Format Printers:** Introduced in June, further enables customers to print robust, colorful large format graphic applications on a broad range of substrates quickly and easily.
- **The Xerox 6279 Wide Format Printer:** This printer continues our successful tradition in the CAD environment with its unsurpassed ease of operation and benchmark image quality.

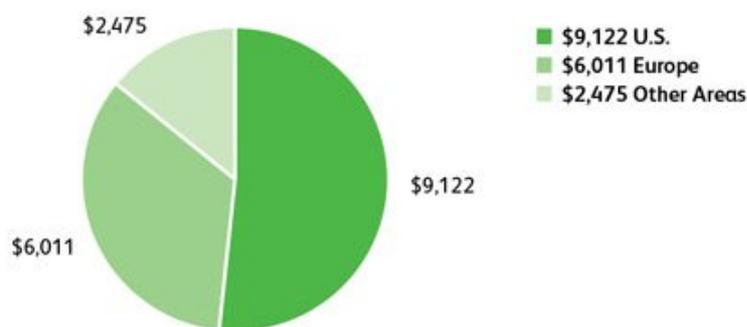
Revenue

We sell the majority of our products and services under bundled lease arrangements, in which our customers pay a monthly amount for the equipment, maintenance, services, supplies and financing over the course of the lease agreement. These arrangements are beneficial to our customers and to us since, in addition to customers receiving a bundled offering, these arrangements allow us to maintain the customer relationship for future sales of equipment and services.

We analyze these arrangements to determine whether the equipment component meets certain accounting requirements such that the equipment fair value should be recorded as a sale at lease inception, that is, a sales-type lease. We allocate the remaining portion of the monthly minimum payments to the various elements of the lease based on fair value – service, maintenance, supplies and financing - that we generally recognize over the term of the lease agreement, and that we report as "post sale revenue". In those arrangements that do not qualify as sales-type leases, which have increased as a result of our services-led strategy, we recognize revenue over the term of the lease agreement, whether rental or operating lease, and report it in "post sale revenue." Our accounting policies for revenue recognition for leases and bundled arrangements are included in Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements in our 2008 Annual Report.

Revenues by geography

(in millions)



Revenues by geography are based on the location of the unit reporting the revenue and includes exports sales. About 50% of our revenue is generated from customers outside the U.S.

Research and Development

Our R&D is strategically coordinated with Fuji Xerox, which invested \$788 million in R&D in 2008, \$672 million in 2007 and \$660 million in 2006.

Investment in R&D is critical for competitiveness in our fast-paced markets where more than two-thirds of our equipment sales are from products launched during the past two years. Research activities are conducted in the United States, Canada and Europe – often in collaboration with Fuji Xerox Co., Ltd. (“Fuji Xerox”).

Our R&D drives innovation and customer value by:

- Creating new differentiated products and services;
- Enabling cost competitiveness through disruptive products and services;
- Enabling new ways to serve customers and
- Creating new business opportunities that drive future growth and reach new customers.

R,D&E expenses

(in millions)



To ensure our success, we have aligned our R&D investment portfolio with our growth initiatives of accelerating the transition to color, enhancing customer value by building on our services leadership and by driving the New Business of Printing. 2008 R&D spending focused primarily on the development of high-end business applications to drive the New Business of Printing, extending our color capabilities, expanding our services offerings and delivering lower-cost platforms and customer productivity enablers. The Xerox iGen family, advanced next-generation digital printing presses that produce photographic-quality prints indistinguishable from offset, the Xerox Nuvera 288 Digital Perfecting System which boasts the fastest (288 duplex impressions per minute) digital duplex monochrome cut-sheet printer in the industry, and Xerox's proprietary Solid Ink technology for the office are examples of the type of breakthrough technology we have developed and that we expect will drive future growth. Sustaining engineering expenses, which are the hardware engineering and software development costs we incur after we launch a product, are included in our R,D&E expenses.

Patents, Trademarks and Licenses

We are a technology company. Including our Xerox Palo Alto Research Center ("PARC") and XMPie subsidiaries, we were awarded 609 U.S. utility patents in 2008. We were ranked 31st on the list of companies that were awarded the most U.S. patents during the year and would have been ranked about 27th with the inclusion of PARC and XMPie patents. Including our research partner Fuji Xerox Co., Ltd ("Fuji Xerox"), we were awarded over 940 U.S. utility patents in 2008. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2008, we held approximately 8,900 design and utility U.S. patents. These patents expire at various dates up to 20 years or more from their original filing dates. While we believe that our portfolio of patents and applications has value, in general no single patent is essential to our business or any individual segment. In addition, any of our proprietary rights could be challenged, invalidated, or circumvented or may not provide significant competitive advantages.

In the U.S., we are party to numerous patent-licensing agreements and, in a majority of them, we license or assign our patents to others, in return for revenue and/or access to their patents. Most patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2008, we added 11 agreements to our portfolio of patent licensing agreements, and either we or PARC was a licensor in all 11 of the agreements. We are also a party to a number of cross-licensing agreements with companies that hold substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett Packard, Océ, Sharp, Samsung and Seiko Epson. These agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own approximately 570 trademarks, either registered or applied for. These trademarks have a perpetual life, subject to renewal every ten years. We vigorously enforce and protect our trademarks.

Competition

Although we encounter aggressive competition in all areas of our business, we are the leader or among the leaders in each of our principal business segments. Our competitors range from large international companies to relatively small firms. We compete on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. To remain competitive we invest in and develop new products and services and continually improve our existing offerings. Our key competitors include Canon, Ricoh, Hewlett-Packard, and, in certain areas of the business, Pitney Bowes, Kodak, Océ, Konica-Minolta and Lexmark.

We believe that our brand recognition, reputation for document knowledge and expertise, innovative technology, breadth of product offerings, global distribution channels, customer relationships and large customer base are important competitive advantages. We and our competitors continue to develop and market new and innovative products at competitive prices, and, at any given time, we may set new market standards for quality, speed and function.

Marketing and Distribution

Our brand is a valuable resource and continues to be ranked among the top percentile of the most valuable global brands.

We manage our business based on the principal business segments described earlier. However, we have organized the marketing, selling and distribution of our products and solutions according to geography and channel type. We sell our products and solutions directly to customers through our worldwide sales force and through a network of independent agents, dealers, value-added resellers, systems integrators and the Web. In the U.S. GIS continues to expand its network of office technology suppliers to serve an ever-expanding base of small and mid-size businesses. We utilize our direct sales force to address our customers' more advanced technology, solutions and services requirements, and use cost-effective indirect distribution channels for basic product offerings.

In large enterprises, we follow a services-led approach that enables us to address two basic challenges facing large enterprises:

- How to optimize infrastructure to be both cost effective and globally consistent.
- How to improve the value proposition and communication with their customers.

In response to these needs, we offer a go-to-market approach that leads with the largest direct sales and service delivery force in the industry available on a globally consistent manner. This can range from hardware, software or services in whatever combination is necessary to meet the needs of that customer.

We market our Phaser line of color and monochrome laser-class and solid ink printers primarily through office information technology resellers, who typically access our products through distributors. We continue to expand our distribution partnerships in North America through additional information technology resellers and by enhancing our network of independent agents. We also continued to increase product offerings available through a two-tiered distribution model in Europe and developing markets.

We operate in over 160 countries worldwide. We develop, manufacture, market and support document management systems, supplies and services through a variety of distribution channels around the world.



n North American Operations

North American Operations includes the United States and Canada.

n Xerox Europe

Xerox Europe covers 17 countries across Europe.

n Developing Markets

Developing Markets supports more than 130 countries.

n Fuji Xerox

Fuji Xerox, an unconsolidated entity of which we own 25%, develops, manufactures and distributes document management systems, supplies and services.

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Our reselling relationship with key partners contributed to our market coverage expansion and new business penetration. Through our global reseller alliance with Fujifilm, we distribute our production products and solutions to graphic communications customers as well as photo specialty markets spanning Retail, Professional Lab and Processing Center businesses. In 2008, we signed additional country-level contracts with Fujifilm Graphics Systems in Europe and developing markets to extend Xerox digital production systems reach to new commercial print customers and prospects. We continue to use our alliances to integrate “best in class” information technologies and services to deliver improved workflow and document output management enabling our customers to accelerate profitable revenue growth in their businesses. Through the world-class Xerox Business Partner Program we are able to deliver an extensive portfolio of products which streamline our customers’ workflows enabling them to reduce costs, improve operational efficiencies and drive new business opportunities.

In Europe, Africa, the Middle East, India, and parts of Asia, we distribute our products through Xerox Limited, a company established under the laws of England, and related non-U.S. companies which we refer to collectively as Xerox Limited. Xerox Limited enters into distribution agreements with unaffiliated third parties to provide distribution of our products in many of the countries located in these regions, and previously entered into agreements with unaffiliated third parties providing distribution of our products in Iran, Sudan, and Syria. Iran, Sudan and Syria, among others, have been designated as state sponsors of terrorism by the U.S. Department of State and are subject to U.S. economic sanctions. We maintain an export and sanctions compliance program and believe that we have been and are in compliance with U.S. laws and government regulations for these countries. In addition, we have no assets, liabilities, or operations in these countries other than liabilities under the distribution agreements. After observing required prior notice periods, Xerox Limited terminated its distribution agreements with distributors servicing Sudan and Syria in August 2006 and terminated its distribution agreement with the distributor servicing Iran in December 2006. Now, Xerox only has legacy obligations to third parties such as providing spare parts and supplies to these third parties. In 2008, we had total revenues of \$17.6 billion, of which approximately \$7.4 million was attributable to Iran and less than \$0.2 million in total was attributable to Sudan and Syria.

In January 2006, Xerox Limited entered into a five-year distribution agreement with an unaffiliated third party covering distribution of our products in Libya. Libya is also designated as a state sponsor of terrorism by the U.S. Department of State. The decision to enter into this distribution agreement was made in light of recent U.S. federal government actions that have lifted the countrywide embargo previously imposed on Libya. Our sales in Libya through this distribution agreement will be subject to our export and sanctions compliance program and will be conducted according to the U.S. laws and government regulations that relate to Libya.

Customer Financing

We finance a large portion of customer purchases of Xerox equipment through our bundled lease arrangements. We believe that financing facilitates customer acquisition of Xerox technology and enhances our value proposition to the customer while providing Xerox a profitable revenue stream and a strong return on equity.

As a result of our customer financing program, we benefit by gaining in-depth knowledge of the products being leased and a deep understanding of the customer base and their use of our technology. This knowledge allows us to effectively manage the credit and residual value risk normally associated with financing. Our financing risk is further mitigated because the majority of our lease contracts are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables.

Because our lease contracts permit customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these lease contracts. We fund our customer financing activity through a combination of cash generated from operations, cash on hand, borrowings under bank credit facilities and proceeds from capital market offerings. At December 31, 2008 we had \$7.3 billion of finance receivables and \$0.6 billion of equipment on operating leases, or Total Finance assets of \$7.9 billion. We maintain an assumed 7:1 leverage ratio of debt to equity as compared to our Finance assets and therefore a significant portion of our \$8.4 billion of debt is associated with our financing business.

In addition to being an excellent customer retention vehicle, our customer financing program also achieves an attractive gross margin which provides us a reasonable return on our investment in this business. This program is also a strong value proposition for our customers because it provides them a bundled monthly payment for their document management needs and an attractive financing alternative.



Globally, we have 57,100 direct employees. We have over 7,500 Sales Professionals, over 13,000 Managed Service Employees at customer sites and over 13,000 Technical Service Employees. In addition, we have over 6,500 Agents and Concessionaires and over 10,000 resellers.

Service

As of December 31, 2008, we had a worldwide service force of approximately 13,000 employees and an extensive variable contract service force. We continue to expand our use of cost-effective remote service technology for basic product offerings while utilizing our direct service force and a variable contract service force to address customers' more advanced technology requirements. The increasing use of a variable contract service force is consistent with our strategy to reduce service costs while maintaining high-quality levels of service. We believe that our service force represents a significant competitive advantage because it is continually trained on our products and its diagnostic equipment is state-of-the-art. We offer service 24 hours a day, 7 days a week, in major metropolitan areas around the world, providing a consistent and superior level of service worldwide.

Manufacturing and Supply

Our manufacturing and distribution facilities are located around the world. The company's largest manufacturing site is in Webster, N.Y., where we make fusers, photoreceptors, Xerox iGen and Nuvera systems, components, consumables and other products. Additionally this year, updates were made at the EA Toner plant in Webster, N.Y. that was built in 2007 to give the plant the flexibility to meet demand for both first and second generations of EA Toner. This allows the plant to produce the new breakthrough Ultra Low-Melt EA Toner. Our remaining primary manufacturing operations are located in: Dundalk, Ireland for our high-end production products and consumables; and Wilsonville, Oregon for solid ink products, consumable supplies, and components for our Office segment products. We also have a major facility in Venray, Netherlands, that handles supplies manufacturing and supply chain management for the eastern hemisphere.

We are currently in the second year of a master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Office segment. The agreement has a three year term, with two additional one-year extension periods at our option. Our inventory purchases from Flextronics currently represent approximately 15% of our overall worldwide inventory procurement and production. Our pricing for inventory sourced through Flextronics is generally market based. We have agreed to purchase from Flextronics some products and consumables within specified product families although we do have the ability to source product from other suppliers without penalty to extent needed. Flextronics is required to acquire inventory based on our forecasted requirements and must maintain sufficient manufacturing capacity to satisfy these requirements. Under certain circumstances, we may become obligated to purchase inventory that remains unused for more than 180 days, becomes obsolete or remains unused on the termination of the supply agreement. If Flextronics were unable to continue to supply product, it would not result in a material disruption to our business because Flextronics primarily provides contract assembly labor and we continue to manage the inbound sourcing and supply chain management of raw materials and sub-assembly parts. In addition,

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we own the tooling and technology that Flextronics currently uses to produce our products; there are a number of alternative suppliers that could replace the contract assembly labor Flextronics provides and we have business resumption plans in place for Flextronics and other similar suppliers.

We acquire other office products from various third parties in order to increase the breadth of our product portfolio and meet channel requirements. We have arrangements with Fuji Xerox under which we purchase and sell products, some of which are the result of mutual research and development arrangements. Refer to Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements in our 2008 Annual Report for additional information regarding our relationship with Fuji Xerox.

Fuji Xerox

Fuji Xerox is an unconsolidated entity in which we currently own a 25% interest and FUJIFILM Holdings Corporation (“FujiFilm”) owns a 75% interest. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong, other areas of the Pacific Rim, Australia and New Zealand. We retain significant rights as a minority shareholder. Our technology licensing agreements with Fuji Xerox ensure that the two companies retain uninterrupted access to each other’s portfolio of patents, technology and products.

International Operations

We are incorporating by reference the financial measures by geographical area for 2008, 2007 and 2006 that are included in Note 2 – Segment Reporting in the Consolidated Financial Statements in our 2008 Annual Report. See also the risk factors entitled “Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including fluctuating foreign currencies and shifting regulatory schemes.” in Part 1, Item 1A of this Form 10K.

Backlog

We believe that backlog, or the value of unfilled orders, is not a meaningful indicator of future business prospects because of the significant proportion of our revenue that follows equipment installation, the large volume of products we deliver from shelf inventories and the shortening of product life cycles.

Seasonality

Our revenues are affected by such factors as the introduction of new products, the length of the sales cycles and the seasonality of technology purchases. As a result, our operating results are difficult to predict. These factors have historically resulted in lower revenue in the first quarter than in the immediately preceding fourth quarter.

Other Information

Xerox is a New York corporation, organized in 1906, and our principal executive offices are located at 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505.

Our telephone number is (203) 968-3000.

On the Investor Information section of our Internet website, you will find our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports. We make these documents available as soon as we can after we have filed them with, or furnished them to, the Securities and Exchange Commission.

Our Internet address is <http://www.xerox.com>

Item 1A. Risk Factors

Current economic conditions and uncertain economic outlook could adversely affect our results of operations and financial condition.

The global economy is currently undergoing a period of unprecedented volatility, which has affected the demand for equipment, services and supplies. A prolonged period of economic decline could have a material adverse effect on our results of operations and financial condition and exacerbate the other risk factors we have described below. Possible effects of current and/or future adverse economic conditions on our business include: decrease in purchases or usage of our products, services and supplies by customers as increased unemployment of office workers leads to lower utilization of our equipment and reduced advertising and media spend adversely impacts the graphic arts market; reduction in purchases of products and supplies by channel partners due to their efforts to reduce inventory and conserve cash and/or their inability to obtain financing; disruption in our business due to our inability to obtain equipment, parts and supplies from our suppliers – and our suppliers from their suppliers – if marginal supply businesses fail; increase in the cost of our products acquired from Japan if the Yen strengthens against the U.S. Dollar and/or the Euro, decreasing our profit margins or forcing us to increase prices of our products, thereby making our products less affordable to customers; higher level of collection delinquencies due to insolvency of our customers or shortage of cash to support their businesses; and decrease in our ability to hedge currency exposures due to higher hedging costs because of extreme volatility of exchange rates.

We face significant competition and our failure to compete successfully could adversely affect our results of operations and financial condition.

We operate in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. Our competitors range from large international companies to relatively small firms. Some of the large international companies have significant financial resources and compete with us globally to provide document processing products and services in each of the markets we serve. We compete primarily on the basis of technology, performance, price, quality, reliability, brand, distribution and customer service and support. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve and to expand into additional market segments. To remain competitive, we must develop new products, services and applications and periodically enhance our existing offerings. If we are unable to compete successfully, we could lose market share and important customers to our competitors and that could materially adversely affect our results of operations and financial condition.

If we fail to successfully develop new products and technologies and protect our intellectual property rights, we may be unable to retain current customers and gain new customers and our revenues would be reduced.

The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. In developing these new technologies and products, we rely upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with our employees, customers, suppliers and other parties, to establish and maintain our intellectual property rights in technology and products used in our operations. However, the laws of certain countries may not protect our proprietary rights to the same extent as the laws of the United States and we may be unable to protect our proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect our competitive position. In addition, some of our products rely on technologies developed by third parties. We may not be able to obtain or to continue to obtain licenses and technologies from these third parties at all or on reasonable terms, or such third parties may demand cross-licenses to our intellectual property. It is also possible that our intellectual property rights could be challenged, invalidated or circumvented, allowing others to use our intellectual property to our competitive detriment. We also must ensure that all of our products comply with existing and newly enacted applicable regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers' needs through the development of new technologies and products or if we fail to adequately protect our intellectual property rights or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and that could materially adversely affect our results of operations and financial condition.

Our profitability is dependent upon our ability to obtain adequate pricing for our products and to improve our cost structure.

Our success depends on our ability to obtain adequate pricing for our products and services which provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further

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devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our products and services, it could materially adversely affect our results of operations and financial condition.

We continually review our operations with a view towards reducing our cost structure, including but not limited to downsizing our employee base, exiting certain businesses, improving process and system efficiencies and outsourcing some internal functions. We from time to time engage in restructuring actions to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from prior restructuring actions, it could materially adversely affect our results of operations and financial condition.

Our ability to sustain and improve profit margins is dependent on a number of factors, including our ability to continue to improve the cost efficiency of our operations through such programs as Lean Six Sigma, the level of pricing pressures on our products and services, the proportion of high-end as opposed to low-end equipment sales, the trend in our post-sale revenue growth and our ability to successfully complete information technology initiatives. If any of these factors adversely materialize or if we are unable to achieve productivity improvements through design efficiency, supplier and manufacturing cost improvements and information technology initiatives, our ability to offset labor cost inflation, potential materials cost increases and competitive price pressures would be impaired, all of which could materially adversely affect our results of operations and financial condition.

We have outsourced a significant portion of our overall worldwide manufacturing operations and face the risks associated with relying on third party manufacturers and external suppliers.

We have outsourced a significant portion of our overall worldwide manufacturing operations to third parties and various service providers. To the extent that we rely on third party manufacturing relationships, we face the risk that those manufacturers may not be able to develop manufacturing methods appropriate for our products, they may not be able to quickly respond to changes in customer demand for our products, they may not be able to obtain supplies and materials necessary for the manufacturing process, they may experience labor shortages and/or disruptions, manufacturing costs could be higher than planned and the reliability of our products could decline. If any of these risks were to be realized, and assuming similar third-party manufacturing relationships could not be established, we could experience interruptions in supply or increases in costs that might result in our being unable to meet customer demand for our products, damage our relationships with our customers and reduce our market share, all of which could materially adversely affect our results of operations and financial condition.

Our business, results of operations and financial condition may be negatively impacted by economic conditions abroad, including fluctuating foreign currencies and shifting regulatory schemes.

Approximately half of our revenue is generated from operations outside the United States. In addition, we manufacture or acquire many of our products and/or their components from, and maintain significant operations, outside the United States. Our future revenues, costs and results of operations could be significantly affected by changes in foreign currency exchange rates, as well as by a number of other factors, including changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements, local tax issues, capitalization and other related legal matters. We generally hedge foreign currency denominated assets, liabilities and anticipated transactions primarily through the use of currency derivative contracts. The use of derivative contracts is intended to mitigate or reduce transactional level volatility in the results of foreign operations, but does not completely eliminate volatility. We do not hedge the translation effect of international revenues and expenses, which are denominated in currencies other than our U.S. parent functional currency, within our consolidated financial statements. If our future revenues, costs and results of operations are significantly affected by economic conditions abroad and we are unable to effectively hedge these risks, they could materially adversely affect our results of operations and financial condition.

Our operating results may be negatively impacted by lower equipment placements and revenue trends.

Our ability to maintain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be further enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, office and production services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct sales productivity and expand our indirect distribution channels in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix of color pages, equipment utilization and color adoption, as well as our ability to retain a high level of supplies sales in unbundled contracts. Equipment placements typically occur through leases with original terms of three to five years. There will

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be a lag between the increase in equipment placement and an increase in post sale revenues. The ability to grow our customers' usage of our products may continue to be adversely impacted by the movement toward distributed printing and electronic substitutes and the impact of lower equipment placements in prior periods. If we are unable to maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

We need to develop and expand the use of color printing and copying.

Increasing the proportion of pages which are printed in color and transitioning color pages currently produced on offset devices to Xerox technology represent key growth opportunities. A significant part of our strategy and ultimate success in this changing market is our ability to develop and market technology that produces color prints and copies quickly, easily, with high quality and at reduced cost. Our continuing success in this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market, as well as the pace of color adoption by our existing and prospective customers. If we are unable to develop and market advanced and competitive color technologies or the pace of color adoption by our existing and prospective customers is less than anticipated, or the price of color pages declines at a greater rate and faster pace than we anticipate, we may be unable to capture these opportunities and it could materially adversely affect our results of operations and financial condition.

Our ability to fund our customer financing activities at economically competitive levels depends on our ability to borrow and the cost of borrowing in the credit markets.

The long-term viability and profitability of our customer financing activities is dependent, in part, on our ability to borrow and the cost of borrowing in the credit markets. This ability and cost, in turn, is dependent on our credit ratings and is subject to credit market volatility. We are currently funding our customer financing activity through a combination of cash generated from operations, cash on hand, capital market offerings, other borrowings and, to a lesser degree, third-party funding arrangements. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

Our significant debt could adversely affect our financial health and pose challenges for conducting our business.

We have and will continue to have a significant amount of debt and other obligations, primarily to support our customer financing activities. As of December 31, 2008, we had \$8.4 billion of total debt and a \$648 million liability to a subsidiary trust issuing preferred securities. The total value of finance assets, shown on the balance sheet as Finance receivables and On-lease equipment, was \$7.9 billion at December 31, 2008. The total cash and cash equivalents was \$1.2 billion at December 31, 2008. Our substantial debt and other obligations could have important consequences. For example, it could (i) increase our vulnerability to general adverse economic and industry conditions; (ii) limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions and other general corporate requirements; (iii) increase our vulnerability to interest rate fluctuations because a portion of our debt has variable interest rates; (iv) require us to dedicate a substantial portion of our cash flows from operations to service debt and other obligations thereby reducing the availability of our cash flows from operations for other purposes; (v) limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; (vi) place us at a competitive disadvantage compared to our competitors that have less debt; and (vii) become due and payable upon a change in control. If new debt is added to our current debt levels, these related risks could increase.

We need to maintain adequate liquidity in order to have sufficient cash to meet operating cash flow requirements, repay maturing debt and meet other financial obligations, such as payment of dividends to the extent declared by our Board of Directors. If we fail to comply with the covenants contained in our various borrowing agreements, it may adversely affect our liquidity, results of operations and financial condition.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets, securitizations, funding from third parties and borrowings secured by our finance receivables portfolios. As of December 31, 2008, total cash and cash equivalents was \$1.2 billion, and our borrowing capacity under our Credit Facility was \$1.7 billion, reflecting \$246 million of outstanding borrowings. We also have funding available through a secured borrowing arrangement with General Electric Capital Corporation ("GECC"). We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur; however, our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets, secured borrowings, securitizations and funding from third

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parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt; (ii) certain fundamental changes to corporate structure; (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). The indentures governing our outstanding senior notes contain affirmative and negative covenants including limitations on: issuance of secured debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends and certain other payments. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments. Some of the covenants under our senior notes are suspended while we are rated investment grade. Our U.S. Loan Agreement with GECC relating to our customer financing program (the "Loan Agreement") provides for loans secured by eligible finance receivables up to \$5 billion outstanding at any one time. As of December 31, 2008, \$56 million was outstanding under the Loan Agreement. The Loan Agreement incorporates the financial maintenance covenants contained in the Credit Facility and contains other affirmative and negative covenants.

At December 31, 2008, we were in full compliance with the covenants and other provisions of the Credit Facility, the senior notes and the Loan Agreement. Failure to comply with material provisions of or covenants in the Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition. Failure to comply with the covenants in the Loan Agreement would result in a termination event under the Loan Agreement and GECC would no longer be obligated to make further loans to us. If GECC were to make no further loans to us, and assuming that (a) our cash flow was inadequate and (b) we were unable to procure a similar facility or otherwise obtain replacement financing in the public debt markets, it could materially adversely affect our liquidity and our ability to fund our customers' purchases of our equipment and this could materially adversely affect our results of operations.

Our business, results of operations and financial condition may be negatively impacted by legal and regulatory matters.

We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act ("ERISA"), as discussed in the "Contingencies" note in the Consolidated Financial Statements. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Our operations and our products are subject to environmental regulations in each of the jurisdictions in which we conduct our business and sell our products. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. For example, various countries and jurisdictions have adopted or are expected to adopt restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items that we use or sell. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prohibited from selling our products, which could have a material adverse effect on our results of operations and financial condition. Further, various countries and jurisdictions have adopted or are expected to adopt, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition. Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements and/or possible bans on the use of certain chemicals, various efforts to limit energy use in products, and other environmentally related product programs. For example, the European Union's Energy-Using Products Directive ("EUP") is expected to lead to the adoption of "implementing measures" intended to require certain classes of products to achieve certain design and/or performance standards, in connection with energy use and potentially other environmental parameters and impacts. It is possible that some or all of our products may be required to comply with EUP implementing measures. Another example is the

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European Union “REACH” Regulation (Registration, Evaluation, Authorization and Restriction of Chemicals), a broad initiative that will require parties throughout the supply chain to register, assess and disclose information regarding many chemicals in their products. Depending on the types, applications, forms and uses of chemical substances in various products, REACH could lead to restrictions and/or bans on certain chemical usage. Xerox continues its efforts toward monitoring and evaluating the applicability of these and numerous other regulatory initiatives in an effort to develop compliance strategies. As these and similar initiatives and programs become regulatory requirements throughout the world and/or are adopted as public or private procurement requirements, we must comply or potentially face market access limitations that could have a material adverse affect on our operations and financial condition.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

We own several manufacturing, engineering and research facilities and lease other facilities. Our principal manufacturing and engineering facilities, located in California, New York, Oklahoma, Canada, U.K., Ireland and the Netherlands, are used jointly by the Production and Office Segments. The facilities in Oregon are used by the Office Segment. Our principal research facilities are located in California, New York, Canada, France and the U.K. The research activities in our principal research centers benefit all of our operating segments.

As we have implemented our restructuring programs, including the restructuring in the fourth quarter of 2008 (refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements of our Annual Report, incorporated by reference), several leased and owned properties became surplus, including portions of our Dundalk, Ireland and Oklahoma City, OK manufacturing plants. We are obligated to maintain our leased surplus properties through required contractual periods. We have disposed or subleased certain of these properties and are aggressively pursuing the sale of owned surplus properties and the disposition and subleasing of remaining surplus. With respect to United States properties, at December 31, 2008, we maintained approximately 20 surplus facilities totaling approximately 711,408 square feet.

The Company utilizes a Virtual Office Program for the United States sales force. As part of this program, approximately 2,800 employees are working virtually. In combination with other initiatives, this program has reduced our real estate portfolio by approximately 941,100 square feet.

We also own or lease numerous facilities, which house general offices, sales offices, service locations and distribution centers. Our principal owned facilities are located in the United States, Ireland, Brazil and the Netherlands. Our principal leased facilities are located in the United States, Brazil, Canada, U.K., Mexico, France and Germany. In 2002, we entered into a joint venture (“Xerox Capital Services”) with General Electric to manage our administrative billing, credit and collection functions. Xerox Capital Services licenses several of our owned and leased facilities totaling approximately 292,814 square feet. Our three principal Xerox Capital Services administrative facilities are located in Texas, Illinois and New York. We also lease a portion of a training facility, located in Virginia. It is our opinion that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform their functions.

Item 3. Legal Proceedings

The information set forth under the “Contingencies” note in the Consolidated Financial Statements, of the Xerox Corporation 2008 Annual Report is hereby incorporated by reference.

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

None

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Market Information, Holders and Dividends

The information set forth under the following captions of the Xerox Corporation 2008 Annual Report to Shareholders is hereby incorporated by reference:

Caption

Stock Listed and Traded
Xerox Common Stock Prices and Dividends
Five Years in Review – Common Shareholders of Record at Year-End

(b) Sales of Unregistered Securities During the Quarter ended December 31, 2008

During the quarter ended December 31, 2008, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the "Act"):

Dividend Equivalents:

- Securities issued on October 31, 2008: Registrant issued 976 deferred stock units ("DSU"), representing the right to receive shares of Common Stock, par value \$1 per share, at a future date.
- No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Glenn A. Britt, Richard J. Harrington, William Curt Hunter, Vernon E. Jordan, Jr., Ralph S. Larsen, Robert A. McDonald, N. J. Nicholas, Jr., Charles Prince, Ann N. Reese and Mary Agnes Wilderotter.
- The DSUs were issued at a deemed purchase price of \$11.395 per DSU (aggregate price \$11,122), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.
- Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(c) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2008 Repurchases of Xerox Common Stock, par value \$1.00 per Share

Board Authorized Share Repurchase Programs:

	Total Number of Shares Purchased	Average Price Paid per Share ⁽¹⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs ⁽²⁾
October 1 through 31	863,300	\$9.3042	863,300	\$1,559,348,335
November 1 through 30	—	—	—	\$1,559,348,335
December 1 through 31	—	—	—	\$1,559,348,335
Total	863,300		863,300	

(1) Exclusive of fees and costs.

(2) Our Board of Directors previously authorized share repurchase programs totaling \$2.5 billion, which have been exhausted. In each of January 2008 and July 2008, our Board of Directors authorized an additional \$1.0 billion stock repurchase program covering shares of our common stock, par value \$1.00 per share. Of the cumulative \$4.5 billion of authority for share repurchases, exclusive of fees and expenses, approximately \$2.9 billion of this authority has been used through December 31, 2008. The repurchases under these programs may be made on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs ⁽¹⁾:

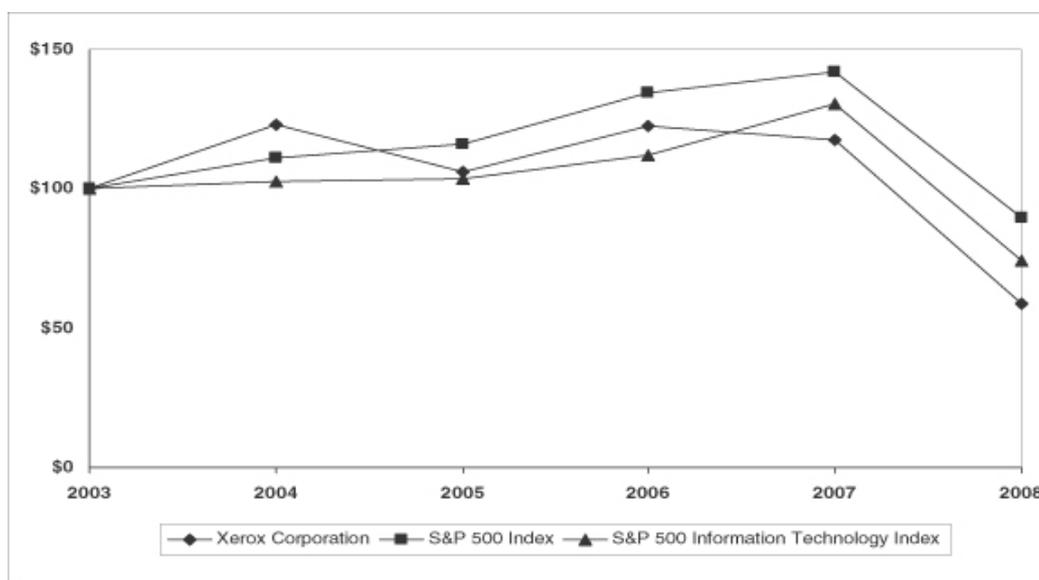
	Total Number of Shares Purchased	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased under the Plans or Programs
October 1 through 31	6,038	\$8.39	n/a	n/a
November 1 through 30	954	\$6.36	n/a	n/a
December 1 through 31	1,320	\$6.99	n/a	n/a
Total	8,312		n/a	n/a

(1) These repurchases are made under provisions in our restricted stock compensation programs for the indirect repurchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

(2) Exclusive of fees and costs.

(d) Performance Graph

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG XEROX CORP, S&P 500 INDEX AND S&P 500 INFORMATION TECHNOLOGY INDEX



SOURCE: Standard & Poor's Investment Services

NOTES: Graph assumes \$100 invested on December 31, 2003 in Xerox Corp., the S&P 500 Index, and the S&P 500 Information Technology Index respectively, and assumes dividends are reinvested.

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	Dec03	Dec04	Dec05	Dec06	Dec07	Dec08
Xerox Corporation	\$ 100	\$ 123	\$ 106	\$ 123	\$ 118	\$ 59
S&P 500 Index	100	111	116	135	142	90
S&P 500 Information Technology Index	100	103	104	112	131	74

The graph and other information furnished under this Part II Item 5(d) of this Form 10-K shall not be deemed to be 'soliciting material' or to be 'filed' with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Item 6. Selected Financial Data

The following selected financial data for the five years ended December 31, 2008, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2008 Annual Report to Shareholders, is incorporated by reference in this Form 10-K.

Revenues
Income from continuing operations
Per-Share Data
Income from continuing operations – Basic and Diluted
Earnings – Basic and Diluted
Common stock dividends
Total Assets
Long-term debt
Liabilities to subsidiary trusts issuing preferred securities
Series C mandatory convertible preferred stock

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

The information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations," of the Xerox Corporation 2008 Annual Report is hereby incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information set forth under the caption "Financial Risk Management," in the Xerox Corporation 2008 Annual Report is hereby incorporated by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the report thereon of PricewaterhouseCoopers LLP, included in the Xerox Corporation 2008 Annual Report, are incorporated by reference in this Form 10-K. With the exception of the aforementioned information and the information incorporated in Items 1, 3, 5, 6, 7, 7A and 8, the Xerox Corporation 2008 Annual Report is not to be deemed filed as part of this Form 10-K.

The quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" of the Xerox Corporation 2008 Annual Report is incorporated by reference in this Annual Report on Form 10-K.

The financial statement schedule required herein is filed as referenced in Item 15 of this Form 10-K.

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

None

Item 9A. Controls and Procedures

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.

Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to the officers who certify the Company's financial reports and to other members of senior management and the Board of Directors. Based on their evaluation as of December 31, 2008, our principal executive officer

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and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and was accumulated and communicated to the Company's Management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2008 Annual Report to Shareholders which is incorporated by reference in this Form 10-K.

Changes in Internal Control over Financial Reporting

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Executive Compensation

On February 12, 2009, the Compensation Committee of the Board of Directors of the Company took the following actions:

2008 and 2009 Annual Performance Incentive Plan (APIP)

The Compensation Committee approved the payments of cash awards under the Xerox 2004 Performance Incentive Plan ("2004 PIP"), as amended, for 2008 APIP. The measures on which awards are based for the 2008 fiscal year are set out on Exhibit 10(e)(16) attached hereto and the measures for awards for the first half of fiscal year 2009 are set out on Exhibit 10(e)(21) attached hereto. The Compensation Committee approved cash awards under the 2004 PIP for fiscal year 2008 to Anne M. Mulcahy, Chairman and Chief Executive Officer of the Company, Ursula M. Burns, President, Lawrence A. Zimmerman, Chief Financial Officer and certain other officers, including James A. Firestone and Jean-Noel Machon, our other two most highly compensated executive officers for fiscal year 2008 (collectively with Mrs. Mulcahy, the "Named Executive Officers"). The Compensation Committee approved a cash award of \$990,000 to Mrs. Mulcahy, \$554,688 to Ms. Burns, \$355,250 to Mr. Zimmerman, \$355,250 to Mr. Firestone, and \$247,599 to Mr. Machon.

2006 E-LTIP Awards

The Compensation Committee determined that 13.33% of the performance shares granted under the 2006 Executive Long-Term Incentive Program ("2006 E-LTIP") were earned based on the Company's 2008 performance against the annual targets established for Earnings Per Share ("EPS") and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(6). The number of shares earned for 2008 for each Named Executive Officer is as follows: Mrs. Mulcahy, 59,200 shares; Ms. Burns, 22,773 shares; Mr. Zimmerman, 14,573 shares; Mr. Firestone, 18,227 shares; and Mr. Machon, 9,120 shares.

The Compensation Committee also determined that an additional 35% of the 2006 original award amount was earned based on achievement of three-year cumulative performance results against the three-year targets established for EPS and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(6). The number of additional shares earned for each Named Executive Officer is as follows: Mrs. Mulcahy, 155,400 shares; Ms. Burns, 59,780 shares; Mr. Zimmerman, 38,255 shares; Mr. Firestone, 47,845 shares; and Mr. Machon, 23,940 shares. All performance shares earned under the 2006 E-LTIP will vest on April 1, 2009, and after such time, there will be no performance shares remaining under the 2006 E-LTIP for Named Executive Officers.

2007 E-LTIP Awards

The Compensation Committee determined that 13.33% of the performance shares granted under the 2007 Executive Long-Term Incentive Program ("2007 E-LTIP") were earned based on the Company's 2008 performance against the annual targets established for Earnings Per Share and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(12). The number of shares earned for 2008 for each Named Executive Officer is as follows: Mrs. Mulcahy, 65,013 shares; Ms. Burns, 18,480 shares; Mr. Zimmerman, 19,693 shares; Mr. Firestone, 14,787 shares; and Mr. Machon, 7,400 shares. Earned shares vest three years from their grant date.

2008 E-LTIP Awards

The Compensation Committee determined that no performance shares granted under the 2008 Executive Long-Term Incentive Program ("2008 E-LTIP") were earned based on the Company's 2008 performance against the annual targets established for Earnings Per Share and Core Cash Flow from Operations. A description of the targets is set out on Exhibit 10(e)(17).

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding directors is incorporated herein by reference to the section entitled "Proposal 1 - Election of Directors" in our definitive Proxy Statement ("2009 Proxy Statement") to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, for our Annual Meeting of Stockholders to be held on May 21, 2009. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2008.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2009 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled "Committee Functions, Membership and Meetings" in the section entitled "Proposal 1 –Election of Directors" in our 2009 Proxy Statement.

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer and principal accounting officer. The Finance Code of Conduct can be found on our website at: <http://www.xerox.com/investor> and then clicking on Corporate Governance.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Xerox Officer Since
Anne M. Mulcahy*	56	Chairman and Chief Executive Officer	2002	1992
Ursula M. Burns*	50	President	2007	1997
Lawrence A. Zimmerman	66	Executive Vice President and Chief Financial Officer	2007	2002
James A. Firestone	54	Executive Vice President; President, Corporate Operations	2008	1998
Willem Appelo	44	Senior Vice President; President, Xerox Global Business and Services Group	2008	2004
Michael Stephen Cronin	55	Senior Vice President; President, Xerox Global Services	2008	2004
Don H. Liu	47	Senior Vice President; General Counsel and Secretary	2007	2007
Jean-Noel Machon	56	Senior Vice President; President, Developing Markets Operations	2004	2000
Armando Zagalo de Lima	50	Senior Vice President; President Xerox Europe	2004	2000
Quincy Allen	48	Vice President; President, Global Business & Strategic Marketing Group	2009	2004
Richard M. Dastin	49	Vice President; President, Global Product Delivery Group	2009	2008
Gary R. Kabureck	55	Vice President and Chief Accounting Officer	2003	2000
James H. Lesko	57	Vice President; Vice President, Investor Relations	2004	1993
Doug Lord	58	Vice President; President, North American Solutions Group	2008	2008
Russell Peacock	50	Vice President; President, North American Channels Group	2008	2007
Rhonda L. Seegal	58	Vice President and Treasurer	2003	2003
Leslie F. Varon	52	Vice President and Controller	2006	2001

* Member of Xerox Board of Directors

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Each officer named above, with the exception of, Don H. Liu, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 2007, Mr. Liu had been with Toll Brothers where he was Senior Vice President, General Counsel and Corporate Compliance Officer from 2005 to 2007. Prior to that, he was General Counsel, Corporate Secretary and Corporate Compliance Officer for IKON Office Solutions from 1999 to 2005. Prior to that, he was Vice President and Deputy Chief Legal Officer for Aetna U.S. Healthcare from 1992 to 1999.

Item 11. Executive Compensation

The information included under the following captions under “Proposal 1-Election of Directors” in our 2009 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2008”, “Outstanding Equity Awards at 2008 Fiscal Year-End”, “Option Exercises and Stock Vested in 2008”, “Pension Benefits for the 2008 Fiscal Year”, “Nonqualified Deferred Compensation”, “Potential Payments upon Termination or Change in Control”, “Summary of Director Annual Compensation” and “Compensation Committee”. The information included under the heading “Compensation Committee Report” in our 2009 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled “Ownership of Company Securities,” and “Equity Compensation Plan Information” under “Proposal 1– Election of Directors” in our 2009 definitive Proxy Statement.

Item 13. Certain Relationships, Related Transactions and Director Independence

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled “Certain Relationships and Related Person Transactions” under “Proposal 1 – Election of Directors” in our 2009 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled “Corporate Governance” and “Director Independence” in the section entitled “Proposal 1 – Election of Directors” in our 2009 definitive Proxy Statement.

Item 14. Principal Auditor Fees and Services

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled “Proposal 2 – Ratification of Election of Independent Registered Public Accounting Firm” in our 2009 definitive Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

- (a) (1) Index to Financial Statements and Financial Statement Schedule, incorporated by reference or filed as part of this report:
Report of Independent Registered Public Accounting Firm;
Consolidated Statements of Income for each of the years in the three-year period ended December 31, 2008;
Consolidated Balance Sheets as of December 31, 2008 and 2007;
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2008;
Consolidated Statements of Common Shareholders' Equity for each of the years in the three-year period ended December 31, 2008;
Notes to Consolidated Financial Statements;
Report of Independent Registered Public Accounting Firm on Financial Statement Schedule;
Schedule II – Valuation and qualifying accounts for the three years ended December 31, 2008; and
All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.
- (2) Supplementary Data:
Quarterly Results of Operations (unaudited); and
Five Years in Review.
- (3) The exhibits filed herewith or incorporated herein by reference are set forth in the Index of Exhibits included herein.
- (b) The management contracts or compensatory plans or arrangements listed in the "Index of Exhibits" that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2009 Proxy Statement are preceded by an asterisk (*).

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

To the Board of Directors of Xerox Corporation:

Our audits of the consolidated financial statements and of the effectiveness of internal control over financial reporting referred to in our report dated February 13, 2009 appearing in the 2008 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 15(a)(1) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 13, 2009

SCHEDULE II

Valuation and Qualifying Accounts

Year ended December 31, 2008, 2007 and 2006

(in millions)	Balance at beginning of period	Additions charged to bad debt provision ⁽¹⁾	Amounts (credited) charged to other income statement accounts ⁽¹⁾	Deductions and other, net of recoveries ⁽²⁾	Balance at end of period
2008					
Allowance for Losses on:					
Accounts Receivable	\$ 128	\$ 64	\$ 8	\$ (69)	\$ 131
Finance Receivables	203	124	3	(132)	198
	<u>\$ 331</u>	<u>\$ 188</u>	<u>\$ 11</u>	<u>\$ (201)</u>	<u>\$ 329</u>
2007					
Allowance for Losses on:					
Accounts Receivable	\$ 116	\$ 55	\$ (1)	\$ (42)	\$ 128
Finance Receivables	198	79	(2)	(72)	203
	<u>\$ 314</u>	<u>\$ 134</u>	<u>\$ (3)</u>	<u>\$ (114)</u>	<u>\$ 331</u>
2006					
Allowance for Losses on:					
Accounts Receivable	\$ 136	\$ 36	\$ (9)	\$ (47)	\$ 116
Finance Receivables	229	51	(2)	(80)	198
	<u>\$ 365</u>	<u>\$ 87</u>	<u>\$ (11)</u>	<u>\$ (127)</u>	<u>\$ 314</u>

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Deductions and other, net of recoveries primarily relates to receivable write-offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

INDEX OF EXHIBITS

Document and Location

- 3(a) Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on November 7, 2003, as amended by Certificate of Amendment to Certificate of Incorporation filed with the Department of State of New York on August 19, 2004, Certificate of Change filed with the Department of State of the State of New York on October 31, 2007, Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on May 29, 2008 and Certificate of Amendment to Certificate of Incorporation filed with the Department of State of the State of New York on February 13, 2009.
- 3(b) By-Laws of Registrant, as amended through May 22, 2008.
Incorporated by reference to Exhibit 3(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008.
- 4(a)(1) Indenture dated as of December 1, 1991, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "December 1991 Indenture").
Incorporated by reference to Exhibit 4(a) to Registrant's Registration Statement Nos. 33-44597, 33-49177 and 33-54629.
- 4(a)(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.
Incorporated by reference to Exhibit 4(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.
- 4(a)(3) Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust Company, as prior trustee, Citibank, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the December 1991 Indenture.
- 4(b)(1) Indenture dated as of September 20, 1996, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities, which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "September 1996 Indenture").
Incorporated by reference to Exhibit 4(a) to Registration Statement No. 333-13179.
- 4(b)(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the September 1996 Indenture.
Incorporated by reference to Exhibit 4(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.
- 4(b)(3) Instrument of Resignation, Appointment and Acceptance dated as of July 30, 2008, among Registrant, Wilmington Trust, as prior trustee, Citibank, N.A. as prior paying agent, registrar and issuing and paying agent, and The Bank of New York Mellon, as successor trustee, relating to the September 1996 Indenture.
- 4(c)(1) Indenture dated as of January 29, 1997, between Registrant and Bank One, National Association (as successor by merger with The First National Bank of Chicago) ("Bank One"), as trustee (the "January 1997 Indenture"), relating to Registrant's Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures").
Incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-24193.
- 4(c)(2) Form of Certificate of Exchange relating to Junior Subordinated Debentures.
Incorporated by reference to Exhibit A to Exhibit 4.1 to Registration Statement No. 333-24193.
- 4(c)(3) Certificate of Trust of Xerox Capital Trust I executed as of January 23, 1997.
Incorporated by reference to Exhibit 4.3 to Registration Statement No. 333-24193.
- 4(c)(4) Amended and Restated Declaration of Trust of Xerox Capital Trust I dated as of January 29, 1997.
Incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-24193.

INDEX OF EXHIBITS

- 4(c)(5) Form of Exchange Capital Security Certificate for Xerox Capital Trust I.
Incorporated by reference to Exhibit A-1 to Exhibit 4.4 to Registration Statement No. 333-24193.
- 4(c)(6) Series A Capital Securities Guarantee Agreement of Registrant dated as of January 29, 1997, relating to Series A Capital Securities of Xerox Capital Trust I.
Incorporated by reference to Exhibit 4.6 to Registration Statement No. 333-24193.
- 4(c)(7) Registration Rights Agreement dated January 29, 1997, among Registrant, Xerox Capital Trust I and the initial purchasers named therein.
Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-24193.
- 4(c)(8) Instrument of Resignation, Appointment and Acceptance dated as of November 30, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo Bank Minnesota, National Association (“Wells Fargo”), as successor Trustee, relating to the January 1997 Indenture.
Incorporated by reference to Exhibit (c)(8) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 4(d)(1) Indenture dated as of April 21, 1998, between Registrant and Bank One, as trustee, relating to \$1,012,198,000 principal amount at maturity of Registrant’s Convertible Subordinated Debentures due 2018 (the “April 1998 Indenture”).
Incorporated by reference to Exhibit 4(b) to Registrant’s Registration Statement No. 333-59355.
- 4(d)(2) Instrument of Resignation, Appointment and Acceptance dated as of July 26, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture (the “April 1998 Indenture Trustee Assignment”).
Incorporated by reference to Exhibit 4(e)(2) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 4(d)(3) Amendment to Instrument of Resignation, Appointment and Acceptance dated as of October 22, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture Trustee Assignment.
Incorporated by reference to Exhibit 4(e)(3) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
- 4(e) Indenture dated as of October 2, 1995, between Xerox Credit Corporation (“XCC”) and State Street Bank and Trust Company (“State Street”), as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC’s Board of Directors or Executive Committee of the Board of Directors (the “XCC Indenture”).
Incorporated by reference to Exhibit 4(a) to XCC’s Registration Statement Nos. 33-61481 and 333-29677.
- 4(f)(1) Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant’s Board of Directors (the “June 25, 2003 Indenture”).
Incorporated by reference to Exhibit 4.1 to Registrant’s Current Report on Form 8-K dated June 25, 2003.
- 4(f)(2) First Supplemental Indenture, dated June 25, 2003 among Registrant, the guarantors named therein and Wells Fargo, as trustee, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4.2 to Registrant’s Current Report on Form 8-K dated June 25, 2003.
- 4(f)(3) Form of Second Supplemental Indenture to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit (4)(b)(3) to Registrant’s Registration Statement No. 333-111623.

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- 4(f)(4) Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006.
- 4(f)(5) Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006.
- 4(f)(6) Form of Fifth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(8) to Registrant's Current Report on Form 8-K dated August 18, 2006.
- 4(f)(7) Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture.
Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900.
- 4(g)(1) Form of Credit Agreement dated as of April 30, 2007 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc. and J.P. Morgan Securities Inc., as Joint Lead Arrangers and Joint Bookrunners (the "Credit Agreement").
Incorporated by reference to Exhibit 10(j) to Registrant's Current Report on Form 8-K dated April 30, 2007.
- 4(g)(2) Amendment No. 1 to Credit Agreement, dated as of October 27, 2008, among Registrant, the Lenders named therein, and Citibank, N.A., as agent for the Lenders.
- 4(h) Master Demand Note dated December 10, 2003 between Registrant and Xerox Credit Corporation.
Incorporated by reference to Exhibit 4(m) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
- 4(i) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request.
- 10 The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2009 Proxy Statement are preceded by an asterisk (*).
- *10(a)(1) Registrant's Form of Salary Continuance Agreement (with salary continuance) – December 2008.
- *10(a)(2) Registrant's Form of Salary Continuance Agreement (without salary continuance) – December 2008.
- *10(b)(1) Registrant's 1991 Long-Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
Incorporated by reference to Exhibit 10(b)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- *10(b)(2) Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
Incorporated by reference to Exhibit 10(b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- *10(b)(3) Amendment dated December 4, 2007 to 1991 LTIP.
Incorporated by reference to Exhibit 10(b)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
- 10(c)(1) Registrant's 1996 Non-employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
Incorporated by reference to Exhibit 10(c)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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10(c)(2)	Amendment dated December 5, 2007 to 1996 NDSOP. Incorporated by reference to Exhibit 10(c)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(d)(1)	Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED"). Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(d)(2)	Form of Agreement under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(3)	Form of Grant Summary under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(4)	Form of DSU Deferral under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005.
10(d)(5)	Amendment dated December 5, 2007 to 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(e)(1)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 6, 2005 ("2004 PIP"). Incorporated by reference to Exhibit 10(e)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
*10(e)(2)	Form of 2005 Executive Long-Term Incentive Program Award Agreement under the 2004 PIP. Incorporated by reference to Exhibit 10(e)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(e)(3)	Form of 2005 Executive Long-Term Incentive Program Award Summary under the 2004 PIP. Incorporated by reference to Exhibit 10(e)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(e)(4)	Performance Elements for 2005 Executive Long-Term Incentive Program. Incorporated by reference to Exhibit 10(e)(6) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(e)(5)	Annual Performance Incentive Plan for 2006. Incorporated by reference to Exhibit 10(e)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
*10(e)(6)	Performance Elements for 2006 Executive Long-Term Incentive Program ("2006 ELTIP"). Incorporated by reference to Exhibit 10(e)(6) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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- *10(e)(7) Form of Amendment to Agreements under 2004 PIP.
Incorporated by reference to Exhibit 10(e)(7) to Registrant's Current Report on Form 8-K dated May 19, 2005.
- *10(e)(8) Form of 2006 Executive Long-Term Incentive Program Award Summary under 2006 ELTIP.
Incorporated by reference to Exhibit 10(e)(8) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
- *10(e)(9) 2006 Form of Executive Long-Term Incentive Program Award Agreement under the 2004 PIP.
Incorporated by reference to Exhibit 10(e)(9) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
- *10(e)(10) Registrant's 2004 Performance Incentive Plan, as amended and restated as of February 15, 2007 ("2007 PIP").
Incorporated by reference to Exhibit 10(e)(10) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(11) Annual Performance Incentive Plan for 2007.
Incorporated by reference to Exhibit 10(e)(11) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(12) Performance Elements for 2007 Executive Long-Term Incentive Program ("2007 ELTIP").
Incorporated by reference to Exhibit 10(e)(12) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(13) Form of Executive Long-Term Incentive Program Award Summary under 2007 ELTIP.
Incorporated by reference to Exhibit 10(e)(13) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(14) 2007 Form of Executive Long-Term Incentive Program Award Agreement under the 2007 PIP.
Incorporated by reference to Exhibit 10(e)(14) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(15) Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007-2 PIP").
Incorporated by reference to Exhibit 10(e)(15) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(16) Annual Performance Incentive Plan for 2008.
- *10(e)(17) Performance Elements for 2008 Executive Long-Term Incentive Program ("2008 ELTIP").
Incorporated by reference to Exhibit 10(e)(17) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(18) Form of Executive Long-Term Incentive Program Award Summary under 2008 ELTIP.
Incorporated by reference to Exhibit 10(e)(18) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- *10(e)(19) 2008 Form of Executive Long-Term Incentive Program Award Agreement under the 2007-2 PIP.
Incorporated by reference to Exhibit 10(e)(19) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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*10(e)(20)	Amendment dated December 4, 2007 to 2007-2 PIP. Incorporated by reference to Exhibit 10(e)(20) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
*10(e)(21)	Annual Performance Incentive Plan for 2009.
*10(e)(22)	Amendment No. 1 dated December 17, 2008 to 2007-2 PIP.
*10(f)(1)	2008 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through February 12, 2008 ("2008 URIGP").
*10(f)(2)	Amendment No. 1 to 2008 URIGP.
*10(g)(1)	2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2007 USERP"). Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(g)(2)	Amendment dated December 4, 2007 to Registrant's 2007 USERP. Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(g)(3)	Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP.
10(h)	1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002. Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(i)(1)	Form of Severance Letter Agreement entered into with various executive officers, effective October 12, 2007 ("2007 Severance Letter"). Incorporated by reference to Exhibit 10(i)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(i)(2)	Amendment dated December 4, 2008 to 2007 Severance Letter. Incorporated by reference to Exhibit 10(i)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
*10(i)(3)	Amendment dated December 17, 2008 to 2007 Severance Letter.
*10(j)(1)	Registrant's Universal Life Plan effective July 1, 2003. Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
*10(j)(2)	Amendment No. 3 to Registrant's Universal Life Plan. Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2006.
10(k)(1)	Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD"). Incorporated by reference to Exhibit 10(k)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.
10(k)(2)	Amendment dated December 5, 2007 to DCPD. Incorporated by reference to Exhibit 10(k)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

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*10(l)	Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004. Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004.
*10(m)	Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000. (This document was previously filed in 2001 and is being re-filed in order to comply with SEC rules regarding incorporation by reference).
10(n)	Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant. Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
*10(o)	Letter Agreement dated May 20, 2002 between Registrant and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant. (This Agreement was previously filed in 2002 and is being re-filed in order to comply with SEC rules regarding incorporation by reference).
10(p)	Amended and Restated Loan Agreement dated as of October 21, 2002 between Xerox Lease Funding LLC and General Electric Capital Corporation. (This Agreement was previously filed in 2003 and is being re-filed in order to comply with SEC rules regarding incorporation by reference).
*10(q)	Form of Cash Retention Agreement entered into with various executive officers during 2003. Incorporated by reference to Exhibit 10(w) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
*10(r)	Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant.
10(s)	2006 Technology Agreement, effective as of April 1, 2006, by and between Registrant and Fuji Xerox Co., Ltd. Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated March 9, 2006.**
12	Computation of Ratio of Earnings to Fixed charges and the Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
13	Registrant's 2008 Annual Report to Shareholders.
21	Subsidiaries of Registrant.
23	Consent of PricewaterhouseCoopers LLP.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002.
99.1	Order under Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Certain Provisions of the Act and Rules Thereunder, dated April 11, 2002 (Release No. 45730). Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K dated April 11, 2002.

** Pursuant to the Freedom of Information Act and/or a request for confidential treatment filed with the Securities and Exchange Commission under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, the confidential portion of this material has been omitted and filed separately with the Securities and Exchange Commission.

**RESTATED CERTIFICATE OF INCORPORATION
OF
XEROX CORPORATION
UNDER SECTION 807 OF THE
BUSINESS CORPORATION LAW**

We, the undersigned, ANNE M. MULCAHY and LESLIE F. VARON, being respectively the Chairman of the Board and the Secretary of XEROX CORPORATION, DO HEREBY CERTIFY that:

1. The name of the Corporation is "XEROX CORPORATION". The name under which it was formed is "THE HALOID COMPANY".

2. The Certificate of Incorporation was filed in the Office of the Secretary of State of the State of New York on April 18, 1906.

3. This restatement of the Certificate of Incorporation was authorized by a resolution adopted by the Board of Directors of the Corporation at a meeting thereof duly called and held. The text of the Certificate of Incorporation is hereby restated without further amendment to read as herein set forth in full:

FIRST: The name of the Corporation is XEROX CORPORATION.

SECOND: The purposes for which it is formed are as follows:

To engage in the invention, development, production, operation, sale or lease of devices, papers and other items, processes, and services, relating to the communications, photographic, printing and image reproduction arts;

To engage in any commercial, mercantile, manufacturing, mining, industrial, importing, exporting or trading business, venture, activity or service or other business, venture, activity or service of a kind or type described in these purposes;

To engage in scientific and technological research and pursuits of every lawful kind and description and to utilize, employ and exploit any and all knowledge resulting therefrom;

To purchase, lease or otherwise acquire, own, hold, sell, mortgage, charge or otherwise dispose of, invest, trade and deal in and with real and personal property of every kind and description.

THIRD: The office of the Corporation is to be located in the City of Rochester, Monroe County, New York.

FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 1,750,000,000 shares of Common Stock, of the par value of \$1.00 each (hereinafter referred to as "Common Stock"), 600,000 shares of Class B Stock of the par value of \$1.00 each (hereinafter referred to as "Class B Stock"), and 22,043,067 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock").

The designations, preferences, privileges and voting powers of each class of stock of the Corporation, and the restrictions and qualifications thereof, shall be as follows:

1. The Cumulative Preferred Stock may be issued from time to time as follows:

(a) The Cumulative Preferred Stock may be issued from time to time as shares of one or more series of Cumulative Preferred Stock and the Board of Directors is expressly authorized, prior to issuance, in the resolution or resolutions providing for the issue of shares in each particular series, to fix the following:

(i) the distinctive serial designation and number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(ii) the annual dividend rate for such series, and the date from which dividends on shares of such series shall be cumulative;

(iii) the redemption provisions and price or prices, if any, for such series, which may consist of a redemption price or scale of redemption prices applicable only to redemption for a sinking fund and the same or a different redemption price or scale of redemption prices applicable to any other redemption;

(iv) the amount or amounts which shall be paid to the holders of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation (but not less than \$1.00 in the case of involuntary liquidation);

(v) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund which shall be applied to the redemption of shares of such series;

(vi) the terms and conditions (with or without limitations), if any, on which shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, including the price or prices or at the rate or rates of conversion or exchange and the terms and conditions of adjustment thereof, if any; and

(vii) the voting rights, if any, in addition to those specified herein, and any other preferences, privileges and restrictions or qualifications of such series.

(b) All shares of Cumulative Preferred Stock, regardless of series, shall be of equal rank with each other and shall be identical with each other in all respects except as provided in or permitted by paragraph (a) of this subdivision 1 and except as provided in paragraph (b) of subdivision 6; and the shares of the Cumulative Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall be cumulative.

(c) In case the stated dividends and the amounts payable on liquidation are not paid in full, the shares of all series of the Cumulative Preferred Stock shall share ratably in the payment of dividends (including accumulations, if any) in accordance with the sums which would be payable on said shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distributions if all sums payable were discharged in full.

2. The holders of the Cumulative Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available for the payment of dividends, cumulative cash dividends at the annual rate for such series (as fixed by the Board of Directors in accordance with subdivision 1 in respect of any series), and no more, payable quarter-yearly, on the first day of January, April, July and October in each year, to shareholders of record on

the respective dates, not exceeding forty days preceding such dividend payment dates, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend; provided that if dividends on any shares of the Cumulative Preferred Stock shall be cumulative from a date less than thirty days prior to the first quarter-yearly dividend payment date in respect of such shares, the dividends accrued on such shares to such date shall not be payable on such date but shall be payable on the next following quarter-yearly dividend payment date. The holders of shares of the Cumulative Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision 2.

As provided in paragraph (c) of subdivision 1, no dividend shall be paid upon, or declared or set apart for, any share of Cumulative Preferred Stock of any series for any quarter-yearly dividend period (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) unless at the same time a like proportionate dividend for the same quarter-yearly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Cumulative Preferred Stock of all series then issued and outstanding and entitled to receive the dividend.

3. So long as any shares of the Cumulative Preferred Stock are outstanding, no dividend whatever shall be paid or declared at any time, and no distribution made, on any junior stock (other than in junior stock) nor shall any shares of junior stock be purchased or otherwise acquired for value or redeemed at any time by the Corporation or any subsidiary:

(a) unless all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart; and

(b) unless the Corporation shall have redeemed, retired or purchased all shares of each series of Cumulative Preferred Stock required to have been redeemed, retired or purchased at such time pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1,

provided, however, that the foregoing restrictions in this subdivision 3 shall not apply to the acquisition of any junior stock solely in exchange for, or solely out of the proceeds of sale of, any other junior stock.

Subject to the foregoing provisions of this subdivision 3, and to any further limitations prescribed by the Board of Directors in accordance with subdivision 1, and not otherwise, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on any junior stock from time to time out of any funds of the Corporation legally available therefor, and the Cumulative Preferred Stock shall not be entitled to participate in any such dividends.

4. Subject to the provisions of subdivision 5, the Corporation at its option (expressed by resolution of the Board of Directors) or for the purpose of any sinking fund therefor may (except as otherwise provided by the Board of Directors in accordance with subdivision 1 in respect of any series) redeem the outstanding shares of Cumulative Preferred Stock, or of any one or more series thereof, at any time in whole, or from time to time in part, upon notice duly given as hereinafter specified, at the applicable redemption price or prices for such shares (as fixed in accordance with subdivision 1 in respect of any series), including, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption.

Notice of every such redemption of Cumulative Preferred Stock of any series (a) if all the shares of such series are held of record by not more than ten holders, shall be given by mailing such notice not less than 30 nor more than 60 days prior to the date fixed for such redemption to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation, or (b) if all the shares of such series are held of record by more than ten holders, shall be given by publication at least once in each of two successive calendar weeks in a newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, The City of New York, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for such redemption, and notice of such redemption shall also be mailed not less than 30 nor more than 60 days prior to the date fixed for such redemption, to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation; but, if publication is required, no failure to mail any such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceeding for the redemption of any shares to be redeemed.

In case of redemption of a part only of the Cumulative Preferred Stock of any series at the time outstanding, whether for the sinking fund therefor or otherwise, the redemption may (subject to any provision made by the Board of Directors in accordance with subdivision 1 in respect of any series) be either pro rata or by lot, as determined by the Board of Directors. Subject to the foregoing, the Board of Directors shall have full power and authority to prescribe the manner in which the drawings by lot or the pro rata redemption shall be conducted and, subject to the provisions contained in the Certificate of Incorporation or provided by the Board of Directors in accordance with subdivision 1, the terms and conditions upon which the Cumulative Preferred Stock shall be redeemed from time to time.

If any such notice of redemption shall have been duly given and if, on or before the redemption date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after such redemption date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption thereof without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired.

If any such notice of redemption shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable written authorization promptly to give or complete such notice, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been deposited by the Corporation with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York, doing business in the Borough of Manhattan, The City of New York, having a capital, surplus, and undivided profits aggregating at least \$5,000,000 according to its last published statement of condition, in trust for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired. Any interest accrued on such funds shall be paid to the Corporation from time to time.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of six years from such redemption date shall be released or repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment thereof; provided that any funds so deposited which shall not be required for redemption because of the exercise of any privilege of conversion or exchange subsequent to the date of deposit shall be repaid to the Corporation forthwith.

None of the shares of Cumulative Preferred Stock of any series redeemed or retired pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1, shall be reissued and all such shares shall, in the manner provided by law, be eliminated from the authorized capital stock of the Corporation. The Corporation shall not be prohibited from reissuing any shares of Cumulative Preferred Stock redeemed or retired (other than for the sinking fund therefor) or converted into or exchanged for stock pursuant to the provisions fixed by the Board of Directors in accordance with subdivision 1, and after such redemption, retirement or conversion of the Corporation may, in the manner provided by law, restore such shares to the status of authorized but unissued shares of Cumulative Preferred Stock undesignated as to series.

5. If and so long as all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall not have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the Corporation shall not redeem (for sinking fund or otherwise) less than all of the Cumulative Preferred Stock at the time outstanding, and neither the Corporation nor any subsidiary shall purchase or otherwise acquire for value (for sinking fund or otherwise) any of the Cumulative Preferred Stock at the time outstanding.

6. Unless the consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least two-thirds of the shares of Cumulative Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Cumulative Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(a) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Cumulative Preferred Stock;

(b) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation which would affect adversely any right, preference, privilege or voting power of the Cumulative Preferred Stock or of the holders thereof; provided, however, that if any such amendment, alteration or repeal would affect adversely any right, preference, privilege or voting power of one or more, but not all, of the series of Cumulative Preferred Stock at the time outstanding, the consent of the holders of at least two-thirds of the outstanding shares of each such series so affected, similarly given, shall be required in lieu of (or if such consent is required by law, in addition to) the consent of the holders of two-thirds of the shares of the Cumulative Preferred Stock as a class; and

(c) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all the property or business of the Corporation, or the consolidation or merger of the Corporation with or into any other corporation, except any such consolidation or merger wherein none of the rights, preferences, privileges or voting powers of any series of the Cumulative Preferred Stock or the holders thereof are adversely affected.

No consent of the holders of the Cumulative Preferred Stock or of any series thereof which would otherwise be required to permit, effect or validate any action of the Corporation or a subsidiary pursuant to the provisions of this subdivision 6 or pursuant to any provision fixed by the Board of Directors in accordance with subdivision 1 shall be required if, prior to or concurrently with such action, provision shall be made in accordance with the provisions of the fourth paragraph of subdivision 4 for the redemption of all outstanding shares of Cumulative Preferred Stock or all outstanding shares of such series, as the case may be, and all funds necessary for such redemption shall be deposited in trust in accordance with the provisions of such paragraph.

7. Unless and until six quarter-yearly dividends on the Cumulative Preferred Stock of any series shall be in default, in whole or in part, the entire voting power, except as otherwise provided in the Certificate of Incorporation or By-Laws, shall be vested exclusively in the Common Stock in accordance with the provisions of, and except as otherwise expressly provided in, the Certificate of Incorporation. If and whenever six full quarter-yearly dividends (whether or not consecutive) payable on the Cumulative Preferred Stock of any series shall be in arrears, in whole or in part, the number of Directors then constituting the Board of Directors shall be increased by two and the holders of the Cumulative Preferred Stock, voting separately as a class, regardless of series, shall be entitled to elect the two additional directors at any annual meeting of shareholders or special meeting held in place thereof, or at a special meeting of the holders of the Cumulative Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Cumulative Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarter-yearly dividend period shall have been paid or declared and set apart for payment, then the right of the holders of the Cumulative Preferred Stock to elect such additional two Directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends), and the terms of office of all persons elected as Directors by the holders of the Cumulative Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the Cumulative Preferred Stock, the Secretary of the Corporation may, and upon the written request of any holder of the Cumulative Preferred Stock (addressed to the Secretary at the principal office of the Corporation) shall, call a special meeting of the holders of the Cumulative Preferred Stock for the election of the two Directors to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws for a special meeting of the shareholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the Secretary within twenty days after receipt of any such request, then any holder of Cumulative Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Corporation. The Directors elected at any such special meeting shall hold office until the next annual meeting of the shareholders or special meeting held in place thereof. In case any vacancy shall occur among the Directors elected by the holders of the Cumulative Preferred Stock, a successor shall be elected to serve until the next annual meeting of the shareholders or special meeting held in place thereof by the then remaining Director elected by the holders of the Cumulative Preferred Stock or the successor of such remaining Director.

In any case in which the holders of Cumulative Preferred Stock or any series thereof shall be entitled to vote pursuant to the provisions of the Certificate of Incorporation or pursuant to law, each holder of Cumulative Preferred Stock or of such series, as the case may be, shall be entitled to one vote for each share thereof held.

8. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Cumulative Preferred Stock of each series shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, (i) if such liquidation, dissolution or winding up shall be involuntary, the amount fixed by the Board of Directors in accordance with subdivision 1 but not less than \$1.00, and (ii) if such liquidation,

dissolution or winding up shall be voluntary, the amount per share fixed by the Board of Directors in accordance with the provisions of subdivision 1 in the case of any series of Cumulative Preferred Stock, in effect at the time thereof, together with, in each case, all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amounts; and the holders of the junior stock shall be entitled, to the exclusion of the holders of the Cumulative Preferred Stock of any and all series, to share ratably in all the remaining assets of the Corporation in accordance with their respective rights. As provided in paragraph (c) of subdivision 1, if upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the assets available for distribution shall be insufficient to pay the holders of all outstanding shares of Cumulative Preferred Stock the full amounts to which they respectively shall be entitled, the holders of shares of Cumulative Preferred Stock of all series shall share ratably in any distribution of assets in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Neither the consolidation or merger of the Corporation with or into any other corporation, nor any sale, lease or conveyance of all or any part of the property or business of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this subdivision 8.

9. Except as otherwise expressly provided in the Certificate of Incorporation and except as otherwise provided by law, voting rights upon any and all matters shall be vested exclusively in the holders of the Common Stock and the Class B Stock (each share of Common Stock and of Class B Stock having one vote).

10. No holder of Common Stock, Cumulative Preferred Stock or Class B Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

11. The holders of Common Stock and of Class B Stock shall possess equal voting rights and rights as to dividends or distributions, and in the event of any liquidation, dissolution or winding up of the Corporation. No dividend, distribution, split-up, combination, reclassification, or other change in the shares of Common Stock shall be made without the same being made with respect to the Class B Stock.

12. For all purposes of the Certificate of Incorporation:

The term "accrued and unpaid dividends" when used with reference to any share of any series of the Cumulative Preferred Stock shall mean an amount computed at the annual dividend rate for the shares of such series from the date on which dividends on such share became cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid on such share; but no interest shall be payable upon any arrearages.

The term "Certificate of Incorporation" shall mean the certificate of incorporation of the Corporation as amended and supplemented by any certificate heretofore or hereafter filed pursuant to law, including any certificate filed pursuant to law with respect to, and providing for the issue of, any series of Cumulative Preferred Stock.

The term "junior stock", when used with reference to the Cumulative Preferred Stock, shall mean the Common Stock, the Class B Stock and any other stock of the Corporation, now or hereafter authorized, over which the Cumulative Preferred Stock has preference or priority either in the payment of dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation.

The term "sinking fund", as applied to any series of preferred stock, shall mean any fund or requirement for the periodic redemption, retirement or purchase of shares of such series.

The term "stock ranking prior to the Cumulative Preferred Stock" shall mean any stock of the Corporation, now or hereafter authorized, which has preference over the Cumulative Preferred Stock either in the payment of dividends or in any liquidation, dissolution or winding up of the Corporation.

FIFTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against it served on him is:

XEROX CORPORATION
45 Glover Avenue
P. O. Box 4505
Norwalk, CT 06856-4505
Attention: General Counsel

SIXTH: Its duration is to be perpetual.

SEVENTH: The number of directors shall be not less than five (5) nor more than twenty-one (21) as determined in the manner prescribed by the By-Laws.

Unless the election is contested, each director shall be elected by the affirmative vote of a majority of the votes cast for or against the director at any meeting for the election of directors at which a quorum is present. In a contested election, directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. An election shall be considered contested if as of the record date there are more nominees for election than positions on the board of directors to be filled by election at the meeting.

EIGHTH: The Corporation may purchase, acquire, hold and dispose of the stocks, bonds and other evidences of indebtedness of any corporation, domestic or foreign, and may issue in exchange therefor, its stock, bonds or other obligations.

NINTH: A person who is or was a director of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for any breach of duty in such capacity, except to the extent that the Business Corporation Law of the State of New York as in effect from time to time expressly provides that the foregoing provisions shall not eliminate or limit such personal liability. Nothing in this Article shall directly or indirectly increase the liability of any such person based upon acts or omissions occurring before the adoption hereof. No amendment, modification or repeal of this Article shall adversely affect any right or protection of any director that exists at the time of such change.

AGREEMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, dated as of July 30, 2008 by and among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York ("Issuer"), WILMINGTON TRUST COMPANY, a banking corporation duly organized and existing under the laws of the State of Delaware ("Prior Trustee"), CITIBANK, N.A., a national banking association organized under the laws of the United States of America ("Prior Paying Agent, Registrar and Issuing and Paying Agent") and THE BANK OF NEW YORK MELLON, a banking corporation duly organized and existing under the laws of the State of New York ("Successor Trustee").

RECITALS:

WHEREAS, the Issuer, Prior Trustee and Citibank, N.A. ("Citibank") entered into an Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001 pursuant to which Prior Trustee became the trustee under an Indenture dated as of December 1, 1991 by and between the Issuer and Citibank (the "Indenture");

WHEREAS, pursuant to the Indenture, the Issuer issued its \$200,000,000 8-1/8% Notes due April 15, 2002 (CUSIP 984121AT0), its \$200,000,000 7.15% Notes due August 1, 2004 (CUSIP 9841212AU7), its Medium-Term Notes, Series B (Base CUSIP 98412J) and its Medium-Term Notes, Series C (Base CUSIP 98412J) (collectively all such issued notes, the "Securities");

WHEREAS, there is presently issued and outstanding \$300,000,000 in aggregate principal amount of the Securities, as more specifically set forth in Annex I hereto;

WHEREAS, the Issuer desires to appoint Successor Trustee as Trustee, Paying Agent, Registrar and Issuing and Paying Agent to succeed Prior Trustee and Prior Paying Agent, Registrar and Issuing and Paying Agent in such capacities, respectively, under the Indenture;

WHEREAS, Successor Trustee is willing to accept such appointment as Successor Trustee, Paying Agent and Registrar under the Indenture;

WHEREAS, the Issuer, Prior Trustee and Citibank entered into an Agency Agreement dated as of February 1, 2001 (the "Agency Agreement") pursuant to which Citibank became the authorized signatory for purposes of manually signing the certificate of authentication on the Securities (the "Agent") and Citibank is willing to resign as Agent under the Agency Agreement; and

WHEREAS, the Issuer, Prior Trustee and Citibank are willing to waive the sixty (60) day notice requirement for termination set forth in Section 4 under the Agency Agreement;

NOW, THEREFORE, the Issuer, Prior Trustee, Prior Paying Agent, Registrar and Issuing and Paying Agent and Successor Trustee, for and in consideration of the premises of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby consent and agree as follows:

ARTICLE I
THE PRIOR TRUSTEE

SECTION 1.01 Prior Trustee hereby resigns as Trustee under the Indenture effective as of the Effective Date (as hereinafter defined).

SECTION 1.02 Prior Trustee hereby assigns, transfers, delivers and confirms, as of the Effective Date, to Successor Trustee all right, title and interest of Prior Trustee in and to the trusts of the Trustee under the Indenture and all the rights, powers, trusts, privileges, duties and obligations of the Trustee under the Indenture, subject to the lien provided by Section 8.05 of the Indenture, which lien the Prior Trustee expressly reserves to the fullest extent necessary to secure the Issuer's obligations under said section to the Prior Trustee, which lien shall also secure the Issuer's obligations under said section to the Successor Trustee. Prior Trustee shall execute and deliver such further instruments and shall do such other things as Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in Successor Trustee all the rights, powers and trust hereby assigned, transferred, delivered and confirmed to Successor Trustee as Trustee.

SECTION 1.03 Prior Trustee hereby warrants and represents that (i) there is no action, suit or proceeding pending or threatened against the Prior Trustee of which it has actual knowledge before any court or governmental authority arising out of any action or omission by the Prior Trustee as trustee under the Indenture and (ii) as of the Effective Date, the Prior Trustee holds no property or money in its capacity as trustee under the Indenture.

ARTICLE II
THE PRIOR PAYING AGENT, REGISTRAR
AND ISSUING AND PAYING AGENT

SECTION 2.01 Prior Paying Agent, Registrar and Issuing and Paying Agent hereby resigns as Paying Agent, Registrar and Issuing and Paying Agent under the Indenture effective as of the Effective Date (as hereinafter defined).

SECTION 2.02 Prior Paying Agent, Registrar and Issuing and Paying Agent hereby assigns, transfers, delivers and confirms, as of the Effective Date, to Successor Trustee all right, title and interest of Prior Paying Agent, Registrar and Issuing and Paying Agent in and to the trusts of the Paying Agent, Registrar and Issuing and Paying Agent under the Indenture and all the rights, powers, trusts, privileges, duties and obligations of the Paying Agent, Registrar and Issuing and Paying Agent under the Indenture. Prior Paying Agent, Registrar and Issuing and Paying Agent shall execute and deliver such further instruments and shall do such other things as Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in Successor Trustee all the rights, powers and trust hereby assigned, transferred, delivered and confirmed to Successor Trustee as Paying Agent, Registrar and Issuing and Paying Agent.

SECTION 2.03 Prior Paying Agent, Registrar and Issuing and Paying Agent hereby warrants and represents that (i) there is no action, suit or proceeding pending or threatened against the Prior Paying Agent, Registrar and Issuing and Paying Agent of which it has actual knowledge before any court or governmental authority arising out of any action or omission by the Prior Paying Agent, Registrar and Issuing and Paying Agent as paying agent, registrar or issuing and paying agent under the Indenture and (ii) as of the Effective Date, the Prior Paying Agent, Registrar and Issuing and Paying Agent holds no property or money in its capacity as Paying Agent, Registrar or Issuing and Paying Agent under the Indenture.

SECTION 2.04 Citibank hereby resigns as Agent under the Agency Agreement effective as of the Effective Date (as hereinafter defined).

SECTION 2.05 The Agency Agreement requires sixty (60) days prior written notice to the other parties to terminate the Agency Agreement. The Issuer, Prior Trustee and Citibank hereby waive the sixty (60) day notice requirement set forth in Section 4 under the Agency Agreement and the Agency Agreement is hereby terminated effective as of the Effective Date (as hereinafter defined).

**ARTICLE III
THE ISSUER**

SECTION 3.01 The Issuer hereby accepts the resignation of Prior Trustee as Trustee and the resignation of Prior Paying Agent, Registrar and Issuing and Paying Agent as Paying Agent, Registrar and Issuing and Paying Agent under the Indenture effective as of the Effective Date.

SECTION 3.02 All conditions relating to the appointment of The Bank of New York Mellon as Successor Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture have been met by the Issuer and, pursuant to Section 8.07(e) of the Indenture, the Issuer hereby appoints Successor Trustee as Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture with respect to such applicable series of Securities with like effect as if originally named as Trustee, Paying Agent, Registrar and Issuing and Paying Agent in the Indenture.

SECTION 3.03 Promptly after the Effective Date of this Agreement, the Issuer shall give notice in accordance with Section 8.07(f) of the Indenture of the resignation of the Prior Trustee and the appointment of the Successor Trustee.

SECTION 3.04 Notwithstanding the resignation of the Prior Trustee, the Issuer shall remain obligated under the Indenture to compensate, reimburse and indemnify the Prior Trustee in connection with its trusteeship under the Indenture, and nothing contained in this Agreement shall in any way abrogate the obligations of the Issuer to the Prior Trustee under the Indenture or any lien created in favor of the Prior Trustee thereunder.

**ARTICLE IV
THE SUCCESSOR TRUSTEE**

SECTION 4.01 Successor Trustee hereby represents and warrants to Prior Trustee and to the Issuer that Successor Trustee is not disqualified to act as Trustee under the Indenture.

SECTION 4.02 Successor Trustee hereby accepts its appointment as Successor Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture and accepts the rights, powers, duties and obligations of Prior Trustee as Trustee, and of Prior Paying Agent, Registrar and Issuing and Paying Agent as paying agent, registrar or issuing and paying agent under the Indenture, upon the terms and conditions set forth therein, with like effect as if originally named as Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture.

SECTION 4.03 References in the Indenture to the "Corporate Trust Office" of the Prior Trustee or similar terms shall be deemed to refer to the Corporate Trust Office of the Successor Trustee at 101 Barclay Street, New York, NY 10286 or any other office of the Successor Trustee at which, at any particular time, its corporate trust business shall be principally administered.

ARTICLE V
MISCELLANEOUS

SECTION 5.01 This Agreement and the resignation, appointment and acceptance effected hereby shall be effective as of the opening of business on August 13, 2008 (the "Effective Date").

SECTION 5.02 This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 5.03 This Agreement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 5.04 All notices given pursuant to Section 1.05 of the Indenture shall be sent to the following addresses:

To the Successor Trustee:

THE BANK OF NEW YORK MELLON
101 Barclay Street
New York, NY 10286

To the Issuer:

XEROX CORPORATION
P. O. Box 4505
45 Glover Avenue
Norwalk, CT 06856-4505
Attention: Treasurer
Telephone: (203) 849-2673
Fax: (203) 849-5231

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____
Name:
Title:

CITIBANK, N.A.
as Prior Registrar, Paying Agent and
Issuing and Paying Agent

By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____ /s/ FRANCINE KINCAID
Name: FRANCINE KINCAID
Title: VICE PRESIDENT

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____ /s/ GEOFFREY J. LEWIS
Name: **Geoffrey J. Lewis**
Title: **Senior Financial Services Officer**

CITIBANK, N.A.
as Prior Registrar, Paying Agent and Issuing and Paying Agent

By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____
Name:
Title:

CITIBANK, N.A.
as Prior Registrar, Paying Agent and Issuing and Paying-Agent

By: _____ /s/ WAFAA ORFY
Name: **Wafaa Orfy**
Title: **Vice President**

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____
Name:
Title:

ANNEX I

Securities Outstanding on July 30, 2008

<u>SERIES</u>	<u>CUSIP</u>	<u>AMOUNT</u>	<u>MATURITY</u>	<u>OUTSTANDING</u>
C	98412JAY0	25,000,000	8/16/2007	0
C	98412JAZ7	25,000,000	3/15/2011	25,000,000
C	98412JBA1	250,000,000	4/1/2016	250,000,000
C	98412JBB9	150,000,000	4/16/2001	0
C	98412JBC7	25,000,000	5/16/2011	25,000,000
C	98412JBK9	25,000,000	7/26/2006	0

AGREEMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, dated as of July 30, 2008 by and among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York ("Issuer"), WILMINGTON TRUST COMPANY, a banking corporation duly organized and existing under the laws of the State of Delaware ("Prior Trustee"), CITIBANK, N.A., a national banking association organized under the laws of the United States of America ("Prior Paying Agent, Registrar and Issuing and Paying Agent") and THE BANK OF NEW YORK MELLON, a banking corporation duly organized and existing under the laws of the State of New York ("Successor Trustee").

RECITALS:

WHEREAS, the Issuer, Prior Trustee and Citibank, N.A. ("Citibank") entered into an Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001 pursuant to which Prior Trustee became the trustee under an Indenture dated as of September 20, 1996 by and between the Issuer and Citibank (the "Indenture");

WHEREAS, pursuant to the Indenture, the Issuer issued its Medium-Term Notes, Series D (Base CUSIP 98412J) (the "Securities");

WHEREAS, there is presently issued and outstanding \$1,748,000 in aggregate principal amount of the Securities, as more specifically set forth in Annex I hereto;

WHEREAS, the Issuer desires to appoint Successor Trustee as Trustee, Paying Agent, Registrar and Issuing and Paying Agent to succeed Prior Trustee and Prior Paying Agent, Registrar and Issuing and Paying Agent in such capacities, respectively, under the Indenture;

WHEREAS, Successor Trustee is willing to accept such appointment as Successor Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture;

WHEREAS, the Issuer, Prior Trustee and Citibank entered into an Agency Agreement dated as of February 1, 2001 (the "Agency Agreement") pursuant to which Citibank became the authorized signatory for purposes of manually signing the certificate of authentication on the Securities (the "Agent") and Citibank is willing to resign as Agent under the Agency Agreement; and

WHEREAS, the Issuer, Prior Trustee and Citibank are willing to waive the sixty (60) day notice requirement for termination set forth in Section 4 under the Agency Agreement;

NOW, THEREFORE, the Issuer, Prior Trustee, Prior Paying Agent, Registrar and Issuing and Paying Agent and Successor Trustee, for and in consideration of the premises of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby consent and agree as follows:

**ARTICLE I
THE PRIOR TRUSTEE**

SECTION 1.01 Prior Trustee hereby resigns as Trustee under the Indenture effective as of the Effective Date (as hereinafter defined).

SECTION 1.02 Prior Trustee hereby assigns, transfers, delivers and confirms, as of the Effective Date, to Successor Trustee all right, title and interest of Prior Trustee in and to the trusts of the Trustee under the Indenture and all the rights, powers, trusts, privileges, duties and obligations of the Trustee under the Indenture, subject to the lien provided by Section 8.05 of the Indenture, which lien the Prior Trustee expressly reserves to the fullest extent necessary to secure the Issuer's obligations under said section to the Prior Trustee, which lien shall also secure the Issuer's obligations under said section to the Successor Trustee. Prior Trustee shall execute and deliver such further instruments and shall do such other things as Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in Successor Trustee all the rights, powers and trust hereby assigned, transferred, delivered and confirmed to Successor Trustee as Trustee.

SECTION 1.03 Prior Trustee hereby warrants and represents that (i) there is no action, suit or proceeding pending or threatened against the Prior Trustee of which it has actual knowledge before any court or governmental authority arising out of any action or omission by the Prior Trustee as trustee under the Indenture and (ii) as of the Effective Date, the Prior Trustee holds no property or money in its capacity as trustee under the Indenture

ARTICLE II

THE PRIOR PAYING AGENT, REGISTRAR AND ISSUING AND PAYING AGENT

SECTION 2.01 Prior Paying Agent, Registrar and Issuing and Paying Agent hereby resigns as Paying Agent, Registrar and Issuing and Paying Agent under the Indenture effective as of the Effective Date (as hereinafter defined).

SECTION 2.02 Prior Paying Agent Registrar and Issuing and Paying Agent hereby assigns, transfers, delivers and confirms, as of the Effective Date, to Successor Trustee all right, title and interest of Prior Paying Agent, Registrar and Issuing and Paying Agent in and to the trusts of the Paying Agent, Registrar and Issuing and Paying Agent under the Indenture and all the rights, powers, trusts, privileges, duties and obligations of the Paying Agent, Registrar and Issuing and Paying Agent under the Indenture. Prior Paying Agent, Registrar and Issuing and Paying Agent shall execute and deliver such further instruments and shall do such other things as Successor Trustee may reasonably require so as to more fully and certainly vest and confirm in Successor Trustee all the rights, powers and trust hereby assigned, transferred, delivered and confirmed to Successor Trustee as Paying Agent, Registrar and Issuing and Paying Agent.

SECTION 2.03 Prior Paying Agent, Registrar and Issuing and Paying Agent hereby warrants and represents that (i) there is no action, suit or proceeding pending or threatened against the Prior Paying Agent, Registrar and Issuing and Paying Agent of which it has actual knowledge before any court or governmental authority arising out of any action or omission by the Prior Paying Agent, Registrar and Issuing and Paying Agent as paying agent, registrar or issuing and paying agent under the Indenture and (ii) as of the Effective Date, the Prior Paying Agent, Registrar and Issuing and Paying Agent holds no property or money in its capacity as Paying Agent, Registrar or Issuing and Paying Agent under the Indenture.

SECTION 2.04 Citibank hereby resigns as Agent under the Agency Agreement effective as of the Effective Date (as hereinafter defined).

SECTION 2.05 The Agency Agreement requires sixty (60) days prior written notice to the other parties to terminate the Agency Agreement. The Issuer, Prior Trustee and Citibank hereby waive the sixty (60) day notice requirement set forth in Section 4 under the Agency Agreement and the Agency Agreement is hereby terminated effective as of the Effective Date (as hereinafter defined).

**ARTICLE III
THE ISSUER**

SECTION 3.01 The Issuer hereby accepts the resignation of Prior Trustee as Trustee and the resignation of Prior Paying Agent, Registrar and Issuing and Paying Agent as Paying Agent, Registrar and Issuing and Paying Agent under the Indenture effective as of the Effective Date.

SECTION 3.02 All conditions relating to the appointment of The Bank of New York Mellon as Successor Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture have been met by the Issuer and, pursuant to Section 8.07(e) of the Indenture, the Issuer hereby appoints Successor Trustee as Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture with respect to such applicable series of Securities with like effect as if originally named as Trustee, Paying Agent, Registrar and Issuing and Paying Agent in the Indenture.

SECTION 3.03 Promptly after the Effective Date of this Agreement, the Issuer shall give notice in accordance with Section 8.07(f) of the Indenture of the resignation of the Prior Trustee and the appointment of the Successor Trustee.

SECTION 3.04 Notwithstanding the resignation of the Prior Trustee, the Issuer shall remain obligated under the Indenture to compensate, reimburse and indemnify the Prior Trustee in connection with its trusteeship under the Indenture, and nothing contained in this Agreement shall in any way abrogate the obligations of the Issuer to the Prior Trustee under the Indenture or any lien created in favor of the Prior Trustee thereunder.

**ARTICLE IV
THE SUCCESSOR TRUSTEE**

SECTION 4.01 Successor Trustee hereby represents and warrants to Prior Trustee and to the Issuer that Successor Trustee is not disqualified to act as Trustee under the Indenture.

SECTION 4.02 Successor Trustee hereby accepts its appointment as Successor Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture and accepts the rights, powers, duties and obligations of Prior Trustee as Trustee, and of Prior Paying Agent, Registrar and Issuing and Paying Agent as paying agent, registrar or issuing and paying agent under the Indenture, upon the terms and conditions set forth therein, with like effect as if originally named as Trustee, Paying Agent, Registrar and Issuing and Paying Agent under the Indenture.

SECTION 4.03 References in the Indenture to the "Corporate Trust Office" of the Prior Trustee or similar terms shall be deemed to refer to the Corporate Trust Office of the Successor Trustee at 101 Barclay Street, New York, NY 10286 or any other office of the Successor Trustee at which, at any particular time, its corporate trust business shall be principally administered.

**ARTICLE V
MISCELLANEOUS**

SECTION 5.01 This Agreement and the resignation, appointment and acceptance effected hereby shall be effective as of the opening of business on August 13, 2008 (the "Effective Date").

SECTION 5.02 This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

SECTION 5.03 This Agreement may be executed in any number of counterparts each of which shall be an original, but such counterparts shall together constitute but one and the same instrument.

SECTION 5.04 All notices given pursuant to Section 1.05 of the Indenture shall be sent to the following addresses:

To the Successor Trustee:

THE BANK OF NEW YORK MELLON
101 Barclay Street
New York, NY 10286

To the Issuer:

XEROX CORPORATION
P. O. Box 4505
45 Glover Avenue
Norwalk, CT 06856-4505
Attention: Treasurer
Telephone: (203) 849-2673
Fax: (203) 849-5231

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____
Name:
Title:

CITIBANK, N.A.
as Prior Registrar, Paying Agent and
Issuing and Paying Agent

By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____ /s/ FRANCINE KINCAID
Name: FRANCINE KINCAID
Title: VICE PRESIDENT

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____ /s/ GEOFFREY J. LEWIS
Name: Geoffrey J. Lewis
Title: Senior Financial Services Officer

CITIBANK, N.A.
as Prior Registrar, Paying Agent and
Issuing and Paying Agent

By: _____
Name:
Title:

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Agreement of Resignation Appointment and Acceptance to be duly executed all as of the day and year first above written.

XEROX CORPORATION
as Issuer

By: _____
Name:
Title:

WILMINGTON TRUST COMPANY
as Prior Trustee

By: _____
Name:
Title:

CITIBANK, N.A.
as Prior Registrar, Paying Agent and
Issuing and Paying Agent

By: _____ /s/ WAFAA ORFY
Name: Wafaa Orfy
Title: Vice President

THE BANK OF NEW YORK MELLON
as Successor Trustee

By: _____
Name:
Title:

ANNEX I

Securities Outstanding on July 30, 2008

<u>SERIES</u>	<u>CUSIP</u>	<u>AMOUNT</u>	<u>MATURITY</u>	<u>OUTSTANDING</u>
D	98412JBM5	350,000,000	11/15/2026	1,730,000
D	98412JBN3	5,000,000	4/1/2037	0
D	98412JBP8	31,080,000	5/5/2037	0
D	98412JBQ6	22,314,000	6/15/2037	18,000
D	98412JBR4	12,380,000	7/22/2037	0

**AMENDMENT NO. 1 TO THE
 CREDIT AGREEMENT**

Dated as of October 27, 2008

AMENDMENT NO. 1 TO THE CREDIT AGREEMENT among XEROX CORPORATION, a New York corporation (the "*Borrower*"), the banks, financial institutions and other institutional lenders parties to the Credit Agreement referred to below (collectively, the "*Lenders*") and Citibank, N.A., as agent (the "*Agent*") for the Lenders.

PRELIMINARY STATEMENTS:

(1) The Borrower, the Lenders and the Agent have entered into an Amended and Restated Credit Agreement dated as of April 30, 2007 (the "*Credit Agreement*"). Capitalized terms not otherwise defined in this Amendment have the same meanings as specified in the Credit Agreement.

(2) The Borrower and the Required Lenders have agreed to amend the Credit Agreement as hereinafter set forth.

Section 1. *Amendments to Credit Agreement.* The Credit Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2, hereby amended as follows:

(a) The definitions of "*Applicable Margin*", "*Applicable Percentage*", "*Base Rate*" and "*Termination Date*" in Section 1.01 are amended in full to read as follows:

"*Applicable Margin*" means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<u>Public Debt Rating S&P/Moody's/Fitch</u>	<u>Applicable Margin</u>
<i>Level 1</i> A-/A3/A- or better	1.100%
<i>Level 2</i> BBB+/Baa1/BBB+	1.325%
<i>Level 3</i> BBB/Baa2/BBB	1.550%
<i>Level 4</i> BBB-/Baa3/BBB-	2.000%
<i>Level 5</i> BB+/Ba1/BB+ or below	2.125%

“Applicable Percentage” means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<u>Public Debt Rating S&P/Moody's/Fitch</u>	<u>Applicable Percentage</u>
<i>Level 1</i> A-/A3/A- or better	0.150%
<i>Level 2</i> BBB+/Baa1/BBB+	0.175%
<i>Level 3</i> BBB/Baa2/BBB	0.200%
<i>Level 4</i> BBB-/Baa3/BBB-	0.250%
<i>Level 5</i> BB+/Ba1/BB+ or below	0.375%

“Base Rate” means a fluctuating interest rate per annum in effect from time to time, which rate per annum shall at all times be equal to the highest of:

(a) the rate of interest announced publicly by Citibank in New York, New York, from time to time, as Citibank’s base rate (the “Prime Rate”);

(b) $\frac{1}{2}$ of 1% above the Federal Funds Rate; and

(c) the Eurocurrency Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%, *provided* that, for the avoidance of doubt, the Eurocurrency Rate for any day shall be based on the rate appearing on the Reuters Screen LIBOR01 Page (or on any successor or substitute page of such page) at approximately 11:00 a.m. London time on such day.

Any change in the Base Rate due to a change in the Prime Rate, the Federal Funds Rate or the Eurocurrency Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Rate or the Eurocurrency Rate, respectively.

“Termination Date” means the earlier of (a) April 30, 2012 or, as to any Lender for which the Termination Date is extended pursuant to Section 2.19, the date to which the Termination Date is so extended, (b) the date of termination in whole of the Commitments pursuant to Section 2.05(a) or 6.01 or (c) as to any Lender who becomes a Defaulting Lender, the date of termination of such Defaulting Lender’s Commitments pursuant to Section 2.05(b); *provided, however*, that the Termination Date of any Lender that is a Non-Consenting Lender to any requested extension pursuant to Section 2.19 shall be the Termination Date in effect immediately prior to the applicable Extension Date for all purposes of this Agreement.

(b) Section 1.01 is amended by deleting the definition of “Utilization Fee” in full.

(c) Section 1.01 is amended by adding in appropriate alphabetical order the following new definitions:

“*Applicable Utilization Fee*” means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date and the Usage as set forth below:

<u>Public Debt Rating S&P/Moody's/Fitch</u>	<u>Applicable Utilization Fee (Usage < 25%)</u>	<u>Applicable Utilization Fee (Usage ³ 25% but < 50%)</u>	<u>Applicable Utilization Fee (Usage ³ 50% but < 75%)</u>	<u>Applicable Utilization Fee (Usage ³ 75%)</u>
<i>Level 1</i> A-/A3/A- or better	0.000%	0.250%	0.750%	1.000%
<i>Level 2</i> BBB+/Baa1/BBB+	0.000%	0.250%	0.750%	1.250%
<i>Level 3</i> BBB/Baa2/BBB	0.000%	0.500%	1.000%	1.500%
<i>Level 4</i> BBB-/Baa3/BBB-	0.000%	0.500%	1.000%	1.500%
<i>Level 5</i> BB+/Ba1/BB+ or below	0.000%	0.500%	1.000%	1.500%

“*Defaulting Lender*” means any Lender that (a) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding, (b) has had a receiver or conservator appointed with respect to such Lender (or any parent company of such Lender) at the direction or request of any regulatory agency or authority (or similar regulatory action has been take with respect to such Lender) or (c) has failed to fund any portion of the Advances within one Business Day of the date required to be funded by it hereunder, unless such failure is the subject of a good faith dispute and such Lender has notified the Borrower of the nature thereof in reasonable detail.

“*Usage*” means, on any date, a fraction, the numerator of which is the sum of (a) aggregate principal amount of the Advances on such date *plus* (b) the Available Amount of Letters of Credit Outstanding on such date *minus* the amount on deposited in the L/C Cash Deposit Account, and the denominator of which is the aggregate Commitments on such date, expressed as a percentage.

(d) Section 2.04(b) is amended by deleting the term “Utilization Fee” and substituting therefor the term “Applicable Utilization Fee”.

(e) Section 2.05 is amended in full to read as follows:

SECTION 2.05. *Termination or Reduction of the Commitments.* (a) *Optional Ratable Termination or Reduction.* The Company shall have the right, upon at least two Business Days’ notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments or the Unissued Letter of Credit Commitments of the Lenders, *provided, however,* that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) *Non-Ratable Reduction.* The Company shall have the right, at any time, upon at least ten Business Days’ notice to a Defaulting Lender (with a copy to the Agent), to terminate in whole such Lender’s Commitments. Such termination shall be effective, (x) with respect to such Lender’s Unused Commitment, on the date set forth in such notice, *provided, however,* that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurocurrency Rate, on the last day of the then current Interest Period relating to such Advance. Upon termination of a

Lender's Commitments under this Section 2.05(b), the Company will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Advances owing to such Lender and pay any accrued facility fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.04, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and, if such Lender is an Issuing Bank, shall pay to the Agent for deposit in the L/C Cash Deposit Account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing Bank, and upon such payments, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; *provided, however*, that such Lender's rights under Sections 2.11, 2.14 and 9.04, and, in the case of an Issuing Bank, Sections 2.04(b) and 6.02, and its obligations under Section 8.05 shall survive such release and discharge as to matters occurring prior to such date. Subject to Section 2.18, the aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.05(b) may not be reinstated.

(f) Section 2.07(a) is amended by deleting the term "Utilization Fee" and substituting therefor the term "Applicable Utilization Fee" in both places such term appears.

(g) Section 3.03(a) is amended to add a new clause (iii) to as follows:

(iii) the Company's ratio of Debt for Borrowed Money, after giving effect to such Borrowing or issuance, to Consolidated EBITDA for the period of four Fiscal Quarters most recently ended for which final financial statements are available shall not be greater than 3.75:1.

(h) Section 5.02(a)(vi) is amended by deleting the figure "\$750,000,000" and substituting therefor the figure "\$375,000,000" and by deleting the figure "\$350,000,000" and substituting therefor the figure "\$175,000,000" .

(i) Section 5.02(c)(viii) is amended by deleting the figure "\$750,000,000" and substituting therefor the figure "\$375,000,000" and by deleting the figure "\$350,000,000" and substituting therefor the figure "\$175,000,000".

(j) Section 5.03(a) is amended in full to read as follows:

(a) *Leverage Ratio*. Maintain a ratio of Debt for Borrowed Money as of the end of such Fiscal Quarter to Consolidated EBITDA for the period of four Fiscal Quarters then ended of not greater than 3.75:1.

(k) Section 9.07(a) is amended by inserting the words "or such Lender becoming a Defaulting Lender" after the word "Section 2.11 or 2.14" the first time they appear in such Section.

SECTION 2. *Conditions of Effectiveness*. This Amendment shall become effective as of the date first above written when, and only when, the Agent shall have received counterparts of this Amendment executed by the Borrower and the Required Lenders and the Agent shall have additionally received all of the following documents, each such document (unless otherwise specified) dated the date of receipt thereof by the Agent (unless otherwise specified) and in sufficient copies for each Lender, in form and substance satisfactory to the Agent:

(a) Certified copies of (i) the resolutions of the Board of Directors of the Company approving this Amendment and the matters contemplated hereby and (ii) all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment and the matters contemplated hereby and thereby.

(b) A certificate of the Secretary or an Assistant Secretary of the Company certifying the names and true signatures of the officers of the Company authorized to sign this Amendment and the other documents to be delivered hereunder.

(c) Favorable opinions of (A) Skadden, Arps, Slate, Meagher & Flom LLP, counsel for the Initial Borrower, and (B) Don H. Liu, General Counsel of the Company, substantially in the form of Exhibits D-1 and D-2 to the Credit Agreement, respectively.

(d) A certificate signed by a duly authorized officer of the Company stating that:

(i) The representations and warranties contained in Section 3 of this Amendment and in Section 4.01 of the Credit Agreement are correct on and as of the date of such certificate as though made on and as of such date (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), before and after giving effect to this Amendment, as though made on and as of such date; and

(ii) No event has occurred and is continuing that constitutes a Default.

SECTION 3. *Representations and Warranties of the Company.* The Company represents and warrants as follows:

(a) The execution, delivery and performance by the Company of this Amendment and the Credit Agreement and the Notes, as amended hereby, within the Company's corporate or similar powers, have been duly authorized by all necessary corporate or similar action, and do not contravene (i) the Company's organizational documents or by-laws, (ii) any law applicable to the Company or (iii) any indenture or other agreement governing Debt or other material agreement or other instrument binding upon the Company, any of its Subsidiaries or any of their properties, or give rise to a right thereunder to require the Company or any of its Subsidiaries to make any payment thereunder.

(b) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body or any other third party is required for the due execution, delivery or performance by the Company of this Amendment or the Credit Agreement and the Notes, as amended hereby, except as have been obtained or made and are in full force and effect or where the failure to obtain the same would not have a Material Adverse Effect.

(c) This Amendment has been duly executed and delivered by the Company. This Amendment and each of the Credit Agreement and the Notes, as amended hereby, are legal, valid and binding obligations of the Company, enforceable against the Company 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.

(d) There is no action, suit, investigation, litigation or proceeding affecting the Company or any of its Subsidiaries pending or threatened before any court, governmental agency or arbitrator that purports to affect the legality, validity or enforceability of this Amendment or the Credit Agreement and the Notes, as amended hereby.

SECTION 4. *Reference to and Effect on the Credit Agreement and the Notes.* (a) On and after the effectiveness of this Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the Notes to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this Amendment.

(b) The Credit Agreement and the Notes, as specifically amended by this Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or the Agent under the Credit Agreement, nor constitute a waiver of any provision of the Credit Agreement.

SECTION 5. *Costs and Expenses.* The Company agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Agent in connection with the preparation, execution, delivery and administration, modification and amendment of this Amendment (including, without limitation, the reasonable fees and expenses of counsel for the Agent) in accordance with the terms of Section 9.04 of the Credit Agreement.

SECTION 6. *Execution in Counterparts.* This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of a manually executed counterpart of this Amendment.

SECTION 7. *Governing Law.* This Amendment shall be governed by, and construed in accordance with, the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

XEROX CORPORATION

By _____
Title:

CITIBANK, N.A.,
as Agent and as Lender

By _____
Title:

JPMORGAN CHASE BANK, N.A.

By _____
Title:

BANK OF AMERICA, N.A.

By _____
Title:

BARCLAYS BANK PLC

By _____
Title:

BNP PARIBAS

By _____
Title:

By _____
Title:

DEUTSCHE BANK AG NEW YORK BRANCH

By _____
Title:

By _____
Title:

HSBC BANK USA, NATIONAL ASSOCIATION

By _____
Title:

MERRILL LYNCH BANK USA

By _____
Title:

UBS LOAN FINANCE LLC

By _____
Title:

WILLIAM STREET COMMITMENT CORPORATION

By _____
Title:

LEHMAN COMMERCIAL PAPER INC.

By _____
Title:

MIZUHO CORPORATE BANK, LTD.

By _____
Title:

THE NORTHERN TRUST COMPANY

By _____
Title:

THE BANK OF NEW YORK MELLON

By _____
Title:

DANSKE BANK A/S

By _____
Title:

PNC BANK, NATIONAL ASSOCIATION

By _____
Title:

STATE STREET BANK AND TRUST COMPANY

By _____
Title:

U.S. BANK, N.A.

By _____
Title:

INTESA SANPAOLA S.P.A.

By _____
Title:



Sender's Name
 Sender's Title
 Operating Company

Xerox Corporation
 Sender's address

email.address@xerox.com
 tel 000.000.0000
 fax 000.000.0000

Date

First Name Last Name

Title

Street Address Line 1

Street Address Line 2

City, State ZIP

Dear Addressee:

The following information summarizes the arrangements for your retirement from Xerox Corporation (the Company).

Last day of active employment:

Salary Continuance Period:

Salary Continuance Amount:

Retirement [or Separation] Date:

Notwithstanding anything else contained in this letter, if you (or your spouse or beneficiary) engages in Detrimental Activity as defined in the attached Exhibit, the consequences set forth therein shall apply. This agreement is subject to the approval of the Compensation Committee.

[For officers where payment of salary continuance goes beyond February of the year after the agreement was signed] As a result of deferred compensation tax regulations, salary continuance amounts outstanding at the end of February will be paid in a lump sum amount at that time. You will continue to be eligible for pension accrual and for health and welfare benefits during the time period you would have been receiving salary continuance per the salary continuance period noted above. Contributions for health and welfare benefits will be taken out of your lump salary continuance payment.

Summarized below are the relevant provisions of the plans and programs in which you participate that apply to your long-term incentive awards, 401(k) savings accounts, pension benefits, life insurance benefits and other benefits arrangements.

[If retirement eligible] Assuming that you will have met the age and service conditions of such plans and programs, you will be treated as a retiree for the purposes thereof effective on your Retirement Date.

Stock Awards

Stock grants (including stock options) awarded to you prior to the commencement of salary continuance shall continue to vest and/or remain exercisable per the terms of the awards and the relevant plans during your Salary Continuance Period and retirement [or separation]. [You will not be eligible for additional stock awards in 200X].

Deferred Compensation Plan [delete if not applicable]

Your deferred compensation accounts will be paid out according to the terms of your prior elections.

401(k) Savings Account

Under relevant plan provisions, you have choices available regarding the continued investment of your account balances and the time and form of distribution. As a result of IRS regulations, you will not be able to make deferrals into the 401(k) plan while on salary continuance. At the end of your salary continuance period you will have the opportunity to elect how and when the proceeds of your 401(k) will be distributed. Information on these choices will be sent to you by the Benefits Center upon [retirement or separation].

Employee Stock Ownership Plan (ESOP)

As an active employee, you can only take a distribution of ESOP in stock. At separation, your ESOP account can be taken as cash, in stock, or rolled over to the Xerox 401(k) savings plan or your IRA, or you may defer settlement with the plan.

Pension Benefits (if eligible)

[If retirement eligible and a RIGP participant] Effective on your retirement date, you will become a retiree of Xerox. As a retiree, you will receive pension benefits accrued in the Retirement Income Guarantee Plan (RIGP). Your RIGP benefits are projected to provide a lump-sum value of approximately [\$X]. Please keep in mind that this is only an estimate and that the actual benefits paid will be per the terms of the plan.

[If SERP eligible] In addition to your vested RIGP benefit, you will be eligible to receive a benefit under the Unfunded Retirement Income Guarantee Plan (URIGP) and the Unfunded Supplemental Executive Retirement Plan (SERP). Your retirement income benefits under URIGP and SERP will be unreduced for commencement prior to attainment of age 65 and will be offset by your RIGP benefits. Payments will commence at the end of [Month /Year]. As a result, your first payment will equal 7 months worth of payments to include the first 6 months of your Salary Continuance Period plus your [enter 7th month of payment] payment and will reflect your survivor election. All payments will be made in monthly installments on the last day of each month. [Put this in for non-US officers: The final SERP amount you will receive will depend on any offsets that may apply as provided under SERP including but not limited to any pension, retirement or post-retirement corporate or statutory benefits that you may receive.] Your URIGP and SERP benefit is estimated to be approximately [\$X] per year (based on a 50% joint and survivor annuity). Please keep in mind that this is only an estimate and does not reflect taxes owed. The actual benefits will be paid per the plan's terms. These URIGP and SERP benefits are unfunded and not tax qualified. This means you are an unsecured general creditor of the Company with respect to these benefits.

[If URIGP but not SERP eligible] In addition to your vested RIGP benefit, depending on your age at retirement, you will be eligible to receive a benefit under the Unfunded Retirement Income Guarantee Plan (URIGP). Your retirement income benefits under URIGP will be offset by your RIGP benefits. Payments will commence at the end of [Month /Year]. As a result, your first payment will equal 7 months worth of payments to include the first 6 months of your Salary Continuance Period plus your [enter 7th month of payment] payment and will reflect your survivor election. All payments will be made in monthly installments on the last day of each month. Your URIGP benefit is estimated to be

approximately [\$X] per year (based on a 50% joint and survivor annuity). Please keep in mind that this is only an estimate and does not reflect taxes owed. The actual benefits will be paid per the plan's terms. These URIGP benefits are unfunded and not tax qualified. This means you are an unsecured general creditor of the Company with respect to these benefits.

[If not retirement eligible but a RIGP participant] At separation, you will be eligible to receive vested pension benefits accrued under the Retirement Income Guarantee Plan (RIGP). A calculation of your benefit will be completed upon separation at which time you will have the opportunity to elect how and when the proceeds will be distributed.

Medical Benefits

During the Salary Continuance Period, you will receive medical coverage. Such eligibility will end on the last day of your Salary Continuance Period.

[If retirement eligible] As a retiree, you will receive medical coverage under the Xerox Retiree Flex Health Plan or a successor plan, if any. As you get closer to your retirement date, an information package will be sent to you from the Xerox Benefits Center.

Disability Benefits

Eligibility for short- and long-term disability ends at the start of salary continuance. If you are interested in conversion coverage under a Prudential group plan, call Prudential (1-888-262-6873) and ask about The Prudential Group Long-Term Disability Conversion Insurance Trust.

Bonus

You will be eligible to receive a cash bonus for [20XX] as determined by the Compensation Committee in early [20XX].

Life Insurance

[For former CLIP participants] You may continue in the Xerox Universal Life Plan (XUL). Upon retirement, your death benefit will be equal to [\$X]. The Company will make contributions pursuant to the provisions of XUL until age 65 or July 2013, whichever is later.

[For other XUL participants] Upon retirement, you will receive correspondence from MetLife explaining that you have the opportunity to continue coverage approximately equal to your Xerox Universal Life Plan (XUL) coverage of [\$X]. If you choose to continue coverage, MetLife will bill you directly.

Other Arrangements

You will relinquish your position as an Officer of Xerox Corporation and as a director and officer of any subsidiary company as soon as administratively feasible after your active employment ends. At the appropriate time, a representative of Xerox Corporation will contact you regarding your resignation as a Corporate Officer.

You will be paid for any accrued and unused vacation upon commencement of salary continuance. You will not accrue any further vacation during salary continuance.

Your Company financial planning assistance will be continued through the tax year in which your active employment ends.

You will also be eligible for your physical under the Executive Physical Program through the calendar in which your active employment ends.

For the Xerox sponsored employee benefit plans summarized in this letter, if there is a discrepancy between this letter and the official plan documents, the terms of the plan documents govern.

Indemnity

You will be entitled to be indemnified with respect to all periods of your service as a director or officer of the Company or any of its subsidiaries in accordance with 1) the provisions of Sections 721 through 725 of the Business Corporation Law of the State of New York and provisions of California Labor Code Section 2802 2) Section 2 of Article VIII of the by-laws of the Company as in effect on the date of commencement of salary continuance and 3) the Company directors and officers liability insurance policies with Federal Insurance Company, XL Specialty Insurance Company, St. Paul Mercury Insurance Company, Twin City Fire Insurance Company, U.S. Specialty Insurance Company, Arch Specialty Insurance Company, ACE American Insurance Company, and Allied World Assurance Company, or any replacement or substitute thereof or any addition thereto.

Release

The salary continuance payments, or any other consideration provided for in this letter, shall not become effective until you execute and deliver to the Company the release in the form attached immediately prior to the scheduled commencement thereof.

Cooperation in Litigation

You will cooperate fully with the Company and its counsel in any litigation that arises out of or is related to your service with the Company or any of its subsidiaries, or in which you are named as a party. That cooperation includes making yourself available for reasonable periods of time upon reasonable notice for consultation with the Company's counsel in any such litigation, promptly notifying the Company's General Counsel if you are subpoenaed or requested by a third party to testify or to be interviewed in connection with any such litigation or legal proceeding, and testifying in such litigation.

Heirs, Successors or Assigns

This agreement and any rights, responsibilities and obligations hereunder shall be binding upon any heirs, successors or assigns. This agreement shall not be assigned without prior written notice to and consent of the other party to this agreement.

Sincerely,

[Manager's Name]

[]/cd

AGREED AND ACCEPTED

Employee Name

Date

**Exhibit to Letter Agreement
Engagement in Detrimental Activity**

Definition of Detrimental Activity

“Detrimental Activity” shall mean:

(1) Within two (2) years of termination of employment with the Company, employment as an employee of, or services provided as a consultant to, another firm or corporation (other than the Company or an affiliate) that is a direct competitor of the Company in any business in which the Company is presently engaged or in which the Company as of the date of the letter to which this Exhibit is attached (“Letter Agreement”) may reasonably be expected to engage in the future, or is or may become such a competitor indirectly through a partnership, joint venture or other business arrangement with, or as a supplier or consultant to, such a direct competitor (“Competitor”), or is or may become a Competitor as a sole proprietor of a business or by engaging in the establishment of a business that directly competes with the Company, unless the Company has previously advised in writing that in its reasonable judgment such other firm, business or corporation is not a Competitor (the Company will provide notice upon request as to the competitive nature of a prospective employer); or

(2) Disclosure of confidential or proprietary business information of the Company;

(3) The making of any defamatory, derogatory, disparaging or inflammatory statements about the Company, its management or its business;

(4) Violation of any rules, policies, procedures or guidelines of the Company, including but not limited to the Company’s Business Ethics Policy;

(5) Any attempt directly or indirectly to induce any employee of the Company to be employed or perform services elsewhere or any attempt, using proprietary information of the Company’s, to directly or indirectly solicit the trade or business of any current or prospective customer, supplier or partner of the Company;

(6) Conviction of, or entry of a guilty plea with respect to, a felony, whether or not connected with the Company; or

(7) Engagement in any other conduct or act reasonably determined by the Company to be injurious, detrimental or prejudicial to any interest of the Company and, therefore, to constitute an act of disloyalty towards the Company.

Nothing contained in this exhibit shall be construed to restrict the executive’s reporting obligations, if any.

Consequences of Engagement in Detrimental Activity

If the executive who is a party to the Letter Agreement or his or her spouse engages in Detrimental Activity, that in the Company’s reasonable sole discretion, such discretion exercised prior to a change in control of the Company, constitutes an act of disloyalty towards the Company either before becoming entitled to salary continuance or after commencement of salary continuance payments, if any, or after termination of employment or during retirement, as the case may be, in accordance with the Letter Agreement, the following additional consequences shall apply:

(a) Any outstanding award under the 2004 Performance Incentive Plan, the 1991 Long-term Incentive Plan (including E-LTIP and LEEP awards), the 1998 Employee Stock Option Plan, or pursuant to any bonus or retention plans or programs (“Awards”) shall be cancelled and be of no further force or effect;

(b) Any payment of salary continuance shall terminate, any amounts paid shall be rescinded in full by the Company and shall be repaid by the executive (or, if applicable, his or her spouse or beneficiary), the executive's employment with the Company will terminate and any benefits described in the Letter Agreement, or otherwise, that are dependent upon continued employment, including, without limitation, continued vesting of benefits and determination of years of service, will also terminate, and any exercise, payment or delivery of an Award within six months prior to such Detrimental Activity may be rescinded at the sole discretion of the Company. In the event of any such rescission, the executive (or, if applicable, his or her spouse or beneficiary) shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Company; and

(c) Any unfunded retirement benefits including, without limitation, under the Unfunded Retirement Income Guarantee Plan and the Unfunded Supplemental Executive Retirement Plan, shall be forfeited.

If a beneficiary other than the executive's spouse engages in Detrimental Activity, the consequences set forth herein shall apply with respect to such beneficiary.

Name: _____

Employee #: _____

SSN: _____

GENERAL RELEASE

1. In consideration of Xerox Corporation's ("Xerox") agreement to provide me with _____ weeks of salary continuance, if any, and other valuable consideration, [add language here that describes the any other consideration provided in addition to salary continuance in exchange for the release after "and other valuable consideration", as follows: "including but not limited to [describe the consideration provided here]" as set forth in the letter agreement dated [provide date here] I, _____, release Xerox from all the claims described in this Release. For purposes of this Release, "Xerox" includes its employees, directors, officers, agents, stockholders, subsidiaries, affiliates, successors, assigns, and the Xerox employee benefit plans in which I either am now or have been a participant, and the trustees, administrators, successors, agents and assigns of those plans.
2. I release Xerox from any and all claims, even if I don't know about the claim at this time, based on anything that has occurred prior to the date I sign this Release. For example, I release Xerox from any claims based on all laws, such as the following (all laws as currently amended):

- Age Discrimination and Employment Act of 1967 (ADEA)
- Older Workers' Benefits Protection Act of 1990 (OWBPA)
- Title VII of the Civil Rights Act of 1964
- Civil Rights Acts of 1866, 1870, 1871 and 1991
- Americans with Disabilities Act of 1990
- Rehabilitation Act of 1973
- Family and Medical Leave Act of 1993
- Equal Pay Act of 1963
- Fair Labor Standards Act of 1938
- Employee Retirement Income Security Act of 1974
- Worker Adjustment and Retraining Notification Act of 1989
- Uniformed Services Reemployment Rights Act of 1994
- Vietnam Era Veteran's Readjustment Assistance Act of 1974

I also release Xerox from claims based on the laws of the state(s) where I am employed and reside, such as state fair employment practice laws or any other law, whether federal, state or local, concerning employment. I release Xerox from claims based on discrimination in employment such as claims arising out of the offer of employment to me by Xerox, the hiring of me by Xerox, any employment contract between Xerox and me, any promises made by Xerox regarding future employment, or based on the termination of my employment. Finally, I also release Xerox from claims under state contract or tort law, and from all claims for punitive or compensatory damages, costs or attorney's fees.

3. I acknowledge and agree that the consideration set forth in this Release is in addition to anything of value to which I am entitled by law or Xerox policy.
4. I understand and agree that this Release and Xerox's agreement to provide consideration to me should not be construed, in any way, as an admission by Xerox of any wrongdoing or liability to me.

5. I understand that nothing set forth in this Release limits my right to file, or prevents me from filing, a charge or complaint with the EEOC or any comparable state agency, nor does anything in this Release limit my right to participate in an investigation or proceeding conducted by the EEOC or any comparable state agency.
6. I understand that nothing in this Release limits my right to challenge this Release as not being knowing and voluntary under the ADEA or the OWBPA if I feel this Release does not comply with the requirements of those statutes.
7. Except as provided in paragraphs 5 and 6 above, however, I agree that I will not file or pursue any charge or claim with any governmental agency or any court against Xerox based on anything that occurred before I signed this Release. If I do not comply with my obligations under this paragraph, I shall repay to Xerox upon demand all of the monies paid to me by Xerox as salary continuance in consideration for this Release, and I agree to pay all of Xerox's costs and expenses in defending the claim or action, including Xerox's reasonable attorney's fees.
8. I understand and acknowledge that Xerox policy provides that for a period of one year after the termination of my employment with Xerox, I am not eligible for rehire as an employee, or for retention as a contract worker or consultant.
9. Xerox advises me as follows:
 - **TO CONSULT WITH AN ATTORNEY OF MY CHOOSING TO COUNSEL ME AS TO MY RIGHTS BEFORE I SIGN THIS RELEASE;**
 - **TO TAKE SUFFICIENT TIME TO DECIDE WHETHER TO SIGN THIS RELEASE. I HAVE 21 DAYS FROM THE DATE THIS RELEASE IS PROVIDED TO ME TO CONSIDER IT BEFORE I SIGN AND RETURN IT TO XEROX;**
 - **THAT EVEN AFTER I SIGN AND RETURN THIS RELEASE TO XEROX, I WILL HAVE 7 DAYS THEREAFTER TO CHANGE MY MIND AND REVOKE MY RELEASE BY ASKING XEROX FOR ITS RETURN.**
10. I understand and agree that this Release waives all claims I may have at the time I sign it, including claims I do not then know about or suspect. I further understand and acknowledge that California Civil Code, Section 1542 provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." I waive any rights I may have under that Code section, if applicable, or any other similar state or federal statute or common law principle of similar effect.
11. I understand that in signing this release, I thereby waive all claims of my successors, beneficiaries, heirs and assigns.

Date this document provided to employee: _____

Date signed and returned to Xerox: _____

By: _____

Employee signature

Sender's Name
Sender's Title
Operating Company
Xerox Corporation
Senders address
email.address@xerox.com
tel 000.000.0000
fax 000.000.0000

Date

First Name Last Name
Title
Street Address Line 1
Street Address Line 2
City, State ZIP

Dear Addressee:

The following information summarizes the arrangements for your retirement from Xerox Corporation (the Company).

Last day of active employment:	Date
Retirement Date:	The day after active employment ends

Notwithstanding anything else contained in this letter, if you (or your spouse or beneficiary) engages in Detrimental Activity as defined in the attached Exhibit, the consequence set forth therein shall apply. This agreement is subject to the approval of the Compensation Committee.

Summarized below are the relevant provisions of the plans and program in which you participate that apply to your long-term incentive awards, 401(k) savings accounts, pension benefits, life insurance benefits and other benefits arrangements.

Assuming that you will have met the age and service conditions of such plans and programs, you will be treated as a retiree for the purposes thereof effective on your Retirement Date.

Stock Awards

Stock grants (including stock options) awarded to you prior to the commencement of your retirement shall continue to vest and/or remain exercisable per the terms of the awards and the relevant plans. [You will not be eligible for additional stock awards in 20XX.]

Deferred Compensation Plan [delete if not applicable]

Your deferred compensation accounts will be paid out according to the terms of your prior elections.

401(k) Savings Plan Account

Under relevant plan provisions, you have choices available regarding the continued investment of your account balances and the time and form of distribution. At separation, you will have the opportunity to elect how and when the proceeds of your 401(k) will be distributed. Information on these choices will be sent by the Benefits Center upon your retirement.

Employee Stock Ownership Plan (ESOP)

As an active employee, you can only take a distribution of ESOP in stock. At separation, your ESOP account can be taken as cash, in stock, or rolled over to the Xerox 401(k) savings plan or your IRA, or you may defer settlement with the plan.

Pension Benefits

[If a RIGP participant] Effective on your retirement date, you will become a retiree of Xerox. As a retiree, you will receive pension benefits accrued in the Retirement Income Guarantee Plan (RIGP). Your RIGP benefits are projected to provide a lump-sum value of approximately [\$X]. Please keep in mind that this is only an estimate and that the actual benefits paid will be per the terms of the plan.

[If SERP eligible] In addition to your vested RIGP benefit, you will be eligible to receive a benefit under the Unfunded Retirement Income Guarantee Plan (URIGP) and the Unfunded Supplemental Executive Retirement Plan (SERP). Your retirement income benefits under URIGP and SERP will be unreduced for commencement prior to attainment of age 65 and will be offset by your RIGP benefits. Payments will commence at the end of [Month/Year]. As a result, your first payment will equal 7 months worth of payments to include the first 6 months following your last day of active employment plus your [enter 7th month of payment] payment and will reflect your survivor election. All payments will be made in monthly installments. [Put this in for non-U.S. officers: The final SERP amount you will receive will depend on any offsets that may apply as provided under SERP including but not limited to any pension, retirement or post-retirement corporate or statutory benefits that you may receive.] Your URIGP and SERP benefit is estimated to be approximately [\$X] per year (based on a 50% joint and survivor annuity). Please keep in mind that this is only an estimate and does not reflect taxes owed. The actual benefits will be paid per the plan's terms. These URIGP and SERP benefit are unfunded and not tax qualified. This means you are an unsecured general creditor of the Company with respect to these benefits.

[If URIGP but not SERP eligible] In addition to your vested RIGP benefit, depending on your age at retirement, you will be eligible to receive a benefit under the Unfunded Retirement Income Guarantee Plan (URIGP). Your retirement income benefits under URIGP will be offset by your RIGP benefits. Payments will commence at the end of [Month /Year]. As a result, your first payment will equal 7 months worth of payments to include the first 6 months following your last day of active employment plus your [enter 7th month of payment] payment and will reflect your survivor election. All payments will be made in monthly installments on the last day of each month. Your URIGP benefit is estimated to be approximately [\$X] per year (based on a 50% joint and survivor annuity). Please keep in mind that this is only an estimate and does not reflect taxes owed. The actual benefits will be paid per the plan's terms. These URIGP benefits are unfunded and not tax qualified. This means you are an unsecured general creditor of the Company with respect to these benefits.

Medical Benefits

As a retiree, you will receive medical coverage under Xerox Retiree Flex Health Plan or a successor plan, if any. As you get closer to your retirement date, an information package will be sent to you from the Xerox Benefits Center.

Bonus

You will be eligible to receive a cash bonus for [20XX] as determined by the Compensation Committee in early [20XX].

Life Insurance

[For former CLIP participants] You may continue in the Xerox Universal Life Plan (XUL). Upon retirement, your death benefit will be equal to [\$X]. The Company will make contributions pursuant to the provisions of XUL until age 65 or July 2013, whichever is later.

[For non-CLIP participants] Upon retirement, you will receive correspondence from MetLife, explaining that you have the opportunity to continue coverage approximately equal to your Xerox Universal Life Plan (XUL) coverage of [\$X]. If you choose to continue coverage, MetLife will bill you directly.

Other Arrangements

You will relinquish your position as an Officer of Xerox Corporation and as a director and officer of any subsidiary company as soon as administratively feasible after your active employment ends. At the appropriate time, a representative of Xerox Corporation will contact you regarding your resignation as a Corporate Officer.

You will be paid for any accrued and unused vacation upon separation from the Company.

Your Company financial planning assistance will be continued through the tax year in which your active employment ends.

You will also be eligible for your physical under the Executive Physical Program through the calendar in which your active employment ends.

For the Xerox sponsored employee benefit plans summarized in this letter, if there is a discrepancy between this letter and the official plan documents, the terms of the plan documents govern.

Indemnity

You will be entitled to be indemnified with respect to all periods of your service as a director or officer of the Company or any of its subsidiaries in accordance with 1) the provisions of Sections 721 through 725 of the Business Corporation Law of the State of New York and provisions of California Labor Code Section 2802 2) Section 2 of Article VIII of the by-laws of the Company as in effect on the date of commencement of salary continuance and 3) the Company directors and officers liability insurance policies with Federal Insurance Company, XL Specialty Insurance Company, St. Paul Mercury Insurance Company, Twin City Fire Insurance Company, U.S. Specialty Insurance Company, Arch Specialty Insurance Company, ACE American Insurance Company, and Allied World Assurance Company, or any replacement or substitute thereof or any addition thereto.

Release

The [include only special provisions like perquisites or bonus not otherwise entitled to] or any other considerations provided for in this letter shall not become effective until you execute and deliver to the Company the release in the form attached immediately prior to the scheduled commencement thereof.

Cooperation in Litigation

You will cooperate fully with the Company and its counsel in any litigation that arises out of or is related to your service with the Company or any of its subsidiaries, or in which you are named as a party. That cooperation includes making yourself available for reasonable periods of time upon reasonable notice for consultation with the Company's counsel in any such litigation, promptly notifying the Company's General Counsel if you are subpoenaed or requested by a third party to testify or to be interviewed in connection with any such litigation or legal proceeding, and testifying in such litigation.

Heirs, Successors or Assigns

This agreement and any rights, responsibilities and obligations hereunder shall be binding upon any heirs, successors or assigns. This agreement shall not be assigned without prior written notice to and consent of the other party to this agreement.

Sincerely,

[Manager's Name]

[]/cd

AGREED AND ACCEPTED

Employee Name

Date

**Exhibit to Letter Agreement
Engagement in Detrimental Activity**

Definition of Detrimental Activity

“Detrimental Activity” shall mean:

(1) Within two (2) years of termination of employment with the Company, employment as an employee of, or services provided as a consultant to, another firm or corporation (other than the Company or an affiliate) that is a direct competitor of the Company in any business in which the Company is presently engaged or in which the Company as of the date of the letter to which this Exhibit is attached (“Letter Agreement”) may reasonably be expected to engage in the future, or is or may become such a competitor indirectly through a partnership, joint venture or other business arrangement with, or as a supplier or consultant to, such a direct competitor (“Competitor”), or is or may become a Competitor as a sole proprietor of a business or by engaging in the establishment of a business that directly competes with the Company, unless the Company has previously advised in writing that in its reasonable judgment such other firm, business or corporation is not a Competitor (the Company will provide notice upon request as to the competitive nature of a prospective employer); or

(2) Disclosure of confidential or proprietary business information of the Company;

(3) The making of any defamatory, derogatory, disparaging or inflammatory statements about the Company, its management or its business;

(4) Violation of any rules, policies, procedures or guidelines of the Company, including but not limited to the Company’s Business Ethics Policy;

(5) Any attempt directly or indirectly to induce any employee of the Company to be employed or perform services elsewhere or any attempt, using proprietary information of the Company’s, to directly or indirectly solicit the trade or business of any current or prospective customer, supplier or partner of the Company;

(6) Conviction of, or entry of a guilty plea with respect to, a felony, whether or not connected with the Company; or

(7) Engagement in any other conduct or act reasonably determined by the Company to be injurious, detrimental or prejudicial to any interest of the Company and, therefore, to constitute an act of disloyalty towards the Company.

Nothing contained in this exhibit shall be construed to restrict the executive’s reporting obligations, if any.

Consequences of Engagement in Detrimental Activity

If the executive who is a party to the Letter Agreement or his or her spouse engages in Detrimental Activity, that in the Company’s reasonable sole discretion, such discretion exercised prior to a change in control of the Company, constitutes an act of disloyalty towards the Company after termination of employment or during retirement, as the case may be, in accordance with the Letter Agreement, the following consequences shall apply:

(a) Any outstanding award under the 2004 Performance Incentive Plan, the 1991 Long-term Incentive Plan (including E-LTIP and LEEP awards), the 1998 Employee Stock Option Plan, or pursuant to any bonus or retention plans or programs (“Awards”) shall be cancelled and be of no further force or effect;

(b) Any exercise, payment or delivery of an Award within six months prior to such Detrimental Activity may be rescinded at the sole discretion of the Company. In the event of any such rescission, the executive (or, if applicable, his or her spouse or beneficiary) shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Company; and

(c) Any unfunded retirement benefits including, without limitation, under the Unfunded Retirement Income Guarantee Plan and the Unfunded Supplemental Executive Retirement Plan, shall be forfeited.

If a beneficiary other than the executive's spouse engages in Detrimental Activity, the consequences set forth herein shall apply with respect to such beneficiary.

Name: _____

Employee #: _____

SSN: _____

GENERAL RELEASE

1. In consideration of Xerox Corporation's ("Xerox") agreement to provide me with [add language here that describes the extra consideration provided in exchange for the release] and other valuable consideration, as set forth in the letter agreement dated [provide date here] I, _____, release Xerox from all the claims described in this Release. For purposes of this Release, "Xerox" includes its employees, directors, officers, agents, stockholders, subsidiaries, affiliates, successors, assigns, and the Xerox employee benefit plans in which I either am now or have been a participant, and the trustees, administrators, successors, agents and assigns of those plans.
2. I release Xerox from any and all claims, even if I don't know about the claim at this time, based on anything that has occurred prior to the date I sign this Release. For example, I release Xerox from any claims based on all laws, such as the following (all laws as currently amended):

- Age Discrimination and Employment Act of 1967 (ADEA)
- Older Workers' Benefits Protection Act of 1990 (OWBPA)
- Title VII of the Civil Rights Act of 1964
- Civil Rights Acts of 1866, 1870, 1871 and 1991
- Americans with Disabilities Act of 1990
- Rehabilitation Act of 1973
- Family and Medical Leave Act of 1993
- Equal Pay Act of 1963
- Fair Labor Standards Act of 1938
- Employee Retirement Income Security Act of 1974
- Worker Adjustment and Retraining Notification Act of 1989
- Uniformed Services Reemployment Rights Act of 1994
- Vietnam Era Veteran's Readjustment Assistance Act of 1974

I also release Xerox from claims based on the laws of the state(s) where I am employed and reside, such as state fair employment practice laws or any other law, whether federal, state or local, concerning employment. I release Xerox from claims based on discrimination in employment such as claims arising out of the offer of employment to me by Xerox, the hiring of me by Xerox, any employment contract between Xerox and me, any promises made by Xerox regarding future employment, or based on the termination of my employment. Finally, I also release Xerox from claims under state contract or tort law, and from all claims for punitive or compensatory damages, costs or attorney's fees.

3. I acknowledge and agree that the consideration set forth in this Release is in addition to anything of value to which I am entitled by law or Xerox policy.
4. I understand and agree that this Release and Xerox's agreement to provide consideration to me should not be construed, in any way, as an admission by Xerox of any wrongdoing or liability to me.
5. I understand that nothing set forth in this Release limits my right to file, or prevents me from filing, a charge or complaint with the EEOC or any comparable state agency, nor does anything in this Release limit my right to participate in an investigation or proceeding conducted by the EEOC or any comparable state agency.

6. I understand that nothing in this Release limits my right to challenge this Release as not being knowing and voluntary under the ADEA or the OWBPA if I feel this Release does not comply with the requirements of those statutes.
7. Except as provided in paragraphs 5 and 6 above, however, I agree that I will not file or pursue any charge or claim with any governmental agency or any court against Xerox based on anything that occurred before I signed this Release. If I do not comply with my obligations under this paragraph, I shall repay to Xerox upon demand all of the monies or other benefits, as applicable, paid to me by Xerox in consideration for this Release, and I agree to pay all of Xerox's costs and expenses in defending the claim or action, including Xerox's reasonable attorney's fees.
8. I understand and acknowledge that Xerox policy provides that for a period of one year after the termination of my employment with Xerox, I am not eligible for rehire as an employee, or for retention as a contract worker or consultant.
9. Xerox advises me as follows:
 - **TO CONSULT WITH AN ATTORNEY OF MY CHOOSING TO COUNSEL ME AS TO MY RIGHTS BEFORE I SIGN THIS RELEASE;**
 - **TO TAKE SUFFICIENT TIME TO DECIDE WHETHER TO SIGN THIS RELEASE. I HAVE 21 DAYS FROM THE DATE THIS RELEASE IS PROVIDED TO ME TO CONSIDER IT BEFORE I SIGN AND RETURN IT TO XEROX;**
 - **THAT EVEN AFTER I SIGN AND RETURN THIS RELEASE TO XEROX, I WILL HAVE 7 DAYS THEREAFTER TO CHANGE MY MIND AND REVOKE MY RELEASE BY ASKING XEROX FOR ITS RETURN.**
10. I understand and agree that this Release waives all claims I may have at the time I sign it, including claims I do not then know about or suspect. I further understand and acknowledge that California Civil Code, Section 1542 provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." I waive any rights I may have under that Code section, if applicable, or any other similar state or federal statute or common law principle of similar effect.
11. I understand that in signing this release, I thereby waive all claims of my successors, beneficiaries, heirs and assigns.

Date this document provided to employee: _____

Date signed and returned to Xerox: _____

By: _____

Employee signature

Annual Performance Incentive Plan for 2008 ("2008 APIP")

Under the 2008 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if annual performance objectives established by the Compensation Committee of the Board of Directors (the "Committee") are met.

The Committee approved an annual incentive target and maximum opportunity for 2008, expressed as a percentage of base salary for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall threshold, target and maximum measures of performance for the 2008 APIP. The performance measures and weightings for 2008 were constant currency revenue growth (30%), earnings per share (40%) and core cash flow from operations (30%).

For 2008, the performance against the 2008 APIP goals was as follows: Constant currency revenue growth was below threshold, and on an adjusted basis, earnings per share and core cash flow from operations were above threshold and below target.

Annual Performance Incentive Plan for 2009 ("2009 APIP")

Under the 2009 APIP, executive officers of the Company are eligible to receive performance related cash payments. Payments are, in general, only made if performance objectives established by the Compensation Committee of the Board of Directors (the "Committee") are met.

In consideration of the challenging and unpredictable economy, we have prioritized core cash flow and earnings per share. 2009 APIP performance measures and targets have been set for the first half of the year only, and separate performance measures and targets for the second half of the year are expected to be finalized and approved in July, with each six-month period of APIP performance being calculated separately.

The Committee approved incentive opportunities for the first half of 2009, expressed as a percentage of base salary for each participating officer. Certain additional goals were established for some officers based on business unit goals. The Committee also established overall base, threshold, target and maximum measures of performance for the first half of 2009 APIP. The performance measures and weightings for the first half of 2009 are core cash flow from operations (65%) and earnings per share (35%).

Individual payments will be subject to the review and approval of the Committee following the completion of the first half of 2009.

**AMENDMENT NO. 1
TO THE
XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN
DECEMBER 2007 AMENDMENT AND RESTATEMENT**

WITNESSETH:

WHEREAS, Xerox Corporation (the "Company") has adopted the Xerox Corporation 2004 Performance Incentive Plan, December 2007 Amendment and Restatement (the "Plan"),

WHEREAS, the Chief Executive Officer of Xerox Corporation, or her delegate, may amend the Plan as she in her sole discretion deemed necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder, and

WHEREAS, the Company desires to amend the Plan,

NOW, THEREFORE, the Plan is amended as follows:

1. Section 22(c)(ii) (relating to distributions following a section 409A-conforming Change in Control) is amended to read in its entirety as follows

"(ii) Following a Section 409A-Conforming Change in Control, awards (to the extent Nonforfeitable) shall be paid on the Vesting Date specified in the award summary or, if earlier, upon a termination of employment that occurs within two years of such 409A-Conforming Change in Control (or, in the case of a Key Employee, the date that is 6 months after such termination)."

2. Section 24(c)(i) (relating to the Uniform Payment Rule for 409A compliance) shall be amended to read in its entirety as follows:

"(i) All awards shall be paid on the date that is the earlier of (1) or (2) below, where

(1) is a termination of employment no later than two years after the occurrence of a Section 409A-Conforming Change in Control (or, in the case of a Key Employee, the date that is 6 months after such termination); and

(2) is the Vesting Date specified in the award summary."

This Amendment is effective as of this restatement of the Plan. In all other respects, the Plan shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 17th day of December, 2008.

XEROX CORPORATION

By _____ /s/ PATRICIA M. NAZEMETZ
Vice President

**2008 AMENDMENT AND RESTATEMENT
OF
XEROX CORPORATION
UNFUNDED RETIREMENT INCOME GUARANTEE PLAN**

ARTICLE 1

Definitions

When used herein, the words and phrases defined hereinafter shall have the following meaning unless a different meaning is clearly required by the context of the Plan. Terms used herein which are defined in Article 1 of the Funded Plan shall have the meanings assigned to them in the Funded Plan.

Section 1.1. Administrator. The Administrator appointed by the Vice President, Human Resources of the Company.

Section 1.2. Average Monthly Compensation shall be determined under Article 1 of the Funded Plan, without regard to the dollar limitation contained therein, and, notwithstanding the above, shall also include any compensation provided under the Xerox Corporation CEO Challenge Bonus Program.

Section 1.3. Board. The Board of Directors of the Company.

Section 1.4 A Change in Control of the Company shall be deemed to have occurred if:

(a) Any "Person" is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(b) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (i) individuals who, on the date hereof, constitute the Board, and (ii) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(c) There is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (i) a merger or consolidation which results in the directors of the Company who were members of the Incumbent Board immediately before such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding voting securities; or

(d) The shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting

power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately before such sale. For purposes of this definition of Change in Control, Person shall have the meaning given in Section 3(a)(9) of the 1934 Act, as modified and used in Section 13(d) and 14(d) of the 1934 Act, except that such term shall not include Excluded Persons. "Excluded Persons" shall mean (i) the Company and its subsidiaries, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, (iii) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (iv) any person who becomes a beneficial owner in connection with a transaction described in sub clause (i) of clause (c) above, (v) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (vi) an individual, entity or group who is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule), provided that if any Excluded Person described in this clause (vi) subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this definition, such individual, entity or group shall no longer be considered an Excluded Person and shall be deemed to have first acquired beneficial ownership of securities of the Company on the first date on which such individual, entity or group becomes required to or does so report on such Schedule.

Section 1.5. Code. The Internal Revenue Code of 1986 as amended, or as it may be amended from time to time.

Section 1.6. Company. Xerox Corporation.

Section 1.7. Effective Date. The original effective date of the Plan was July 1, 1977. This Amendment and Restatement is effective as of January 1, 2008 and dates herein.

Section 1.8. Employee. A Member (as defined therein) in the Funded Plan or any individual designated as eligible for benefits under this Plan.

Section 1.9. Funded Plan. The Xerox Corporation Retirement Income Guarantee Plan.

Section 1.10. Plan. The "Xerox Corporation Unfunded Retirement Income Guarantee Plan", as set forth herein or in any amendment hereto.

Section 1.11. Section 409A-Conforming Change in Control. A Change in Control that conforms to the definition under Section 409A of the Code of a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, as such definition is set forth in Treasury guidance.

ARTICLE 2

Purpose of Plan

Section 2.1. Purpose. The Plan is designed to provide retirement benefits payable out of the general assets of the Company as provided in Section 4.1.

ARTICLE 3

Eligibility

Section 3.1. Eligibility. All Employees and beneficiaries of Employees eligible to receive benefits from the Funded Plan shall be eligible to receive benefits under this Plan in accordance with Section 4.1 regardless of when the Employees may have retired. Notwithstanding the above, if, prior to

a Change in Control, a participant who is an Employee or former Employee of the Company, or a surviving beneficiary of a participant, is deemed by the Plan Administrator, in his sole and absolute discretion, to have engaged in detrimental activity against the Company, such employee, former employee or surviving beneficiary shall not be eligible to receive benefits under the Plan. (Detrimental activity shall include, but not be limited to, engaging in litigation against the Company or the Plan).

ARTICLE 4

Benefits

Section 4.1. Amount of Benefits. The amount of the benefit payable under the Plan shall be equal to the monthly benefit which would be payable to or on behalf of an Employee under the Funded Plan as a Life Annuity if Section 9.5 of the Funded Plan were inapplicable and if the amount of any compensation deferred by the Employee was included in the calculation of Average Monthly Compensation (except the increase in compensation which became payable under the Company's policy of increasing compensation by the amount which cannot be added to an Employee's accounts under the Profit Sharing Plan by reason of the limitation contained in Section 415 of the Code) and if the limitations on the amount of Compensation considered in the Average Monthly Compensation which apply in the Funded Plan due to the requirements of section 401(a)(17) of the Code were inapplicable, less the following "applicable offsets":

(a) The monthly benefit payable as a Life Annuity to or on behalf of the Employee under the Funded Plan other than the RIGP Plus Benefit payable under Article 17 thereof which would be payable on the benefit calculation date under this Plan.

(b) Any amount deducted for the payment of FICA taxes payable on benefits under the Plan.

(c) The monthly benefit calculated as a Life Annuity payable at the benefit calculation date under this Plan to or on behalf of the Employee under the Xerox Corporation Provisional Supplement Benefit Plan, except that any increase in the offset computed under this subsection (c) may never exceed the increase in the benefit under the Plan computed under this section without regard to such offset.

(d) The benefit payable under the Xerox Corporation Unfunded Supplemental Executive Retirement Plan (without regard to section 6(F)(2)(b) thereof).

(e) Any severance or post-employment amounts paid by the Company or any subsidiary of the Company, to the extent provided by agreement between the Company and the Participant, except that any increase in the offset computed under this subsection (e) may never exceed the increase in the benefit under the Plan computed under this section without regard to such offset, and any agreement providing to the contrary shall be treated as void with regard to such excess amount.

Section 4.1A. Unfunded Cash Balance Retirement Account. For periods after 2002, an Unfunded Cash Balance Retirement Account (UCBRA) shall apply in the calculation of benefits under Section 4.1 to the extent an employee has a vested CBRA in the Funded Plan. The UCBRA shall be added to the CBRA and this benefit expressed as a Life Annuity will be compared to other Funded Plan formulas as modified by Section 4.1 with the highest determining the Life Annuity under Section 4.1 prior to the application of applicable offsets. The UCBRA is a notional unfunded account and is \$0 as of January 1, 2003, and is increased with Employer Credits and Interest as described in the Funded Plan with the following adjustment: The Employer Credit under this section is first computed without regard to the limitations of Section 401(a)(17) of the Code, and then such amount as so computed shall be reduced by the Employer Credit in the Funded Plan. Interest will apply at the same rate as in the Funded Plan but only to the net Employer Credit as computed in the preceding sentence.

Section 4.1B. Additional Benefit. In addition to the benefit provided by the foregoing provisions of Section 4.1 and Section 4.1A, there shall be an additional benefit equal to the excess of (a) over (b) where (a) is the RIGP Plus Benefit which would be payable under Article 17 of the Funded Plan as if "Annual Pay", as defined in Article 17 of the Funded Plan, had been calculated without regard to the applicable limitations of the "Code" as defined in the Funded Plan and to include deferred compensation to the extent not already included and (b) is the RIGP Plus Benefit calculated under Article 17 of the Funded Plan subject to such Code limitations. Notwithstanding any provision of this Plan to the contrary, the benefit under this Section 4.1B shall be payable in cash in a lump sum. Such benefit shall be paid at the time specified in Section 4.4.

Section 4.2. Form of Benefit Payments. The forms of benefit available under the Plan shall be for unmarried Employees a 10-Year certain and life annuity or a life annuity and for married Employees a 50% or 100% joint and survivor annuity option, all as shall have been elected by Employee on forms provided by the Administrator. The benefit payable to an unmarried Employee who has failed to make such an election shall be a life annuity and for any such married Employee a 50% joint and survivor annuity. The 10-year certain and life annuity is the actuarial equivalent of the life annuity and the 100% joint and survivor annuity is the actuarial equivalent of the 50% joint and survivor annuity. Except as otherwise provided in Section 5.1 in no event is the benefit payable in a lump sum.

Notwithstanding the above, the lump sum actuarial equivalent of any benefit otherwise payable as a monthly amount of one hundred dollars (\$100.00) or less, shall be distributed in accordance with Section 4.4. The lump sum actuarial equivalent amount shall be determined using the basis for a lump sum described in the section entitled "Optional Forms of Benefit Payment" of the Funded Plan.

Section 4.3. Death Prior to Benefit Commencement. The spouse of a Participant who dies before commencement of benefits under the Plan shall be entitled to a survivor benefit calculated in accordance with Article 7 of the Funded Plan in an amount equal to the amount determined under (a) or (b) below.

(a) In the case of a Participant who is eligible to retire under the Funded Plan on the date of his or her death, the sum of (a) one half of the retirement benefit to which the Participant would have been entitled under the Plan if he or she had retired on the last day of the month coincident with or next following the date of the Participant's death but only after such retirement benefit is reduced by the annuity equivalent of the UCBRA based on the Participant's age, and (b) the annuity equivalent of UCBRA based on the spouse's age at such date; or

(b) In the case of a Participant who is not eligible to retire under the Funded Plan on the date of his or her death, the sum of (a) one-half of the retirement benefit to which the Participant would have been entitled under the Plan if he or she had terminated on his or her date of death and survived to the date of payment of benefits as determined under Section 4.4 below but only after such retirement benefit is reduced by the annuity equivalent of the UCBRA based on the Participant's age at such date, and (b) the annuity equivalent of UCBRA based on the spouse's age at such date.

Section 4.4. Time of Benefit Payments. Benefits due under the Plan shall be paid as follows:

(a) *Retirement before 2005.* A Participant who retires with the Company before January 1, 2005, shall be paid benefits due under the Plan coincident with the payment date of benefits under the Funded Plan or at such other time or times as the Administrator in his discretion determines.

(b) *Retirement from January 1, 2005 through November 30, 2007.* A Participant who retires with the Company after December 31, 2004, but before December 1, 2007, shall be paid benefits due under the Plan as follows:

(i) If such Participant elects to receive his or her benefits under the Funded Plan with an annuity starting date that is on or before December 31, 2007, the Participant's benefits due under the Plan shall be paid coincident with the payment date of his or her benefits under the Funded Plan.

(ii) If such Participant does not make the election described in subsection (b)(i), benefits due under the Plan shall be paid on July 1, 2008. For this purpose, the benefit payable on July 1, 2008 will have a January 1, 2008 benefit calculation date and the first of such benefit payments shall include the first six benefit payments that otherwise would have been made to such Participant absent such six-month delay.

(c) *Retirement after November 30, 2007.* A Participant who has a separation from service (as defined for purposes of Section 409A of the Code) with the Company after November 30, 2007, and who is eligible to retire as of such separation, shall be paid benefits due under the Plan commencing six months after the date of such separation but not before July 1, 2008. For this purpose, the benefit payable on such commencement date shall be calculated six months earlier and the first of such benefit payments shall include the first six benefit payments that otherwise would have been made to such Participant absent such six-month delay. If a Participant has a separation from service on or before November 30, 2007, and is eligible to retire after such date because of Salary Continuance granted at separation, the commencement date is the later of 6 months following separation from service or age 55. The benefit calculation date will be the date the Employee attains age 55, if benefits commence at age 55, or six months prior to benefit commencement but not earlier than age 55. To the extent that the benefit commencement date is prior to age 55-1/2, the number of payments due to the six-month delay shall be reduced from six months by one month for each month that the commencement date precedes age 55-1/2.

(d) *Termination without retirement.* A Participant who has a separation from service (as defined for purposes of section 409A of the Code) before January 1, 2008, and is not eligible to retire, shall be paid benefits due under the Plan commencing at age 65. A Participant who has a separation from service (as defined for purposes of section 409A of the Code) on or after January 1, 2008, and who is not eligible to retire under the Funded Plan as of such separation, shall be paid benefits due under the Plan commencing on the later of (i) age 55, or (ii) six months after such separation. The first of such benefit payments shall include the first six benefit payments that otherwise would have been made, if any, to such Participant absent such six-month delay. The benefit calculation date will be the date the Employee attains age 55, if benefits commence at age 55, or six months prior to benefit commencement but not earlier than age 55. To the extent that the benefit commencement date is prior to age 55-1/2, the number of payments due to the six-month delay shall be reduced from six months by one month for each month that the commencement date precedes age 55-1/2.

Section 4.5. Employee's Rights Unsecured. The benefits payable under this Plan shall be unfunded. Consequently, no assets shall be segregated for purposes of this Plan and placed beyond the reach of the Company's general creditors. The right of any Employee to receive benefits under the provisions of the Plan shall be an unsecured claim against the general assets of the Company.

ARTICLE 5 Change in Control

Section 5.1. Change In Control.

(a) Notwithstanding anything to the contrary in this Plan, in the event of a Change in Control, each Employee, including retired Employees, shall be entitled to a benefit hereunder without regard to his or her age or Years of Service at the time of such Change in Control.

(b) Upon the occurrence of a Section 409A-Conforming Change in Control, the benefit of each Employee shall be payable in a lump sum within 30 days of such Section 409A-Conforming Change in Control equal in amount to the then present value of a benefit expressed in the form provided in Section 4.1 hereof, commencing on the later of (i) the date of such Section 409A-Conforming Change

in Control and (ii) the date the Employee would be eligible for a benefit under the Funded Plan, and based upon such Employee's Average Monthly Compensation and Years of Participation as of the date of such Section 409A-Conforming Change in Control.

(c) Upon the occurrence of a Change in Control that is not a Section 409A-Conforming Change in Control, the benefit of each Employee shall be payable as provided in Section 4.4.

Section 5.2. Termination of Employment Following a Section 409A-Conforming Change in Control. Upon the termination of employment of a Employee following a Section 409A-Conforming Change in Control, such Employee, if he or she has otherwise satisfied the requirements of the Funded Plan for a benefit, shall be entitled to a benefit equal to the benefit to which he or she would have been entitled without application of Section 5.1(b), reduced (but not below zero) to reflect the value of the benefit he or she received pursuant to Section 5.1(b).

Section 5.3. Calculation of Present Value. For purposes of Section 5.1(b) hereof, the present value of a benefit shall be calculated using the interest rate and mortality assumptions used for computing lump sums in the Funded Plan. For purposes of the Funded Plan, each Employee shall be treated as if he or she terminated employment upon the Section 409A-Conforming Change in Control and had his or her benefits determined as if he or she were to begin receiving benefits on the commencement date used in developing the present value of the benefit in Section 5.1(b).

ARTICLE 6

Plan Administration

Section 6.1. Duties of the Administrator. The Plan shall be administered by the Administrator in accordance with its terms and purposes. The Administrator shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant from the Plan and shall cause them to be paid by the Company accordingly.

Section 6.2. Authority of the Administrator. The Administrator may

(a) Construe and interpret the provisions of the Plan, determine all questions of fact, and make rules and regulations under the Plan to the extent deemed advisable or helpful by the Administrator;

(b) Should any defect, omission, ambiguity or inconsistency in the Plan be discovered at any time, the Administrator shall be empowered to take such action as may be necessary to correct such defect, rectify such omission, resolve such ambiguity or reconcile such inconsistency.

Section 6.3. Claims and Appeals. Claims and appeals regarding benefits under the Plan shall be determined pursuant to section 503 of ERISA.

Section 6.4. Finality of Decisions. The decisions made by and the actions taken by the Administrator in the administration of the Plan shall be final and conclusive on all persons, and the Administrator shall not be subject to individual liability with respect to the Plan.

Section 6.5. Limitations of Actions. Any action brought in state or federal court for the alleged wrongful denial of Plan benefits or for the alleged intentional interference with any Plan rights to which a person is or may become entitled under ERISA must be commenced within one year after the cause of action accrued.

Section 6.6 Restriction of Venue. Any action in connection with the Plan by an Employee or beneficiary may only be brought in Federal District Court in Monroe County, New York.

**AMENDMENT NO. 1
TO
2008 RESTATEMENT
OF
XEROX CORPORATION
UNFUNDED RETIREMENT INCOME GUARANTEE PLAN
WITNESSETH:**

WHEREAS, Xerox Corporation (the "Employer") has established the Xerox Corporation Unfunded Retirement Income Guarantee Plan, which is presently set forth in the "2008 Restatement of Xerox Corporation Unfunded Retirement Income Guarantee Plan" (the "Plan"), and

WHEREAS, the Employer desires to amend the Plan,

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

1. The last paragraph of Section 4.2 (relating to lump sum payouts of small distributions) shall be amended to read in its entirety as follows:

"Notwithstanding the above, if the lump sum actuarial equivalent of any benefit otherwise payable as a monthly amount is \$20,000 or less, determined as of the date of termination with respect to the date the benefit is scheduled to commence, then (i) for a participant who terminates after 2008, such benefit will be distributed as a lump sum six months after the date of termination, and (ii) for a participant who terminates after 2004 and before 2009, such benefit will be distributed on July 1, 2009."

This Amendment is effective as of this restatement of the Plan. In all other respects, the Plan shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 17th day of December, 2008.

XEROX CORPORATION

By _____ /s/ PATRICIA M. NAZEMETZ
Vice President

**AMENDMENT NO. 1
TO THE
2007 RESTATEMENT OF THE XEROX CORPORATION
UNFUNDED SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

WITNESSETH:

WHEREAS, Xerox Corporation (the "Company") has adopted the Unfunded Supplemental Executive Retirement Plan, which is presently set forth in the "2007 Restatement of Xerox Corporation Unfunded Supplemental Executive Retirement Plan" (the "Plan"), and

WHEREAS, the Chief Executive Officer of Xerox Corporation, or her delegate, may amend the Plan as she in her sole discretion deems necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder, and

WHEREAS, the Company desires to amend the Plan,

NOW, THEREFORE, the Plan is amended by adding the following sentence to the end of Section 12 (relating to section 409A compliance) to read in its entirety as follows:

"No offset or reduction of benefits under the Plan shall be permitted to the extent it results in a prohibited substitution under Code section 409A and regulations thereunder."

This Amendment is effective as of the 2007 Restatement of the Plan. In all other respects, the Plan shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 17th day of December, 2008.

XEROX CORPORATION

By _____ /s/ PATRICIA M. NAZEMETZ
Vice President

**AMENDMENT TO THE
AMENDED AND RESTATED SEVERANCE LETTER AGREEMENT
PROVIDING CERTAIN BENEFITS UPON TERMINATION OF EMPLOYMENT
FOLLOWING A CHANGE IN CONTROL**

WHEREAS, Xerox Corporation (the "Company") has adopted the Amended and Restated Severance Letter Agreement Providing Certain Benefits Upon Termination of Employment Following a Change In Control (the "Agreement"), and

WHEREAS, The Chief Executive Officer of Xerox Corporation, or her delegate, may amend the Agreement as she in her sole discretion deems necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder, and

WHEREAS, the Company desires to amend the Agreement,

NOW, THEREFORE, the Agreement is amended by adding at the end of Section 8 the following sentence:

"No offset or reduction of amounts under this Agreement shall be permitted to the extent it results in a prohibited substitution under Code section 409A and regulations thereunder."

The foregoing Amendment is effective as of the effective date of the Agreement. In all other respects, the Agreement shall remain unchanged.

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 17th day of December, 2008.

XEROX CORPORATION

By _____ /s/ PATRICIA M. NAZEMETZ
Vice President

XEROX CORPORATION**1998 EMPLOYEE STOCK OPTION PLAN**

ARTICLE I—Purpose of the Plan

The purpose of the Xerox Corporation 1998 Employee Stock Option Plan (“Plan”) is to increase the ownership interest in the Company of eligible employees of the Company so as to align such interests with those of the shareholders of the Company and to provide a further incentive to serve as an employee of the Company through the issuance of stock options.

ARTICLE II—Definitions

Unless the context clearly indicates otherwise, the following terms shall have the following meanings:

2.1 “Administrator” means the individual and/or Committee or subcommittee referred to in Paragraph 3.1 as the case may be.

2.2 “Award Summary” means the award summary or the agreement delivered by or on behalf of the Administrator to each Optionee upon grant of an Option under the Plan which shall set forth details of each Option, including, without limitation, number of shares, option exercise price, Exercise Period, Waiting Period and exercise dates.

2.3 “Board” means the Board of Directors of the Company.

2.4 “Change in Control” shall be deemed to have occurred if (A) any “person” (as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)), other than (1) the Company, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, (3) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, or (4) any person who becomes a “beneficial owner” (as defined below) in connection with a transaction described in clause (1) of subparagraph (C) below, is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company’s then outstanding securities; (B) the following individuals cease for any reason to constitute a majority of the directors then serving: individuals who, on October 9, 2000 constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who were directors on October 9, 2000 or whose appointment, election or nomination for election was previously so approved or recommended; (C) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation other than (1) a merger or consolidation which results in the directors of the Company immediately prior to such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in

which no person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such person any securities acquired directly from the Company or its affiliates) representing 20% of more of the combined voting power of the Company's then outstanding securities; or (D) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

2.5 "CIC Price" means the higher of (a) the highest price paid for a Share in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (b) the highest price paid for a Share during the 60 day period immediately preceding the date upon which the event constituting a Change in Control shall have occurred as reported in The Wall Street Journal in the New York Stock Exchange Composite Transactions or similar successor consolidated transactions reports.

2.6 "Company" means Xerox Corporation.

2.7 "Employee" means each employee of the Company or of any entity that is directly or indirectly controlled by the Company all of whom are eligible for grants under the Plan.

2.8 "Exercise Period" means the date which is eight years after the Option Grant Date of such Option.

2.9 "Fair Market Value" means, with respect to any date, the average between the highest and lowest sale prices per Share in the New York Stock Exchange Composite Transactions on such date as reported in the Wall Street Journal, provided that if there should be no sale of Shares reported on such date, the Fair Market Value of a Share on such date shall be deemed equal to the average between the highest and lowest sale prices per Share in such Composite Transactions for the last preceding date on which sales of Shares were reported.

2.10 "Option" means an option to purchase Shares awarded under the Plan which does not meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, or any successor law.

2.11 "Option Grant Date" means the effective date of an option grant under the terms of the Plan.

2.12 "Option Surrender Right" has the meaning specified in Paragraph 6.4.

2.13 "Optionee" means each person to whom an Option has been granted.

2.14 "Plan" means the Xerox Corporation 1998 Employee Stock Option Plan, as amended and restated from time to time.

2.15 "Shares" means shares of the Common Stock, par value \$1.00 per share, of the Company.

ARTICLE III—Administration of the Plan

3.1 Administrator of Plan. The Plan shall be administered by the individual who is the Vice President of the Company then having responsibility for Human Resources other than in respect of matters relating to officers of the Company who are subject to Section 16 under the Securities Exchange Act of 1934, as amended ("Section 16 Officers"). The Plan shall be administered in respect of Section 16 Officers by the Executive Compensation and Benefits Committee of the Board of Directors of the Company or the successor to such Committee or by a subcommittee of such Committee.

3.2 Authority of the Administrator. Except as otherwise provided herein, the Administrator shall have full power and authority to (i) designate the Employees to whom Options are to be granted, (ii) determine the number of Shares to be covered by each Option, (iii) determine the terms and conditions of Options granted under Plan, (iv) interpret and construe the Plan, (v) adopt such rules and regulations as the Administrator shall deem necessary and advisable to implement and administer the Plan and (vi) designate persons to carry out the Administrator's responsibilities, subject to such limitations, restrictions and conditions as the Administrator may prescribe, such determinations to be made in accordance with the Administrator's best business judgment as to the best interests of the Company and its shareholders and in accordance with the purposes of the Plan. Options granted and the number of shares covered by Options shall be based upon one or more measures of Company performance selected by the Administrator.

ARTICLE IV—Shares Subject to the Plan

The total number of Shares which may be issued upon exercise of Options under the Plan shall be 25,000,000 subject to adjustment as provided in Article IX. Any Shares issued under the Plan may consist of authorized and unissued Shares or of treasury Shares.

ARTICLE V—Non-Transferability of Options

All Options under the Plan will be nontransferable and shall not be assignable, alienable, salable or otherwise transferable by the Optionee other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction or as otherwise determined by the Administrator. During the life of the Optionee, Options under the Plan shall be exercisable only by him or her.

If so permitted by the Administrator, an Optionee may designate a beneficiary or beneficiaries to exercise the rights of the Optionee under this Plan upon the death of the Optionee.

ARTICLE VI—Options

Each Option shall be subject to the following terms and conditions:

6.1 Purchase Price. The purchase price per Share under each Option granted pursuant to this Article shall be 100% of the Fair Market Value per Share on the Option Grant Date. Any Option granted to replace an earlier unexercised Option Grant shall have a price per share not less than the price per share of the option being replaced.

6.2 Option Waiting Period and Exercise Dates. The Shares subject to an Option may be purchased commencing on the January 1 next following the Option Grant Date (the "Waiting Period") as follows:

33 ¹/₃% of such Shares commencing at the end of the Waiting Period;

33 ¹/₃% of such Shares commencing on the first day of the second year following the Waiting Period; and

33 ¹/₃% of such Shares commencing on the first day of the third year following the Waiting Period.

Subject to Article VII, an Option may be exercised until the end of the Exercise Period. An Option, or portion thereof, may be exercised in whole or in part only with respect to whole Shares.

To the extent that an Option is not exercised when it becomes initially exercisable, it shall not expire but shall be carried forward and shall be exercisable until the expiration of the Exercise Period. Partial exercise will be permitted from time to time within the percentage limitation described above provided that no partial exercise may be for less than the lesser of twenty Shares or the total number of Shares remaining unexercised under the Option.

6.3 Method of Exercising Option. The Options may be exercised from time to time by written notice to the Company, which shall state the election to exercise the Options and the number of shares with respect to which the Options are being exercised, and shall be signed by the person exercising the Options. Such notice must be accompanied by a check payable to the Company in payment of the full purchase price. After receipt of such notice, the Company will advise the person exercising the option of the amount of withholding tax which must be paid under U.S. Federal, and where applicable, state and local law resulting from such exercise. Upon receipt of payment of the purchase price and the withholding tax the Company shall, without transfer or issue tax to the person exercising the Options, issue a certificate or certificates for the number of shares covered by such notice of exercise. In the event that the Options are being exercised through the Company's cashless exercise program, there shall be no requirement for the Employee to deliver a check in payment of the purchase price or for the withholding tax, all of which shall be effectuated between the Company and its then acting agent appointed to administer the cashless exercise program.

6.4 Option Surrender Rights. All Options granted hereunder shall be accompanied by option surrender rights ("OSRs") covering an equal number of shares as are covered under the related Option. Upon the occurrence of an event constituting a Change in Control, all OSRs, to the extent that the CIC Price exceeds the exercise price of the related Options, shall be paid in cash as soon as may be practicable. Upon such payment, such rights and any related Option shall be canceled. The amount of cash payable in respect of an OSR shall be determined by multiplying the number of unexercised shares under the Option to which the right relates by the difference between the option price of such shares and the CIC Price.

6.5 Award Summary. Each Option granted under the Plan shall be evidenced by an Award Summary.

6.6 Reload Options. Options shall not be granted which by the terms of the grant provide for automatic award of additional Options upon exercise thereof.

ARTICLE VII—Termination of Service

Unless otherwise determined by the Administrator, termination of service, disability, retirement or death of an Optionee shall have the following effects on Options:

7.1 Termination of Service. If an Optionee ceases to be an employee of the Company or any of its subsidiaries other than by reason of disability, retirement or death, each Option held by such Optionee may thereafter be exercised by such Optionee (or such Optionee's executor, administrator, guardian, legal representative, beneficiary or similar person) solely to the extent that they were exercisable on the date of such termination and shall expire on the earlier of: (i) three months from the date of such termination or (ii) expiration of the Exercise Period. Options which are not exercisable on the date the Optionee ceases to be such an employee shall terminate.

7.2 Disability, Retirement or Death. If an Optionee ceases to be an employee of the Company or any of its subsidiaries by reason of disability or retirement, each Option held by such Optionee may thereafter be exercised by such Optionee in accordance with the provisions of Article VI. If the Optionee dies following termination of service by reason of retirement or disability, outstanding Options shall be exercisable to the extent that they were exercisable on the date of

death by such Optionee's executor, administrator, guardian, legal representative, beneficiary or similar person and shall expire on the earlier of: one year following the date of death or expiration of the Exercise Period. If the Optionee ceases to be such an employee as a result of death after the expiration of the Waiting Period for an Option award, such Option shall be immediately vested and exercisable by the Optionee's legal representative at any time within one year of the Optionee's death but in no event after the expiration of the Exercise Period. Options which are not exercisable on the date the Optionee ceases to be such an employee in accordance with the foregoing shall terminate.

ARTICLE VIII—Amendment and Termination

The Board may amend the Plan from time to time or terminate the Plan at any time except to the extent otherwise required by the Business Corporation Law of the State of New York; provided, however, that no action authorized by this Article shall adversely change the terms and conditions of an outstanding Option without the Optionee's consent.

ARTICLE IX—Adjustment Provisions

9.1 If the Company shall at any time change the number of issued Shares without new consideration to the Company (such as by stock dividend, stock split, recapitalization, reorganization, exchange of shares, liquidation, combination or other change in corporate structure affecting the Shares) or make a distribution of cash or property which has a substantial impact on the value of issued Shares, the number of Shares covered by each outstanding Option and the purchase price per Share under each outstanding Option shall be adjusted so that the aggregate consideration payable to the Company and the value of each such Option shall not be changed.

9.2 Notwithstanding any other provision of the Plan, and without affecting the number of Shares reserved or available hereunder, the Administrator shall authorize the issuance, continuation or assumption of outstanding Options or provide for other equitable adjustments after changes in the Shares resulting from any merger, consolidation, sale of assets, acquisition of property or stock, recapitalization, reorganization or similar occurrence in which the Company is the continuing or surviving corporation, upon such terms and conditions as it may deem necessary to preserve Optionees' rights under the Plan.

9.3 In the case of any sale of assets, merger, consolidation or combination of the Company with or into another corporation other than a transaction in which the Company is the continuing or surviving corporation and which does not result in the outstanding Shares being converted into or exchanged for different securities, cash or other property, or any combination thereof (an "Acquisition"), any Optionee who holds an outstanding Option shall have the right (subject to the provisions of the Plan and any limitation applicable to the Option) thereafter and during the term of the Option, to receive upon exercise thereof the Acquisition Consideration (as defined below) receivable upon the Acquisition by a holder of the number of Shares which would have been obtained upon exercise of the Option or portion thereof, as the case may be, immediately prior to the Acquisition. The term "Acquisition Consideration" shall mean the kind and amount of shares of the surviving or new corporation, cash, securities, evidence of indebtedness, other property or any combination thereof receivable in respect of one Share of the Company upon consummation of an Acquisition.

9.4 Notwithstanding anything to the contrary in this Article IX, if any of the events or transactions described herein constitute a Change in Control, to the extent that the CIC Price exceeds the exercise price of the related Options, then in lieu of the adjustments provided for in this Article IX, the provisions of Paragraph 6.4 shall apply and outstanding Options shall be cashed out as provided for therein.

ARTICLE X—Effective Date

The Plan shall be submitted to the shareholders of the Company for adoption in accordance with the provisions of Section 505 of the Business Corporation Law of the State of New York and, if adopted by a majority of the votes cast at the 1998 annual meeting of shareholders, shall become effective as of the date of adoption by shareholders.

ARTICLE XI—Miscellaneous Provisions

11.1 **Governing Law.** The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the laws of the State of New York and applicable Federal law.

11.2 **Successors and Assigns.** The Plan shall be binding on all successors and permitted assigns of an Optionee, including, without limitation, the estate of such Optionee and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Optionee's creditors.

11.3 **General Restriction.** Each Option shall be subject to the requirement that, if at any time the Administrator shall determine, in its sole discretion, that the listing, registration or qualification of any Option under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Options or the grant or settlement thereof, such Option may not be exercised or settled in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Administrator.

11.4 **Future Rights.** No Employee shall have any rights by reason of the grant of any Options under the Plan to continue as an employee of the Company or any subsidiary of the Company for any period of time, or at any particular rate of compensation.

11.5 **Rights as a Shareholder.** An Optionee shall have no rights as a shareholder with respect to shares covered by Options granted hereunder until the date of issuance of a stock certificate therefor, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such certificate is issued.

11.6 **Fractions of Shares.** The Company shall not be required to issue fractions of shares. Whenever under the terms of the Plan a fractional share would be required to be issued the Optionee shall be paid in cash for such fractional share based upon Fair Market Value at the time of exercise of the Option.

11.7 **Term of the Plan.** No Option shall be granted under the Plan after May 21, 2003. However, any Option theretofore granted may extend beyond such date and continue to be exercisable pursuant to its terms for its remaining Exercise Period.

The Document Company
XEROX

Anne M. Mulcahy
Chairman and Chief Executive Officer

May 20, 2002

Mr. Lawrence A. Zimmerman
6320 Sunshine Canyon Drive
Boulder, CO 80302

Dear Larry:

I am pleased to offer you the position of Senior Vice President and Chief Financial Officer of Xerox Corporation, reporting to me in Stamford, CT. Your starting salary for this position will be paid monthly at the annualized rate of \$450,000.

You will also be eligible to participate in our annual bonus plan at a target level of 70% of salary. We will agree on your personal objectives shortly after you join the Company. More information on the bonus plan will be provided at the start of your employment. If earned, any 2002 bonus will be paid in February 2003.

You will participate in the Leveraged Executive Equity Program (LEEP). Your initial LEEP award will be effective on a date to be determined by the Executive Compensation and Benefits Committee of the Board of Directors (ECBC) within 60 days following the first day of your employment. Your award will consist of 121,500 options with a strike price based on the fair market value of Xerox Corporation common stock on the grant's effective date. These options will vest one-third in each of the next three years, commencing with January 1, 2003. In addition to the stock options, you will be granted 32,500 restricted (full value) shares. These restricted shares will vest on January 1, 2003. A future award with terms similar to this award is planned for January 1, 2003.

You will also be awarded 150,000 stock options as a signing bonus. These options will vest on January 1, 2005. The exercise price of the options will be the fair market value of Xerox common stock on the effective date of the grant as noted above.

Xerox Corporation
800 Long Ridge Road
Stamford, Connecticut 06904
Telephone 203.968.3553
Facsimile 203.968.3563

You will participate in the Mid Career Executive Hire program effective with the commencement of employment. This program provides for special retirement income that recognizes that you are joining Xerox as an experienced executive. Under the Supplemental Executive Retirement Plan (SERP), following five (5) continuous years of employment and upon retirement from the Company at age 60 or later, a calculation will be made to determine the percent of your five highest years of eligible compensation (five-high) that will be paid to you in monthly SERP benefits based on 2.5% of five-high per completed years of service with the Company. This plan results in a minimum retirement benefit of 12.5% of the high-five once an employee has completed five years of service and reached age 60.

After five years of service, the retirement benefit increases 2.5% per year, e.g., at ten years of service, the benefit is 25%. The maximum retirement amount is 50% after 20 years of service. You will be granted two years of service credit for each year of actual service with Xerox Corporation, enabling you to vest in SERP after 2.5 years of service. Eligible compensation includes base salary and annual incentive bonus payments. This benefit is reduced by benefits payable from other Xerox retirement plans, including the Xerox Retirement Income Guarantee Plan and the Unfunded Retirement Income Guarantee Plan and by a portion of estimated social security benefits.

You will be eligible for modified benefits under the Company's "Transferred Employee Relocation Program (HR 207.2)". You will receive a lump sum payment of \$90,000, less applicable withholding taxes. The lump sum payment will be in lieu of a cost of moving allowance, expenses relating to the sale of your current residence and expenses relating to movement of your household effects. The lump sum will also cover any expenses you may incur related to interim living and/or home finding trips.

The Company will provide you with a Severance Agreement, in the Company's customary form, to become operative in the event that your employment is terminated in connection with a Change in Control, as defined. The agreement provides severance payments of two times cash compensation (base pay plus target bonus) and welfare benefits continuation for two years should both events occur (i.e. change in control and termination). Payment will include gross-up for excise tax liability.

Upon termination of your employment by the Company for any reason, other than for cause, during the first 24 months of employment, you will be eligible for 12 months of salary continuance, a pro-rata bonus for the year in which the termination occurs for the period of time actively employed during such year as well as a continuation of health care benefits. These termination benefits are contingent upon your signing a release of claims as determined by the Company upon your termination.

You will also be eligible for the following programs:

- An annual executive expense allowance of \$19,000,
- An annual allowance for financial planning and tax preparation assistance of \$12,500,
- Purchase of additional group term life insurance up to a maximum of \$4 million,
- The annual Executive Physical and Health Program, and
- Vacation totaling four weeks per year to be earned in accordance with the Xerox vacation policy.

Limousine service and the corporate aircraft will be available to you when traveling on Company business in accordance with Company policy. The policy relative to "Tax Law Changes Affecting Taxability of Spousal Travel on Corporate Aircraft" will be sent to you.

As you know, as an "executive officer" as defined, you will be subject to Securities and Exchange Commission (SEC) reporting requirements, and to the SEC's rules related to the valuation and disclosure of executive compensation perquisites. You will receive communications on these topics directly from Leslie F. Varon, Vice President and Secretary of the Company.

The Xerox Total Pay philosophy recognizes pay is more than just your salary. On your start date, you will be eligible to participate in a comprehensive benefits package that includes medical, dental, vision care, life and accident insurance. In addition, you will be able to purchase subsidized disability income protection prior to meeting the eligibility criteria for regular coverage (12 months of active service).

To help you make your benefits decisions, we offer an online web tool that compares benefit plan offerings and costs. You can also use this tool to pre-enroll in the various Xerox health and welfare benefit programs and the 401(k) savings plan. Any benefit elections you indicate online will not take effect until a job position has been accepted and all Company requirements have been met. We encourage you to log on to your benefits resources site at <http://resources.hewitt.com/xerox>, create your password and enroll in the benefits programs through this online process as soon as the above requirements have been met.

This offer will remain in effect through June 1, 2002, and is contingent upon your election as a Corporate Officer by the Xerox Board of Directors and approval of all of the foregoing compensation arrangements, awards and grants by the ECBC, your signing of a release for pre-employment background checks (criminal, credit, etc.), your signing of a Proprietary Information and Conflict of Interest Agreement, your successfully passing a pre-employment drug-screening test and the effective completion of appropriate reference checks. Of course, the foregoing description of awards, plan benefits and Severance Agreement is subject to the terms of the respective awards, plans and Agreement.

Please notify me of your acceptance and ensure that all requirements in the Addendum are met before we agree on a mutually acceptable start date. All originals, including those noted on the Addendum, should be returned me. I look forward to your acceptance of the offer. I know you will make significant contributions to Xerox Corporation and will be a great addition to my senior team.

If you have any questions, please feel free to contact me or Hector Motroni at 203-968-4051.

Sincerely,

/s/ ANNE

AMM/r/s

cc: HJMotroni
PMNazemetz

I Accept Decline this offer:

/s/ L. A. ZIMMERMAN
Signature

5/21/02
Date

AMENDED AND RESTATED LOAN AGREEMENT
Dated as of October 21, 2002
between
XEROX LEASE FUNDING LLC
as Borrower,
and
GENERAL ELECTRIC CAPITAL CORPORATION,
as Lender

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AMENDED AND RESTATED LOAN AGREEMENT (this "Agreement"), dated as of October 21, 2002, between XEROX LEASE FUNDING LLC, a Delaware limited liability company ("Borrower"), and GENERAL ELECTRIC CAPITAL CORPORATION, a Delaware corporation, as lender ("Lender").

RECITALS

These Recitals shall be construed as part of this Agreement.

A. Borrower and Lender are parties to a Loan Agreement dated as of November 20, 2001 (as amended to the date hereof, the "Existing Loan Agreement").

B. Pursuant to the terms of the Existing Loan Agreement, Lender has made the Existing Term Loans (as defined below) to Borrower.

C. Pursuant to the Framework Agreement (as defined below), Borrower has agreed to provide Lender the first opportunity to make loans against certain Financing Contracts (as defined below) on the terms and conditions set forth in the Program Agreement (as defined below) and Lender has agreed, on the terms and conditions set forth herein, to make such loans.

D. Borrower has requested that Lender amend and restate the Existing Loan Agreement on the terms and conditions set forth herein (i) to amend the terms and conditions of the Existing Term Loans and (ii) in order to effect the agreements referred to in Recital C above, to make Additional Incremental Term Loans (as defined below) to Borrower, in an aggregate principal amount not exceeding for all such Additional Incremental Term Loans at any time outstanding, the Maximum Amount (as defined below).

E. Borrower and Lender do not intend that this Agreement constitute a novation of the Existing Term Loans or any of the Obligations (as defined below) under the Existing Loan Agreement or evidence any repayment of such Existing Term Loans or Obligations, but that this Agreement only amend and restate in its entirety the Existing Loan Agreement and provide for Additional Incremental Terms Loans as set forth herein.

F. Capitalized terms used in this Agreement shall have the meanings ascribed to them in Annex A, and, for purposes of this Agreement, the rules of construction set forth in Annex A shall govern. All Appendices hereto, or expressly identified to this Agreement, are incorporated herein by reference, and taken together with this Agreement, shall constitute but a single agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I AMOUNT AND TERMS OF CREDIT

1.1. Credit Facilities.

(a) Existing Term Loan Facility. Schedule 1.1(a)(i) sets forth the original principal amount of the Term Loans heretofore made by Lender to Borrower under the Existing Loan Agreement (each, an "Existing Term Loan" and collectively the "Existing Term Loans"), each of which is evidenced by the corresponding promissory note in the form of Exhibit 1.1(a)(ii) or 1.1(a)(iii) of the Existing Loan Agreement (each an "Existing Term Note" and collectively, the "Existing Term Notes"). From and after the Effective Date, the Existing Term Loans shall be governed by the terms of this Agreement.

(b) Additional Incremental Term Loan Facility. Lender agrees, on the terms and conditions set forth herein, to make loans (each an "Additional Incremental Term Loan") to Borrower, on each Incremental Closing Date during the period from the Effective Date until a Termination Event shall have occurred, in a principal amount equal to the Funding Amount for such Additional Incremental Term Loan; provided, in no event shall Lender be obligated to make any Additional Incremental Term Loan hereunder if the then aggregate outstanding principal amount of all Additional Incremental Term Loans, together with the principal amount of the proposed Additional Incremental Term Loan, would exceed the Maximum Amount. All Additional Incremental Term Loans shall be evidenced by one promissory note in the form of Exhibit 1.1(b) (the "Additional Term Note" and collectively with the Existing Term Notes, the "Notes").

(c) Borrowing Procedures for Additional Incremental Term Loans.

(i) Additional Incremental Term Loans shall be made only on an Incremental Closing Date unless otherwise agreed by Lender.

(ii) Not later than the fifth (5th) Business Day of each calendar month, Borrower shall deliver (or cause Portfolio Servicer to deliver) to Lender a Data Certification for a proposed Additional Incremental Term Loan.

(iii) Upon Lender's receipt of a Data Certification, Lender shall have five (5) Business Days in which to review such Data Certification and deliver to Borrower an Exception Notice or Acceptance Notice. If Lender determines that (a) any of the components or calculations contained in or delivered in connection with such Data Certification are erroneous, inaccurate or incomplete or (b) in Lender's reasonable judgment any of the components or calculations contained in or delivered in connection with such Data Certification would cause any of the conditions precedent set forth in Section 2.4 and 2.5 not to be satisfied, then in either such case Lender shall give the Borrower and the Portfolio Servicer notice thereof (which may, at Lender's option, be telephonic or written, an "Exception Notice"), specifying in reasonable detail, to the extent known to Lender and practicable, the nature of such errors, inaccuracies, omissions and/or other matters with a view to assisting Borrower in identifying the actions, if any, required to cure the same. If Lender does not have a basis to deliver an Exception Notice, then Lender shall deliver to Borrower written notice of its acceptance thereof (an "Acceptance Notice"); provided that if Lender has not completed its determination as to whether it has a basis to deliver an Exception Notice, then prior to issuing an Acceptance Notice Lender shall be entitled to request (either telephonically or in writing) a five (5) Business Day extension of the time frame in which Lender must deliver either an Exception Notice or Acceptance Notice, and Borrower agrees not to unreasonably withhold its consent (which may be oral or written) to any such extension requested by Lender. If Lender fails to deliver either an Exception Notice or Acceptance Notice on or prior to the fifth Business Day (or if such time period is extended pursuant to the foregoing sentence, tenth Business Day) after Lender's receipt of a Data Certification, then such Data Certification shall be deemed rejected by Lender. Nothing in this Section 1.1(c)(iii) shall limit Borrower's right to submit a subsequent Data Certification with respect to Financing Contracts covered by a Data Certification deemed rejected pursuant to the preceding sentence. Except as required to be disclosed in an Exception Notice, Lender's failure to identify any (or each and every) error, inaccuracy or omission in an Exception Notice, or in connection with Lender's acceptance of a Data Certification, shall not constitute a waiver of Lender's rights or remedies under this Agreement or any other Related Transaction Document.

(iv) If Lender gives Borrower an Exception Notice, Borrower shall (or shall cause Portfolio Servicer to) correct the previously delivered Data Certification with respect to the matters identified in such Exception Notice and submit a modified Data Certification to Lender as soon as practicable, but in any event no later than five (5) Business Days after Borrower's receipt of such Exception Notice, whereupon the process set forth in subsections (ii) and (iii) and this subsection (iv) shall be repeated until Lender accepts the Data Certification pursuant to an Acceptance

Notice. Such corrections shall include, without limitation, (x) deleting Financing Contracts from such Data Certification, but only if any matters identified with respect to such Financing Contracts cannot be cured after Borrower's (or Xerox's) use of commercially reasonable efforts to cure such matters without deleting such Financing Contracts and (y) in the case of correcting any potential failure to satisfy the conditions precedent set forth in clauses (d), (e) or (v) of Section 2.4, as applicable, deleting Financing Contracts from such Data Certification such that after giving effect to such deletions the conditions precedent set forth in clauses (d), (e) or (v) of Section 2.4, as applicable, will be satisfied. In connection with the correction of any Data Certification, Borrower shall use its commercially reasonable efforts to maximize the principal amount of the proposed Additional Incremental Term Loan to which such Data Certification relates.

(v) Within two (2) Business Days after Lender has accepted a particular Data Certification Borrower shall, subject to Section 1.1(d), deliver to Lender a Borrowing Request (each such date of delivery, a "Borrowing Request Delivery Date"), based on such accepted Data Certification specifying an Incremental Closing Date which is three (3) Business Days after the date of delivery of such Borrowing Request.

(vi) If Borrower determines that any condition precedent set forth in (A) Section 2.4 will not be satisfied as of the relevant Borrowing Request Delivery Date or (B) Section 2.5 will not be satisfied as of the relevant Incremental Closing Date, then, in either case, concurrently with Borrower's delivery of a Borrowing Request pursuant to Section 1.1(c)(v), Borrower shall deliver to Lender a written request for a waiver of such condition(s) precedent specifying in reasonable detail the event(s) or circumstance(s) giving rise to the non-satisfaction of such condition(s) precedent (a "Waiver Request").

(vii) If Borrower delivers a Waiver Request to Lender in accordance with the terms set forth above, then Borrower shall not be liable for any charges and assessments referred to in Section 1.1(c)(ix) in respect of the related Borrowing Request. If Lender grants the relief set forth in the Waiver Request (or such other relief as may be agreed to in writing by Borrower and Lender) then (A) the Incremental Closing Date specified in such Borrowing Request shall be automatically extended to the third Business Day after Lender grants such relief; (B) the Borrowing Request Delivery Date (including, without limitation, for purposes of Section 2.4) shall be deemed to be the date Lender grants such relief; and (C) all representations, warranties and certifications in the related Borrowing Request shall be deemed made as of such new Borrowing Request Delivery Date. If Lender does not grant the waivers set forth in the Waiver Request (or other relief as may be agreed to in writing by Borrower and Lender) on or prior to the proposed Incremental Closing Date set forth in the related Borrowing Request, then such Borrowing Request shall be deemed terminated as of such proposed Incremental Closing Date; provided that, except as otherwise expressly provided in the Program Agreement, (x) Lender shall not be deemed to forfeit its rights under the Program Agreement with respect to the Candidate Financing Contracts covered by such Borrowing Request, (y) Lender shall not be released of its obligations to make Term Loans relating to such Candidate Financing Contracts if included in subsequent Data Certifications in accordance with the terms and conditions of this Agreement (including Sections 2.4 and 2.5) and (z) Borrower shall be entitled and obligated to include such Candidate Financing Contracts in any subsequent Incremental Data Certification and related Borrowing Request submitted by Borrower under this Section 1.1.

(viii) Upon satisfaction of all of the conditions set forth above and in Sections 2.4 and 2.5, as applicable, Lender shall make the Additional Incremental Term Loan specified in such Borrowing Request in a principal amount equal to the Funding Amount for such Additional Incremental Term Loan.

(ix) Except as set forth in Section 1.1(c)(vii), once executed and delivered a Borrowing Request shall be irrevocable by Borrower. In addition to all amounts required to be paid by Borrower pursuant to Section 1.4, Borrower shall compensate Lender for any and all charges or

assessments imposed by Lender on its Vendor Financial Services operating business as a result of the failure of a proposed Term Loan to be funded on the date specified therefor in an irrevocable Borrowing Request related thereto for any reason (other than as a result of a wrongful refusal by Lender, in violation of the terms of this Agreement, to make the Term Loan in accordance with the terms hereof); provided that Borrower's liability for such charges or assessments shall not exceed the amount of interest that would have accrued on the principal amount of such proposed Additional Incremental Term Loan specified in the Borrowing Request relating thereto (with such interest to be calculated at the proposed Discount Rate specified in the Borrowing Request relating to such proposed Additional Incremental Term Loan) during the period from and including the date of the proposed Incremental Closing Date for such proposed Additional Incremental Term Loan as specified in the related Borrowing Request to but excluding the next Business Day occurring after such proposed Incremental Closing Date. Furthermore, Borrower shall not be liable for any such charges or assessments unless Lender makes a demand therefor within ten (10) Business Days after the proposed Incremental Closing Date that describes the calculation and amount of such assessments.

(d) Minimum Funding Amounts. Notwithstanding anything to the contrary contained in this Agreement, (i) Borrower shall not be obligated to submit any Borrowing Request with respect to any Incremental Data Certification unless the principal amount of the proposed Additional Incremental Term Loan is at least \$10,000,000; and (ii) Lender shall not be obligated to make any Additional Incremental Term Loan unless the principal amount thereof is at least \$2,500,000. If Borrower or Lender exercise their rights under this Section 1.1(d), Borrower shall not be excused from its obligation to deliver the related Data Certification as provided in Section 1.1(c)(ii) and all Financing Contracts covered by such Data Certification must be included in the next Data Certification required to be submitted by Borrower pursuant to Section 1.1(c)(ii).

(e) Excluded Financing Contracts. If Lender waives one or more elements of the definition of Excluded Financing Contract with respect to any Candidate Financing Contract, Lender shall be deemed to have also waived any breach of the representations, warranties and covenants as to such Candidate Financing Contract made in any Related Transaction Document, to the extent (and solely to the extent) such breach is based on the existence of the element so waived. A waiver of any such element, representation, warranty or covenant as to any particular Candidate Financing Contract shall not be deemed a waiver of any other element or a waiver with respect to any other Candidate Financing Contract.

(f) Reliance on Certifications and Requests. Lender shall be entitled to rely upon, and shall be fully protected in relying upon, any Borrowing Request or Data Certification purporting to be executed by an Authorized Officer of Borrower and believed by Lender to be genuine. Lender may assume that each Person purporting to be an Authorized Officer of Borrower executing and delivering such a request was duly authorized, unless the responsible individual acting thereon for Lender has actual knowledge to the contrary.

1.2. Use of Proceeds.

(a) Borrower shall utilize the proceeds of the Existing Term Loans (net of the proceeds otherwise required to be applied pursuant to Sections 1.3(b) and 1.4(b)) solely to finance the payments required to be made by Borrower to Xerox pursuant to Section 2.01 of the Sale and Contribution Agreement in respect of the Tier I Transfers made on the applicable Closing Date.

(b) Borrower shall use the proceeds of each Additional Incremental Term Loan solely to make the payments required to be made by Borrower to Xerox pursuant to Section 2.01 of the Sale and Contribution Agreement in respect of the Tier I Transfers made on the Closing Date of such Additional Incremental Term Loan.

1.3. Cash Management System

(a) Establishment and Maintenance of Accounts.

(i) Payment Account and Related Accounts. On or before the Initial Closing Date, each of the Lockboxes, Lockbox Deposit Accounts, Lockbox Concentration Account and the Payment Account shall have been established in accordance with the terms of the Lockbox Account Agreement (as in effect on the Initial Closing Date) and Payment Account Agreement (as in effect on the Initial Closing Date), as applicable, and the Collateral Agent shall have legal title to each of the Lockboxes, Lockbox Deposit Accounts, Lockbox Concentration Account and the Payment Account for the benefit of the Beneficial Owners (as of the Initial Closing Date), and each such agreement shall be in full force and effect.

(ii) GE Capital Control Account. On or before the Initial Closing Date, Borrower shall have established an account with Citibank, N.A. in the name of Borrower (the "GE Capital Control Account") under account number 795253 and with respect to which Lender has sole dominion and control and a perfected, first priority security interest therein and the funds on deposit therein pursuant to the Deposit Account Control Agreement (as in effect on the Initial Closing Date).

(iii) Other Monetization Accounts. On or before the Initial Closing Date, each of the Monetization Accounts and the Controlled Accounts (other than the GE Capital Control Account) shall have been established in accordance with the terms of the Allocation Agreement.

(b) Funding of the Holdback Account. (1) On the Initial Closing Date, pursuant to the letter of direction delivered by Borrower pursuant to Section 2.1(l) of the Existing Loan Agreement, Lender caused \$75 million of the proceeds of the Initial Term Loan to be deposited in the Holdback Account.

(ii) On the first Incremental Closing Date, pursuant to the letter of direction delivered by Borrower pursuant to Section 2.3(i) of the Existing Loan Agreement, Lender caused \$40 million of the proceeds of such Incremental Term Loan to be deposited in the Holdback Account.

(iii) On the second Incremental Closing Date, pursuant to the letter of direction delivered by Borrower pursuant to Section 2.3(i) of the Existing Loan Agreement, Lender caused \$35 million of the proceeds of such Incremental Term Loan to be deposited in the Holdback Account.

(c) Return of Funds in the Controlled Accounts. On the Termination Date, Lender shall cause all funds then on deposit in the Controlled Accounts (other than any funds necessary to pay third party service and supply providers through the Termination Date, or, if later, through the earlier to occur of (X) the date at which Lender may terminate the contract(s) with such third party service or supply providers without penalty and (Y) the date which is one (1) year following the Termination Date) to be transferred to the MPE 1 Account.

1.4. Interest, Fees and Principal

(a) Interest Rate. Interest shall accrue on each outstanding Term Loan at a rate per annum equal to the Discount Rate specified in the Initial Borrowing Request or Incremental Borrowing Request, as applicable, related thereto.

(b) Fees. (i) Borrower has paid to Lender on the Initial Closing Date a non-refundable origination fee equal to 0.65% of the amount of the Initial Term Loan made by Lender.

(ii) Borrower has paid to Lender on each Incremental Closing Date occurring prior to the Effective Date, a non-refundable origination fee equal to (a) 0.65% of the amount of the Term Loan made by Lender on such Closing Date minus (b) the sum of the Fee Credit Amounts (calculated as of the Tagging Date relating to the relevant Replacement Financing Contracts) for all Replacement Financing Contracts listed on the Statement of Cash Flows for such Incremental Closing Date and which were acquired by Borrower from Xerox on such Incremental Closing Date.

(c) Application of Monthly Aggregate Payment Amount. With respect to each outstanding Term Loan, on each Actual Application Date, Lender shall cause the Monthly Aggregate Payment Amount to be applied or distributed from the GE Capital Control Account as follows:

(i) if, as of such Actual Application Date, no Turbo Event shall have occurred and be continuing:

first, to all accrued and unpaid interest on such Term Loan for the Applicable Interest Period (and any prior Applicable Interest Period(s));

second, to the outstanding principal balance of such Term Loan to the extent necessary to reduce the outstanding principal balance thereof to the corresponding Targeted Principal Balance for such Term Loan as of the immediately preceding Determination Date (after giving effect to any adjustment to such Targeted Principal Balance based on the information contained in the related Settlement Report);

third, to all accrued and unpaid interest on each other Term Loan;

fourth, to the outstanding principal balance of each other Term Loan to the extent necessary to reduce the outstanding principal balance thereof to the corresponding Targeted Principal Balance for such Term Loan as of the immediately preceding Determination Date (after giving effect to any adjustment to such Targeted Principal Balance based on the information contained in the related Settlement Report); and

fifth, to the MPE 1 Account;

provided, however, if sufficient funds are not available to fund all payments to be made in respect of any category of Obligation described in the third or fourth clauses above, the available funds being applied to such Obligations shall be allocated to the payment of such Obligations on a Term Loan-by-Term Loan basis, beginning with the oldest outstanding Term Loan and continuing thereafter in chronological order of the outstanding Term Loans, based on the date on which each Term Loan was advanced.

(ii) if, as of such Actual Application Date, a Turbo Event shall have occurred and be continuing, then first as set forth in clauses first through fourth of subclause (i) above, and thereafter:

first, to the remaining outstanding principal balance of all outstanding Term Loans until each such Term Loan has been paid in full;

second, to any other Obligations then due and owing; and

third, to the MPE 1 Account;

provided, however, if sufficient funds are not available to fund all payments to be made in respect of any category of Obligation described in the first clause above, the available funds being applied to any such Obligations shall be allocated to the payment of such Obligations on a Term Loan-by-Term Loan basis, beginning with the oldest outstanding Term Loan and continuing thereafter in chronological order of the outstanding Term Loans, based on the date on which each Term Loan was advanced; and provided further if Lender affirmatively waives in writing the failure of Borrower to have satisfied any condition precedent set forth in Sections 2.4 or 2.5 which failure also constitutes a Turbo Event, such Turbo Event shall be deemed, for purposes of this Section 1.4(c), to cease to be continuing.

(d) Computation of Interest. All computations of interest shall be made by Lender on the basis of a 365/366-day year, as applicable, in each case for the actual number of days occurring in the Applicable Interest Period for which such interest is payable. For purposes of computing interest on the Obligations as of any date, no deposits to the GE Capital Control Account shall be deemed received by Lender until applied in accordance with Section 1.4(c).

(e) Acceptance of Settlement Report. The acceptance by Lender of the Settlement Report after the Settlement Date to which it relates shall not be deemed to be a waiver by Lender of any failure by Borrower to perform any provision of this Agreement or any Default or Event of Default arising from such failure or otherwise related to the delivery of such Settlement Report.

(f) Maximum Lawful Rate. Notwithstanding anything to the contrary set forth in this Section 1.4, if a court of competent jurisdiction determines in a final order that the rate of interest payable hereunder exceeds the highest rate of interest permissible under law (the "maximum lawful rate"), then so long as the maximum lawful rate would be so exceeded, the rate of interest payable hereunder shall be equal to the maximum lawful rate; provided, however, that if at any time thereafter the rate of interest payable hereunder is less than the maximum lawful rate, Borrower shall continue to pay interest hereunder at the maximum lawful rate until such time as the total interest received by Lender is equal to the total interest that would have been received had the interest rate payable hereunder been (but for the operation of this paragraph) the interest rate payable since the applicable Closing Date as otherwise provided in this Agreement. Thereafter, interest hereunder shall be paid at the rate(s) of interest and in the manner provided in Sections 1.4(a) through (e), unless and until the rate of interest again exceeds the maximum lawful rate, and at that time this paragraph shall again apply. In no event shall the total interest received by Lender pursuant to the terms hereof exceed the amount that Lender could lawfully have received had the interest due hereunder been calculated for the full term hereof at the maximum lawful rate. If the maximum lawful rate is calculated pursuant to this paragraph, such interest shall be calculated at a daily rate equal to the maximum lawful rate divided by the number of days in the year in which such calculation is made. If, notwithstanding the provisions of this Section 1.4(f), a court of competent jurisdiction shall finally determine that Lender has received interest hereunder in excess of the maximum lawful rate, Lender shall, to the extent permitted by applicable law, promptly apply such excess in the order specified in Section 1.4(c) and thereafter shall refund any excess to Borrower or as a court of competent jurisdiction may otherwise order.

1.5. Loan Account and Accounting.

Lender shall maintain a loan account (the "*loan account*") on its books to record the borrowing of the Initial Term Loan and any borrowing of an Incremental Term Loan, all payments made by or on behalf of Borrower and all other debits and credits as provided in this Agreement with respect to the Term Loans or any other Obligations. All entries in the loan account shall be made in accordance with Lender's customary accounting practices as in effect from time to time. The balance in the loan account, as recorded on Lender's most recent printout or other written statement, shall, absent manifest error and subject to each of Borrower's and Lender's rights under the Allocation Agreement to receive Misapplied Proceeds and/or Misdirected Contract Payments which may affect the balance reflected in the loan account, be presumptive evidence of the amounts due and owing by Borrower under this Agreement; provided, that any failure to so record or any error in so recording shall not limit or otherwise affect Borrower's duty to pay the Obligations.

1.6. Indemnity.

(a) Borrower's Indemnification. Borrower shall indemnify and hold harmless each Indemnified Person from and against any and all Damages which may be suffered or incurred by any such Indemnified Person resulting from, arising out of, based on or relating to (i) credit having been extended, suspended or terminated under this Agreement (including by reason of Borrower's failure to satisfy any condition to lending set forth in Article II hereof) and the other Loan Documents, the administration of such credit and/or the enforcement of Lender's rights and remedies under the Related Transaction Documents (except that Borrower shall not be liable for any indemnification to an Indemnified Person to the extent that any indemnified liabilities result from that Indemnified Person's gross negligence, willful misconduct or violation of law) and (ii) any representations, warranties,

covenants and/or obligations set forth in any Related Transaction Document (other than those made by Lender) which have been breached or are otherwise unfulfilled, incorrect, untrue, misleading or inaccurate (as applicable).

(b) Lender's Indemnification. Lender shall indemnify and hold harmless each Indemnified Person from and against any and all Damages which may be suffered or incurred by such Indemnified Person resulting from, arising out of, based on or relating to, any breach of Lender's warranties set forth in Section 3A.1 or Lender's breach of contract arising from (i) any failure by Lender to perform its contractual obligations hereunder (except that Lender shall not be liable for any indemnification to any Indemnified Person to the extent that any indemnified liabilities result from that Indemnified Person's gross negligence, willful misconduct or violation of law) and (ii) any representations, warranties, covenants and/or obligations set forth in any Related Transaction Document (other than those made by any Transaction Party) which have been breached or are otherwise unfulfilled, incorrect, untrue misleading or inaccurate (as applicable).

(c) GENERAL LIMITATION. NO INDEMNIFIED PERSON SHALL BE RESPONSIBLE OR LIABLE TO ANY OTHER PARTY TO ANY LOAN DOCUMENT, ANY SUCCESSOR, ASSIGNEE OR THIRD PARTY BENEFICIARY OF SUCH PERSON OR ANY OTHER PERSON ASSERTING CLAIMS DERIVATIVELY THROUGH SUCH PARTY, FOR INDIRECT, PUNITIVE, EXEMPLARY OR CONSEQUENTIAL DAMAGES.

1.7 Taxes.

(a) Tax Forms. Lender shall provide Borrower with a completed IRS Form W-9 (or other applicable IRS forms) and all required renewals thereof (or any successor forms).

(b) Gross-Up. Any and all payments made or deemed made by Borrower hereunder or under the Notes shall be made, in accordance with this Section 1.7, free and clear of and without deduction for any and all present or future Taxes. If Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under the Notes, (i) the sum payable shall be increased as much as shall be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 1.7) Lender receives an amount equal to the sum it would have received had no such deductions been made, (ii) Borrower shall make such deductions, and (iii) Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(c) Other Taxes. Borrower shall be obligated to pay any stamp or documentary Taxes or any other excise Taxes arising from any payment made hereunder or under the Notes or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement, the Term Loans or Borrower's obligations hereunder.

(d) Borrower Indemnity. Borrower shall indemnify and, within ten (10) days of demand therefor, pay Lender for the full amount of Taxes paid by Lender on or with respect to this Agreement or the Notes, or with respect to any payment hereunder or under the Notes, and any liability (excluding penalties and additions to Taxes imposed solely as a result of Lender's willful misconduct, negligence or violation of law) arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally asserted. If Lender receives a refund of all or any part of indemnified Taxes paid by Borrower, Lender shall promptly pay Borrower the amount of such refund.

(e) Withholding Tax Liability. In the event that Lender assigns all or any portion of the Term Loans or grants a participation therein, Lender shall be the paying agent and "withholding agent" (within the meaning of section 1.1441-7 of the Treasury regulations) with respect to any such assignment or

participation (and, in addition, shall be responsible for any related federal information reporting). Lender shall indemnify and, within ten (10) days of demand therefor, pay Borrower for the full amount of any and all federal withholding taxes (including interest, penalties and additions to taxes) for which Borrower is liable as the "withholding agent" (within the meaning of section 1.1441-7 of the Treasury regulations) with respect to payments made on (i) any participation in the Term Loans granted by Lender or (ii) Term Loans that have been assigned by Lender.

(f) Tax Receipts. As soon as reasonably practicable after the payment of any indemnified Taxes by Borrower to a Governmental Authority, Borrower shall deliver to Lender the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably available to Borrower and satisfactory to Lender.

(g) After-Tax Basis. All payments under Section 1.7(d) or (e) shall be made on an "after-tax" basis, by increasing the amount of any payment as necessary so that after payment of all Taxes imposed on such payment the recipient receives an amount equal to the same it would have received had no Taxes been payable thereon.

(h) Assignees and Participants. The provisions and indemnity of this Section 1.7 do not apply to any Taxes, or any liability with respect thereto, which may be incurred by any successor, assignee (including without limitation any foreign branch, division or Affiliate of Lender) or participant of Lender to the extent the indemnity payable hereunder is greater than the amount that would have resulted if such successor, assignee or participant were GE Capital, a U.S. corporation.

(i) Notice/Contest. If Lender receives notice of a claim for Taxes the liability for which is imposed on Borrower pursuant to this Section 1.7, Lender shall provide prompt notice of such claim and shall contest, upon the request of and at the sole expense of Borrower, such claim for Taxes (but only if such contest may be made in good faith). Lender will not settle the subject claim without the prior written consent of Borrower, which consent shall not be unreasonably withheld or delayed, unless and to the extent Lender waives its right to payment of the amount owing by Borrower under this Section 1.7.

(j) Tax Treatment. Borrower and Lender agree, for federal and state income tax purposes, to treat the Term Loans as debt of Borrower and not to treat Lender as the owner of any Collateral or Equipment which is subject to a lease agreement (and not as entitled to any depreciation thereon). Neither Borrower nor Lender shall take any position for federal or state income tax purposes contrary to the foregoing (whether on its tax returns or otherwise) unless required to do so by a taxing authority.

1.8. Single Loan.

All Term Loans to Borrower and all of the other Obligations of Borrower arising under this Agreement and the other Loan Documents shall constitute one general obligation of Borrower secured, until the Termination Date, by all of the Collateral.

1.9. Earnings on Funds in Controlled Accounts.

The funds on deposit in each Controlled Account shall be invested in one or more Specified Investments; provided, that Lender shall not be liable for any loss of principal or income on such funds due to the choice of Specified Investments or any conversion of invested funds into cash when such funds are required to be released or applied to any obligation under a Related Transaction Document. No interest or other amounts earned on funds on deposit shall constitute Collateral. All interest or other amounts earned on funds in the Controlled Accounts shall be payable to Borrower and reported as

such for income tax purposes. On each Actual Application Date, prior to the application of funds in the GE Capital Control Account in accordance with Section 1.4(c), Lender shall cause all interest income (net of losses) actually earned on the funds on deposit in each Controlled Account (as determined by Portfolio Servicer and specified on the related Settlement Report) to be distributed to the MPE 1 Account.

1.10. Service Provider Preparation of Certain Documents.

Borrower hereby agrees that notwithstanding the fact that after the JV Operational Date, the JV will initially prepare the Incremental Data File and Statement of Cash Flows for Term Loans made after such date, Borrower is and continues to be responsible for the accuracy of each Incremental Data File, Statement of Cash Flows and the Incremental Data Certification and calculations, analyses, any notices or certifications related to any and all Term Loans (and each other component thereof) and any representation or warranty contained herein or in any other Loan Document relating thereto. Borrower hereby waives as a defense to any inaccuracy of any portion of any such Incremental Data File, Statement of Cash Flows, the Incremental Data Certification related thereto and calculations, analyses, any notices or certifications, or any representation or warranty contained herein or any other Loan Document with respect thereto, that such information was initially prepared by the JV. Nothing in this Section 1.10 shall be deemed to constitute a waiver of Borrower's rights or remedies against the JV under or pursuant to any Related Transaction Document.

ARTICLE II CONDITIONS PRECEDENT

2.1. Conditions to the Initial Term Loan.

Lender shall not be obligated to make the Initial Term Loan on the Initial Closing Date, or to take, fulfill, or perform any other action or obligation hereunder, until the conditions set forth in Sections 2.1 and 2.2 of the Existing Loan Agreement have been satisfied or provided for in a manner satisfactory to Lender, in Lender's sole discretion, or waived in writing by Lender.

2.2. Conditions to the Existing Incremental Term Loans.

Lender shall not be obligated to make any Existing Incremental Term Loan until the conditions set forth in Sections 2.2 and 2.3 of the Existing Loan Agreement have been satisfied or provided for in a manner satisfactory to Lender, in Lender's sole discretion, or waived in writing by Lender.

2.3. Conditions to Effective Date.

This Agreement shall not be effective, and Lender shall not be obligated to take, fulfill or perform any action or obligation hereunder, until the conditions set forth in this Section 2.3 have been satisfied or provided for in a manner satisfactory to Lender, in Lender's reasonable judgment, or waived by Lender in writing.

(a) Certain Documents. Lender shall have received, in each case, in form and substance reasonably satisfactory to it (i) this Agreement duly executed by Borrower and delivered to Lender; (ii) the Security Agreement duly executed by Borrower, together with all instruments, documents and agreements executed pursuant thereto; (iii) the Collateral Assignment duly executed by each Transaction Party which is a party thereto; (iv) the Lockbox Account Agreement duly executed by Borrower, MPE 2, the Collateral Agent and the Lockbox Bank; (v) the Payment Account Agreement duly executed by the Collateral Agent and all other Persons party thereto; (vi) the Allocation Agreement duly executed by Borrower, Lender and each other Transaction Party which is a party thereto; (vii) the

Program Agreement duly executed by Xerox, Borrower and MPE 2; (viii) the Deposit Account Control Agreement duly executed by Borrower and the Depository Bank; and (ix) any other agreement referenced in the definition of Related Transaction Documents which has been amended and/or restated in connection with the transactions contemplated by this Agreement, in each case duly executed by each party thereto;

(b) Charter and Good Standing Certificate. For each Transaction Party (other than XCC and the JV), such Person's (i) charter (or other equivalent organizational documentation) and all amendments thereto, (ii) good standing certificates (including verification of good standing as to franchise taxes other than with respect to Xerox) in its state of organization or formation, as applicable, each certified as of the Effective Date by such Person's corporate secretary or an assistant secretary as being in full force and effect without any modification or amendment;

(c) Bylaws and Resolutions. For each Transaction Party (other than XCC and the JV), (i) such Person's bylaws, operating agreement or limited partnership agreement, as applicable, together with all amendments thereto and (ii) resolutions of such Person's Board of Directors (or equivalent managers) and Stockholders, if required, approving and authorizing the execution, delivery and performance of the Loan Documents and the other Related Transaction Documents to which such Person is a party and the transactions to be consummated in connection therewith, each certified as of the Effective Date by such Person's corporate secretary or an assistant secretary as being in full force and effect without any modification or amendment;

(d) Incumbency Certificates. For each Transaction Party (other than XCC), signature and incumbency certificates of the officers of each such Person executing any of the Loan Documents or the other Related Transaction Documents, certified as of the Effective Date by such Person's corporate secretary or an assistant secretary as being true, accurate, correct and complete;

(e) Opinions of Nixon Peabody. Lender shall have received duly executed originals of opinions of Nixon Peabody LLP, counsel for the Transaction Parties, each in the forms set forth as Exhibits 2.3(e)(i) through (iii) hereto, respectively;

(f) Opinion of Xerox General Counsel. Lender shall have received duly executed originals of an opinion, in the form set forth as Exhibit 2.3(f) hereto, of the General Counsel or an Associate General Counsel of Xerox addressed to Lender;

(g) Opinion of Skadden Arps. Lender shall have received duly executed originals of opinions of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel for the Transaction Parties, in the form set forth as Exhibit 2.3(g) hereto;

(h) Opinions of Lender's Counsel. Lender shall have received duly executed originals of opinions of Weil, Gotshal & Manges LLP, counsel for Lender, each in the forms set forth as Exhibits 2.3(h)(i) through (iii) hereto, respectively; provided that neither Xerox nor any other Person (other than Lender) shall be entitled to rely on the opinions in the forms of Exhibits 2.3(h)(i) and (ii);

(i) Opinion of GE Capital Operations Counsel. Lender shall have received duly executed originals of an opinion, in the form set forth as Exhibit 2.3(i) hereto, of an Operations Counsel of GE Capital addressed to MPE 1 and Xerox;

(j) Security Interests and Code Filings. Lender shall have received evidence satisfactory to Lender that Lender has a valid and perfected first priority security interest in the Collateral, including (i) such documents duly executed by each Transaction Party (including financing statements under the Code and other applicable documents under the laws of any jurisdiction with respect to the perfection of

Liens) as Lender may request in order to perfect its security interests in the Collateral and (ii) copies of Code search reports listing all effective financing statements that name any Transaction Party as debtor, together with copies of such financing statements, none of which shall cover the Collateral, except for those relating to the Tier I Transfers and Equipment and Tax Payment Transfers;

(k) Borrower's Certificate. Lender shall have received a certificate in form and substance reasonably satisfactory to Lender, from an Authorized Person of Borrower, certifying that as of the date hereof:

(i) No Down-Grade of Index Debt. (i) All Index Debt of Xerox is rated at least "B+" by S&P and at least "B1" by Moody's, and (ii) Xerox has Index Debt rated by both S&P and Moody's,

(ii) No Litigation. No Litigation has been commenced against Xerox which would require Xerox, in accordance with GAAP as in effect as of September 11, 2001, to recognize a liability or post a reserve in respect thereof, in either case, in excess of \$500 million,

(iii) No Default. No Default or Event of Default under (and as defined in) the Existing Loan Agreement has occurred and is continuing, and

(iv) Approvals. Borrower and the other Transaction Parties have obtained all required consents and approvals of all Persons (including, without limitation, all requisite Governmental Authorities) to the execution, delivery and performance of this Agreement, the other Loan Documents and the other Related Transaction Documents;

(l) Required Lenders Confirmation. Lender shall have received a confirmation in the form attached hereto as Exhibit 2.3(l) pertaining to the Existing Revolving Credit Agreement and executed by the Required Lenders (as defined therein); and

(m) Other Documents. Lender shall have received such other certificates, documents and agreements respecting any Transaction Party as Lender may, in its reasonable discretion, request.

The execution and delivery by Borrower of this Agreement shall be deemed to constitute, as of the date of such execution and delivery, (X) a representation and warranty by Borrower that the statements set forth in clauses (i) through (iv) of subsection 2.3(k) are true and correct as of the date hereof and (Y) a reaffirmation by Borrower of the granting and continuance of Lender's Liens pursuant to the Collateral Documents.

2.4. Conditions to Each Additional Incremental Loan.

Lender shall not be obligated to make any Additional Incremental Term Loan (including without limitation, the initial Additional Incremental Term Loan) on any Closing Date if, either before or after giving pro forma effect to such Additional Incremental Term Loan, one or more of the conditions set forth in Section 2.5 and in this Section 2.4 shall not, as of the related Borrowing Request Delivery Date, have been satisfied or provided for in a manner satisfactory to Lender, in Lender's reasonable judgment, or waived in writing by Lender.

(a) Sale and Contribution Agreement. All of the representations and warranties set forth in subclauses (a)(iv) (as to the valid transfer of the Transferred Assets), (a)(xii), (a)(xiii) and (b) through (e) of Section 4.01 of the Sale and Contribution Agreement in respect of the Candidate Financing Contracts and related Transferred Assets to be acquired on such Incremental Closing Date by Borrower from Xerox pursuant to the Sale and Contribution Agreement shall be true and correct in all respects;

(b) Compliance with Credit Policy. Each of the Candidate Financing Contracts included in the relevant Data Certification shall have been approved by the Portfolio Servicer in compliance with the Credit Policy unless otherwise specifically approved in writing by Lender.

(c) Additional Related Transaction Documents. Lender shall have received, prior the making of the initial Additional Incremental Term Loan, the duly executed original of the Additional Term Note dated as of the Effective Date. Lender shall have received duly executed copies of each Related Transaction Document which was not executed and delivered to Lender as part of any prior Tier I Transfer or prior Equipment and Tax Payment Transfer and which relates to the Tier I Transfer or Equipment and Tax Payment Transfer to occur on the relevant Incremental Closing Date.

(d) Service Coverage Test. The Service Coverage Test in respect of the Candidate Financing Contracts (taken as a whole) has been satisfied in accordance with Section 4.01(c)(xxii) of the Sale and Contribution Agreement.

(e) Supply Coverage Test. The Supply Coverage Test in respect of the Candidate Financing Contracts (taken as a whole) has been satisfied in accordance with Section 4.01(c)(xxii) of the Sale and Contribution Agreement.

(f) Compliance with Section 1.1(c). Borrower shall have complied with its obligations under Section 1.1(c).

(g) Loss Rate Adjustments. The Portfolio Servicer shall have delivered to Lender and Borrower the information required to permit the Loss Rates to be adjusted in accordance with Section 6.20 and such Loss Rates applicable to such Candidate Financing Contracts shall have been adjusted in compliance with Section 6.20 (including as a result of any automatic adjustment mechanism contained in Annex B).

(h) Accuracy of Certain Representations and Warranties.

(i) Except for the representations and warranties expressly referred to in subsection (ii) below and Section 2.5(d) all of the representations and warranties of Borrower contained in this Agreement shall be true and correct (except to the extent that such representation or warranty expressly relates to an earlier date (in which case such representation or warranty shall be true and correct as of such earlier date)).

(ii) All of the representations and warranties contained in the following provisions shall be true and correct except to the extent that such representation or warranty expressly relates to an earlier date (in which case such representation or warranty shall be true and correct as of such earlier date) and except to the extent that the failure of any such representation or warranty to be true and correct would not give rise, individually or in the aggregate, to either a Prospective Collateral Defect or a Separateness/True Sale Concern: (A) clause (d) of Section 3.1, the last sentence of Section 3.4, the third sentence of Section 3.21, the second sentence of Section 3.22 and Section 3.24 and (B) to the extent applicable to Financing Contracts then comprising the Portfolio (and not the Candidate Financing Contracts) the second sentence of Section 3.4 and Sections 3.25 and 3.26.

(i) Related Transaction Document Representations and Warranties. Except as set forth in clauses (a) and (h) above and clause (o) below, all of the representations and warranties of any Transaction Party contained in the Related Transaction Documents (other than this Agreement) shall be true and correct in all material respects.

(j) Performance of Certain Loan Agreement Covenants. Borrower shall have performed, kept and observed all of the provisions of Section 1.2, Article IV (other than Section 4.01(e) thereof), clauses (a) and (b) of Section 5.1, Sections 5.3, 6.1, 6.3, 6.4, 6.5, 6.6, Section 6.8 through Section 6.17, clauses (a) and (b) of Section 6.18 and Section 6.19 and Borrower's charter shall not have been revoked or otherwise terminated by its state of organization.

(k) Compliance with Section 4.01(e). Borrower shall have performed, kept and observed all of the provisions of Section 4.01(e) if, in Lender's reasonable determination, the information requested thereunder by Lender which has not been timely delivered is necessary for Lender to determine whether any other condition precedent set forth in this Section 2.4 or Section 2.5 has been or will be satisfied as of the required date for satisfaction of such condition precedent.

(l) Compliance with Section 6.2. Borrower shall have performed, kept and observed all of the provisions of Section 6.2 unless any noncompliance therewith either (i) would not give rise to Prospective Collateral Defect or a Separateness/True Sale Concern or (ii) involves investments, loans, advances or acquisitions exceeding, in the aggregate, \$1 million.

(m) Compliance with Sections 6.7 and 6.18. Borrower shall not have created, or suffered a Lien to be created, in contravention of Section 6.7 or clause (c) of Section 6.18 unless (i) any such Lien was not created by or assented to by Borrower, (ii) the Person asserting or creating such Lien is not the PBGC, (iii) the Person asserting or creating such Lien has not taken any action to enforce such Lien, (iv) Borrower has created a reserve on its books for such Lien and (v) either (A) Borrower has, within thirty (30) days from the date such Lien was initially asserted or created, contested such Lien and diligently prosecuted such contest so that such Lien and any claim relating thereto has been released no later than the sixtieth (60th) day following the initial assertion or creation of such Lien or (B) if such Lien relates only to Financing Contracts then comprising the Portfolio (and not to Candidate Financing Contracts) such Lien would not, either individually or in the aggregate with all other Liens, give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern.

(n) Compliance with Certain Affirmative Covenants. Borrower shall have performed, kept and observed all of the provisions of clauses (c) and (d) of Section 5.1, and Sections 5.2 and 5.4 unless either (i) such noncompliance would not give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern or (ii) Borrower shall have failed to cure such noncompliance within thirty (30) days from the earlier to occur of (A) the knowledge of any Responsible Person of Borrower (or the knowledge of any Responsible Person of any other Transaction Party other than the JV) of such failure or neglect and (B) the date on which Lender provided notice of such failure or neglect to Borrower.

(o) Other Covenants in the Loan Agreement and Warranties in the Related Transaction Documents. Borrower shall have performed, kept and observed all other material provisions of this Agreement or of any of the other Loan Documents (other than provisions covered by any other subsection of this Section 2.4 or Section 2.5) except to the extent such noncompliance would not give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern.

(p) Certain Sale and Contribution Agreement Representations and Warranties. All of the representations and warranties made by Xerox in any of subsections (a)(iv) (as to the valid transfer of the Transferred Assets), (a)(xii), (a)(xiii), (b), (c), (d) and (e) of Section 4.01 of the Sale and Contribution Agreement shall be true and correct with respect to the Financing Contracts and Transferred Assets then comprising the Portfolio as of the date when made or deemed made except to the extent either (i) Xerox shall have repurchased from Borrower the Financing Contract to which such representation or warranty relates on the date on which any such repurchase may be required by the terms of the Sale and Contribution Agreement or (ii) Xerox shall have made the payments (if any) required by Article V or Section 6.04 of the Sale and Contribution Agreement on or before the date such payment is required by the Sale and Contribution Agreement.

(q) Judgments. There are no final judgments or judgments for the payment of money outstanding against Borrower which have not, within thirty (30) days after the entry thereof, been discharged or the execution thereof stayed or bonded pending appeal (unless such judgments have been discharged prior to the expiration of any such stay).

(r) Valid and Binding Agreements. Each material provision of each Loan Document and other Related Transaction Documents shall be valid, binding and enforceable in accordance with its terms (and no Transaction Party other than the JV (when acting at the direction or with the concurrence of GE Capital) shall have challenged the enforceability of any Loan Document or other Related Transaction Document or shall have asserted in writing, or engaged in any action or inaction based on any such assertion, that any provision of any of the Loan Documents or other Related Transaction Documents has ceased to be or otherwise is not valid, binding and enforceable in accordance with its terms) unless such failure, challenge or assertion would not give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern.

(s) Undertaking and Replacement Agreement. Xerox shall have performed, kept and observed the provisions of Section 6.01 of the Undertaking and Replacement Agreement within ten (10) Business Days after the date specified in such Section 6.01 for compliance therewith.

(t) Compliance with Other Related Transactions Documents. Except as otherwise specified in this Section 2.4, each Transaction Party other than Borrower or the JV shall have performed, kept and observed each of the provisions of the Loan Documents and other Related Transaction Documents (other than subsections (f) and (j) of Section 6.01 of the Sale and Contribution Agreement) except to the extent any noncompliance therewith would not give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern.

(u) Compliance with Section 6.01(k) of the Sale and Contribution Agreement. Xerox shall have performed, kept and observed the provisions of Section 6.01(k) of the Sale and Contribution Agreement.

(v) Concentration Percentage; Obligor Exposure. Either (i) the Concentration Percentage with respect to any Obligor under any Candidate Financing Contract does not exceed one percent (1%) or (ii) the Obligor Exposure for such Obligor does not exceed the dollar amount specified for such Obligor, if any, on Schedule 2.4(v) (as such Schedule may be modified from time to time by Lender in its sole discretion, by giving notice of such modification to Borrower).

The request and acceptance by Borrower of the proceeds of any Additional Incremental Term Loan shall be deemed to constitute, as of the date thereof, (i) a representation and warranty by Borrower that except to the extent described in a Waiver Request, the conditions in this Section 2.4 have been satisfied, (ii) a representation and warranty that any conditions imposed by Lender to the effectiveness of any waiver granted by Lender of a condition precedent described in a Waiver Request have been satisfied and (iii) a reaffirmation by Borrower of the granting and continuance of Lender's Liens pursuant to the Collateral Documents.

2.5. Closing Date Conditions to Each Additional Incremental Term Loan.

Lender shall not be obligated to make any Additional Incremental Term Loan on any Incremental Closing Date unless the conditions set forth in this Section 2.5 shall have been, as of such Incremental Closing Date, satisfied or provided for in a manner satisfactory to Lender, in Lender's reasonable judgment, or waived in writing by Lender.

(a) Defaults, Events of Default. No Default or Event of Default shall have occurred and be continuing.

(b) GE Termination Event. No GE Termination Event shall have occurred and be continuing.

(c) Title, Liens. Borrower shall have good and marketable title to each of the Candidate Financing Contracts free and clear of all Liens except Liens in favor of Lender and Permitted Liens and Lender shall have a valid, enforceable and first priority Lien thereon.

(d) Certain Representations. The representations and warranties set forth in Sections 3.1(a) and (c) and in Section 3.3 (other than clauses (e) and (g)) and Section 3.7 shall be true and correct in all respects.

(e) Material Agreements and Consents. The representations and warranties contained in clauses (e) and (g) of Section 3.3 shall be true and correct with respect to all periods prior to the instant Incremental Closing Date with respect to (A) all agreements referred to in such clause (e) that are material and (B) all consents or approvals required from any Person which is not also a Governmental Authority in respect of any material agreements referred to in clause (A) above, respectively.

(f) Certain Covenants. Borrower shall be in compliance with Sections 5.16, 6.1 and 6.14 of this Agreement.

(g) Tagging Date Current. No Candidate Financing Contract has a Tagging Date that precedes the related Incremental Closing Date by more than thirty (30) days.

(h) Delinquent Payments. Neither Xerox nor Borrower shall have failed to make any payment to Borrower or Lender due under any of the Related Transaction Documents within five (5) Business Days after written demand therefor from Lender, unless (i) Xerox or Borrower, as the case may be, is in good faith disputing its obligation to make such payments and gives Lender written notice thereof within five (5) Business Days of its receipt of such written demand and (ii) if the aggregate amount of all such disputed payments exceeds \$250,000, Xerox or Borrower, as applicable, shall, within two (2) Business Days after written request therefor from Lender, have deposited cash in an amount equal to the aggregate amounts so disputed into an escrow account (with documentation governing such account in form and substance reasonably satisfactory to Lender, the "Escrowed Funds"). Any and all of Borrower's rights in and to the Escrowed Funds shall constitute additional Collateral for the payment of the Obligations. Upon the resolution of the dispute pertaining to a particular amount of Escrowed Funds, such Escrowed Funds shall be released to the party legally entitled thereto (and if such party is Borrower or Lender, such funds shall be deposited directly from such escrow account into the Payment Account and allocated and distributed in accordance with the Allocation Agreement and Payment Account Agreement).

The request and acceptance by Borrower of the proceeds of any Additional Incremental Term Loan shall be deemed to constitute, as of the date thereof, (i) a representation and warranty by Borrower that the conditions in this Section 2.5 have been satisfied and (ii) a reaffirmation by Borrower of the granting and continuance of Lender's Liens pursuant to the Collateral Documents.

2.6. Cure.

If, at any date of determination, Borrower fails to satisfy a condition precedent set forth in Section 2.4 or 2.5, such condition precedent shall (solely for purposes of Sections 2.4 and 2.5, and without limiting Lender's rights under Section 5.14 or under any other Related Transaction Document, be deemed cured if and when the event or circumstance which is the basis for such failure shall cease to exist and the adverse consequences to Borrower and Lender arising therefrom shall have been reversed or remedied if necessary to the extent that, after giving effect to such reversal or remedy, such condition precedent would, on a pro forma basis after giving effect to such remediation, have been satisfied.

ARTICLE III REPRESENTATIONS AND WARRANTIES BY BORROWER

To induce Lender to make the Term Loans, Borrower makes the following representations and warranties to Lender and its successors and permitted assigns, each and all of which shall survive the execution and delivery of this Agreement.

3.1. Limited Liability Company Existence; Compliance with Law.

Borrower (a) is a limited liability company duly formed, validly existing and in good standing under the laws of the State of Delaware; (b) is duly qualified to conduct business and is in good standing in each other jurisdiction where its ownership or lease of property or the conduct of its business requires such qualification; (c) has the requisite power and authority and the legal right to own, pledge, mortgage or otherwise encumber and operate its properties, to lease the property it operates under lease and to conduct its business as now, and proposed to be, conducted; (d) has all necessary and material licenses, permits, consents or approvals from or by, and has made all material filings with, and has given all material notices to, all Governmental Authorities having jurisdiction, to the extent required for such ownership, operation and conduct; (e) is in compliance with its certificate of formation and operating agreement (and any other constituent documents); and (f) is in compliance in all material respects with all material applicable Requirements of Law.

3.2. Chief Executive Office; State of Organization; FEIN

As of each Closing Date, the current location of Borrower's chief executive office, state of organization and charter number are set forth in Disclosure Schedule (3.2). In addition, Disclosure Schedule (3.2) lists the federal employer identification number of Borrower and any trade names used or proposed to be used by Borrower.

3.3. Power, Authorization, Enforceable Obligations

The execution, delivery and performance by Borrower of the Related Transaction Documents to which it is a party, the creation of all Liens provided for therein and the consummation by Borrower of the transactions contemplated thereby: (a) are within Borrower's power; (b) have been duly authorized by all necessary or proper limited liability company action; (c) do not contravene any provision of Borrower's certificate of formation and operating agreement (or any other constituent documents); (d) do not violate any applicable Requirements of Law, or any order or decree of any court or Governmental Authority applicable to Borrower; (e) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by, any indenture, mortgage, deed of trust, lease, agreement, commitment or other instrument to which Borrower is a party or by which Borrower or any of its property is bound; (f) do not result in the creation or imposition of any Lien upon any of the property of such Person other than those in favor of Lender pursuant to the Loan Documents; and (g) do not require the consent or approval of, or the giving of notice to, the registration with, or the taking of any action in respect of, any Governmental Authority or any other Person, except those referred to in Section 2.3(k), all of which will have been duly obtained, made or complied with prior to and be effective as of each Closing Date. Each of the Related Transaction Documents to which Borrower is a party has been duly executed and delivered by Borrower and each such Related Transaction Document constitutes a legal, valid and binding obligation of Borrower enforceable against it in accordance with its terms.

3.4. Ownership of Property Liens.

Borrower does not own, lease or sublease any real property other than as permitted in the Separateness Agreement. Borrower has good and marketable title to all of its personal property and assets. As of each Closing Date, none of the properties and assets of Borrower are subject to any Liens other than Permitted Encumbrances, and there are no facts, circumstances or conditions known to Borrower that may result in any Liens other than Permitted Encumbrances. Borrower has received all deeds, assignments, waivers, consents, nondisturbance and attornment or similar agreements, bills of sale and other documents, and has duly effected all recordings, filings and other actions necessary to establish, protect and perfect its right, title and interest in and to all of its assets.

3.5. Labor Matters.

Borrower does not have any paid employees or paid officers.

3.6. Outstanding Stock; Investments.

All of the issued and outstanding Stock of Borrower is directly owned legally and beneficially by Xerox, and such Stock is validly issued, fully paid and nonassessable and is not subject to any Lien. There are no outstanding rights to purchase, options, warrants or similar rights or agreements pursuant to which Borrower may be required to issue, sell, repurchase or redeem any of its Stock or other equity securities. All of the issued and outstanding Stock of MPE 2 is directly owned legally and beneficially by Borrower and such stock is validly issued, fully paid and nonassessable and is not subject to any Lien. Borrower does not have any Subsidiaries other than MPE 2. Borrower has no investments other than Specified Investments and the Stock of MPE 2.

3.7. Government Regulation.

Borrower is not an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940. Borrower is not subject to regulation under the Public Utility Holding Company Act of 1935, the Federal Power Act, or any other federal or state statute that restricts or limits its ability to incur Indebtedness or to perform its obligations hereunder. The making of the Term Loans by Lender to Borrower, the application of the proceeds thereof and repayment thereof and the consummation of the Related Transactions do not violate any provision of any such statute or any rule, regulation or order issued by the Securities and Exchange Commission.

3.8. Margin Regulations.

Borrower is not engaged principally, or as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" as such terms are defined in Regulation U of the Federal Reserve Board as now and from time to time hereafter in effect (such securities being referred to herein as "Margin Stock"). Borrower does not own any Margin Stock, and none of the proceeds of the Term Loans or other extensions of credit under this Agreement have been used, directly or indirectly, for the purpose of purchasing or carrying any Margin Stock, for the purpose of reducing or retiring any Indebtedness that was originally incurred to purchase or carry any Margin Stock or for any other purpose that might cause any of the Term Loans or other extensions of credit under this Agreement to be considered a "purpose credit" within the meaning of Regulations T, U or X of the Federal Reserve Board.

3.9. Charges.

All tax returns, reports and statements, including information returns, required by any Governmental Authority to be filed by Borrower have been filed with the appropriate Governmental Authority and all Charges have been paid prior to the date on which any fine, penalty, interest or late charge may be added thereto for nonpayment thereof (or any such fine, penalty, interest, late charge or loss has been paid), excluding Charges or other amounts being contested in accordance with Section 5.2(b). If any Tax return filed by Borrower has been or is currently being audited by any applicable Governmental Authority, there are no material assessments currently outstanding or threatened material assessments in connection with such audited Tax returns. Borrower has not executed or filed with any Governmental Authority any agreement or other document extending, or having the effect of extending, the period for assessment or collection of any Charges. Borrower is not liable for any Charges: (a) under any agreement (including any tax sharing agreements) or (b) to its knowledge, as a transferee.

3.10. ERISA.

(a) Borrower does not sponsor or contribute to any “employee benefit plan” as such term is defined in Section 3(3) of ERISA. To Borrower’s knowledge, neither Xerox nor any ERISA Affiliate has failed to make any contribution or pay any amount due as required by either Section 412 of the IRC or Section 302 of ERISA or the terms of any Title IV Plan except to the extent the failure to make such contribution or pay such amount would not (i) subject Xerox or any ERISA Affiliate (other than Borrower) to any liability, in excess of \$1,000,000, singly or in the aggregate or (ii) subject Borrower to a lien described in Section 412(n) of the IRC. To Borrower’s knowledge, neither Xerox nor any ERISA Affiliate has engaged in a “prohibited transaction”, as defined in Section 406 of ERISA and Section 4975 of the IRC, in connection with any Plan of such ERISA Affiliate, that could subject Borrower or such ERISA Affiliate to a material tax on prohibited transactions imposed by Section 502(i) of ERISA or Section 4975 of the IRC.

(b) Except as set forth in Disclosure Schedule (3.10) or where the failure of any of the following to be true would not give rise to (A) a funding obligation required by Section 412 of the IRC or Section 302 of ERISA that Xerox or any of its ERISA Affiliates (other than Borrower) fails to timely pay, or a termination liability under Title IV of ERISA that Xerox or any of its ERISA Affiliates (other than Borrower) fails to timely pay, in either case, in excess of \$1,000,000, singly or in the aggregate, or (B) a lien described in Section 412(n) of the IRC against Borrower’s assets: (i) no Title IV Plan has any Unfunded Pension Liability; (ii) no ERISA Event or event described in Section 4062(e) of ERISA with respect to any Title IV Plan has occurred or is reasonably expected to occur; (iii) neither Xerox nor any ERISA Affiliate has incurred or reasonably expects to incur any liability as a result of a complete or partial withdrawal from a Multiemployer Plan maintained by Xerox or any ERISA Affiliate; (iv) within the last five (5) years no Title IV Plan of Xerox or any ERISA Affiliate has been terminated, whether or not in a “standard termination” as that term is used in Section 4041(b) (1) of ERISA, nor has any Title IV Plan of Xerox or any ERISA Affiliate (determined at any time within the last five (5) years) with Unfunded Pension Liabilities been transferred outside of the “controlled group” (within the meaning of Section 4001(a)(14) of ERISA) of Xerox or any ERISA Affiliate (determined at such time); and (v) except in the case of any ESOP, Stock of Xerox and all ERISA Affiliates makes up, in the aggregate, no more than ten percent (10%) of the fair market value of the assets of any Title IV Plan maintained by Xerox or any ERISA Affiliate measured on the basis of fair market value as of the latest valuation date of any such Plan.

3.11. No Litigation; Agent for Service of Process.

No Litigation is now pending or, to the knowledge of Borrower, threatened against any Transaction Party (a) that challenges any Transaction Party’s right or power to enter into or perform any of its obligations under the Related Transaction Documents to which it is a party, or the validity or enforceability of any Related Transaction Document or any action taken thereunder, (b) that seeks to prevent the consummation of the Related Transactions on an Incremental Closing Date or (c) that relates to or affects any of the Candidate Financing Contracts or related Transferred Assets. As of the Initial Closing Date there was, and as of the Effective Date there is, no Litigation pending or, to Borrower’s knowledge, threatened against Borrower. CSC Corporation is Borrower’s agent for service of process in the State of New York.

3.12. Brokers.

Except for Merrill Lynch, which was retained by Xerox in connection with transactions relating to Related Transactions occurring prior to the Effective Date only, no broker or finder brought about the obtaining, making or closing of the Related Transactions, and neither Borrower nor any Affiliate thereof (other than Xerox) has any obligation to any Person, including Merrill Lynch, in respect of any finder’s or brokerage fees in connection therewith.

3.13. Full Disclosure.

To the knowledge of an Authorized Officer of Borrower, after due inquiry, no material information contained in this Agreement, any of the other Loan Documents, or any of the other Related Transaction Documents, or any collateral reports or other written reports from time to time delivered hereunder or any written statement furnished by or on behalf of Borrower to Lender pursuant to the terms of this Agreement contains or will contain any material misstatement of a material fact or omits or will omit to state a material fact necessary to make the statements contained herein or therein not misleading in any material respect in light of the circumstances under which they were made.

3.14. Solvency.

Both before and after giving effect to (a) the Term Loans to be made on the Initial Closing Date and each Incremental Closing Date, (b) the disbursement of the proceeds of such Term Loans pursuant to the instructions of Borrower, (c) the consummation of the other Related Transactions, (d) the payment by Borrower of any dividends as permitted herein and (e) the payment and accrual of all transaction costs in connection with the foregoing, Borrower is and will be Solvent.

3.15. Liabilities.

Other than (a) the liabilities, commitments or obligations (whether absolute, accrued, contingent or otherwise) arising under or in respect of the Related Transaction Documents, (b) immaterial amounts due and payable in the ordinary course of business of a special-purpose company, (c) liabilities owing by Borrower to any Obligor for which Borrower is entitled to indemnification from the Portfolio Servicer and (d) liabilities not exceeding in the aggregate \$7.5 million for which Borrower is entitled to indemnification from Xerox, Borrower does not have any liabilities, commitments or obligations (whether absolute, accrued, contingent or otherwise), whether due or to become due.

3.16. Controlled Accounts.

Each of the Controlled Accounts is free and clear of any Lien (other than the Lien in favor of Lender).

3.17. Bulk Sales.

The execution, delivery and performance of the Related Transaction Documents do not require compliance with any "bulk sales" law by Borrower or any other Transaction Party.

3.18. Business.

Since its formation, Borrower has conducted no business other than (i) the acquisition of Transferred Assets from Xerox under the Sale and Contribution Agreement, (ii) the contribution of the Equipment, Sales Tax Payments and Uplift Payments to MPE 2 under the Contribution Agreement, (iii) the execution and delivery of the Related Transaction Documents to which it is a party and the consummation of the transactions contemplated thereby (including the borrowing of the Term Loans) and (iv) such other activities as are incidental to each of the foregoing.

3.19. Consideration for Transferred Assets.

(a) Borrower shall have given reasonably equivalent value to Xerox in consideration for each Tier I Transfer and no such transfer shall have been made for or on account of an antecedent debt owed by Borrower to Xerox. The purchases by and contributions to Borrower constitute valid and true sales and transfers for consideration (and not merely a pledge of the Transferred Assets for security purposes), and shall be effective protection against any claim by a creditor of Xerox to the Transferred Assets and no such Transferred Assets shall constitute property of Xerox.

(b) MPE 2 shall have given reasonably equivalent value to Borrower in consideration for the transfers made to it pursuant to the Contribution Agreement and no such transfer shall have been for or on account of an antecedent debt owed by MPE 2 to Borrower. The contributions to MPE 2 constitute valid and true sales and transfers for consideration (and not merely a pledge of the assets subject to each Equipment and Tax Payment Transfer for security purposes), and shall be effective protection against any claim by a creditor of Borrower to such assets and no such assets shall constitute property of Borrower.

3.20. Separate Existence.

Borrower is operated as an entity with assets and liabilities distinct from those of Xerox and MPE 2, and Borrower acknowledges that Lender is entering into the Loan Documents in reliance upon Borrower's identity as a separate legal entity from each of Xerox and MPE 2. From and after the date of its formation, Borrower has been and will be operated in such a manner as to comply with (a) the provisions of its constituent documents and (b) the Separateness Agreement.

3.21. Tier I Transfer.

The Sale and Contribution Agreement is the only agreement pursuant to which Borrower purchases or acquires Transferred Assets or any other assets. Borrower has furnished to Lender true, correct and complete copies of each Related Transaction Document to which Borrower is a party, each of which is in full force and effect. Neither Borrower nor any other Transaction Party is in default of any of its obligations under the Related Transaction Documents. Upon the purchase by or contribution to Borrower of each Financing Contract under the Sale and Contribution Agreement and prior to giving effect to any Equipment and Tax Payment Transfer, Borrower shall be the lawful owner of, and have good title to, the Transferred Assets, free and clear of any Liens (except for Permitted Encumbrances). All Transferred Assets are purchased without recourse to Xerox except as described in the Sale and Contribution Agreement.

3.22. Equipment and Tax Payment Transfer.

The Contribution Agreement is the only agreement pursuant to which Borrower transfers the Equipment, Sales Tax Payments and Uplift Payments or any other assets to MPE 2. Upon the contribution to MPE 2 of the Equipment, Sales Tax Payments and Uplift Payments under the Contribution Agreement, MPE 2 shall be the lawful owner of, and have good title to, the Equipment, Sales Tax Payments and Uplift Payments, free and clear of any Liens (except for Permitted Encumbrances). All Equipment, Sales Tax Payments and Uplift Payments are transferred without recourse to Borrower except as described in the Contribution Agreement.

3.23. Borrower's Tax Election.

Borrower has not made any election to be treated as a corporation and, consequently, it will be treated as a disregarded entity for United States federal income tax purposes.

3.24. No Violation of Law.

(a) Borrower owns and operates, and at all times since its acquisition thereof has owned and operated, each of the Transferred Assets (other than the Equipment, Sales Tax Payments and Uplift Payments transferred to MPE 2) in compliance with all Requirements of Law applicable to it, including but not limited to laws pertaining to usury, installment or conditional sales and sales financing, (b) neither the billing and collection nor enforcement of any Financing Contract or Credit Enhancement in accordance with the terms thereof has resulted or will result in the violation of any Requirement of

Law applicable to it, (c) Borrower has not received any written notice of violation of any Requirement of Law from any Governmental Authority relating to the acquisition, collection, administration or enforcement of any Financing Contract or Credit Enhancement and (d) Borrower is not subject to any judgment, writ, decree, injunction or order of any Governmental Authority relating to the foreclosure, acquisition or disposition of any Transferred Asset or, in each case, any transactions or activities incidental thereto.

3.25. Data Files; Statement of Cash Flows; Borrowing Request.

(a) The Data File delivered as a part of any Initial Data Certification or Incremental Data Certification, as applicable, is and on the relevant Closing Date will be, true, complete and correct in all respects as of the Tagging Date for the Financing Contracts included in such Data File.

(b) The Statement of Cash Flows delivered as a part of any Initial Data Certification or Incremental Data Certification, as applicable, is and on the relevant Closing Date will be true, complete and correct in all respects as of the Tagging Date for the Financing Contracts included in such Statement of Cash Flows.

(c) The calculations contained in any Data Certification and Borrowing Request delivered in connection with any Term Loan have been calculated in accordance with the terms of this Agreement.

3.26. Lien Priority.

The Liens granted to Lender pursuant to this Agreement and the other Collateral Documents are and will at all times be fully perfected first priority Liens in and to the Collateral described herein and therein.

ARTICLE III-A REPRESENTATIONS AND WARRANTIES BY LENDER

3A.1 To induce Borrower to enter into this Agreement, Lender makes the following representations and warranties to Borrower, each and all of which shall survive the execution and delivery of this Agreement:

(a) Power, Authorization, etc. The execution, delivery and performance by Lender of the Related Transaction Documents to which it is a party and the consummation by Lender of the transactions contemplated thereby: (i) are within Lender's power; (ii) have been duly authorized by all necessary or proper corporate action; (iii) do not contravene any provision of Lender's charter or by-laws (or any other constituent documents); (d) do not violate any applicable Requirements of Law, or any order or decree of any court or Governmental Authority applicable to Lender; (iv) do not conflict with or result in the breach or termination of, constitute a default under or accelerate or permit the acceleration of any performance required by, any indenture, mortgage, deed of trust, lease, agreement, commitment or other instrument to which Lender is a party or by which Lender or any of its property is bound; and (v) do not require the consent or approval of, or the giving of notice to, the registration with, or the taking of any action in respect of, any Governmental Authority or any other Person (other than the filing of any UCC-1 financing statements against Borrower).

(b) Enforceable Obligations. Each of the Related Transaction Documents to which Lender is a party has been duly executed and delivered by Lender and each such Related Transaction Document constitutes a legal, valid and binding obligation of Lender enforceable against it in accordance with its terms.

ARTICLE IV
NOTICE REQUIREMENTS

4.1. Notices .

(a) Borrower hereby agrees that from and after the Initial Closing Date and until the Termination Date, it shall deliver to Lender the following:

(b) Default Notices. As soon as practicable, and in any event within five (5) Business Days after an officer or manager of Borrower has actual knowledge of the existence of any Default or any Event of Default, telephonic or telecopied notice specifying the nature of such Default or Event of Default, including the anticipated effect thereof, which notice, if given telephonically, shall be promptly confirmed in writing on the next Business Day.

(c) Litigation. Promptly upon learning thereof, written notice of any Litigation commenced or threatened against Borrower or any allegation of criminal misconduct by Borrower.

(d) Revocations, Etc. Promptly upon learning thereof, copies of any notice that (i) any license, permits, charter registration or approval necessary for the conduct of Borrower's business has been or may be revoked, terminated, limited or modified in any adverse way or (ii) Borrower is to cease and desist any practice, procedure or policy employed by it in the conduct of its business.

(e) Adverse Claim. Immediately upon learning thereof, notice of any Adverse Claim made or asserted against any of the Financing Contracts then owned by Borrower.

(f) Other Documents. Within five (5) Business Days after receipt thereof, such other financial and other information respecting Borrower's business or financial condition as Lender shall, from time to time, reasonably request.

ARTICLE V
AFFIRMATIVE COVENANTS

Borrower agrees that from and after the Initial Closing Date and until the Termination Date:

5.1. Maintenance of Existence and Conduct of Business.

Borrower shall: (a) do or cause to be done all things necessary to preserve and keep in full force and effect its existence as a limited liability company and its rights, licenses, franchises and privileges under the laws of each jurisdiction where the ownership of its properties and the conduct of its business require such qualification; (b) continue to conduct its business substantially as now conducted or as otherwise permitted hereunder; (c) at all times maintain, preserve and protect all of its assets and properties used or useful in the conduct of its business, and keep the same in good repair, working order and condition in all material respects (taking into consideration ordinary wear and tear) and from time to time make, or cause to be made, all necessary or appropriate repairs, replacements and improvements thereto consistent with industry practices; and (d) transact business only in such corporate and trade names as are set forth in Disclosure Schedule (3.2).

5.2. Payment of Charges.

Subject to Section 5.2(b), Borrower shall pay and discharge or cause to be paid and discharged promptly all Charges payable by it, including (i) Charges imposed upon it, its income and profits, or any of its property (real, personal or mixed), (ii) lawful claims for labor, materials, supplies and services or otherwise, and (iii) all storage or rental charges payable to warehousemen or bailees, in each case, before any thereof shall become past due.

(a) Borrower may in good faith contest, by appropriate proceedings, the validity or amount of any Charges described in Section 5.2(a); provided, (i) adequate reserves with respect to such contest are maintained on the books of Borrower, in accordance with GAAP; (ii) no Lien shall be imposed to secure payment of such Charges (other than payments to warehousemen and bailees) that is superior to any of the Liens securing the Obligations and such contest is maintained and prosecuted continuously and with diligence and operates to suspend collection or enforcement of such Charges; (iii) none of the Collateral becomes subject to forfeiture or loss as a result of such contest; (iv) Borrower shall promptly pay or discharge such contested Charges and all additional charges, interest, penalties and expenses, if any, and shall deliver to Lender evidence reasonably acceptable to Lender of such compliance, payment or discharge, if such contest is terminated or discontinued adversely to Borrower or the conditions set forth in this Section 5.2(b) are no longer met; and (v) Lender has not advised Borrower in writing that Lender reasonably believes that nonpayment or nondischarge thereof could have or result in a Material Adverse Effect.

5.3. Books and Records; Access.

(a) Borrower shall keep, at its principal place of business, adequate books and records with respect to its business activities, separate from those of Xerox or any of its Affiliates, in which full, true and correct entries, reflecting all financial transactions, are made in accordance with GAAP and Requirements of Law.

(b) Borrower shall, during normal business hours, from time to time upon five (5) Business Days' prior notice, at Lender's sole expense, and as frequently as Lender determines to be appropriate, but not more than once during any three-month period if no Default or Event of Default then exists: (i) provide Lender and any of its officers, employees and agents (collectively, its "representatives") access to its properties, facilities, advisors and employees (including officers) of Borrower and to the Collateral, (ii) permit Lender, and any of its representatives, to inspect, audit and make extracts from Borrower's books and records and (iii) permit Lender, and its representatives, to inspect, review, evaluate and make test verifications and counts of the Collateral of Borrower. If a Default or Event of Default has occurred and is continuing, or if access is necessary to preserve or protect the Collateral as determined by Lender, Borrower shall provide such access during normal business hours and without advance notice. Borrower shall make available to Lender and its representatives, as quickly as is possible under the circumstances, originals or copies of all books and records that Lender or such representative may reasonably request; provided that if no Default or Event of Default then exists, Lender shall not make more than one such request in any three-month period. Borrower shall deliver any document or instrument necessary for Lender and its representatives, as Lender may from time to time reasonably request, to obtain Records from any service bureau or other Person that maintains Records for Borrower, and shall maintain duplicate Records or supporting documentation on media, including computer tapes and discs owned by Borrower; provided that if no Default or Event of Default then exists, Lender shall not make more than one such request in any three-month period. Notwithstanding the foregoing, in no event shall the provisions of this Section 5.3(b) abrogate or otherwise limit any rights of Lender to have access to any Transaction Party (including Borrower) and/or otherwise audit any Transaction Party (including Borrower) pursuant to the express terms of any other Related Transaction Document to which Lender is a party.

5.4. Compliance with Laws.

(a) Borrower shall comply in all material respects with all Requirements of Law applicable to it and to the Transferred Assets.

(b) Borrower shall cause the Portfolio Servicer to perform its obligations with respect to, and otherwise comply in all material respects with, the applicable Policies in regard to the Transferred Assets.

5.5. Intellectual Property.

Borrower will conduct its business and affairs without infringement of or interference with any intellectual property of any other Person in any material respect.

5.6. Further Assurances.

Borrower agrees that it shall, at its expense and upon request of Lender, duly execute and deliver, or cause to be duly executed and delivered, to Lender such further instruments and do and cause to be done such further acts as may be necessary or proper in the reasonable opinion of Lender to carry out more effectively the provisions and purposes of this Agreement or any other Loan Document.

5.7. Defense of Collateral.

Borrower shall defend the right, title, claim of possession and interest of Lender in, to and under the Collateral, whether now existing or hereafter created, against all claims of third parties claiming through or under Borrower, MPE 2 or Xerox. Borrower will duly fulfill all material obligations on its part to be fulfilled under or in connection with each item of Collateral and will do nothing to impair its rights or the rights of Lender in such Collateral. Borrower shall pay any property, excise, transfer or similar Taxes arising with respect to the Collateral or on account of the transactions contemplated by the Related Transaction Documents.

5.8. Purchase of Financing Contracts.

Borrower shall purchase Financing Contracts solely pursuant to the Sale and Contribution Agreement.

5.9. Collateral Records.

Borrower shall maintain and implement, or cause the Portfolio Servicer to maintain and implement, administrative and operating procedures (including, without limitation, an ability to recreate Records in the event of the destruction of the originals thereof consistent with the disaster recovery procedures of Xerox delivered to Lender prior to the Initial Closing Date), and keep and maintain, or cause to be kept and maintained, all Records and other information reasonably necessary or advisable for the collection of the Contract Payments and administration of the Transferred Assets.

5.10. Related Transaction Documents.

Borrower shall comply with the terms of, employ the procedures outlined in, and enforce the obligations of Xerox and MPE 2 under all of the Related Transaction Documents to which Borrower is a party.

5.11. Financing Contract Matters; Delivery of Settlement Report.

Borrower shall promptly remit to the Portfolio Servicer all notices, financial statements and other deliveries and information received by it from any Obligor under the Financing Contracts. Borrower shall deliver copies of all documents required by Xerox's credit or investment approval with respect to each Financing Contract to the Portfolio Servicer. Borrower shall cause the Portfolio Servicer to deliver, on each Settlement Date, the Settlement Report for the immediately preceding Settlement Period.

5.12. Redirection Notices.

With respect to any Obligor to whom Xerox shall not have delivered an Initial Monetization Invoice prior to the applicable Closing Date, Borrower shall, pursuant to the Initial Monetization Invoice issued

to such Obligor, direct such Obligor (by means of including the correct address for a Lockbox on the face of such invoice), to remit all Contract Payments and/or payments with respect to IM/Pooling Contracts invoiced to such Obligor on or after the date of such Initial Monetization Invoice (other than the Excluded Payments) in respect of such Obligor's Financing Contract to a Lockbox; provided that the fact that an Obligor has been given an option to remit its Contract Payment by means of (a) electronic funds transfer to either the EFT Lockbox Account or the EBPP Lockbox Account or (b) credit card to the Credit Card Lockbox Account shall not cause Borrower to be in violation of this Section 5.12 (except to the extent otherwise provided in the Program Agreement or the Sale and Contribution Agreement).

5.13. Deficiency Payments.

If Xerox shall not have deposited into the Payment Account the amount required to be paid by it pursuant to any of Section 2.17(b), Article V or Section 6.04 or Section 6.05 of the Sale and Contribution Agreement in respect of any Financing Contract, then Borrower shall, within one (1) Business Day after such payment was required to be paid into the Payment Account pursuant to the Sale and Contribution Agreement, deposit into the Payment Account an amount equal to the excess of the aggregate amount which would have been distributed to any of the Controlled Accounts in accordance with the terms of the Allocation Agreement and Payment Account Agreement if Xerox had made the required deposit over the amount, if any, deposited by Xerox into the Payment Account.

5.14. Indemnity for Gap Period.

Borrower shall indemnify and hold harmless each Indemnified Person from and against any and all Damages which may be suffered or incurred by such Indemnified Person resulting from, arising out of, based on or relating to, the failure by Borrower to satisfy, as of any Incremental Closing Date, any of the conditions precedent set forth in subsections (a) through (v) of Section 2.4, notwithstanding that, for purposes of Section 2.4, satisfaction of such conditions precedent are measured as of the Borrowing Request Delivery Date. The obligations of the Borrower under this Section 5.14 shall not be modified, affected or impaired in any way by, and Borrower hereby irrevocably waives as an excuse for performance of such obligations and as a defense to the indemnification provided herein, any knowledge (whether actual or constructive) of Lender that any such condition has not been satisfied as of any such Incremental Closing Date or the relevant Borrowing Request Delivery Date, unless affirmatively waived in writing by an authorized representative of Lender as of such date.

5.15. Separateness Opinion.

Upon the breach of any representation, warranty, or covenant in this Agreement that is the basis of a condition precedent set forth in Section 2.4 which is qualified by "Separateness/True Sale Concern," Borrower shall, if requested by Lender, engage Nixon Peabody LLP (or another law firm reasonably acceptable to Borrower and Lender) to review the relevant events, actions, circumstances, omissions or other items and to issue (or conclude that it cannot, consistent with its professional standards, issue) an opinion on which Lender may rely, in substantially the form of Exhibit 3.27 hereto. The issuance or failure to issue such an opinion shall not be conclusive as to whether a "Separateness/True Sale Concern" exists, but shall serve only to assist Lender in determining whether the relevant condition precedent has been satisfied.

5.16. Payment of Liabilities.

Borrower shall, within sixty (60) days after a liability becomes (a) a nondisputed liquidated sum or (b) a liquidated sum reduced to a judgment which is not then stayed, pay all liabilities described in clause (c) of Section 3.15.

ARTICLE VI
NEGATIVE COVENANTS

Borrower agrees that from and after the Initial Closing Date until the Termination Date:

6.1. Mergers, Subsidiaries, Etc.

Borrower shall not directly or indirectly, by operation of law or otherwise, (a) form or acquire any Subsidiary (other than MPE 2) or (b) merge with, consolidate with, acquire all or substantially all of the assets or Stock of, or otherwise combine with or acquire, any Person.

6.2. Investments; Loans and Advances.

Except as otherwise expressly permitted by this Section 6, Borrower shall not make or permit to exist any investment in or to any Person except that Borrower may (a) own Credit Enhancements, so long as such Credit Enhancements are subject to a first priority perfected security interest in favor of Lender and (b) hold or cause funds on deposit in any account referred to herein to be invested in Specified Investments. Except pursuant to Section 3.03(a) of the Transition Proceeds Agreement, under no circumstances shall Borrower make or permit to exist any loan or advance to any Person or acquire, by operation of law or otherwise, any Stock in any partnership or other entity or association in which any investor therein or holder of Stock thereof does not have limited liability.

6.3. Indebtedness.

Borrower shall not create, incur, assume or permit to exist any Indebtedness, except Indebtedness to Lender under this Agreement and the other Loan Documents.

6.4. Affiliate Transactions. Borrower shall not enter into or be a party to any transaction with any Affiliate of Borrower except:

(a) the transactions expressly contemplated by or in furtherance of the Related Transaction Documents; and

(b) to the extent not otherwise prohibited under this Agreement, other transactions in the nature of directors' fees upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in a comparable arm's length transaction with a Person not an Affiliate of Borrower.

6.5 Capital Structure and Business.

Borrower shall not (a) engage at any time in any business or business activity or own any assets other than (i) the acquisition and ownership of Transferred Assets pursuant to the Sale and Contribution Agreement, the disposition of Equipment, Sales Tax Payments and Uplift Payments pursuant to the Contribution Agreement, (ii) the transactions contemplated by this Agreement, including the borrowing of the Term Loans and (iii) any activity incidental to the foregoing and necessary or convenient to accomplish the foregoing, or enter into or be a party to any agreement or instrument other than in connection with the foregoing, except those agreements or instruments permitted under Section 6.13, (b) make any change in its capital structure as described in Section 3.6, including the issuance or sale of any shares of Stock, warrants or other securities convertible into Stock or any revision of the terms of its outstanding Stock, (c) amend its certificate of formation or operating agreement (or any other constituent document) or (d) hire or contract for the services of any person as a paid employee or officer of Borrower.

6.6. Guaranteed Indebtedness.

Borrower shall not create, incur, assume or permit to exist any obligation guaranteeing, providing comfort or otherwise supporting any indebtedness, lease, dividend, or other obligation ("primary obligation") of any other Person (the "primary obligor") in any manner, including any obligation or arrangement of such Person to (a) purchase or repurchase any such primary obligation, (b) advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency or any balance sheet condition of the primary obligor, (c) purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (d) protect the beneficiary from loss (other than product warranties given in the ordinary course of business) or (e) indemnify the owner of such primary obligation against loss in respect thereof except (A) by endorsement of instruments or items of payment for deposit to the general account of Borrower, (B) reimbursement and indemnification obligations in favor of Lender as provided for in this Agreement and the other Loan Documents, (C) reimbursement and indemnification obligations in favor of any other Transaction Party as provided for in the Related Transaction Documents, (D) the limited indemnification obligations of Borrower in its certificate of formation and operating agreement and (E) the obligations of Borrower to purchase Financing Contracts pursuant to the Sale and Contribution Agreement.

6.7. Liens.

Borrower shall not grant, create, incur, assume or permit to exist any Lien on or with respect to any of its revenues, properties or assets (whether now owned or hereafter acquired) except for Permitted Encumbrances. Sale of Assets.

6.8. Sale of Assets

Borrower shall not sell, transfer, convey, assign or otherwise dispose of all or any part of its property or assets (including the Financing Contracts or Borrower's right to receive income in respect thereof), other than the assignments and transfers expressly contemplated by the Related Transaction Documents or distributions to Xerox that do not violate any of the terms of this Agreement or the other Related Transaction Documents.

6.9. Cancellation of Indebtedness.

Except as expressly permitted pursuant to Sections 2.14, 2.15, 6.01(c) and (g) of the Sale and Contribution Agreement and/or Section 2(f) of the Portfolio Service Contract, Borrower shall not, nor shall it permit any Transaction Party to, cancel or modify any claim or debt owing to Borrower.

6.10. Restricted Payments.

Borrower shall not make or declare any dividend to Xerox unless (a) any such dividend which is declared or made by Borrower shall comply with all limited liability company formalities required for the payment of distributions to Xerox, including that Borrower is, and after making such dividend shall continue to be, Solvent, (b) Borrower shall have made all accruals and reserves required in accordance with GAAP, together with a reserve for the amount by which any anticipated obligations and liabilities of Borrower during the period from the Initial Closing Date through the Termination Date exceed the anticipated cash flow to be received by Borrower during such period and (c) Borrower shall have paid to Lender all payment obligations then due and owing to Lender by Borrower under Sections 1.6, 1.7, 5.13, 5.14 and 9.3 hereunder.

6.11. Change of Corporate Name, Etc.

Borrower shall not change its corporate name or any trade name, or without at least thirty (30) days' prior written notice to Lender and after Lender's written acknowledgment that any reasonable action requested by Lender in connection therewith, including to continue the perfection of any Liens in favor of Lender in any Collateral, has been completed or taken. Without limiting the foregoing, Borrower shall not change its name, identity or corporate structure (including its state of organization) in any manner that might make any financing or continuation statement filed in connection herewith seriously misleading within the meaning of Section 9-506 of the Code or any other then applicable provision of the Code except upon prior written notice to Lender and after Lender's written acknowledgment that any reasonable action requested by Lender in connection therewith, including to continue the perfection of any Liens in favor of Lender in any Collateral, has been completed or taken.

6.12. Leases; Real Estate Purchase.

Except as required by the Separateness Agreement, Borrower shall not enter into any operating lease (as lessee or sublessee) for personal property or Real Estate. Borrower shall not purchase a fee simple ownership interest in real estate.

6.13. Agreements.

Borrower shall not (a) become a party to, or permit any of its properties to be bound by, any indenture, mortgage, instrument, contract, agreement, lease, commitment or other undertaking, except the Related Transaction Documents, and any lease of office space required by the Separateness Agreement, (b) issue any power of attorney (except to Lender or the Portfolio Servicer or except for the purpose of permitting any Person to perform any ministerial functions on behalf of Borrower that are not prohibited by or inconsistent with the terms of the Related Transaction Documents), or (c) amend, supplement, modify or waive any of the provisions of any Related Transaction Document or request, consent or agree to or suffer to exist or permit any such amendment, supplement, modification or waiver or exercise any consent rights granted to it thereunder, in each case, without the prior written consent of Lender.

6.14. Tax Treatment.

Borrower shall not elect to be classified as an association taxable as a corporation for United States federal or state income tax purposes.

6.15. Actions Affecting Rights.

Borrower shall not (a) take any action, or fail to take any action if such action or failure to take action would reasonably be expected to interfere with Lender's enforcement of any rights hereunder or under the other Related Transaction Documents, including rights with respect to the Financing Contracts or (b) fail to pay or cause to be paid any Charges or other obligations of Borrower or its Affiliates with respect to the Transferred Assets, or fail to defend any action, if such failure to pay or defend may adversely affect the priority or enforceability of the Lender's Lien on the Collateral.

6.16. Direction of Contract Payments.

Borrower shall not, directly or indirectly, instruct any Obligor to make any Contract Payment and/or payments with respect to IM/Pooling Contracts (other than the Excluded Payments) to any account or to any address other than the Lockbox; provided that the fact that an Obligor has been given an option to remit its Contract Payment by means of (a) electronic funds transfer to either the EFT Lockbox

Account or the EBPP Lockbox Account or (b) credit card to the Credit Card Lockbox Account shall not cause Borrower to be in violation of this Section 5.12 (except to the extent otherwise provided in the Program Agreement or the Sale and Contribution Agreement).

6.17. Margin Stock.

Borrower will not take or permit to be taken any action which Lender reasonably expects would cause any Loan Document or Borrower's use of the proceeds of any Term Loan to violate any regulation of the Federal Reserve Board.

6.18. Changes to Transferred Assets.

Borrower shall not, nor shall it permit the Portfolio Servicer or any other Transaction Party to, (a) except as expressly permitted pursuant to Sections 2.14, 2.15, 6.01(c) and (g) of the Sale and Contribution Agreement and/or Section 2(f) of the Portfolio Service Contract, waive or commit to waive any rights with respect to any Transferred Asset, (b) except as expressly permitted pursuant to the Sale and Contribution Agreement and/or the Portfolio Service Contract (other than with respect to Borrower's rights or remedies against Xerox under the Sale and Contribution Agreement), directly or indirectly in any way amend, modify, extend or otherwise restructure the payment schedule, payment terms or any other material term or condition of any Transferred Asset, or make any advance, extension, novation, modification or other accommodation to any Obligor thereunder or (c) permit any Lien on any of the Transferred Assets (other than Permitted Encumbrances), in each case, without the prior written consent of Lender. Notwithstanding the foregoing, in no event shall Borrower take any action, or permit any other Transaction Party to take any action, under this Section 6.18, which would violate Section 6.13(c).

6.19. Bring-down of Legal Opinion.

On each anniversary of the Effective Date, Borrower shall cause Nixon Peabody LLP to confirm, as of such date, the continued accuracy of the legal opinions delivered pursuant to Section 2.3(e)(iv) pursuant to a bring-down opinion in form and substance satisfactory to Lender.

6.20. Adjustments to Loss Rates; Amendment to Annex B.

The Loss Rates shall be adjusted in accordance with the procedures set forth in Sections III and IV of Annex B attached hereto.

ARTICLE VII EVENTS OF DEFAULT; RIGHTS AND REMEDIES

7.1. Events of Default.

The occurrence of any one or more of the following events (regardless of the reason therefor) shall constitute an "Event of Default" hereunder:

(a) A Termination Event.

(b) A case or proceeding is commenced against Borrower seeking a decree or order in respect of Borrower (i) under the Bankruptcy Code, as now constituted or hereafter amended or any other applicable federal, state or foreign bankruptcy or other similar law, (ii) appointing a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for Borrower or for any substantial part of any Borrower's assets, or (iii) ordering the winding-up or liquidation of the affairs of Borrower, and

such case or proceeding shall remain undismissed or unstayed for sixty (60) days or more or a decree or order granting the relief sought in such case or proceeding is entered by a court of competent jurisdiction.

(c) Borrower (i) files a petition seeking relief under the Bankruptcy Code, or any other applicable federal, state or foreign bankruptcy or other similar law, (ii) consents to or fails to contest in a timely and appropriate manner the institution of proceedings thereunder or the filing of any such petition or the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee or sequestrator (or similar official) for Borrower or for any substantial part of its assets, (iii) makes an assignment for the benefit of creditors, (iv) takes any action in furtherance of any of the foregoing, or (v) admits in writing its inability to, or is generally unable to, pay its debts as such debts become due.

(d) Borrower shall become an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

7.2. Remedies.

(a) If any Event of Default has occurred and is continuing, Lender may, without notice, take any or all of the following actions: (i) declare all or any portion of the Obligations, including all or any portion of any Term Loan to be forthwith due and payable, all without presentment, demand, protest or further notice of any kind, all of which are expressly waived by Borrower; provided that Lender may not take any such action in respect of an Event of Default described in clause (a) of Section 7.1; (ii) terminate its commitment to make Additional Incremental Term Loans; or (iii) exercise any rights and remedies provided to Lender under the Loan Documents or at law or equity, including all remedies provided under the Code; provided, however, that upon the occurrence of an Event of Default specified in Sections 7.1(b) or (c), all of the Obligations shall become immediately due and payable without declaration, notice or demand by any Person.

(b) Subject to clause (c) below, the rights and remedies of Borrower and Lender under this Agreement shall be cumulative and nonexclusive of any other rights and remedies that Borrower or Lender (as the case may be) may have under any other agreement, including the other Loan Documents, by operation of law or otherwise. Without impairing any Lien granted to Lender, in the event of Borrower's failure to pay when due any principal of, or accrued and unpaid interest on, any Term Loan, Lender's recourse for such failure shall be solely against the Collateral and Lender shall not seek any personal money judgment (including for any deficiency arising out of a failure to realize sufficient proceeds from the Collateral) against Borrower. The provisions of the preceding sentence shall not apply to any Obligations other than the principal of, and accrued and unpaid interest on, the Term Loans.

(c) The limitations on Lender's ability to seek recourse or a deficiency against the Borrower set forth in clause (b) above shall not apply to the extent, and only to the extent, that the validity, priority or enforceability of Lender's Lien in any of the Financing Contracts constituting part of the Portfolio or proceeds thereof either (i) is being challenged in a proceeding by any Person (other than the JV, the Lender or an Affiliate of Lender or (ii) has been found to be invalid, junior, unenforceable or is otherwise terminated, modified, limited or impaired by a nonappealable order of a court of competent jurisdiction (other than by reason of acts or omissions of Lender, including, without limitation, the failure to file any required continuation statement); provided that to the extent that (A) the limitation in clause (b) above is not applicable for a period of time pursuant to subclause (i) of this clause (c), (B) the challenge providing the basis for such inapplicability is ultimately unsuccessful and (C) during such period the Lender has received and applied to the Term Loans payments from Obligor to which Lender would not have been entitled but for this clause (c), then Lender shall refund to Borrower within five (5) Business Days after the date such challenge is defeated and becomes nonappealable or is

otherwise formally and permanently abandoned an amount equal to the excess of (X) the payments so received and applied over (Y) the aggregate amount of Lease Payments and Installment Payments paid by Obligors during such period which have not and will not be received by Lender; provided Lender shall have no obligation to bring any action against any third party to enforce its rights to receive such Lease Payments or Installment Payments.

7.3. Waivers by Borrower.

Except as otherwise provided for in this Agreement or by applicable law, Borrower waives: (a) presentment, demand and protest and notice of presentment, dishonor, notice of intent to accelerate, notice of acceleration, protest, default, nonpayment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which Borrower may in any way be liable, and hereby ratifies and confirms whatever Lender may do in this regard, (b) all rights to notice and a hearing prior to Lender's taking possession or control of, or to Lender's attachment or levy upon, the Collateral or any bond or security that might be required by any court prior to allowing Lender to exercise any of its remedies, and (c) the benefit of all valuation, appraisal and exemption laws.

ARTICLE VIII SUCCESSORS AND ASSIGNS

8.1. Successors and Assigns.

(a) Binding on Successors and Assigns. This Agreement and the other Loan Documents shall be binding on and shall inure to the benefit of Borrower, Lender and their respective successors and assigns (including, in the case of Borrower, a debtor-in-possession on behalf of Borrower), except as otherwise provided herein or therein.

(b) No Assignment by Borrower. Borrower may not assign, transfer, hypothecate or otherwise convey its rights, benefits, obligations or duties hereunder or under any of the other Loan Documents without the prior express written consent of Lender. Any such purported assignment, transfer, hypothecation or other conveyance by Borrower without the prior express written consent of Lender shall be void.

(c) Assignment of Existing Term Loans. Lender may assign or participate all or any part of its rights and obligations under this Agreement and the other Loan Documents with respect to any Existing Term Loan (or any interest therein) to any other Person without Borrower's consent; provided that Lender shall not assign or participate any of its rights and obligations under this Agreement with respect to Existing Term Loans to any Person (other than an Affiliate of Lender) that directly engages in competition with Xerox in respect of the marketing or selling (other than retail marketing or selling) of document processing and imaging goods (and products ancillary thereto as part of a document solutions system).

(d) Assignment of Additional Incremental Term Loans. Lender may assign or participate all or any part of its rights and obligations under this Agreement and the other Loan Documents with respect to any outstanding Additional Incremental Term Loan (or any interest therein) to any other Person; provided that, so long as no GE Capital Termination Event based in whole or in part on the breach of Section 8.02(a)(iv) of the Program Agreement has occurred, Lender shall not assign or participate any such rights or obligations to any Person that directly engages in competition with Xerox in respect of the marketing or selling (other than retail marketing or selling) of document processing and imaging goods (and products ancillary thereto as part of a document solutions system); provided further that

Lender shall not assign any of its rights and obligations (or any interest therein) with respect to outstanding Additional Incremental Term Loans to any Person (other than an Affiliate of Lender) unless Lender first complies with the provisions of this Section 8.1(d).

(i) Lender shall first offer to assign or participate such Additional Incremental Term Loans (or an interest therein) to Xerox by delivery to Xerox of a written offer to sell such Additional Incremental Term Loans setting forth the price and other terms that Lender then intends to offer to third parties.

(ii) If (A) within ten (10) Business Days of delivery of such notice Xerox does not agree to purchase all of the Additional Incremental Term Loans (or interest) specified in such notice at the price and on the terms set forth therein or (B) within 10 (ten) Business Days after Xerox does so agree, such purchase is not consummated, then Lender may offer such Additional Incremental Term Loans (or interest) to third parties at the price and on the terms specified in the notice.

(iii) If all such Additional Incremental Terms Loans (or interests therein) are not assigned or participated at the price and on the terms specified in the notice, then Lender shall be entitled to offer such Additional Incremental Term Loans (or interest therein) to third parties, and Xerox shall be entitled to bid for such Additional Incremental Term Loans (or interest therein) on the same basis as such third parties, and Lender shall be entitled to negotiate with respect to, and ultimately dispose of, such Additional Incremental Term Loans (or interest therein) on such terms and such price (which may be higher or lower than the price and terms initially offered to Xerox) as Lender may in its sole discretion determine is in its interest so long as Lender does not act arbitrarily or capriciously in making such determination.

(iv) Xerox is a third party beneficiary of this Section 8.1(d).

(e) General Electric Capital Corporation to be Agent for Assignees. In the event General Electric Capital Corporation assigns any of its rights and obligations under this Agreement, Borrower shall only be required to deal solely and directly with General Electric Capital Corporation or an Affiliate thereof, as agent for such assignee(s), and, under such circumstances, Borrower hereby agrees that it shall deliver its signature page to an amendment to this Agreement which adds agency provisions (including provisions with respect to the paying agent and withholding agent duties referred to in Section 1.7(e)) reasonably acceptable to GE Capital and Borrower within five (5) Business Days after its receipt thereof.

(f) No Third Party Beneficiaries. The terms and provisions of this Agreement are for the purpose of defining the relative rights and obligations of Borrower and Lender with respect to the transactions contemplated hereby and, except as expressly provided in Section 8.1(d), no Person shall be a third party beneficiary of any of the terms and provisions of this Agreement or any of the other Loan Documents.

ARTICLE IX MISCELLANEOUS

9.1. Complete Agreement; Modification of Agreement.

This Agreement and the other Related Transaction Documents constitute the complete agreement between the parties with respect to the subject matter thereof and may not be modified, altered or amended except as set forth in Section 9.2 below. The Monetization Agreement dated as of September 11, 2001, the Framework Agreement and any other document or agreement between Borrower and Lender or any of their respective Affiliates predating this Agreement and relating to a financing of substantially similar form, purpose or effect shall, except as provided in Section 9.19 below, be superseded by this Agreement and the other Related Transaction Documents.

9.2. Amendments and Waivers.

No amendment, modification, termination or waiver of any provision of this Agreement (other than Annex B in accordance with Section 6.20) or any of the Notes, or any consent to any departure by Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by Lender and Borrower.

Upon payment in full in cash and performance of all of the Obligations (other than indemnification Obligations), termination of Lender's obligation to lend hereunder and a release of all claims against Lender, and so long as no suits, actions, proceedings, or claims are pending or threatened against any Indemnified Person asserting any damages, losses or liabilities that are liabilities described in Section 1.6, Lender shall deliver to Borrower termination statements, Lien releases and other documents necessary or appropriate to evidence the termination of the Liens securing payment of the Obligations.

9.3. Fees and Expenses.

Borrower shall reimburse Lender for all out-of-pocket fees, costs and expenses (including the reasonable fees and expenses of all of its counsel, advisors, consultants and auditors) incurred in connection with:

(a) any amendments, modifications or waivers of, or consents with respect to, or terminations of, the Existing Loan Agreement or any of the Loan Documents or other Related Transaction Documents requested by any of Xerox, Borrower or MPE 2 (or any of their respective Affiliates) occurring prior to the Effective Date (and excluding this amendment and restatement and any other amendments and/or restatements of other Loan Documents or Related Transaction Documents entered into in connection therewith) or advice in connection with its rights thereunder;

(b) any Litigation (whether instituted by Lender, Borrower or any other Person) in any way relating to the Collateral, any of the Loan Documents, any other Related Transaction Document or any other agreement to be executed or delivered in connection herewith or therewith, and whether as a party, witness or otherwise) including any Litigation and any appeal or review thereof, in connection with a case commenced by or against Borrower or any other Person that may be obligated to Lender by virtue of the Loan Documents; including any such Litigation arising in connection with any work-out or restructuring of the Term Loans during the pendency of one or more Events of Default; provided that no Person shall be entitled to reimbursement under this clause (b) in respect of any Litigation to the extent any of the foregoing relates to the Loan Documents and results from such Person's gross negligence, willful misconduct, violation of law, breach of warranty under a Loan Document or such Person's failure to perform its contractual obligations under a Loan Document;

(c) any attempt to enforce any remedies of Lender against any or all of the Transaction Parties or any other Person that may be obligated to Lender by virtue of any of the Loan Documents or other Related Transaction Documents, including any such attempt to enforce any such remedies in the course of any work-out or restructuring of the Term Loans during the pendency of one or more Events of Default; and

(d) any workout or restructuring of the Term Loans during the pendency of one or more Events of Default, including, as to each of clauses (a) through (d) above, all reasonable attorneys' and other professional and service providers' fees arising from such services and other advice, assistance or representation, including those in connection with any appellate proceedings; and all expenses, costs, charges and other fees incurred by such counsel and others in any way or respect arising in connection with or relating to any of the events or actions described in this Section 9.3, all of which shall be payable, on demand, by Borrower to Lender. Without limiting the generality of the foregoing,

such expenses, costs, charges and fees may include: fees, costs and expenses of accountants, environmental advisors, appraisers, investment bankers, management and other consultants and paralegals, court costs and expenses, photocopying and duplication expenses, court reporter fees, costs and expenses, long distance telephone charges, air express charges, telegram or telecopy charges, secretarial overtime charges, and expenses for travel, lodging and food paid or incurred in connection with the performance of such legal or other advisory services.

9.4. No Waiver.

Lender's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Documents shall not waive, affect or diminish any right of Lender thereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver of an Event of Default shall not suspend, waive or affect any other Event of Default whether the same is prior or subsequent thereto and whether the same or of a different type. None of the undertakings, agreements, warranties, covenants and representations of Borrower contained in this Agreement or any of the other Loan Documents and no Default or Event of Default by Borrower shall be deemed to have been suspended or waived by Lender, unless such waiver or suspension is by an instrument in writing signed by an officer of or other authorized employee of Lender and directed to Borrower specifying such suspension or waiver.

9.5. Severability.

Wherever possible, each provision of this Agreement and the other Loan Documents shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement or any other Loan Document shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or such other Loan Document.

9.6. Conflict of Terms.

Except as otherwise provided in this Agreement or any of the other Loan Documents by specific reference to the applicable provisions of this Agreement, if any provision contained in this Agreement conflicts with any provision in any of the other Loan Documents, the provision contained in this Agreement shall govern and control.

9.7. Confidentiality.

Lender agrees that all Confidential Information will be kept confidential by Lender and its Representatives and will not be (a) disclosed by Lender or its Representatives to any Person whomsoever or (b) used by Lender or its Representatives, in each case, except with the prior written consent of Borrower or except as expressly otherwise permitted by the terms of this Section 9.7, Article 18 of the JV Agreement, Section 2(b) of the Retained Business Servicing Agreement or Section 2(d)(vi) of the Portfolio Service Agreement. Neither Lender nor its Representatives will use the Confidential Information for any reason or purpose other than in connection with (i) the performance, monitoring or administration of this Agreement, (ii) the enforcement of Lender's rights and remedies hereunder or under the other Related Transaction Documents and (iii) participations or assignments of the Term Loans as provided in Section 8.1; provided, prior to any disclosure of Confidential Information to any potential assignee or participant, such assignee or participant shall agree (in a manner that is enforceable by Borrower) that it will use any Confidential Information delivered to it solely to evaluate its potential purchase of an assignment or participation and shall agree that it shall not (i) disclose or make available, without the prior written consent of Borrower, any Confidential Information (including

information relating to any Obligor under any Financing Contract (including information relating to the pricing of or the provisions of any such Financing Contract) or (ii) use any Confidential Information to identify and directly or indirectly solicit any type of business with any Obligor. Lender also agrees to be responsible for enforcing the terms of this Section 9.7 as to its Representatives and the maintenance of the confidentiality of the Confidential Information by Lender and its Representatives and to take such action, legal or otherwise, to the extent necessary to cause such Representatives to comply with the terms and conditions of this Section 9.7 and thereby prevent any improper disclosure or misuse of the Confidential Information by any of Lender's Representatives (including all actions that Lender would take to protect its own confidential information).

9.8. GOVERNING LAW.

EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN ANY OF THE LOAN DOCUMENTS, IN ALL RESPECTS, INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, THE LOAN DOCUMENTS AND THE OBLIGATIONS SHALL BE GOVERNED BY, AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND PERFORMED IN THAT STATE AND ANY APPLICABLE LAWS OF THE UNITED STATES OF AMERICA. BORROWER HEREBY CONSENTS AND AGREES THAT THE STATE OR FEDERAL COURTS LOCATED IN NEW YORK COUNTY, CITY OF NEW YORK, NEW YORK SHALL HAVE EXCLUSIVE JURISDICTION TO HEAR AND DETERMINE ANY CLAIMS OR DISPUTES BETWEEN BORROWER AND LENDER PERTAINING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR TO ANY MATTER ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS, PROVIDED, THAT LENDER AND BORROWER ACKNOWLEDGE THAT ANY APPEALS FROM THOSE COURTS MAY HAVE TO BE HEARD BY A COURT LOCATED OUTSIDE OF NEW YORK COUNTY, AND, PROVIDED, FURTHER NOTHING IN THIS AGREEMENT SHALL BE DEEMED OR OPERATE TO PRECLUDE LENDER FROM BRINGING SUIT OR TAKING OTHER LEGAL ACTION IN ANY OTHER JURISDICTION TO REALIZE ON THE COLLATERAL OR ANY OTHER SECURITY FOR THE OBLIGATIONS, OR TO ENFORCE A JUDGMENT OR OTHER COURT ORDER IN FAVOR OF LENDER. BORROWER EXPRESSLY SUBMITS AND CONSENTS IN ADVANCE TO SUCH JURISDICTION IN ANY ACTION OR SUIT COMMENCED IN ANY SUCH COURT, AND BORROWER HEREBY WAIVES ANY OBJECTION THAT BORROWER MAY HAVE BASED UPON LACK OF PERSONAL JURISDICTION, IMPROPER VENUE OR FORUM NON CONVENIENS AND HEREBY CONSENTS TO THE GRANTING OF SUCH LEGAL OR EQUITABLE RELIEF AS IS DEEMED APPROPRIATE BY SUCH COURT. BORROWER HEREBY WAIVES PERSONAL SERVICE OF THE SUMMONS, COMPLAINT AND OTHER PROCESS ISSUED IN ANY SUCH ACTION OR SUIT AND AGREES THAT SERVICE OF SUCH SUMMONS, COMPLAINTS AND OTHER PROCESS MAY BE MADE BY REGISTERED OR CERTIFIED MAIL ADDRESSED TO BORROWER AT THE ADDRESS SET FORTH IN SECTION 9.9 OF THIS AGREEMENT AND THAT SERVICE SO MADE SHALL BE DEEMED COMPLETED UPON THE EARLIER OF BORROWER'S ACTUAL RECEIPT THEREOF OR FIVE (5) BUSINESS DAYS AFTER DEPOSIT IN THE UNITED STATES MAILED, PROPER POSTAGE PREPAID.

9.9. Notices.

Except as otherwise provided herein, whenever it is provided herein that any notice, demand, request, consent, approval, declaration or other communication shall or may be given to or served upon any of the parties by any other parties, or whenever any of the parties desires to give or serve upon any other parties any communication with respect to this Agreement, each such notice, demand, request, consent, approval, declaration or other communication shall be in writing and shall be deemed to have been validly served, given or delivered (a) upon the earlier of actual receipt and five (5) Business Days after deposit in the United States Mail, registered or certified mail, return receipt

requested, with proper postage prepaid, (b) two (2) Business Days after deposit with a reputable overnight courier with all charges prepaid or (c) when delivered, if hand-delivered by messenger, all of which shall be addressed to the party to be notified and sent to the address set forth below or to such other address as may be substituted by notice given as herein provided:

(A) If to Lender:

General Electric Capital Corporation
10 Riverview Drive
Danbury, Connecticut 06810
Attention: Xerox Program Manager
Telephone No.: (203) 749-6000

– and –

General Electric Capital Corporation
10 Riverview Drive
Danbury, Connecticut 06810
Attention: Business General Counsel
Telephone No.: (203) 749-6000

with copies to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, New York
Attention: William M. Gutowitz, Esq.
Telephone No.: (212) 310-8000

(B) If to Borrower:

Xerox Lease Funding LLC
800 Long Ridge Road
Mail Stop 2-4-B8
Stamford, Connecticut 06904
Attention: Treasurer
Telephone No.: (203) 968-3000

with copies to:

Xerox Corporation
800 Long Ridge Road
P.O. Box 1600 (except for courier)
Stamford, Connecticut 06904
Attention: Office of General Counsel
Telephone No.: (203) 968-3000

– and –

Xerox Corporation
100 Clinton Avenue South
Xerox Square – MS 21
Rochester, New York 14644
Attention: Director of Contract Management Office
Telephone No.: (585) 423-5090

– and –

Nixon Peabody LLP
1300 Clinton Square
Rochester, New York 14604-1792
Attention: Lori B. Green, Esq.
Telephone No.: (585) 263-1000

The giving of any notice required hereunder may be waived in writing by the party entitled to receive such notice. Failure or delay in delivering copies of any notice, demand, request, consent, approval, declaration or other communication to any Person (other than Borrower or Lender) designated above to receive copies shall in no way adversely affect the effectiveness of such notice, demand, request, consent, approval, declaration or other communication.

9.10. Section Titles.

The Section titles and Table of Contents contained in this Agreement are and shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

9.11. Counterparts.

This Agreement may be executed in any number of separate counterparts, each of which shall collectively and separately constitute one agreement.

9.12. WAIVER OF JURY TRIAL.

BECAUSE DISPUTES ARISING IN CONNECTION WITH COMPLEX FINANCIAL TRANSACTIONS ARE MOST QUICKLY AND ECONOMICALLY RESOLVED BY AN EXPERIENCED AND EXPERT PERSON AND THE PARTIES WISH APPLICABLE STATE AND FEDERAL LAWS TO APPLY (RATHER THAN ARBITRATION RULES), THE PARTIES DESIRE THAT THEIR DISPUTES BE RESOLVED BY A JUDGE APPLYING SUCH APPLICABLE LAWS. THEREFORE, TO ACHIEVE THE BEST COMBINATION OF THE BENEFITS OF THE JUDICIAL SYSTEM AND OF ARBITRATION, THE PARTIES HERETO WAIVE ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, SUIT, OR PROCEEDING BROUGHT TO RESOLVE ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, BETWEEN LENDER AND BORROWER ARISING OUT OF, CONNECTED WITH, RELATED TO, OR INCIDENTAL TO THE RELATIONSHIP ESTABLISHED AMONG THEM IN CONNECTION WITH, THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS RELATED THERETO.

9.13. Press Releases and Related Matters.

Borrower agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure using the name of Lender or its Affiliates or referring to this Agreement, the other Loan Documents or the other Related Transactions Documents without at least two (2) Business Days' prior notice to Lender and without the prior written consent of Lender unless (and only to the extent that) such Borrower or Affiliate thereof is required to do so under law and then, in any event, such Borrower or Affiliate thereof will consult with Lender before issuing such press release or other public disclosure. Borrower consents to the publication by Lender of a tombstone or similar advertising material relating to the financing transactions contemplated by this Agreement. Lender shall provide a draft of such tombstone or similar advertising material to Borrower for review and comment prior to the publication thereof. Lender reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

9.14. Reinstatement.

This Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Borrower for liquidation or reorganization, should Borrower become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of Borrower's assets, and shall continue to be effective or to be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned (whether pursuant to the conditions or circumstances described above or as a result of Lender's being required pursuant to the Allocation Agreement to return any amounts applied to the Obligations as a result of such amounts constituting Misdirected Xerox Proceeds or Misapplied Proceeds), the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

9.15. Advice of Counsel

Each of the parties represents to each other party hereto that it has discussed this Agreement and, specifically, the provisions of Sections 9.8 and 9.12, with its counsel.

9.16. No Strict Construction.

The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

9.17. Survival of Obligations Upon Termination of Financing Arrangements.

Except as otherwise expressly provided for in the Loan Documents, no termination or cancellation (regardless of cause or procedure) of any financing arrangement under this Agreement shall in any way affect or impair the obligations, duties and liabilities of Borrower or the rights of Lender relating to any unpaid portion of the Term Loans or any other Obligations, due or not due, liquidated, contingent or unliquidated or any transaction or event occurring prior to such termination, or any transaction or event, the performance of which is required after the Termination Date. Except as otherwise expressly provided herein or in any other Loan Document, all undertakings, agreements, covenants, warranties and representations of or binding upon Borrower, and all rights of Lender, all as contained in the Loan Documents, shall not terminate or expire, but rather shall survive any such termination or cancellation and shall continue in full force and effect until the Termination Date; provided, that the provisions of Article IX, the payment obligations under Section 1.7, and the indemnities contained in the Loan Documents shall survive the Termination Date.

9.18. Non-Business Days.

If the payment of any Obligation becomes due and payable, or the performance of any covenant, undertaking or agreement is to be performed, on a day other than a Business Day, the date for payment or performance thereof will be extended to the next succeeding Business Day and, with respect to payments of Obligations, interest thereon shall be payable at the applicable Discount Rate.

9.19. Effect of Amendment and Restatement.

(a) On the Effective Date, the Existing Loan Agreement shall be amended and restated in its entirety by this Agreement and the Existing Loan Agreement shall thereafter be of no further force and effect except to evidence (i) the incurrence by Borrower of the "Obligations" under and as defined in the Existing Loan Agreement (whether or not such "Obligations" are contingent as of the Effective Date), (ii) the representations and warranties made by Borrower prior to the Effective Date and (iii) any action or omission performed or required to be performed pursuant to such Existing Loan Agreement prior to the Effective Date (including any failure, prior to the Effective Date, to comply with the covenants contained in such Existing Loan Agreement). The amendments and restatements set forth herein shall not cure any breach of the Existing Loan Agreement existing prior to the Effective Date. This Agreement is not in any way intended to constitute a novation of the obligations and liabilities existing under the Existing Loan Agreement or evidence payment of all or any portion of such obligations and liabilities.

(b) The terms and conditions of this Agreement and Lender's rights and remedies under this Agreement and the other Loan Documents shall apply to all of the Obligations incurred under the Existing Loan Agreement and the promissory notes issued thereunder.

(c) Borrower reaffirms the Liens granted pursuant to the Loan Documents to the Collateral Agent for the benefit of the Lender, which Liens shall continue in full force and effect during the term of this Agreement and any renewals thereof and shall continue to secure the Obligations.

(d) On and after the Effective Date, (i) all references to the Existing Loan Agreement (or to any amendment or any amendment and restatement thereof) in the Loan Documents (other than this Agreement) shall be deemed to refer to the Existing Loan Agreement as amended and restated hereby, (ii) all references to any section (or subsection) of the Existing Loan Agreement or in any Loan Document (but not herein) shall be amended to become, mutatis mutandis, references to the corresponding provisions of this Agreement and (iii) except as the context otherwise provides, on or after the Effective Date, all references to this Agreement herein (including for purposes of indemnification) shall be deemed to be references to the Existing Loan Agreement as amended and restated hereby.

(e) This amendment and restatement is limited as written and except as set forth in clause (f) below is not a consent to any other amendment, restatement or waiver, whether or not similar and, except as expressly provided herein or in any other Loan Document, all terms and conditions of the Loan Documents remain in full force and effect unless otherwise specifically amended hereby or any other Loan Document.

(f) Lender hereby consents to the amendment and restatement, as of the Effective Date, of each of the documents listed on Schedule 9.19(f) hereto each in the form and substance executed by (or in the case of any such documents to which Lender is not a party, a fully executed copy thereof was delivered to) Lender on the Effective Date.

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IN WITNESS WHEREOF, this Agreement has been duly executed as of the date first written above.

XEROX LEASE FUNDING LLC,
as Borrower

By: _____
Title: _____

GENERAL ELECTRIC CAPITAL CORPORATION, as
Lender

By: _____
Title: _____

ANNEX A
to
LOAN AGREEMENT
DEFINITIONS

Capitalized terms used in this Agreement shall have (unless otherwise provided elsewhere in this Agreement) the following respective meanings and all references to Articles, Sections, Exhibits, Schedules or Annexes in the following definitions shall refer to Articles, Sections, Exhibits, Schedules or Annexes of or to this Agreement:

“Acceptance Notice” has the meaning set forth in Section 1.1(c)(iii).

“Activation Date” means, with respect to any Financing Contract, the date upon which the XEEP System initiates a receivable reflecting the Obligor’s obligation under such Financing Contract, thereby permitting the commencement of billing, all based upon Xerox’s provision of all Equipment and initial related services and/or installation services, as applicable, to an Obligor under such Financing Contract.

“Active Financing Contract” means, as of any Determination Date, a Financing Contract other than a Financing Contract (a) which has been terminated or otherwise prepaid in full by the Obligor thereunder on or prior to such Determination Date, (b) which is a Deemed Write-Off or an Actual Write-Off as of such Determination Date, (c) for which the final contractually scheduled Lease Payment or Installment Payment, as applicable, thereunder has become due and payable on or prior to such Determination Date or (d) with respect to which payments were made or required to be made by Xerox to Borrower on or prior to such Determination Date pursuant to Section 2.16, Section 2.17, Article V, Section 6.04 or Section 6.05 of the Sale and Contribution Agreement or Section 6.01 of the Undertaking and Replacement Agreement.

“Actual Application Date” means the Business Day immediately following the date upon which a Settlement Report is actually received by Lender.

“Actual Write-Off” means, when used in respect of any Financing Contract, a Financing Contract which, as of the date of determination, has been or was otherwise required to be written off, in whole or in part, in accordance with the Write-Off Policy.

“Additional Incremental Term Loan” has the meaning ascribed to it in Section 1.1(b).

“Additional Incremental Term Loan TPB” means, with respect to any Additional Incremental Term Loan as of any Determination Date, an amount derived as follows: (a) first, for each Active Financing Contract, as of such Determination Date, the purchase price for which was paid by Borrower with the proceeds of such Additional Incremental Term Loan, determine the net present values (as of such Determination Date) of each Lease Payment or Installment Payment, as applicable, to first become due thereunder after such Determination Date (to the extent not prepaid on or prior to such Determination Date), such net present values to be derived using a discount rate equal to the Discount Rate applicable to such Additional Incremental Term Loan, (b) next, aggregate each of the amounts derived pursuant to clause (a), and (c) finally, multiply the sum derived in clause (b) by the Term Loan Advance Rate applicable to such Additional Incremental Term Loan.

“Additional Term Note” has the meaning ascribed to it in Section 1.1(b).

“Adverse Claim” means any claim of ownership or any Lien other than any ownership interest or Lien created under the Sale and Contribution Agreement or the Loan Documents.

“Affiliate” means, with respect to any Person, (a) each Person that, directly or indirectly, owns or controls, whether beneficially, or as a trustee, guardian or other fiduciary, 10% or more of the Stock having ordinary voting power in the election of directors of such Person, (b) each Person that controls, is controlled by or is under common control with such Person and (c) each of such Person’s officers, directors, joint venturers and partners, provided, however, that the term “Affiliate,” when used in respect of Borrower, shall specifically exclude the JV (but only to the extent that Lender or a Subsidiary of Lender has an equity interest in the JV) and Lender. For the purposes of this Agreement, “control” of a Person shall mean the possession, directly or indirectly, of the power to direct or cause the direction of its management or policies, whether through the ownership of voting securities, by contract or otherwise.

“Agreement” means this Amended and Restated Loan Agreement between Borrower and Lender, as the same may be amended, supplemented, restated or otherwise modified from time to time.

“Allocation Agreement” means that certain Allocation and Distribution Agreement dated as of the Initial Closing Date by and among Xerox, MPE 2, Borrower, Lender, the Portfolio Servicer and the Collateral Agent, as amended and restated as of the Effective Date.

“Appendices” means all collective references to all Annexes, Disclosure Schedules, Exhibits and other attachments to this Agreement.

“Applicable Interest Period” means:

(a) with respect to all Existing Loans:

(i) the interest periods specified in Section 1.4(d) of the Existing Loan Agreement for all such periods ending prior to the last Actual Application Date that occurs prior to the Effective Date; and

(ii) if the Effective Date occurs on or prior to the Actual Application Date in the calendar month in which the Effective Date occurs, the Applicable Interest Periods shall be: (A) as at such Actual Application Date, an interest period from (and including) the Actual Application Date in the month preceding the Effective Date to (and excluding) the first day of the Settlement Period in which the Effective Date occurs, and (B) as at the Actual Application Date in the calendar month succeeding the month in which the Effective Date occurs, an interest period from (and including) the first day of the Settlement Period in which the Effective Date occurs to (and excluding) the earlier of the Termination Date (if any) or the first day of the first full Settlement Period commencing on or after the Effective Date; and

(iii) if the Effective Date occurs after the Actual Application Date in the calendar month in which the Effective Date occurs, the Applicable Interest Period shall be as at the Actual Application Date in the next calendar month from (and including) the Actual Application Date in the calendar month in which the Effective Date occurs to (and excluding) the earlier of the Termination Date (if any) or the first day of the first full Settlement Period commencing on or after the Effective Date; and

(b) with respect to an Additional Incremental Term Loan having a Closing Date within the calendar month in which the Effective Date occurs, the Applicable Interest Period shall be as at the Actual Application Date in the next calendar month from (and including) the Closing Date for such Term Loan to (and excluding) the earlier of the Termination Date (if any) or the first day of the first full Settlement Period commencing on or after the Effective Date; and

(c) with respect to all Term Loans, the Applicable Interest Period shall be as at the Actual Application Dates related to each Settlement Date in months after the calendar month following the month in which the Effective Date occurred from (and including) the later of (A) the first day of the immediately preceding Settlement Period and (B) the Closing Date for such Term Loan to (and excluding) the earlier of the Termination Date (if any) or the first day of the current Settlement Period.

“Authorized Officer” means in respect of Borrower its President and any Vice President.

“Bankruptcy Code” means the provisions of Title 11 of the United States Code, 11 U.S.C. Sections 101 et seq.

“Bankruptcy Event” means, with respect to any Obligor, (i) the commencement by such Obligor of a voluntary case under, or the consent by such Obligor to the entry of an order for relief in an involuntary case under, any federal or state bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar law now or hereafter in effect, or (ii) the consent by such Obligor to the appointment of, or taking possession by, a receiver, custodian, liquidator, assignee, trustee or sequestrator (or other similar official) of such Obligor or of any substantial part of its property, or (iii) the making of a general assignment by such Obligor generally to pay its debts as they benefit creditors, or (iv) the admission in writing of such Obligor of its inability to pay its debts as they become due in the ordinary course of business, or (v) the adoption of a resolution by its directors or shareholders (or analogous managers or equity owners) in furtherance of any of the foregoing, or (vi) the entry by a court of competent jurisdiction of an order for relief in respect of such Obligor in an involuntary case under any bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar law now or hereafter in effect, or the appointment of a receiver, custodian, liquidator, assignee, trustee or sequestrator (or other similar official) of such Person or of any substantial part of its Property, or the ordering of the winding up or liquidation of its affairs.

“Beneficial Owners” means each of MPE 2, Borrower, and GE Capital.

“Borrower” has the meaning ascribed to it in the preamble to this Agreement.

“Borrowing Request” means an Initial Borrowing Request or Incremental Borrowing Request, as applicable.

“Borrowing Request Delivery Date” has the meaning ascribed to it in Section 1.1(c)(v).

“Business Day” means any day that is not a Saturday, a Sunday or a day on which banks are required or permitted to be closed in the State of New York.

“Candidate Financing Contract” means, with respect to each Additional Incremental Term Loan, each Financing Contract conveyed or proposed to be conveyed by Xerox to Borrower pursuant to the Sale and Contribution Agreement in connection with such Additional Incremental Term Loan.

“Charges” means all federal, state, county, city, municipal, local, foreign or other governmental taxes (including taxes owed to the PBGC at the time due and payable), levies, assessments, charges, liens, claims or encumbrances upon or relating to (a) the Collateral, (b) the Obligations, (c) the income or gross receipts of Borrower, (d) Borrower’s ownership or use of any properties or other assets or (e) any other aspect of Borrower’s business.

“Closing Date” means any of the Initial Closing Date and each Incremental Closing Date.

“Code” means the Uniform Commercial Code as the same may, from time to time, be enacted and in effect in the State of New York; provided that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection or priority of, or remedies with respect to, Lender’s Lien on any Collateral is governed by the Uniform Commercial Code as enacted and in effect in a jurisdiction other than the State of New York, the term “Code” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions hereof relating to such attachment, perfection, priority or remedies and for purposes of definitions related to such provisions.

“Collateral” means the property referred to in the Security Agreement together with the property covered by the other Collateral Documents, and any other property, real or personal, tangible or intangible, now existing or hereafter acquired, that may at any time be or become subject to a security interest or Lien in favor of Lender to secure the Obligations. “Collateral Agent” has the meaning ascribed to it in the Payment Account Agreement.

“Collateral Assignment” means that certain Collateral Assignment of Rights dated as of the Initial Closing Date by and between Borrower and Lender, and acknowledged and agreed to by the other Transaction Parties named therein, as amended and restated as of the Effective Date.

“Collateral Documents” means the Security Agreement, the Deposit Account Control Agreement, the Collateral Assignment and all similar agreements entered into after the Initial Closing Date guaranteeing payment of, or granting a Lien upon property as security for payment of, the Obligations.

“Concentration Percentage” means, with respect to each Obligor, a fraction (expressed as a percentage) (i) the numerator of which is the Obligor Exposure for such Obligor and (ii) the denominator of which is the sum of the outstanding principal amount of (x) the proposed Term Loan in connection with which the Concentration Percentage is then being determined plus (y) all other then-outstanding Term Loans.

“Confidential Information” means all information relating to Xerox or any of Xerox’s customers, the Borrower or MPE 2, that has been or may hereafter be provided or shown to Lender by such disclosing party or its Representatives or is otherwise obtained from review of disclosing party’s documents or property or discussions with any such disclosing party’s Representatives, irrespective of the form of the communication, and also includes all notes, analyses, compilations, studies, summaries or other material prepared by such disclosing party or Representatives containing or based, in whole or in part, on any information included in the foregoing; provided that Confidential Information shall not include any information which (i) is or becomes available to the public other than as a result of a disclosure by Lender or any of Lender’s Representatives; (ii) becomes available to Lender on a non-confidential basis and not in contravention of applicable Law from a source other than any such disclosing party or any of its Representatives which is not known to Lender or any of its Representatives to be bound by a

confidential relationship with or obligation of confidentiality to the disclosing party or by a confidentiality or other similar agreement; (iii) was known to Lender or any of its Representatives on a non-confidential basis and not in contravention of applicable Law or a confidentiality or other similar agreement prior to its disclosure to such recipient by any such disclosing party or its Representatives; or (iv) is acquired or developed by Lender or any of its Representatives without violating any obligation under Section 9.7.

“Contract Payments” has the meaning ascribed to it in the Allocation Agreement.

“Contracts” means any one or more leases, installment sales contracts, agreements giving rise to trade receivables and other similar agreements to which Xerox or any of its Subsidiaries is, or may from time to time be, a party.

“Contractually Scheduled Term” has the meaning ascribed to it in the Sale and Contribution Agreement.

“Contribution Agreement” means that certain Contribution Agreement dated as of the Initial Closing Date between MPE 2 and Borrower, as amended and restated as of the Effective Date.

“Controlled Accounts” means a collective reference to the GE Capital Control Account, the Equipment Servicing Collateral Account, the Equipment Supply Collateral Account, and the Holdback Account.

“Credit Card Lockbox Account” has the meaning ascribed to it in the Sale and Contribution Agreement.

“Credit Classification” means the code representing the credit classification of an Obligor, as of the date a Financing Contract was originated, determined in accordance with the Credit Policy relating to such Obligor’s Financing Contract.

“Credit Enhancement” has the meaning ascribed to it in the Allocation Agreement.

“Credit Policy” means (a) with respect to any Financing Contract in existence as of the Initial Closing Date, the credit policy of Xerox in effect at the time of the creation of such Financing Contract, (b) with respect to any Financing Contract created after the Initial Closing Date but prior to the Effective Date, the credit policy attached hereto as Annex D-1 and (c) with respect to any Financing Contract created on or after the Effective Date, the credit policy attached hereto as Annex D-2, as the same is in effect on the Effective Date and as subsequently modified or amended with the written approval of the Management Committee of the Portfolio Servicer, Lender and Borrower; provided, that for purposes of this definition, the Credit Policy referred to in clause (c) above shall be such Credit Policy without giving effect to any delegation pursuant to the third sentence of such Credit Policy of the authority of the Chief Risk Officer (as defined in such Credit Policy) to act in his or her “Reasonable Discretion” (as defined in such Credit Policy) or any provisions of such Credit Policy that allow exceptions, modifications or waivers thereof with the approval or consent of any Person (including, without limitation, Xerox, its Office of General Counsel, a “Xerox Approval Authority” or other designation) unless, in each such case, Lender shall have also given its written consent to such delegation, exception, modification or waiver; provided further, however, that (i) for purposes of approving extensions of credit with respect to any Obligor, an exception, modification or waiver recommended by the Chief Risk Officer and approved by a “Xerox Approval Authority” within the parameters of such recommendation allowing the Chief Risk Officer to increase, in general, or exceed, on a case-by-case basis, the applicable limits set forth in Article II of such Credit Policy for such Obligor shall be given effect and (ii) an exception, modification or waiver of the first sentence of the third and fourth “bulleted” paragraphs of Section IV of

such Credit Policy and the sixth "bulleted" paragraph of Section IV of such Credit Policy shall not be deemed to be inconsistent with such Credit Policy, in each case with respect to clauses (i) and (ii) whether or not Lender shall have given its written consent to such exception, modification or waiver.

"Damages" shall mean, with respect to any Indemnified Person, (a) any and all losses (including, but not limited to, liquidated damages), claims, damages, liabilities, obligations, judgments, equitable relief granted, settlements, awards (including back pay awards), demands, offsets, defenses, counterclaims, actions or proceedings, reasonable out-of-pocket costs, expenses and attorneys' fees (including any such reasonable costs, expenses and attorneys' fees incurred in enforcing any right of indemnification held by such Person or with respect to any appeal), interest and penalties, if any, and (b) shall be deemed to include any and all losses resulting from the failure of any Indemnified Person to receive any amounts payable with respect to any Financing Contract.

"Data Certification" means the Initial Data Certification or any Incremental Data Certification, as applicable.

"Data File" means the Initial Data File or any Incremental Data File, as applicable.

"Deemed Write-Off" means, when used in respect of any Financing Contract, a Financing Contract that, as of the date of determination, does not constitute a Qualifying Financing Contract.

"Default" means any event that, with the passage of time or notice or both, would, unless cured or waived, become an Event of Default.

"Deposit Account Control Agreement" means that certain letter agreement dated as of the Initial Closing Date by and among Borrower, Lender and the Depository Bank, as amended and restated as of the Effective Date.

"Depository Bank" shall have the meaning ascribed to it in the Allocation Agreement.

"Determination Date" means, with respect to any Term Loan, the last day of a Settlement Period relating to such Term Loan.

"Discount Rate" shall mean: (i) with respect to each Existing Loan, the per annum rate indicated for such Existing Loan on Schedule 1.1(a) hereto and (ii) with respect to each Additional Incremental Term Loan, a rate per annum equal to the "Discount Rate" determined in accordance with Annex E to this Agreement.

"Dollars" or "\$" means lawful currency of the United States of America.

"EBPP Lockbox Account" shall have the meaning ascribed to it in the Sale and Contribution Agreement.

"Effective Date" means October 21, 2002.

"EFT Lockbox Account" shall have the meaning ascribed to it in the Sale and Contribution Agreement.

"Equipment" means, with respect to any Financing Contract, all equipment and other property subject to such Financing Contract.

"Equipment and Tax Payment Transfer" means the transfer by Borrower to MPE 2 pursuant to the Contribution Agreement of all of Borrower's right, title and interest in and to the Transferred Equipment (as defined in the Sale and Contribution Agreement) and the Sales Tax Payments and the Uplift Payments payable in respect of the Financing Contracts related thereto.

“Equipment Servicing Collateral Account” has the meaning ascribed to it in the Allocation Agreement.

“Equipment Supply Collateral Account” has the meaning ascribed to it in the Allocation Agreement.

“ERISA” means the Employee Retirement Income Security Act of 1974 (or any successor legislation thereto), as amended from time to time, and any regulations promulgated thereunder.

“ERISA Affiliate” means, with respect to Xerox or Borrower, any trade or business (whether or not incorporated) that, together with Xerox or Borrower, are treated as a single employer within the meaning of Sections 414(b), (c), (m) or (o) of the IRC.

“ERISA Event” means, with respect to Xerox, Borrower or any ERISA Affiliate, (a) any event described in Section 4043(c) of ERISA with respect to a Title IV Plan; (b) the withdrawal of Xerox, Borrower or any ERISA Affiliate from a Title IV Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (c) the complete or partial withdrawal of Xerox, Borrower or any ERISA Affiliate from any Multiemployer Plan; (d) the filing of a notice of intent to terminate a Title IV Plan or the treatment of a plan amendment as a termination under Section 4041 of ERISA; (e) the institution of proceedings to terminate a Title IV Plan or Multiemployer Plan by the PBGC; (f) the failure by Xerox, Borrower or any ERISA Affiliate to make when due required contributions to a Multiemployer Plan or Title IV Plan unless such failure is cured within 30 days; (g) any other event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Title IV Plan or Multiemployer Plan or for the imposition of liability under Section 4069 or 4212(c) of ERISA; (h) the termination of a Multiemployer Plan under Section 4041A of ERISA or the reorganization or insolvency of a Multiemployer Plan under Section 4241 or 4245 of ERISA; (i) the loss of a Qualified Plan’s qualification or tax exempt status; or (j) the termination of a Plan described in Section 4064 of ERISA.

“Escrow Agent” means Citibank, N.A., or any other financial institution acceptable to Borrower and Lender.

“Escrow Agreement” means that certain Escrow Agreement dated as of the Initial Closing Date, as amended and restated as of the Effective Date, by and among Xerox, Lender and Escrow Agent relating to the deposit by Xerox with the escrow agent of a list of spare parts, consumables and other supplies for the Equipment and names of employees of Xerox engaged in servicing the Equipment.

“Escrowed Funds” has the meaning ascribed to it in Section 2.5(h). “ESOP” means a Plan that is intended to satisfy the requirements of Section 4975(e)(7) of the IRC.

“Event of Default” has the meaning ascribed to it in Section 7.1.

“Evergreen Payments” has the meaning ascribed to it in the Allocation Agreement.

“Exception Notice” has the meaning set forth in Section 1.1(c)(iii).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Excluded Financing Contract” means any Financing Contract as to which any one of the following circumstances or conditions is applicable as of the Tagging Date relating thereto:

(a) Intentionally Omitted;

(b) unless otherwise waived in writing by Lender, a Bankruptcy Event has occurred and is continuing with respect to any Obligor thereunder;

(c) Intentionally Omitted;

(d) such Financing Contract either (i) includes among the obligations of Xerox thereunder, the provision of facilities management or similar services or (ii) is recorded by Xerox on its books and records maintained consistent with past practice as an "XBS" (DMA) agreement or otherwise constitutes an XBS Agreement (as defined in the Program Agreement);

(e) unless otherwise waived in writing by Lender, the XEEP System identifies Xerox or any Affiliate of Xerox as the "obligor" or "lessee" thereunder or the Person to which invoices are to be sent in respect of such Financing Contract;

(f) unless otherwise waived in writing by Lender, the XEEP System shows a status code other than "active" in respect of such Financing Contract;

(g) either (i) the first two digits of the XMC Code with respect to such Financing Contract as reflected on the XEEP System are "88" or (ii) any of the Equipment subject thereto is used by an Obligor thereunder for personal, family or household use, or an Obligor thereunder is a consumer;

(h) any Obligor under such Financing Contract is (i) the United States federal government or any agency, department or instrumentality thereof or (ii) a U.S. Virgin Islands Governmental Authority;

(i) such Financing Contract constitutes a tax exempt municipal lease;

(j) unless otherwise waived in writing by Lender, any portion of any Contract Payment for such Financing Contract is or will be included on an invoice to an Obligor, which invoice also includes Other Obligations, unless such invoice is issued solely with respect to (i) IM/Pooling Contracts or (ii) Simon Financing Contracts;

(k) Xerox shall have suspended or waived, whether permanently or for a period of time, the obligation of an Obligor to make Contract Payments that would otherwise then be due and payable thereunder, and such suspension or waiver is then in effect;

(l) unless otherwise waived in writing by Lender, the final contractually scheduled payment thereunder (i.e., exclusive of "evergreen payments") shall have been due on or prior to such Tagging Date;

(m) unless otherwise waived in writing by Lender, the Activation Date of such Financing Contract, or the date of installation of the Equipment related thereto, shall have occurred prior to January 1, 1996;

(n) the Minimum Lease Payment or Periodic Installment Sale Payment, as applicable, thereunder is less than or equal to \$10.00 per month;

(o) the Equipment related thereto is not located at an Obligor location within any State of the United States of America, Washington, D.C. or the U.S. Virgin Islands;

(p) unless otherwise waived in writing by Lender, the "Lease Payment" with respect to such Financing Contract as identified in the cost per copy billing system does not equal the "Lease Payment" with respect to such Financing Contract as identified in the XEEP System;

(q) unless otherwise waived in writing by Lender, the number of due but uncollected payments in respect thereof exceeds seven (7), without giving effect to any right of set-off or other rights and/or defenses of an Obligor thereunder;

(r) unless otherwise waived in writing by Lender, the contractually scheduled payments to be made thereunder are due other than on a monthly basis;

(s) either there is no Credit Classification applicable to such Financing Contract or there is no corresponding Loss Rate set forth on Exhibit B for such Credit Classification;

(t) unless otherwise waived in writing by Lender, following the occurrence of a Credit Card Failure Event (as defined in the Sale and Contribution Agreement) such Financing Contract would, if transferred to Borrower, constitute a Mandatory Credit Card Contract (as defined in the Sale and Contribution Agreement);

(u) unless otherwise waived in writing by Lender, (i) such Financing Contract shall constitute a Bundled Service Financing Contract (as defined in the Sale and Contribution Agreement) that is in the form of an installment sale agreement and (ii) the Tagging Date with respect to such Financing Contract shall be both on or after June 30, 2003 and prior to the date (if any) on which both (A) the Necessary Installment Sale EBS Changes (as defined in the Sale and Contribution Agreement) shall have been effected and (B) Lender and Borrower shall have agreed in writing upon mutually satisfactory adjustments to the Service Coverage Test to take into account Bundled Service Financing Contracts that are in the form of an installment sale agreement;

(v) unless otherwise waived in writing by Lender, a Lockbox Transfer Termination Event shall have occurred and the Obligor under such Financing Contract shall be legally entitled to effect payments thereunder by means of credit card, EBPP (as defined in the Sale and Contribution Agreement) or electronic funds transfer;

(w) such Financing Contract is a QRT Financing Contract and the transfer of such QRT Financing Contract (together with all other QRT Financing Contracts concurrently transferred) pursuant to the Sale and Contribution Agreement (i) is subject to the provisions of Section 6.04(a)(ix) of the Existing Revolving Credit Agreement (or a substantially identical test under any amendment, modification, supplement, refinancing or replacement of the Existing Revolving Credit Agreement) and (ii) results in an Investment (as defined in the Existing Revolving Credit Agreement or a substantially identical term under any amendment, modification, supplement, refinancing or replacement of the Existing Revolving Credit Agreement) by Xerox in Borrower that exceeds the amount received by Borrower as cash proceeds of the Term Loan or proposed Term Loan relating to such QRT Financing Contracts and paid to Xerox, such result to be determined by Xerox in compliance with the provisions of the Existing Revolving Credit Agreement, as amended, modified, supplemented, refinanced or replaced, interpreted in accordance with the confirmation attached hereto as Exhibit 2.3(l) or any such amendment, modification, supplement, refinancing or replacement of the Existing Revolving Credit Agreement; or

(x) unless otherwise waived in writing by Lender, following the occurrence of a Simon Failure Event (as defined in the Sale and Contribution Agreement) such Financing Contract would, if transferred to Borrower, constitute a Simon Financing Contract.

Any waiver by Lender contemplated above in this definition of Excluded Financing Contract may, at the sole discretion of Lender, apply to a single Financing Contract or to one or more Financing Contracts, as expressly set forth in such waiver.

"Excluded Payments" shall have the meaning ascribed to it in the Sale and Contribution Agreement.

"Existing Incremental Term Loans" means any and all of the Existing Term Loans as of the Effective Date other than the Initial Term Loan as described in items 2, 3, 4, 5 and 6 on Schedule 1.1(a) hereto.

"Existing Loan Agreement" has the meaning ascribed to it in Recital A of this Agreement.

"Existing Revolving Credit Agreement" means that certain Amended and Restated Credit Agreement dated as of June 21, 2002 by and among Xerox, the overseas borrowers party thereto, the lenders from time to time party thereto, Bank One, NA, as administrative agent, collateral agent and LC issuing bank and the other agents from time to time party thereto, as the same is in effect on the Effective Date.

"Existing Term Loans" has the meaning ascribed to it in Section 1.1(a).

"Existing Term Loan TPB" means, with respect to any Term Loan as of any Determination Date, an amount equal to (a) the amount shown as the Targeted Principal Balance as of such Determination Date on the Targeted Principal Balance Schedule for such Term Loan, minus (b) with respect to each Financing Contract relating to such Term Loan which was terminated or otherwise prepaid in full by an Obligor thereunder on or prior to such Determination Date, an amount equal to the Reduction Amount for such Financing Contract determined as of the date of such termination or prepayment, minus (c) with respect to any Financing Contract for which payments were made or required to be made by Xerox to Borrower pursuant to Section 2.16, Section 2.17, Article V, Section 6.04 or Section 6.05 of the Sale and Contribution Agreement or Section 6.01 of the Undertaking and Replacement Agreement on or prior to such Determination Date, an amount equal to the Reduction Amount for such Financing Contract determined as of the date such amount was paid or required to be paid pursuant to the Sale and Contribution Agreement, minus (d) with respect to each Financing Contract which constituted a Deemed Write-Off or, to the extent such Financing Contract did not previously constitute a Deemed Write-Off, an Actual Write-Off, in each case, on or prior to such Determination Date, an amount equal to the Reduction Amount for such Financing Contract determined as of the date such Financing Contract became a Deemed Write-Off or Actual Write-Off, as applicable, plus (e) with respect to each Financing Contract which, as of such date, no longer constitutes a Deemed Write-Off but which is not an Actual Write-Off, the Reduction Amount for such Financing Contract as of the date such Financing Contract became a Deemed Write-Off.

"Existing Term Notes" has the meaning ascribed to it in Section 1.1(a).

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

"Fee Credit Amount" means, with respect to each Replacement Financing Contract to be purchased by Borrower from Xerox on a Closing Date prior to the Effective Date an amount determined as follows: if and only if the NPV Amount (as determined in accordance with Annex E to this Agreement as of the relevant Tagging Date) for such Replacement Financing Contract is equal to or greater than the Future Payment Amount of the related Replaced Financing Contract (as determined on the date such Replaced Financing Contract is terminated), an amount equal to 0.65% of the Future Payment Amount of the related Replaced Financing Contract, otherwise, the "Fee Credit Amount" shall equal zero.

"Financing Contract" means any contract relating to Equipment and related services (including any schedule thereto and any amendment, assignment, assumption, renewal or novation thereof and any ancillary agreements thereto) that is in the form of either a lease agreement or an installment sale contract between an Obligor, on one hand, and Xerox, on the other hand, and which has been or is proposed to be transferred to Borrower pursuant to the Sale and Contribution Agreement.

“Financing Contract Advance Rate” has the meaning ascribed thereto in Annex E to this Agreement.

“Financing Contract Information” means, with respect to any Financing Contract, the following information with respect to such Financing Contract and the related Obligor(s) thereunder and under any related Credit Enhancement, in each case (unless otherwise noted) as of the relevant Tagging Date: (a) the customer number or contract number assigned thereto by Xerox, (b) the Market Segment applicable thereto as of the date such Financing Contract was originated, (c) the legal name of such Obligor, (d) the XMC Code applicable thereto, (e) the form of such agreement (e.g., fair market value lease, fixed purchase option lease, installment sale contract, etc.), (f) the total amount financed by Xerox under such agreement (in dollars), (g) the annual percentage rate applicable to such agreement (expressed as a percentage), (h) the Minimum Lease Payment or Periodic Installment Sale Payment, as applicable, and the allocation thereof pursuant to and in accordance with the Allocation Agreement (in dollars), (i) the current status of such agreement (e.g., active, extend, default, final and write-off), (j) the principal balance remaining thereunder (in dollars), (k) the number of due, but uncollected, Minimum Lease Payments or Periodic Installment Sale Payments, as applicable, (l) such Obligor’s Credit Classification under the Credit Policy applicable thereto at the time such Financing Contract was originated, (m) the Index Month (as defined in the Sale and Contribution Agreement) in respect of such Financing Contract and the Base Equipment Servicing Payment in respect of such month and (n) the Tagging Date with respect to such Financing Contract.

“Framework Agreement” means that certain Framework Agreement dated as of September 11, 2001, as amended to the Effective Date, by and between Xerox and GE Capital.

“Funding Amount” means the original principal amount of each Term Loan computed in accordance with Annex E hereto.

“Future Payment Amount” means, with respect to any Financing Contract, the amount specified in clause (ii) of the definition of Loan Payment Amount for such Financing Contract and determined as of the date (a) such Financing Contract was terminated or prepaid in full by an Obligor thereunder, (b) on which a payment was made or required to be made pursuant to any of Section 2.16, Section 2.17, Article V, or Section 6.05 of the Sale and Contribution Agreement or Section 5.01 of the Undertaking and Replacement Agreement or (c) solely for the purposes of the definition of Reduction Amount, such Financing Contract became an Actual Write-Off or Deemed Write-Off, as applicable. Notwithstanding the foregoing, as to any Financing Contract for which a payment was required to be made under Section 6.04 of the Sale and Contribution Agreement, the “Future Payment Amount” with respect to such Financing Contract shall be an amount determined by Lender in good faith to be fairly allocable to payments that would otherwise have become due under such Financing Contract after the date of such required payment.

“GAAP” means generally accepted accounting principles in the United States of America as in effect from time to time, consistently applied.

“GE Capital Control Account” has the meaning ascribed to it in Section 1.3(a)(ii) of this Agreement.

“GE Capital Termination Event” has the meaning ascribed to it in the Program Agreement.

“Governmental Authority” means any nation or government, any state or other political subdivision thereof, and any agency, department or other entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

“Historical Loss Data” means the historical loss data tape in the form set forth as Annex C to this Agreement.

“Holdback Account” has the meaning ascribed to it in the Allocation Agreement.

“IM/Pooling Contracts” means Financing Contracts and agreements and instruments evidencing Other Obligations for which (i) amounts due from the Obligor thereunder are summarized and billed to such Obligor under a single, summary invoice on a monthly basis with detail pursuant to the IM System, (ii) amounts due from the Obligor thereunder are summarized and billed to such Obligor under a single, summary invoice on a monthly basis without detail pursuant to the IM System or (iii) amounts due from the Obligor thereunder are aggregated and billed to such Obligor on a monthly basis under a single, aggregate invoice pursuant to the Pooling System.

“IM System” means that certain management billing system referred to by Xerox as the “Invoice Management” or “IM” system and employed by the JV to administer certain Contracts in a manner such that amounts due from Obligors under one or more Contracts are summarized and billed to the Obligor under a single, summary invoice on a monthly basis (with or without detail).

“Incremental Borrowing Request” means, with respect to any proposed Incremental Term Loan, a written notice substantially in the form of Exhibit 1.1(c)(v) to this Agreement, containing (in each case, as determined in accordance with Annex E to this Agreement) (i) the original principal amount of the relevant Incremental Term Loan and (ii) the Discount Rate applicable thereto.

“Incremental Closing Date” means the date upon which Lender makes an Incremental Term Loan to Borrower;

“Incremental Data Certification” means, with respect to any proposed Incremental Term Loan, a written certification of Borrower, in the form of Exhibit 1.1(c)(ii) to this Agreement, containing (i) the Term Loan Advance Rate applicable to such Incremental Term Loan, (ii) a Statement of Cash Flows for the Candidate Financing Contracts, (iii) the Incremental Data File with respect to such Candidate Financing Contracts, (iv) the Tagging Date with respect to the Candidate Financing Contracts, (v) the Base Service Percentage and Base Supply Percentage applicable to the Candidate Financing Contracts, (vi) a certification that, except to the extent waived by Lender in writing or through the application of Section 1.1(e), (A) none of the Candidate Financing Contracts constitute Excluded Financing Contracts, (B) the inclusion of such Candidate Financing Contracts in the Data File would not result in any of the representations and warranties set forth in subclauses (a)(iv) (as to the valid transfer of the Candidate Financing Contracts and the related Transferred Assets), (a)(xii), (a)(xiii) and (b) through (e) of Section 4.01 of the Sale and Contribution Agreement being untrue or incorrect and (C) either the Concentration Percentage with respect to each Obligor under a Candidate Financing Contract does not exceed one percent (1%) or the Obligor Exposure with respect to such Obligor does not exceed the amount permitted for such Obligor by Section 2.4(v) of the Agreement.

“Incremental Data File” means, with respect to any Financing Contracts to be acquired by Borrower on a Closing Date after the Initial Closing Date pursuant to the Sale and Contribution Agreement, a computer disk, computer tape or other computer generated format setting forth the Financing Contract Information for such Financing Contracts.

“Incremental Financing Contract” means a Financing Contract to be acquired by Borrower from Xerox on a particular Incremental Closing Date pursuant to the Sale and Contribution Agreement and against which a related Incremental Term Loan is actually advanced.

“Incremental Term Loans” means a collective reference to the Existing Incremental Term Loans and the Additional Incremental Term Loans.

"Indebtedness" means, with respect to any Person, without duplication, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property payment for which is deferred ninety (90) days or more, but excluding obligations to trade creditors incurred in the ordinary course of business unsecured and that are not overdue by more than ninety (90) days unless being contested in good faith, (b) all reimbursement and other obligations with respect to letters of credit, bankers' acceptances and surety bonds, whether or not matured, (c) all obligations evidenced by notes, bonds, debentures or similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all capital lease obligations (defined as, with respect to any lease to which such Person is a party, the amount of the obligation of such Person that, in accordance with GAAP, would appear on a balance sheet of such Person in respect of such lease) and the present value of future rental payments under synthetic leases, (f) all obligations of such Person under commodity purchase or option agreements or other commodity price hedging arrangements, in each case whether contingent or matured, (g) all obligations of such Person under any foreign exchange contract, currency swap agreement, interest rate swap, cap or collar agreement or other similar agreement or arrangement designed to alter the risks of that Person arising from fluctuations in currency values or interest rates, in each case whether contingent or matured, (h) all Indebtedness referred to above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien upon or in property or other assets (including accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (i) the Obligations.

"Indemnification Agreement" means that certain Indemnification Agreement dated as of the Initial Closing Date by and among Xerox, Borrower and MPE 2.

"Indemnified Person" means, (i) with respect to Lender, Lender and its Affiliates, and each of Lender's and its Affiliates' respective officers, directors, employees, attorneys, agents and representatives and (ii) with respect to Borrower, Borrower and its Affiliates, and each of Borrower's and its Affiliates' respective officers, directors, employees, attorneys, agents and representatives.

"Index Debt" means, with respect to any Person, any long-term, senior unsecured Indebtedness of such Person (without any third party credit enhancement).

"Initial Borrowing Request" means a written notice substantially in the form of Exhibit 2.1(b) to the Existing Loan Agreement containing (in each case, as determined in accordance with Annex E to the Existing Loan Agreement) (i) the original principal amount of the Initial Term Loan, (ii) the Discount Rate applicable thereto and (iii) the Targeted Principal Balance Schedule related thereto.

"Initial Closing Date" means November 20, 2001.

"Initial Data Certification" means a written certification, in the form of Exhibit 2.1(a) to the Existing Loan Agreement, containing (i) the proposed Initial Closing Date, (ii) the Term Loan Advance Rate applicable to the Initial Term Loan, (iii) the Historical Loss Data, (iv) a Statement of Cash Flows for the Initial Financing Contracts and (v) the Initial Data File.

"Initial Data File" means the computer disk, computer tape or other computer generated format setting forth the Financing Contract Information as to the Initial Financing Contracts.

"Initial Financing Contracts" means the Financing Contracts to be acquired by Borrower from Xerox on the Initial Closing Date pursuant to the Sale and Contribution Agreement.

"Initial Monetization Invoice" has the meaning ascribed to such term in the Sale and Contribution Agreement.

“Initial Term Loan” means the Existing Term Loan made by Lender to Borrower on the Initial Closing Date and described in item 1 on Schedule 1.1(a) hereto.

“Installment Payment” has the meaning ascribed to it in the Allocation Agreement.

“IRC” means the Internal Revenue Code of 1986, as amended, and any successor thereto.

“IRS” means the Internal Revenue Service, or any successor thereto.

“JV” means Xerox Capital Services, LLC, a Delaware limited liability company.

“JV Agreement” has the meaning ascribed to such term in the Program Agreement.

“JV Operational Date” means May 1, 2002.

“Lease Payment” has the meaning ascribed to it in the Allocation Agreement.

“Lender” means General Electric Capital Corporation and its permitted successors and assigns.

“Lien” means any mortgage or deed of trust, pledge, hypothecation, assignment, deposit arrangement, lien, charge, claim, security interest, easement or encumbrance, or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including any lease or title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and the filing of, or agreement to give, any financing statement perfecting a security interest under the Code or comparable law of any jurisdiction).

“Litigation” means any action, claim, lawsuit, demand, investigation or proceeding before or by any Governmental Authority or before any arbitrator or panel of arbitrators.

“Loan Documents” means this Agreement, the Notes, the Collateral Documents, the Lockbox Account Agreement, the Payment Account Agreement and all other agreements, instruments, documents and certificates executed and delivered to, or in favor of, Lender and including all other pledges, powers of attorney, consents, assignments, contracts, notices, and all other written matter whether heretofore, now or hereafter executed by or on behalf of Borrower or any other Person, or any employee of any of them, and delivered to Lender in connection with this Agreement or the transactions contemplated thereby. Any reference in this Agreement or any other Loan Document to a Loan Document shall include all annexes, appendices, exhibits, schedules or other attachments thereto, and all permitted amendments, restatements, supplements or other modifications thereto, and shall refer to this Agreement or such Loan Document as the same may be in effect at any and all times such reference becomes operative.

“Loan Payment Amount” has the meaning ascribed to it in the Sale and Contribution Agreement.

“Lockbox” has the meaning ascribed to it in the Lockbox Account Agreement.

“Lockbox Account Agreement” means that certain Lockbox Account Agreement by and between PNC Bank, National Association and the Collateral Agent dated as of the Initial Closing Date and acknowledged and agreed to by the Beneficial Owners and, solely for purposes of Section 1 thereof, Xerox, as amended and restated as of the Effective Date.

“Lockbox Concentration Account” has the meaning ascribed to it in the Lockbox Account Agreement.

“Lockbox Deposit Account” has the meaning ascribed to it in the Lockbox Account Agreement.

“Loss Component” has the meaning ascribed thereto on Annex E to this Agreement.

“Loss Rates” has the meaning ascribed thereto on Annex E to this Agreement, as the same may be adjusted from time to time in accordance with Section 6.20 of this Agreement.

“Margin Stock” has the meaning ascribed to it in Section 3.8.

“Market Segment” means, with respect to any Financing Contract, the classification by Xerox (in accordance with its past practices) of the Obligor thereunder into one of the following categories: “general markets”, “government” or “major account/named account”.

“Material Adverse Effect” means a material adverse effect on (a) Borrower’s ability to enforce its rights under the Related Transaction Documents (other than the Loan Documents), (b) Lender’s ability to enforce Borrower’s rights under such Related Transaction Documents, (c) the Collateral, Lender’s Liens on the Collateral or the priority of such Liens or (d) Lender’s rights and remedies under this Agreement and the other Loan Documents.

“Maximum Amount” means Five Billion Dollars (\$5,000,000,000).

“Minimum Lease Payment” means, with respect to any Financing Contract that is in the form of a lease agreement, the periodic minimum lease payment due thereunder.

“Misapplied Proceeds” shall have the meaning ascribed to it in the Allocation Agreement.

“Misdirected Contract Payments” shall have the meaning ascribed to it in the Allocation Agreement.

“Misdirected Xerox Proceeds” shall have the meaning ascribed to it in the Allocation Agreement.

“Monetization Accounts” means a collective reference to the MPE 1 Account, the MPE 2 Account and the Sales Tax Account.

“Monthly Aggregate Payment Amount” means, with respect to any Term Loan and for each Settlement Period, all amounts deposited into the GE Capital Control Account in respect of such Term Loan during such Settlement Period minus (b) the amounts paid under Section 6(b) of the Allocation Agreement in respect of such Settlement Period.

“Moody’s” means Moody’s Investors Services, Inc.

“MPE 1 Account” has the meaning ascribed to it in the Allocation Agreement.

“MPE 2” means Xerox Lease Equipment LLC, a Delaware limited liability company.

“MPE 2 Account” has the meaning ascribed to it in the Allocation Agreement.

“Multiemployer Plan” means a “multiemployer plan” as defined in Section 4001(a)(3) of ERISA, and to which Xerox, Borrower or any ERISA Affiliate is making, is obligated to make or has made or been obligated to make, contributions on behalf of participants who are or were employed by any of them.

“Notes” has the meaning ascribed to it in Section 1.1(b).

“Obligations” means all loans, advances, debts, liabilities and obligations, for the performance of covenants, tasks or duties or for payment of monetary amounts (whether or not such performance is then required or contingent, or such amounts are liquidated or determinable) owing by Borrower to Lender, and all covenants and duties regarding such amounts, of any kind or nature, present or future, whether or not evidenced by any note, agreement or other instrument, arising under this Agreement or any of the other Loan Documents. This term includes all principal, interest (including all interest that accrues after the commencement of any case or proceeding in bankruptcy by or against Borrower, whether or not allowed in such case or proceeding), fees, Charges, expenses, attorneys’ fees and any other sum chargeable to Borrower under this Agreement or any of the other Loan Documents.

“Obligor” means, with respect to any Financing Contract, the party obligated to make payments with respect to such Financing Contract, including any obligor in respect of any Credit Enhancement.

“Obligor Exposure” means with respect to any Obligor, as of any date of determination, the sum of the net present value amounts as calculated by and reflected on the XEEP System as of the Tagging Date relating to a proposed Term Loan for (a) all Financing Contracts to be acquired by Borrower from Xerox pursuant to the Sale and Contribution Agreement on such date to which such Obligor or any Related Person (as defined in the Sale and Contribution Agreement) is a party or provides a Credit Enhancement plus (b) all Financing Contracts theretofore transferred by Xerox to Borrower pursuant to the Sale and Contribution Agreement and continued to be owned by Borrower as of such date to which such Obligor or any Related Person is a party or provides a Credit Enhancement, plus, from and after July 1, 2003, to the extent not reflected in the net present value amounts as calculated by and reflected on the XEEP System, all due but uncollected Lease Payments or Installment Payments, as applicable, relating to Financing Contracts referred to in clause (b).

“Obligor’s Rights” means a collective reference to the Obligor’s rights under a Financing Contract (including, without limitation, the Obligor’s rights to quiet enjoyment of the Equipment and to any Equipment purchase rights provided for in a Financing Contract).

“Other Obligations” means, in respect of each Obligor, any and all charges, debts, liabilities or obligations of such Obligor pursuant to a Serviced Asset other than those owing by such Obligor pursuant to and under Transferred Assets.

“Payment Account” has the meaning ascribed to it in the Payment Account Agreement.

“Payment Account Agreement” means that certain Payment Account Agreement dated as of the Initial Closing Date by and among the Beneficial Owners, Xerox, the JV and the Collateral Agent, as amended and restated as of the Effective Date.

“Payment Amount” has the meaning ascribed to it in the Sale and Contribution Agreement.

“PBGC” means the Pension Benefit Guaranty Corporation or any successor thereto.

“Periodic Installment Sale Payment” means, with respect to any Financing Contract which is in the form of an installment sale agreement, the periodic minimum installment sale payment thereunder.

“Permitted Delinquency” means, with respect to any Financing Contract, that the aggregate of (a) the number of due and uncollected payments, without giving effect to any right of set-off or any other rights and/or defenses of an Obligor thereunder, plus (b) the number of payments which shall have been suspended or waived plus (c) the number of months that have passed since the expiration of the Contractually Scheduled Term, is not greater than seven (7).

"Permitted Encumbrances" means the following encumbrances: (a) with respect to any Transferred Assets which do not constitute Credit Enhancements, Liens for Taxes not yet due and payable or which are being contested in accordance with Section 5.2(b), (b) presently existing or hereafter created Liens in favor of Lender and (c) Liens expressly permitted and contemplated by the Related Transaction Documents (other than the Loan Documents) as in effect on the Initial Closing Date.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, public benefit corporation, other entity or government (whether federal, state, county, city, municipal, local, foreign, or otherwise, including any instrumentality, division, agency, body or department thereof).

"Plan" means, at any time, an employee benefit plan, as defined in Section 3(3) of ERISA, that Xerox, Borrower or any ERISA Affiliate maintains, contributes to or has an obligation to contribute to or has maintained, contributed to or had an obligation to contribute to at any time within the past seven (7) years on behalf of participants who are or were employed by Xerox, Borrower or any ERISA Affiliate.

"Policies" means the collection and servicing procedures referred to in the Portfolio Service Contract and which are in effect on the Initial Closing Date, as the same may from time to time be amended, restated, supplemented or otherwise modified with the written consent of Lender.

"Pooling System" means that certain management billing system referred to by Xerox as the "Pooling System" and employed by the JV to administer certain Contracts in a manner such that the amounts due from Obligors under one or more Contracts are aggregated in respect of the copy volumes of a specific pool of machines and billed at a common meter rate to the Obligor on a monthly basis under a single, aggregate invoice.

"Portfolio" means a collective reference to the Financing Contracts acquired by Borrower from Xerox pursuant to the Sale and Contribution Agreement and against which the Term Loans were advanced by Lender.

"Portfolio Service Contract" means (i) for all periods prior to May 1, 2002 that certain Portfolio Service Contract dated as of the Initial Closing Date by and among Xerox, Borrower, MPE 2 and Lender pursuant to which Xerox shall be obligated to bill and collect the Financing Contracts on behalf of Borrower and (ii) for all periods from and after May 1, 2002, that certain Monetization Portfolio Service Contract dated as of May 1, 2002 by and among Borrower, MPE 2, Xerox, the JV and Lender, as amended and restated as of the Effective Date, as the same may be further amended, amended and restated, supplemented or modified from time to time.

"Portfolio Servicer" means (i) for the period commencing on November 20, 2001 through but excluding the JV Operational Date, Xerox as "Portfolio Servicer" under the Portfolio Service Contract and (ii) from and after the JV Operational Date, the JV (or any successor servicer of the Portfolio pursuant to the Portfolio Service Contract).

"Program Agreement" means that certain Program Agreement dated as of the Effective Date by and among Lender, Xerox, Borrower and MPE 2.

"Prospective Collateral Defect", with respect to any (i) Candidate Financing Contract, any event or circumstance that would, or that Lender reasonably expects would, give rise to any meaningful adverse effect on (a) such Candidate Financing Contract and the related Purchased Assets, (b) the collectibility of such Candidate Financing Contract, (c) the availability or efficacy of any of the Lender's rights and

remedies under this Agreement or any of the other Related Transaction Documents (including, without limitation, Lender's Liens on such Candidate Financing Contracts) or (d) Borrower's title to such Candidate Financing Contract and the related Purchased Assets, and (ii) Financing Contracts comprising a part of the Portfolio, any event or circumstance that would, or that Lender reasonably expects would, give rise to any meaningful adverse effect (in relation to the Financing Contracts then comprising the Portfolio, taken as a whole) on (a) the Financing Contracts then comprising the Portfolio, (b) the collectibility of the Financing Contracts then comprising the Portfolio, (c) the availability or efficacy of any of Lender's rights and remedies under this Agreement or any of the other Related Transaction Documents (including, without limitation, Lender's Liens on such Candidate Financing Contracts) or (d) Borrower's title to the Financing Contracts then comprising the Portfolio.

"QRT Financing Contract" means any Financing Contract that (i) has an Activation Date (A) in the case of a Financing Contract that is an XBS Agreement (or a component of an arrangement that historically would be treated by Xerox as XBS Agreement), prior to September 30, 2002 or (B) in the case of a Financing Contract other than a Financing Contract covered by clause (A), prior to April 1, 2002, (ii) is an IM/Pooling Contract described in clause (i) of the definition thereof or (iii) is a Simon Financing Contract.

"Qualified Plan" means a Plan that is intended to be tax-qualified under Section 401(a) of the IRC.

"Qualifying Financing Contract" means, as of any date of determination, any Financing Contract which satisfies each of the following conditions:

(i) there are no payment defaults, delinquencies or suspensions of any Obligor's payment obligations thereunder, in each case, other than a Permitted Delinquency with respect to such Financing Contract; and

(ii) no Bankruptcy Event shall have occurred and be continuing with respect to any Obligor under such Financing Contract.

"Rated Investment Grade" means that Xerox's Index Debt shall be rated both at least "Baa3" by Moody's and at least "BBB-" by S&P.

"Records" shall mean all Financing Contracts, Credit Enhancements and other documents, books, records and other information (including computer programs, tapes, disks, data processing software and related property and rights) prepared and/or maintained by Xerox, the Portfolio Servicer, MPE 2 or Borrower specifically with respect to the Transferred Assets and the Obligors.

"Reduction Amount" means, with respect to any Financing Contract as at any date of determination, the product of (A) the Future Payment Amount relating to such Financing Contract as at such date multiplied by (B) the Financing Contract Advance Rate applicable to such Financing Contract.

"Related Transaction Documents" means the Loan Documents, the XCC Transfer Agreement, the Sale and Contribution Agreement, the Contribution Agreement, the Escrow Agreement, the Transition Proceeds Agreement, the Undertaking and Replacement Agreement, the Portfolio Service Contract, the Separateness Agreement, the Indemnification Agreement, the Allocation Agreement, the Tax Administration Agreement, the Program Agreement, the Retained Business Servicing Agreement and all other agreements or instruments executed in connection with the Related Transactions pursuant to the Related Transaction Documents, in each case, as the same may be amended, amended and restated, waived, supplemented or otherwise modified from time to time in accordance with the terms thereof.

"Related Transactions" means the borrowing of the Initial Term Loan on the Initial Closing Date, the borrowing of any other Term Loan on any Closing Date, any Tier I Transfer, any XCC Transfer, any Equipment and Tax Payment Transfer, the payment of all fees, costs and expenses associated with all of the foregoing and the execution and delivery of all of the Related Transaction Documents.

"Replaced Financing Contract" means, as of any date of determination, any Financing Contract (a) which was previously included in the Portfolio, (b) which was terminated by Xerox pursuant to Article V of the Sale and Contribution Agreement contemporaneously with the execution and delivery by Xerox of a Replacement Financing Contract with the same Obligor (or any Affiliate thereof) and (c) for which the Loan Payment Amount with respect thereto was received in the Payment Account as provided in Article V of the Sale and Contribution Agreement.

"Replacement Financing Contract" means a Financing Contract entered into by Xerox contemporaneously with the termination by Xerox (pursuant to Article 6.01(c) or (g) of the Sale and Contribution Agreement) of a Financing Contract then constituting a part of the Portfolio.

"Representatives" means with respect to any Person, any such Person's employees, officers, directors, agents, attorneys, consultants, accountants, advisors and other representatives.

"Requirements of Law" shall mean, as to any Person, any law, treaty, statute, rule, regulation, common law or determination of an arbitrator or a court or other Governmental Authority and all official directives, consents, approvals, authorizations, guidelines, restrictions and policies of any Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject, including any environmental law.

"Responsible Person" means, with respect to any Person, any one of the following: an officer, senior manager or senior executive of such Person.

"Retained Business Servicing Agreement" has the meaning ascribed to it in the Program Agreement.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.

"Sale and Contribution Agreement" means that certain Sale and Contribution Agreement dated as of the Initial Closing Date between Xerox and Borrower, as amended and restated as of the Effective Date.

"Sales Tax Account" has the meaning ascribed to it in the Allocation Agreement.

"Sales Tax Payments" has the meaning ascribed to it in the Allocation Agreement.

"Security Agreement" means that certain Security Agreement dated as of the Initial Closing Date by and between Borrower and Lender, as amended and restated as of the Effective Date.

"Separateness Agreement" means that certain Separateness Agreement dated as of the Initial Closing Date by and among Xerox, MPE 2 and Borrower, as amended and restated as of the Effective Date.

"Separateness/True Sale Concern" means any event or circumstance that would, or may reasonably be expected to, give rise (either alone or together with other then-existing facts or circumstances) to (a) a materially greater risk as to the substantive consolidation of Borrower or MPE 2 with Xerox, (b) the incurrence of liabilities (fixed or contingent) of Borrower other than liabilities

permitted by Section 3.15 or (c) a materially greater risk as to Borrower's acquisition of any Financing Contract being treated as anything other than a true sale and absolute transfer of such Financing Contract under the Bankruptcy Code.

"Service Coverage Test" has the meaning ascribed to it in the Sale and Contribution Agreement.

"Serviced Asset" has the meaning ascribed to it under each of (i) the Retained Business Servicing Agreement and (ii) the Portfolio Service Contract.

"Settlement Date" means, for each Term Loan and each Settlement Period related to such Term Loan, the sixteenth (16th) day after the end of such Settlement Period; provided that if such day is not a Business Day, then the Settlement Date shall be the next succeeding Business Day.

"Settlement Period" means with respect to any Term Loan, (a) initially, the period from the Tagging Date of such Term Loan to and including the last day of the calendar month in which such Closing Date occurred and (b) thereafter, each successive period commencing on the first day of each calendar month through and including the last day of such calendar month or, if earlier, the Termination Date.

"Settlement Report" means a report delivered by Portfolio Servicer to Lender pursuant to the Portfolio Service Contract one Business Day prior to any Settlement Date and setting forth, with respect to the Settlement Period ending immediately prior to such Settlement Date, the following information:

(a) the amount of interest income (net of losses) actually earned on funds on deposit in each of the respective Controlled Accounts during such Settlement Period;

(b) with respect to any Financing Contract for which payments were made or required to be made pursuant to any of Section 2.16, Section 2.17, Article V, Section 6.04 or Section 6.05 of the Sale and Contribution Agreement or Section 6.01 of the Undertaking and Replacement Agreement during such Settlement Period, (i) the date on which such payment was made or otherwise became due, (ii) the amount of such payment which was made or required to be made with respect to such Financing Contract, (iii) the amount of such payment with respect to such Financing Contract which was actually deposited in the GE Capital Control Account, (iv) other than with respect to payments required to be made under Section 6.04 of the Sale and Contribution Agreement, the Future Payment Amount with respect to such Financing Contract, (v) the Financing Contract Advance Rate applicable to such Financing Contract and (vi) the Term Loan to which such Financing Contract relates;

(c) the amount of all payments received in respect of a Financing Contract (other than payments referred to in clause (b) above or clause (i) below) deposited into the GE Capital Control Account during such Settlement Period and the Term Loan to which such Financing Contract relates;

(d) as to any Financing Contracts which became a Deemed Write-Off during such Settlement Period, (i) the Future Payment Amount with respect to such Financing Contract (determined as of the related Determination Date such Financing Contract became a Deemed Write-Off), (ii) the Financing Contract Advance Rate applicable to such Financing Contract and (iii) the Term Loan to which such Financing Contract relates;

(e) as to any Financing Contract which ceased to be a Deemed Write-Off during such Settlement Period, the amount by which the Targeted Principal Balance was previously reduced in respect of such Financing Contract and the Term Loan to which such Financing Contract relates;

(f) as to any Financing Contracts which became an Actual Write-Off during such Settlement Period, (i) the date upon which such Financing Contract became an Actual Write-Off, (ii) the Future Payment Amount with respect to such Financing Contract (determined as of the date such Financing Contract became an Actual Write-Off), (iii) the Financing Contract Advance Rate applicable to such Financing Contract and (iv) the Term Loan to which such Financing Contract relates;

(g) the Accrued Portfolio Servicing Amount for such Settlement Period;

(h) the amount of funds deposited by Borrower into the GE Capital Control Account pursuant to Section 5.13 of the Loan Agreement and (i) the Financing Contract to which such payment relates and (ii) the Term Loan to which such Financing Contract relates;

(i) with respect to any Financing Contract which was terminated or otherwise prepaid in full by an Obligor thereunder during such Settlement Period, (i) the date on which such Financing Contract was terminated or prepaid in full, (ii) the Loan Payment Amount with respect to such Financing Contract which was deposited into the Payment Account, (iii) the Future Payment Amount with respect to such Financing Contract, (iii) the Financing Contract Advance Rate applicable to such Financing Contract and (iv) the Term Loan to which such Financing Contract relates; and

(j) with respect to each Term Loan: (a) the Targeted Principal Balance of such Term Loan as of the immediately preceding Determination Date after taking into account the information set forth in subclauses (a) through (i) above, (b) the accrued but unpaid interest with respect to such Term Loan as of the immediately preceding Determination Date, (c) the amount of the Monthly Aggregate Payment Amount to be applied to the accrued and unpaid interest on such Term Loan, (d) the amount of the Monthly Aggregate Payment Amount to be applied to such Term Loan in order to reduce the outstanding principal balance thereof to the Targeted Principal Balance (as adjusted pursuant to clause (a) above) as of the immediately preceding Determination Date, (e) the amount of the Monthly Aggregate Payment Amount, if any, which is required to be applied to any other Term Loan in order to reduce the outstanding principal balance thereof to the Targeted Principal Balance applicable thereto (as adjusted pursuant to clause (a) above) as of the immediately preceding Determination Date and (f) the amount, if any, which should be distributed to the MPE 1 Account.

“Simon Financing Contract” has the meaning ascribed to it in the Sale and Contribution Agreement.

“Solvent” means, with respect to any Person on a particular date, that on such date (a) the fair value of the property of such Person is greater than the total amount of liabilities, including contingent liabilities, of such Person, (b) the present fair saleable value of the assets of such Person is not less than the amount that will be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person does not intend to, and does not believe that it will, incur debts or liabilities beyond such Person’s ability to pay as such debts and liabilities mature and (d) such Person is not engaged in a business or transaction, and is not about to engage in a business or transaction, for which such Person’s property would constitute an unreasonably small capital. The amount of contingent liabilities (such as Litigation, guaranties and pension plan liabilities) at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, represents the amount that can reasonably be expected to become an actual or matured liability.

“Specified Investments” means book entry securities, negotiable instruments or securities represented by instruments in bearer or registered form which evidence any of the following:

(i) marketable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States (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 (1) year from the date of acquisition thereof;

(ii) 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 (1) year from the date of acquisition thereof and having, at such date, one of the two highest ratings obtainable from either S&P or Moody's;

(iii) commercial paper maturing within one (1) 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 Moody's;

(iv) certificates of deposit, banker's acceptances and time deposits maturing within one (1) 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 country in the European Union (as it exists on the Effective Date) or Switzerland 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;

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

(vi) Investments in money market funds that invest substantially all of their assets in securities of the types described in clauses (i)-(v) above.

"Statement of Cash Flows means, with respect to the Financing Contracts to be acquired by Borrower from Xerox pursuant to the Sale and Contribution Agreement on a particular Closing Date, a spreadsheet prepared in Microsoft Excel, and containing the following information (with each Financing Contract being presented on a separate "Row") as of the respective Tagging Dates for such Financing Contracts: (a) Column 1 – for each Row, the contract number or customer number assigned by Xerox with respect to such Financing Contract, (b) Column 2 – for each Row, the sum of all Lease Payments or Installment Payments, as applicable, (expressed in dollars) with respect to such Financing Contract, due and uncollected, including Lease Payments or Installment Payments, as applicable, for which invoices have been issued prior to such Tagging Date and (c) Columns 3 through end-for each Row, commencing with the first Lease Payment or Installment Payment, as applicable, (expressed in dollars) with respect to such Financing Contract for which an invoice has been or will be issued on or after such Tagging Date, the Lease Payment or Installment Payment, as applicable, due in the month in which such Tagging Date occurs and each month thereafter (inserting \$0 when no Lease Payment or Installment Payment, as applicable, is due in a particular month).

"Stock" means all shares, options, warrants, general or limited partnership interests, membership interests, or other equivalents (regardless of how designated) of or in a corporation, partnership, limited liability company or equivalent entity whether voting or nonvoting, including common stock, preferred stock or any other "equity security" (as such term is defined in Rule 3a11-1 of the General Rules and Regulations promulgated by the Securities and Exchange Commission under the Exchange Act).

"Stockholder" means, with respect to any Person, each holder of Stock of such Person.

"Subsidiary" means, with respect to any Person, (a) any corporation of which an aggregate of more than 50% of the outstanding Stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, Stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, owned legally or beneficially by such Person and/or one or more Subsidiaries of such Person, or with respect to which any such Person has the right to vote or designate the vote of 50% or more of such Stock whether by proxy, agreement, operation of law or otherwise, and (b) any partnership or limited liability company in which such Person and/or one

or more Subsidiaries of such Person shall have an interest (whether in the form of voting or participation in profits or capital contribution) of more than 50% or of which any such Person is a general partner or may exercise the powers of a general partner.

“Supply Coverage Test” has the meaning ascribed to it in the Sale and Contribution Agreement.

“Supporting Obligations” has the meaning ascribed thereto in the Code.

“Tagging Date” means (a) with respect to an Initial Financing Contract, October 2, 2001 and (b) with respect to any other Financing Contract, the date specified in the relevant Incremental Data Certification delivered under this Agreement.

“Targeted Principal Balance” means (i) with respect to any Existing Term Loan, the Existing Term Loan TPB for such Existing Term Loan and (ii) with respect to any Additional Incremental Term Loan, the Additional Incremental Term Loan TPB for such Additional Incremental Term Loan.

“Targeted Principal Balance Schedule” means, with respect to any Existing Term Loan, a schedule indicating the monthly Targeted Principal Balances of such Existing Term Loan prepared in accordance with Annex E of the Existing Loan Agreement and set forth in the Initial Borrowing Request or relevant Incremental Borrowing Request, as applicable (as each such Targeted Principal Balance may be reduced or increased from time to time in accordance with the definition thereof).

“Tax Administration Agreement” means that certain Tax Administration Agreement dated as of the Initial Closing Date by and between Xerox, Borrower and MPE 2, as amended and restated as of the Effective Date.

“Taxes” means any and all current or future taxes, levies, imposts, deductions, duty, charges or withholdings, assessment or other charge of whatever nature imposed by any governmental authority, but excluding therefrom (i) United States federal income taxes (whether imposed by withholding or otherwise) and taxes imposed on or measured by the net income of Lender by the jurisdictions under the laws of which Lender is organized or conducts business or any political subdivision thereof, (ii) any tax (x) based upon receipts, franchise, capital, doing business or net worth, (y) in the nature of an intangible or similar tax upon or with respect to the value or principal amount of the interest of Lender in the Term Loans evidenced by this Agreement or (z) under the Michigan Single Business Tax, in each case in this clause (ii) to which Lender is subject (to the extent of the tax rate then in effect) on the date this Agreement is executed (iii) any tax resulting solely from the negligence or willful misconduct of Lender, (iv) any tax imposed as a result of the failure to provide to Borrower any form needed to obtain an exemption from or reduced rate of tax (the delivery of which by Lender is authorized by law), provided that Borrower has timely provided the form to Lender and requested in writing that Lender deliver the completed form to Borrower and (v) any tax imposed on or with respect to the transfer, assignment, participation or syndication by Lender of its interest, in whole or in part, in the Term Loans evidenced by this Agreement.

“Term Loan Advance Rate” has the meaning ascribed thereto on Annex E to this Agreement.

“Term Loans” means, collectively, the Incremental Term Loans and the Initial Term Loan.

“Termination Date” means the date on which all of the Term Loans have been indefeasibly repaid in full and all other Obligations under this Agreement and the other Loan Documents have been completely discharged, and Borrower shall not have any further right to borrow any monies under this Agreement.

“Termination Event” means the earliest to occur of any of the following: (a) the expiration of the Term (as defined in the Program Agreement and as the same may be extended from time to time in

accordance therewith), (b) a GE Capital Termination Event shall have occurred, Lender shall have delivered to Xerox a written notice stating that Lender has elected to terminate the Program Agreement and the Termination Notice Period shall have expired, (c) a Xerox Termination Event (as defined in the Program Agreement) shall have occurred, Xerox shall have delivered a written notice to Lender stating that Xerox has terminated the Program Agreement and the Termination Notice Period shall have expired; (d) the date which is twelve (12) months following Lender's receipt of notice of a Xerox Termination for Convenience (as defined, and delivered in accordance with the terms of, the Program Agreement) or (e) a Management Committee Termination (as defined in the Program Agreement) shall have occurred.

"Tier I Transfer" means any transfer by Xerox to Borrower of the Purchased Assets and the Transferred Equipment (as each is defined in the Sale and Contribution Agreement), in each case, in accordance with the terms of the Sale and Contribution Agreement.

"Title IV Plan" means a Pension Plan (other than a Multiemployer Plan) that is covered by Title IV of ERISA.

"Transferred Assets" means those assets acquired by Borrower pursuant to the Tier I Transfers, together with all of Borrower's rights against Xerox under the Sale and Contribution Agreement.

"Transaction Parties" means a collective reference to XCC, Xerox, MPE 2, the Portfolio Servicer and Borrower.

"Transition Proceeds Agreement" means that certain Transition Proceeds Agreement dated as of the Initial Closing Date by and among Borrower and Lender, as amended and restated as of the Effective Date.

"Turbo Event" means any of the following events or circumstances:

- (i) a Default under Section 7.1(b) or Event of Default has occurred and is continuing;
- (ii) a GE Capital Termination Event has occurred and is continuing;
- (iii) any of the representations or warranties contained in the following subsections shall not be true and correct in all respects as of any Settlement Date or Actual Application Date: Sections 3.1(a), 3.1(c), 3.3 (other than clauses (e) and (g) thereof) and Section 3.7;
- (iv) any of the representation or warranties contained in clauses (e) or (g) of Section 3.3 shall not be true and correct with respect to all periods prior to any Incremental Closing Date with respect to (A) all agreements referred to in clause (e) that are material or (B) all consents or approvals required from any Person which is not also a Governmental Authority in respect of any material contract referred to in clause (A) above.
- (v) the Borrower shall not be in compliance with any of the following covenants: Sections 5.16, 6.1 and 6.14;
- (vi) Borrower shall not have good and marketable title to all of the Financing Contracts comprising the Portfolio free and clear of all Liens (except Liens in favor of Lender and Permitted Liens) and such failure has, or would reasonably be expected to, give rise to a Prospective Collateral Defect or a Separateness/True Sale Concern;
- (vii) Lender shall not have a valid enforceable and first priority Lien on all of the Financing Contracts comprising the Portfolio and such failure has, or would reasonably be expected to give rise to, a Prospective Collateral Defect or a Separateness/True Sale Concern; or

(viii) Xerox or Borrower shall have failed to make any payment to Borrower or Lender due under any of the Related Transaction Documents within five (5) Business Days after written demand therefor from Lender unless (i) Xerox or Borrower, as the case may be, is in good faith disputing its obligation to make such payments and gives Lender written notice thereof and (ii) if the aggregate amount of all such disputed payments exceeds \$250,000, Xerox or Borrower, as applicable, within two (2) Business Days after written request therefor from Lender, shall have deposited cash in an amount equal to the aggregate amounts so disputed into an escrow account (with documentation governing such account in form and substance reasonably satisfactory to Lender). Upon the request of Lender, any and all of Borrower's rights in and to the Escrowed Funds shall constitute additional Collateral for the payment of the Obligations. Upon the resolution of the dispute pertaining to a particular amount of Escrowed Funds, such Escrowed Funds shall be released to the party legally entitled thereto (and if such party is Borrower or Lender, such funds shall be deposited directly from such escrow account into the Payment Account and allocated and distributed in accordance with the Allocation Agreement and Payment Account Agreement).

"Undertaking and Replacement Agreement" means that certain Undertaking and Replacement Agreement dated as of the Initial Closing Date by and between Xerox and Lender, as amended and restated as of the Effective Date.

"Unfunded Pension Liability" means, at any time, the aggregate amount, if any, of the sum of (a) the amount by which the present value of all accrued benefits under each Title IV Plan exceeds the fair market value of all assets of such Title IV Plan allocable to such benefits in accordance with Title IV of ERISA, all determined as of the most recent valuation date for each such Title IV Plan using the actuarial assumptions for funding purposes in effect under such Title IV Plan, and (b) for a period of five (5) years following a transaction which might reasonably be expected to be covered by Section 4069 of ERISA, the liabilities (whether or not accrued) that could be avoided by Xerox, Borrower or any ERISA Affiliate as a result of such transaction.

"Uplift Payments" has the meaning ascribed to it in the Allocation Agreement.

"Waiver Request" has the meaning set forth in Section 1.1(c)(vi).

"Write-Off Policy" means the Xerox historical write off policy delivered to Lender pursuant to Section 2.3(q) of the Existing Loan Agreement and applied in a manner consistent with Xerox's past practices.

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

"XCC Transfer" means the transfer by XCC to Xerox of certain Financing Contracts previously sold by Xerox to XCC, which such Financing Contracts shall be repurchased by Xerox from XCC pursuant to that certain XCC Transfer Agreement, free and clear of Liens prior to the transfer thereof by Xerox to Borrower.

"XCC Transfer Agreement" means that certain Asset Purchase Agreement dated as of the Initial Closing Date between Xerox and XCC.

"XEEP System" means that certain management information system as used by the JV to monitor and account for the Financing Contracts.

"Xerox" means Xerox Corporation, a New York corporation.

"XMC Code" means, with respect to any Financing Contract, the Xerox Marketing Code assigned to such Financing Contract on the date of its origination, which such Xerox Marketing Code is based upon the Standard Industrial Classification Code.

Unless otherwise specified, reference in this Agreement or any of the Appendices to an Article, Section, subsection or clause refer to such Article, Section, subsection or clause as contained in this Agreement. The words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole, including all Annexes, Exhibits and Disclosure Schedules, as the same may from time to time be amended, restated, modified or supplemented in accordance with their terms, and not to any particular section, subsection or clause contained in this Agreement or any such Annex, Exhibit or Schedule.

WHEREVER FROM THE CONTEXT IT APPEARS APPROPRIATE, EACH TERM STATED IN EITHER THE SINGULAR OR PLURAL SHALL INCLUDE THE SINGULAR AND THE PLURAL, AND PRONOUNS STATED IN THE MASCULINE, FEMININE OR NEUTER GENDER SHALL INCLUDE THE MASCULINE, FEMININE AND NEUTER GENDERS. THE WORDS "INCLUDING," "INCLUDES" AND "INCLUDE" SHALL BE DEEMED TO BE FOLLOWED BY THE WORDS "WITHOUT LIMITATION"; THE WORD "OR" IS NOT EXCLUSIVE; REFERENCES TO PERSONS INCLUDE THEIR RESPECTIVE SUCCESSORS AND ASSIGNS (TO THE EXTENT AND ONLY TO THE EXTENT PERMITTED BY THE LOAN DOCUMENTS) OR, IN THE CASE OF GOVERNMENTAL PERSONS, PERSONS SUCCEEDING TO THE RELEVANT FUNCTIONS OF SUCH PERSONS; AND ALL REFERENCES TO STATUTES AND RELATED REGULATIONS SHALL INCLUDE ANY AMENDMENTS OF THE SAME AND ANY SUCCESSOR STATUTES AND REGULATIONS. A FINANCING CONTRACT SHALL RELATE TO A PARTICULAR TERM LOAN IF THE PROCEEDS OF SUCH TERM LOAN WILL BE OR WERE USED BY BORROWER TO PAY XEROX THE PURCHASE PRICE OF SUCH FINANCING CONTRACT. WHENEVER ANY PROVISION IN THE LOAN AGREEMENT REFERS TO THE KNOWLEDGE (OR AN ANALOGOUS PHRASE) OF BORROWER OR ANY OTHER TRANSACTION PARTY, SUCH WORDS ARE INTENDED TO SIGNIFY THAT BORROWER OR SUCH OTHER TRANSACTION PARTY HAS ACTUAL KNOWLEDGE OR AWARENESS OF A PARTICULAR FACT OR CIRCUMSTANCE OR THAT BORROWER OR SUCH OTHER TRANSACTION PARTY, IF IT HAD EXERCISED REASONABLE DILIGENCE, WOULD HAVE KNOWN OR BEEN AWARE OF SUCH FACT OR CIRCUMSTANCE.

Annex E
to
Amended and Restated Loan Agreement
dated October 21, 2002

Calculation of Advance Rates, Discount Rate and Targeted Principal Balance

I Defined Terms:

Unless defined herein, capitalized terms used in this Annex shall have the meanings ascribed to them in Annex A to the Loan Agreement.

"Financing Contract Advance Rate" means, with respect to any Financing Contract, an amount equal to one (1) minus the Loss Component (expressed as a decimal) attributable to such Financing Contract.

"Term Loan Advance Rate" means, with respect to any Term Loan, an amount equal to one (1) minus the Term Loan Loss Ratio applicable to such Term Loan. The "Term Loan Loss Ratio" with respect to a Term Loan shall be calculated as follows: (i) first, for each Financing Contract related to such Term Loan, calculate the net present value (derived using a discount rate of 6%) of all Lease Payments or Installment Payments, as applicable, which became due or are to become due on or after the relevant Tagging Date for such Financing Contract (as determined by taking the amount set forth for such Financing Contract in Columns C through the end of the Statement of Cash Flows delivered in

connection with the Term Loan related thereto) (the "NPV Amount"), (ii) second, calculate the sum of the NPV Amounts for all Financing Contracts related to such Term Loan, (iii) third, for each Financing Contract related to such Term Loan, calculate the product of (a) the Loss Component attributable to such Financing Contract multiplied by (b) the NPV Amount for such Financing Contract (the "FC Loss Amount"), (iv) fourth, calculate the sum of the FC Loss Amounts for all Financing Contracts related to such Term Loan, and (v) fifth, divide the amount derived from clause (iv) by the number derived from clause (ii).

"Loss Component" means, with respect to any Financing Contract, an amount, determined as of the relevant Tagging Date, equal to:

(a) if such Financing Contract is currently paid or has four (4) or fewer Minimum Lease Payments or Periodic Installment Sale Payments, as applicable, due but uncollected, three (3) multiplied by the Loss Rate applicable to such Financing Contract;

(b) if such Financing Contract has five (5) Minimum Lease Payments or Periodic Installment Sale Payments, as applicable, due but uncollected, three and one-half (3.5) multiplied by the Loss Rate applicable to such Financing Contract;

(c) if such Financing Contract has six (6) Minimum Lease Payments or Periodic Installment Sale Payments, as applicable, due but uncollected, four (4) multiplied by the Loss Rate applicable to such Financing Contract; or

(d) if such Financing Contract has seven (7) minimum Lease Payments or Periodic Installment Sale Payments, as applicable, due but uncollected, four and one-half (4.5) multiplied by the Loss Rate applicable to such Financing Contract.

"Loss Rate" means, with respect to each Financing Contract, the loss rate set forth on Annex B to the Agreement, as determined by reference to the Credit Classification and Market Segment of such Financing Contract (as determined as of the date such Financing Contract was credit approved).

II Data Input:

Using the password protected Microsoft Excel model created by GE Capital, a copy of which is attached (by disk or CD) as Attachment I hereto, for each Term Loan, input the data as follows (Note: references herein to worksheet and cell shall mean those worksheets and cell locations in the Microsoft Excel model):

- 1) In cell F4 of the Assumptions worksheet, input the interest rate for the one (1) month US Dollar LIBOR rate determined by the British Bankers' Association as of the Borrowing Request Delivery Date.
- 2) In cell F5 of the Assumptions worksheet, input the interest rate for the two (2) month US Dollar LIBOR rate determined by the British Bankers' Association as of the Borrowing Request Delivery Date.
- 3) In cell F6 of the Assumptions worksheet, input the interest rate for the three (3) month US Dollar LIBOR rate determined by the British Bankers' Association as of the Borrowing Request Delivery Date.
- 4) In cell F7 of the Assumptions worksheet, input the interest rate for the six (6) month US Dollar LIBOR rate determined by the British Bankers' Association as of the Borrowing Request Delivery Date.
- 5) In cell F8 of the Assumptions worksheet, input the U.S. Dollar interest rate for one (1) year interest swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates. Rates are for a fixed rate payer in return for receiving three month

LIBOR, and are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.

- 6) In cell F9 of the Assumptions worksheet, input the U.S. Dollar interest rate for two (2) year interest rate swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates. Rates are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.
- 7) In cell F10 of the Assumptions worksheet, input the U.S. Dollar interest rate for three (3) year interest rate swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates. Rates are for a fixed rate payer in return for receiving three month LIBOR, and are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.
- 8) In cell F11 of the Assumptions worksheet, input the U.S. Dollar interest rate for four (4) year interest rate swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates. Rates are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.
- 9) In cell F12 of the Assumptions worksheet, input the U.S. Dollar interest rate for five (5) year interest rate swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates. Rates are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.
- 10) In cell F13 of the Assumptions worksheet, input the U.S. Dollar interest rate for seven (7) year interest rate swaps determined by the International Swaps and Derivatives Association (ISDA) mid-market par swap rates, Rates are based on rates collected at 11:00 a.m. (local time in New York) by Garban Intercapital plc and published on Reuters page ISDAFIX1 as of the Borrowing Request Delivery Date.
- 11) In cell F17 of the Assumptions worksheet, input the applicable Term Loan Advance Rate.
- 12) In cell C23 of the Assumptions worksheet, input the first monthly cash flow from Column C of the Statement of Cash Flows (representing the contractual Lease Payment or Installment Payment due in the month following the Tagging Date).
- 13) In cell C24 of the Assumptions worksheet, input the second monthly cash flow from the Statement of Cash Flows (representing the contractual Lease Payment or Installment Payment due in the month following the month in which Closing Date occurs). Continue to enter each monthly cash flow from the Statement of Cash Flows downward in cells C25 through C111.
- 14) In cell F15 of the Assumptions Worksheet, input the GE Capital Combined Tax Rate as of such date (as such term is defined in the Program Agreement).

From time to time Borrower may propose to Lender, for its consideration, an amendment to that portion of the Statement of Cash Flows data inputs referred to in items 12 and 13 of this Section II as Borrower may consider appropriate to reflect assumptions for prepayment, buyout, delinquency and write-off performance of the Portfolio as compared with the contractual repayment requirements and the mix inherent in such assumptions. Such amendment shall only be effective if Lender shall consent thereto in writing, in its sole discretion, in which case such amendment shall only be effective with respect to Additional Incremental Term Loans funded by Lender after the effective date of such amendment.

III Location of Model Output:

After input of the initial data, the Microsoft Excel model will calculate the following, which may be found in the model as follows (Note: references herein to worksheet and cell shall mean those worksheets and cell locations in the Microsoft Excel model):

- 1) The Discount Rate with respect to (a) the third through fifth Incremental Term Loans shall be the Blended for Term Rate found in cell M53 of the Blended for Term Worksheet (as such worksheet existed prior to the Amendment Effective Date) and (b) all Additional Incremental Term Loans shall be the Blended for Term Rate found in cell M106 of the Blended for Term worksheet. (Note: Computation of interest earned on the applicable Term Loan shall use a Discount Rate expressed to an accuracy of six decimal places, or four decimal places if expressed as a percentage.)
- 2) The principal amount of the applicable Term Loan (e.g., the Term Loan Amount) can be found in cell E121 of the Blended for Term worksheet. (Note: Computation of the principal amount of the applicable Term Loan shall use a Discount Rate expressed to an accuracy of six decimal places, or four decimal places if expressed as a percentage.)

Schedule 1.1
to
Loan Agreement
Existing Term Loans

1. Initial Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$835,076,177
 - (b) Discount Rate: 5.2661%
2. First Incremental Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$340,371,789
 - (b) Discount Rate: 5.5998%
3. Second Incremental Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$266,058,005
 - (b) Discount Rate: 5.8877%
4. Third Incremental Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$499,015,108
 - (b) Discount Rate: 5.5502%
5. Fourth Incremental Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$208,076,370
 - (b) Discount Rate: 4.6984%
6. Fifth Incremental Term Loan:
 - (a) Original Principal Balance as of 10/14/02: \$314,536,914
 - (b) Discount Rate: 4.5959%

Xerox Corporation

Computation of Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges, the ratio of earnings to combined fixed charges and preferred stock dividends are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income (loss) from continuing operations before income taxes; (b) distributed equity income; (c) fixed charges, as defined below and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest, if any.

Fixed charges are calculated as the sum of (a) interest costs (both expensed and capitalized), (b) amortization of debt expense and discount or premium relating to any indebtedness and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consist of the amount of pre-tax earnings required to cover dividends paid on our Series B convertible preferred stock and our Series C mandatory convertible preferred stock. The Series B dividends were tax deductible and, as such, were equivalent to the pre-tax earnings required to cover such dividends. The Series B convertible preferred stock was redeemed and converted to common stock as of May 27, 2004 and, as such, there were no dividends beyond such date. Series C mandatory convertible preferred stock was redeemed and converted to common stock as of July 3, 2006 and, as such, there were no dividends beyond such date.

(in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Fixed charges:					
Interest expense	\$567	\$ 579	\$ 544	\$ 557	\$ 708
Capitalized interest	10	8	—	—	—
Portion of rental expense which represents interest factor	84	95	90	74	105
Total Fixed charges	<u>\$661</u>	<u>\$ 682</u>	<u>\$ 634</u>	<u>\$ 631</u>	<u>\$ 813</u>
Earnings available for fixed charges:					
(Loss) Earnings	\$ (1)	\$1,535	\$ 922	\$ 928	\$1,116
Adjusted for: Undistributed equity in income of affiliated companies	(53)	(60)	(70)	(54)	(89)
Add: Fixed charges	661	682	634	631	813
Less: Capitalized interest	(10)	(8)	—	—	—
Total Earnings available for fixed charges	<u>\$597</u>	<u>\$2,149</u>	<u>\$1,486</u>	<u>\$1,505</u>	<u>\$1,840</u>
Ratio of earnings to fixed charges	*	3.15	2.34	2.39	2.26

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

(in millions)	Year Ended December 31,				
	2008	2007	2006	2005	2004
Fixed charges:					
Interest expense	\$567	\$ 579	\$ 544	\$ 557	\$ 708
Capitalized interest	10	8	—	—	—
Portion of rental expense which represents interest factor	84	95	90	74	105
Total Fixed charges before preferred stock dividends pre-tax income requirements	661	682	634	631	813
Preferred stock dividends pre-tax income requirements	—	—	48	94	110
Total Combined fixed charges and preferred stock dividends	<u>\$661</u>	<u>\$ 682</u>	<u>\$ 682</u>	<u>\$ 725</u>	<u>\$ 923</u>
Earnings available for fixed charges:					
(Loss) Earnings	\$ (1)	\$1,535	\$ 922	\$ 928	\$1,116
Adjusted for: Undistributed equity in income of affiliated companies	(53)	(60)	(70)	(54)	(89)
Add: Fixed charges before preferred stock dividends	661	682	634	631	813
Less: Capitalized interest	(10)	(8)	—	—	—
Total Earnings available for fixed charges and preferred stock dividends	<u>\$597</u>	<u>\$2,149</u>	<u>\$1,486</u>	<u>\$1,505</u>	<u>\$1,840</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	*	3.15	2.18	2.08	1.99

* Earnings for the year ended December 31, 2008 were inadequate to cover fixed charges by \$64.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis ("MD&A") is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and the accompanying notes.

Throughout this document, references to "we," "our," the "Company" and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand-alone parent company and do not include its subsidiaries.

Executive Overview

We are a technology and services enterprise and a leader in the global document market, developing, manufacturing, marketing, servicing and financing the industry's broadest portfolio of document equipment, solutions and services. Increasingly, businesses are digitally creating and storing documents and using the Internet to exchange electronic documents. More customers are seeking to gain efficiencies in their document management processes and are looking to us for document-related services to achieve those efficiencies. We believe these trends play to the strengths of our product and service offerings and represent opportunities for future growth in the \$132 billion market we serve. These transformations also represent opportunities for future growth since our research and development investments have been focused on digital, color and services offerings and our acquisitions have focused on expanding our services, software and distribution capabilities.

We operate in a global business environment, serving a wide range of customers with about 50 percent of our revenue generated from customers outside the U.S. Our markets are competitive. Customers are demanding document services such as assessment consulting, managed services, imaging and hosting and document intensive business process improvements. Additionally, our customers demand improved technology solutions, such as the ability to print offset quality color documents on-demand; improved product functionality, such as the ability to print, copy, fax and scan from a single device; and lower prices for the same functionality.

Our business model is built upon an annuity model that yields consistent strong cash flow, expanded earnings and enables us to provide good returns to shareholders. The majority of our revenue (supplies, service, paper, outsourcing, rentals and financing) is recurring, which we collectively refer to as post sale revenue. This recurring revenue provides a significant degree of stability to our revenue, profits and cash flow. Post sale revenue currently represents more than 70 percent of the Company's revenue and is driven by the amount of equipment installed at customer locations and the utilization of that equipment. As such, our critical success factors include equipment installations, which stabilize and grow our installed base of equipment at customer locations, page volume growth and higher revenue per page. Key drivers to increase equipment usage are connected multifunction devices, new services and solutions. The transition to color is the primary driver to improve revenue per page, as color documents typically require significantly more toner coverage per page than traditional black-and-white printing. In addition, our growing services business, including offerings such as managed print services which help customers reduce their costs, also drives post sale revenue.

In 2008, we completed several acquisitions to further strengthen our distribution capacity and expand our reach in the small to mid-size business ("SMB") market. Global Imaging Systems, Inc. ("GIS") acquired Saxon Business Systems ("Saxon"), an office equipment supplier with offices throughout Florida, as well as three additional smaller businesses – Better Quality Business Systems, Precision Copier Service Inc. DBA Sierra Office Solutions and Inland Business Systems of Chico. We also acquired Veenman B.V. ("Veenman"), expanding our reach into the SMB market in Europe. Veenman is Netherlands' leading independent distributor of office printers, copiers and multifunction devices serving small and mid-size businesses.

Financial Overview

2008 was an extremely challenging year due to worldwide economic weakness, particularly in the second half of the year. The unfavorable economic conditions, as well as a rapid shift in currency exchange rates and the related impact on foreign currency revenue and purchases put significant pressure on the business in 2008. The downturn in the economy adversely impacted equipment sales to large enterprises, as well as revenues from high volume production systems. In the fourth quarter of 2008, the increasingly wide-spread economic concerns found customers and partners prioritizing cash and delaying decisions on major contracts. In addition, our distribution partners reduced their inventories of supplies at year end, which negatively impacted our post sale revenue.

Revenue from our developing markets were also negatively impacted by the dramatic weakening of the Russian and eastern European economies.

Despite the difficult economic conditions in the second half of 2008, total revenue in 2008 increased 2% over the prior year, reflecting 4% growth in post sale revenue offset by a 2% decline in equipment sales revenue. Total color revenue of \$6.7 billion was up 5% over the prior year, benefiting from our investments in this market and post sale revenue for document management services (also referred to as "Xerox Global Services") of \$3.5 billion increased 3% over 2007.

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2008 total gross margin of 38.9% was 1.4-percentage points below the prior year. Pricing, product mix and unfavorable exchange rates on our Yen based inventory purchases were only partially offset by cost productivity improvements. Selling, administrative and general ("SAG") expenses as a percent of revenue were 25.7 percent or 0.7-percentage points higher than the prior year. SAG expenses increased due to the full year inclusion of GIS, higher bad debt provisions and increased marketing investments partially offset by restructuring savings. Additionally, we continued to invest in research and development and to prioritize our investments in the faster growing areas of the market. Research, development and engineering ("RD&E") expenses were 5% of revenue in 2008, which is consistent with the prior year. Our investments in the growing areas of digital production and office systems, particularly with respect to color products, contributed to more than two-thirds of our equipment sales being generated from products launched in the last two years.

Changes in our revenue mix – both from geographic and product line perspectives – have reduced our gross profit margins. This, combined with uncertain economic conditions, required us to take actions to adjust our cost and expense profile. Accordingly, we recognized pre-tax restructuring charges of \$429 million for 2008 actions in order to reduce our cost base and provide increased flexibility in our business in this depressed or recessionary economy. Refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for further information.

Our balance sheet strategy focused on optimizing operating cash flows and returning value to shareholders through acquisitions, share repurchase and dividends. We continue to maintain debt levels primarily to support our customer financing operations. Cash flow from operations was \$939 million in 2008 and included \$615 million of net securities-related litigation payments as we resolved two long standing securities litigation cases. Cash used for investments was \$441 million and included capital expenditures of \$335 million and acquisitions of \$155 million. Cash used for financing of \$311 million reflected continued net repayments of secured borrowings of \$227 million; \$812 million for share repurchases; and \$154 million for dividends, partially offset by net cash flows from new borrowings of \$926 million. New borrowings included \$1.4 billion of Senior Notes in an April 2008 public offering. We finished the year with cash and cash equivalents of \$1.2 billion.

Our prospective balance sheet strategy includes: optimizing operating cash flows; maintaining our investment grade credit ratings; achieving an optimal cost of capital; and effectively deploying cash to deliver and maximize long-term shareholder value through acquisitions, share repurchase and dividends. However, due to the current economic uncertainty, we have no immediate plans for further share repurchases at this time. Our strategy also includes appropriately leveraging our financing assets (finance receivables and equipment on operating leases).

Currency Impacts

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenues and expenses. We refer to this analysis as "currency impact" or "the impact from currency". Revenues and expenses from our developing markets are analyzed at actual exchange rates for all periods presented, since these countries generally have volatile currency and inflationary environments, and our operations in these countries have historically implemented pricing actions to recover the impact of inflation and devaluation. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency.

Approximately 50% of our consolidated revenues are derived from operations outside of the United States where the U.S. Dollar is not the functional currency. When compared with the average of the major European currencies and Canadian Dollar on a revenue-weighted basis, the U.S. Dollar was 3% weaker in 2008 and 9% weaker in 2007, each compared to the prior year. As a result, the foreign currency translation impact on revenue was a 1% benefit in 2008 and a 3% benefit in 2007.

Currency exchange rates fluctuated significantly in the fourth quarter 2008. The U.S. Dollar strengthened significantly in the fourth quarter 2008 as compared to the currencies of our major foreign operations – the Euro, Pound Sterling and Canadian Dollar. The foreign currency translation impact on revenue from this fluctuation in exchange rates was a 3% point benefit through the third quarter 2008 as compared to a 5% detriment in the fourth quarter 2008. If U.S. Dollar exchange rates against these major currencies remain at their current levels we expect it will have an estimated 5% to 6% negative impact on total revenue in the first half of 2009.

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Summary Results

Revenue

Revenues for the three years ended December 31, 2008 were as follows:

(in millions)	Year Ended December 31,			Percent Change	
	2008	2007	2006	2008	2007
Equipment sales	\$ 4,679	\$ 4,753	\$ 4,457	(2)%	7%
Post sale revenue ⁽¹⁾	12,929	12,475	11,438	4 %	9%
Total Revenue	\$ 17,608	\$ 17,228	\$ 15,895	2 %	8%

Reconciliation to Consolidated Statements of Income

Sales	\$ 8,325	\$ 8,192	\$ 7,464		
Less: Supplies, paper and other sales	(3,646)	(3,439)	(3,007)		
Equipment sales	\$ 4,679	\$ 4,753	\$ 4,457		
Service, outsourcing and rentals	\$ 8,485	\$ 8,214	\$ 7,591		
Finance income	798	822	840		
Add: Supplies, paper and other sales	3,646	3,439	3,007		
Post sale revenue	\$ 12,929	\$ 12,475	\$ 11,438		
Memo: Color⁽³⁾	\$ 6,669	\$ 6,356	\$ 5,578	5%	14%

Total 2008 revenue increased 2% compared to the prior year and was flat when including GIS in our 2007 results.⁽²⁾ Currency had a 1-percentage point positive impact on total revenues. Total revenues included the following:

- 4% increase in post sale revenue, or 2% including GIS in our 2007 results.⁽²⁾ This included a 1-percentage point benefit from currency. Growth in GIS, color products and document management services offset the declines in high-volume black-and-white printing systems, black-and-white multifunction devices and light lens product revenue. The components of post sale revenue increased as follows:
 - 3% increase in service, outsourcing, and rentals revenue to \$8,485 million reflected the full year inclusion of GIS, and growth in document management services.
 - Supplies, paper, and other sales of \$3,646 million grew 6% year-over-year due to the full year inclusion of GIS as well as growth in color supplies and paper sales.
- 2% decrease in equipment sales revenue. There was no impact from currency on equipment sales revenue. When including GIS in our 2007 results,⁽²⁾ equipment sales revenue decreased 5%, with a 1-percentage point benefit from currency. Overall price declines of between 5%- 10% as well as product mix more than offset overall growth in install activity.
- 5% growth in color revenue.⁽³⁾ Color revenue of \$6,669 million in 2008 represented 41% of total revenue, excluding GIS, compared to 39% in 2007 reflecting:
 - 10% growth in color post sale revenue to \$4,590 million. Color post sale revenue represented 37% and 35% of post sale revenue, in 2008 and 2007, respectively.⁽⁴⁾
 - Color equipment sales revenue declined 4% to \$2,079 million. Color equipment sales represented 50% of total equipment sales, in 2008 and 2007,⁽⁴⁾ respectively.
 - 24%⁽⁵⁾ growth in color pages. Color pages represented 18%⁽⁵⁾ and 12% of total pages in 2008 and 2007, respectively.

Total 2007 revenue increased 8% compared to the prior year and includes the results of GIS since May 9, 2007, the effective date of our acquisition. When including GIS in our 2006 results,⁽²⁾ our 2007 total revenue increased 4%. Currency had a 3-percentage point positive impact on total revenues. Total revenues included the following:

- 9% increase in post sale revenue, or 6% including GIS in our 2006 results.⁽²⁾ This included a 3-percentage point benefit from currency. Growth in GIS, color products, developing markets and document management services more than offset the decline in black-and-white digital office revenue and light lens product revenue. The components of post sale revenue increased as follows:
 - 8% increase in service, outsourcing and rentals revenue to \$8,214 million reflected the inclusion of GIS, growth in document management services and technical service revenue.
 - Supplies, paper and other sales of \$3,439 million grew 14% year-over-year due to the inclusion of GIS as well as growth in developing markets.
- 7% increase in equipment sales revenue, or a decrease of 1% when including GIS in our 2006 results.⁽²⁾ This included a 3-percentage point benefit from currency. Growth in office multifunction color and production color install activity was offset by overall price declines of between 5%-10%, declines in production black-and-white products and color printers, as well as an increased proportion of equipment installed under operating lease contracts where revenue is recognized over-time in post sale.

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- 14% growth in color revenue.⁽³⁾ Color revenue of \$6,356 million in 2007 comprised 39% of total revenue, compared to 35% in 2006 reflecting:
 - 18% growth in color post sale revenue to \$4,180 million. Color post sale revenue represented 35% and 31% of post sale revenue, in 2007 and 2006, respectively.⁽⁴⁾
 - 7% growth in color equipment sales revenue to \$2,176 million. Color equipment sales represented 49% and 45% of total equipment sales, in 2007 and 2006, respectively.⁽⁴⁾
 - 31% growth in color pages. Color pages represented 12% and 9% of total pages in 2007 and 2006, respectively.⁽⁴⁾

- (1) Post sale revenue is largely a function of the equipment placed at customer locations, the volume of prints and copies that our customers make on that equipment, the mix of color pages and associated services.
- (2) The percentage point impacts from GIS reflect the revenue growth year-over-year after including GIS's results for 2007 and 2006 on a proforma basis. See "Non-GAAP Financial Measures" section for an explanation of this non-GAAP measure.
- (3) Color revenues represent a subset of total revenues and excludes the impact of GIS's revenues.
- (4) As of December 31, 2008, total color, color post sale and color equipment sales revenues comprised 41%, 37% and 50%, respectively, if calculated on total, total post sale, and total equipment sales revenues, including GIS. GIS is excluded from the color information presented, because the breakout of the information required to make this computation for all periods is not available.
- (5) Pages include estimates for developing markets, GIS and printers.

Net Income

Net income and diluted earnings per share for the three years ended December 31, 2008 were as follows:

(in millions, except per share amounts)	2008	2007	2006
Net income	\$ 230	\$ 1,135	\$ 1,210
Diluted earnings per share	\$ 0.26	\$ 1.19	\$ 1.22

2008 Net income of \$230 million, or \$0.26 per diluted share, included the following:

- \$491 million after-tax charges (\$774 million pre-tax) associated with securities-related litigation matters as well as other probable litigation-related losses including \$36 million for the Brazilian labor-related contingencies.
- \$292 million after-tax charge (\$426 million pre-tax) for second, third and fourth quarter 2008 restructuring and asset impairment actions.
- \$24 million after-tax charge (\$39 million pre-tax) for an Office product line equipment write-off.
- \$41 million income tax benefit from the settlement of certain previously unrecognized tax benefits.

2007 Net income of \$1,135 million, or \$1.19 per diluted share, included \$30 million after-tax charge for our share of Fuji Xerox ("FX") restructuring charges.

2006 Net income of \$1,210 million, or \$1.22 per diluted share, included the following:

- \$472 million income tax benefit related to the favorable resolution of certain tax matters from the 1999-2003 IRS audit.
- \$68 million (pre-tax and after-tax) for probable losses on Brazilian labor-related contingencies.
- \$46 million tax benefit resulting from the resolution of certain tax matters associated with foreign tax audits.
- \$9 million after-tax (\$13 million pre-tax) charge from the write-off of the remaining unamortized deferred debt issuance costs as a result of the termination of our 2003 Credit Facility.
- \$257 million after-tax (\$385 million pre-tax) restructuring and asset impairment charges.

Application of Critical Accounting Policies

In preparing our Consolidated Financial Statements and accounting for the underlying transactions and balances, we apply various accounting policies. Senior management has discussed the development and selection of the critical accounting policies, estimates and related disclosures, included herein, with the Audit Committee of the Board of Directors. We consider the policies discussed below as critical to understanding our Consolidated Financial Statements, as their application places the most significant demands on management's judgment, since financial reporting results rely on estimates of the effects of matters that are inherently uncertain. In instances where different estimates could have reasonably been used, we disclosed the impact of these different estimates on our operations. In certain instances, like revenue recognition for leases, the accounting rules are prescriptive; therefore, it would not have been possible to reasonably use different estimates. Changes in assumptions and estimates are reflected in the period in which they occur. The impact of such changes could be material to our results of operations and financial condition in any quarterly or annual period.

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Specific risks associated with these critical accounting policies are discussed throughout the MD&A, where such policies affect our reported and expected financial results. For a detailed discussion of the application of these and other accounting policies, refer to Note 1 – Summary of Significant Accounting Policies, in the Consolidated Financial Statements.

Revenue Recognition for Leases

Our accounting for leases involves specific determinations under applicable lease accounting standards, which often involve complex and prescriptive provisions. These provisions affect the timing of revenue recognition for our equipment. If a lease qualifies as a sales-type capital lease, equipment revenue is recognized upon delivery or installation of the equipment as sale revenue as opposed to ratably over the lease term. The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended.

Revenue Recognition Under Bundled Arrangements

We sell the majority of our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated monthly fixed price for all elements over the contractual lease term. Typically these arrangements include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. Revenues under these arrangements are allocated, considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement, based upon the estimated relative fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of supplies and non-maintenance services. Our revenue allocation for lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. The remaining amounts are allocated to the equipment and financing elements. We perform extensive analyses of available verifiable objective evidence of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values included in our lease accounting systems. The range of cash selling prices must be reasonably consistent with the lease selling prices, taking into account residual values, in order for us to determine that such lease prices are indicative of fair value.

Our pricing interest rates, which are used in determining customer payments, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have been historically adjusted if the rates vary by twenty-five basis points or more, cumulatively, from the last rate in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices. In light of worldwide economic conditions prevailing at the end of 2008, we expect to continually review this methodology in 2009 to ensure that our pricing interest rates are reflective of changes in the local prevailing rates in the marketplace.

Allowance for Doubtful Accounts and Credit Losses

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience credit loss rates similar to those we have experienced in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. We recorded bad debt provisions of \$188 million, \$134 million and \$87 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2008, 2007 and 2006, respectively.

Historically, the majority of the bad debt provision relates to our finance receivables portfolio. This provision is inherently more difficult to estimate than the provision for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. The estimated credit quality of any given customer and class of customer or geographic location can significantly change during

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the life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the provision for doubtful accounts. The current economic environment has increased the risk of non-collection of receivables. We have accordingly considered this increased risk in the evaluation and assessment of our allowance for doubtful accounts at year-end. Collection risk is somewhat mitigated by the fact that our receivables are fairly well dispersed among a diverse customer base both in size and geography. Days sales outstanding remained fairly flat year-over-year. In addition, the aging of receivables has not increased significantly. Accounts receivable balances greater than 60 days outstanding were 17% of total gross accounts receivables at December 31, 2008 as compared to 15% at December 31, 2007. However, we continue to assess our receivable portfolio in light of the current economic environment and its impact on our estimation of the adequacy of the allowance for doubtful accounts.

As discussed above, in preparing our Consolidated Financial Statements for the three year period ended December 31, 2008, we estimated our provision for doubtful accounts based on historical experience and customer-specific collection issues. This methodology has been consistently applied for all periods presented. During the five year period ended December 31, 2008, our reserve for doubtful accounts ranged from 3.0% to 4.2% of gross receivables. Holding all other assumptions constant, a 1-percentage point increase or decrease in the reserve from the December 31, 2008 rate of 3.4% would change the 2008 provision by approximately \$98 million.

Pension and Post-Retirement Benefit Plan Assumptions

We sponsor defined benefit pension plans in various forms in several countries covering substantially all employees who meet eligibility requirements. Post-retirement benefit plans cover primarily U.S. employees for retirement medical costs. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and post-retirement benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Difference between these assumptions and actual experiences are reported as net actuarial gains and losses and are subject to amortization to net periodic pension cost over the average remaining service lives of the employees participating in the pension plan.

Cumulative actuarial losses for our pension plans as of December 31, 2008 were \$1.8 billion, as compared to \$1 billion at December 31, 2007. The change from December 31, 2007 relates primarily to actual losses on plan assets in 2008 as compared to expected returns partially offset by an increase in the discount rate. The total actuarial loss will be amortized in the future, subject to offsetting gains or losses that will change the future amortization amount.

We have utilized a weighted average expected rate of return on plan assets of 7.6% for 2008, 7.6% for 2007 and 7.8% for 2006, on a worldwide basis. In estimating this rate, we considered the historical returns earned by the plan assets, the rates of return expected in the future and our investment strategy and asset mix with respect to the plans' funds.

During 2008, the actual loss on plan assets was \$1.5 billion, primarily as a result of the significant declines in the equity markets during the fourth quarter of 2008. In estimating the 2009 expected rate of return we considered this significant decline in the fair value of our plan assets as well as potential changes in our investment mix, partly in response to the significant volatility expected in the equity markets for the foreseeable future. The weighted average expected rate of return on plan assets we will utilize for 2009 will be 7.4% as compared to 7.6% in 2008.

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, as opposed to a fair market value approach. The primary difference between the two methods relates to a systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is then applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that can result from using the fair market value approach. The difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative differences that arose in prior years. This amount is a component of the net actuarial gain or loss.

Another significant assumption affecting our pension and post-retirement benefit obligations and the net periodic pension and other post-retirement benefit cost is the rate that we use to discount our future anticipated benefit obligations. The discount rate reflects the current rate at which the pension liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating this rate, we consider rates of return on high quality fixed-income investments included in various published bond indices, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds. In the U.S. and the U.K., which comprise approximately 80% of our projected benefit obligations,

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we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. Due to the recent, unprecedented events in the financial markets associated with the current credit environment, there is a greater than usual disparity in yields among the bonds included in the various indices used to determine our pension discount rates. Given this disparity, we carefully evaluated our existing methodologies for determining our pension discount rates and refined those methodologies to the extent required to ensure we selected an appropriate discount rate. The weighted average discount rate we utilized to measure our pension obligation as of December 31, 2008 and to calculate our 2009 expense was 6.3%, which is an increase of 0.4% from 5.9% used in determining our 2008 expense. The increase is primarily driven by our U.K. and Canadian plans.

Assuming settlement losses in 2009 are consistent with 2008, our 2009 net periodic defined benefit pension cost is expected to be approximately \$20 million higher than 2008, primarily as a result of the reduction in the expected return on plan assets due to lower asset values and increased amortization of actuarial gains and losses partially offset by an increase in the discount rate.

On a consolidated basis, we recognized net periodic pension cost of \$254 million, \$315 million and \$425 million for the years ended December 31, 2008, 2007 and 2006, respectively. The costs associated with our defined contribution plans, which are included in net periodic pension cost, were \$80 million, \$80 million and \$70 million for the years ended December 31, 2008, 2007 and 2006, respectively. Pension cost is included in several income statement components based on the related underlying employee costs. Pension and post-retirement benefit plan assumptions are included in Note 14 – Employee Benefit Plans in the Consolidated Financial Statements. Holding all other assumptions constant, a 0.25% increase or decrease in the discount rate would (decrease)/increase the 2009 projected net periodic pension cost by \$(13) million or \$18 million, respectively. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2009 projected net periodic pension cost by \$11 million.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded in our Consolidated Balance Sheets and provide valuation allowances as required. We regularly review our deferred tax assets for recoverability considering historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Conversely, if and when our operations in some jurisdictions were to become sufficiently profitable to recover previously reserved deferred tax assets, we would reduce all or a portion of the applicable valuation allowance in the period when such determination is made. This would result in an increase to reported earnings in such period. Adjustments to our valuation allowance, through charges to income tax expense, were \$17 million, \$14 million and \$12 million for the years ended December 31, 2008, 2007 and 2006, respectively. There were other (decreases) increases to our valuation allowance, including the effects of currency, of \$(136) million, \$86 million and \$45 million for the years ended December 31, 2008, 2007 and 2006, respectively, that did not affect income tax expense in total as there was a corresponding adjustment to deferred tax assets or other comprehensive income. Gross deferred tax assets of \$3.8 billion and \$3.6 billion had valuation allowances of \$628 million and \$747 million at December 31, 2008 and 2007, respectively.

We are subject to ongoing tax examinations and assessments in various jurisdictions. Accordingly, we may incur additional tax expense based upon our assessment of the more-likely-than-not outcomes of such matters. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can materially increase or decrease our effective tax rate as well as impact our operating results.

We file income tax returns in the U.S. Federal jurisdiction and various foreign jurisdictions. In the U.S. we are no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2007. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2000.

Legal Contingencies

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and ERISA, as discussed in Note 16 – Contingencies in the Consolidated Financial Statements. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable

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and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Business Combinations and Goodwill

The application of the purchase method of accounting for business combinations requires the use of significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between assets that are depreciated and amortized from goodwill. Our estimates of the fair values of assets and liabilities acquired are based upon assumptions believed to be reasonable, and when appropriate, include assistance from independent third-party appraisal firms.

As a result of our acquisition of GIS, as well as other prior year acquisitions, we have a significant amount of goodwill. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital for purposes of establishing a discount rate and relevant market data.

Our annual impairment test of goodwill is performed in the fourth quarter. The estimated fair values of the Company's reporting units were based on discounted cash flow models derived from internal earnings forecasts and assumptions. The assumptions and estimates used in those valuations incorporated the expected impact of the challenging economic environment that has persisted over the past year. In performing our 2008 impairment test, the following were the overall composite long-term assumptions regarding revenue and expense growth, which were the basis for estimating future cash flows used in the discounted cash flow model: 1) revenue growth 3%; 2) gross margin 39-40%; 3) RD&E 4-5%; 4) SAG 24-25%; and 5) return on sales 8-9%. We believe these estimated assumptions are appropriate for our circumstances, in-line with historical results and consistent with our forecasted long-term business model. These assumptions also have considered the current economic environment.

Based on those valuations, we determined that the fair values of our reporting units exceeded their carrying values and no goodwill impairment charge was required during the fourth quarter. In light of the continued difficult economic conditions and the fact that the Company's stock has been generally trading below net book value per share over the past quarter, we reassessed our assumptions as of December 31, 2008. We do not believe the recent general downturn in the U.S. equity markets is representative of any fundamental change in our business. Based on current results and expectations, we determined that the fair values of our reporting units continue to exceed their carrying values and determined that no goodwill impairment charge was required as of December 31, 2008.

Refer to Note 1 – Summary of Significant Accounting Policies – “Goodwill and Intangible Assets” for further information regarding our goodwill impairment testing, as well as Note 8 – Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for further information regarding goodwill by operating segment.

Management's Discussion

Operations Review

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Production, Office and Other. See Note 2 – Segment Reporting in the Consolidated Financial Statements for further discussion on our segment operating revenues and segment operating profit.

Revenues by segment for the years ended 2008, 2007 and 2006 were as follows:

(in millions)	Year Ended December 31,			
	Production	Office	Other	Total
2008				
Equipment sales	\$ 1,325	\$3,105	\$ 249	\$ 4,679
Post sale revenue	3,912	6,723	2,294	12,929
Total Revenues	\$ 5,237	\$9,828	\$2,543	\$17,608
Segment Profit (Loss)	\$ 394	\$1,062	\$ (165)	\$ 1,291
Operating Margin	7.5%	10.8%	(6.5)%	7.3%
2007				
Equipment sales	\$ 1,471	\$3,030	\$ 252	\$ 4,753
Post sale revenue	3,844	6,443	2,188	12,475
Total Revenues	\$ 5,315	\$9,473	\$2,440	\$17,228
Segment Profit (Loss)	\$ 562	\$1,115	\$ (89)	\$ 1,588
Operating Margin	10.6%	11.8%	(3.7)%	9.2%
2006				
Equipment sales	\$ 1,491	\$2,786	\$ 180	\$ 4,457
Post sale revenue	3,564	5,926	1,948	11,438
Total Revenues	\$ 5,055	\$8,712	\$2,128	\$15,895
Segment Profit (Loss)	\$ 504	\$1,010	\$ (124)	\$ 1,390
Operating Margin	10.0%	11.6%	(5.8)%	8.7%

In 2008 we revised our segment reporting to integrate the Developing Markets Operations ("DMO") into the Production, Office and Other segments. DMO is a geographic region that has matured to a level where we now manage it on the basis of products sold, consistent with our North American and European geographic regions. All prior periods presented have been restated accordingly.

Note:

- Install activity percentages include the Xerox-branded product shipments to GIS.

Management's Discussion

Segment Revenue and Operating Profit

Production

Revenue

2008 Production revenue of \$5,237 million decreased 1%, including a 1-percentage point benefit from currency, reflecting:

- 2% increase in post sale revenue as growth from color, continuous feed and light production products offset declines in revenue from black-and-white high-volume printing systems and light lens devices.
- 10% decrease in equipment sales revenue, primarily reflecting pricing declines in both black-and-white and color production systems, driven in part by weakness in the U.S.
- 1% increase in installs of production color products driven in part by Xerox 700 and iGen4™ activity as well as color continuous feed.
- 6% decline in installs of production black-and-white systems driven primarily by declines in installs of light production systems.

2007 Production revenue of \$5,315 million increased 5%, including a 4-percentage point benefit from currency, reflecting:

- 8% increase in post sale and other revenue, including a 4-percentage point benefit from currency, as growth from digital products more than offset declines in revenue from older light lens technology.
- 1% decrease in equipment sales revenue, including a 3-percentage point benefit from currency, reflecting growth in production color systems offset by declines in black-and-white production printing systems and light production and an increased proportion of equipment installed under operating lease contracts where revenue is recognized over-time in post sale.
- 6% growth in installs of production color products driven by DocuColor® 242/252/260 family, DocuColor 5000 and iGen3® activity.
- 8% decline in installs of production black-and-white systems reflecting declines in installs of both high-volume and light production systems.

Operating Profit

2008 Operating profit of \$394 million decreased \$168 million from 2007. The decrease is primarily the result of lower revenue and lower gross margins due to pricing and product mix as well as increased SAG expenses.

2007 Operating profit of \$562 million increased \$58 million from 2006. The increase is primarily the result of higher gross profit and lower R,D&E, partially offset by an increase in bad debt expense.

Office

Revenue

2008 Office revenue of \$9,828 million increased 4%, including a 1-percentage point benefit from currency, as well as the benefits from our expansion in the SMB market through GIS and Veenman. Revenue for 2008 reflects:

- 4% increase in post sale revenue, reflecting the full year inclusion of GIS as well as growth from color multifunction devices and color printers partially offset by declines in black-and-white digital devices. Office post sale revenue was negatively impacted in the fourth quarter of 2008 by declines in channel supply purchases, including lower purchases within developing markets.
- 2% increase in equipment sales revenue, reflecting the full year inclusion of GIS as well as growth from color digital products which more than offset declines from black-and-white devices primarily due to price declines and product mix.
- 24% color multifunction device install growth led by strong demand for Xerox WorkCentre® and Phaser® products.
- 8% increase in installs of black-and-white copiers and multifunction devices, including 8% growth in Segment 1&2 products (11-30 ppm) and 8% growth in Segment 3-5 products (31-90 ppm). Segment 3-5 installs include the Xerox 4595, a 95 ppm device with an embedded controller.
- 12% increase in color printer installs.

2007 Office revenue of \$9,473 million increased 9%, including a 3-percentage point benefit from currency, reflecting:

- 9% increase in post sale revenue, reflecting the inclusion of GIS since May 2007 as well as growth from color multifunction devices and color printers.
- 9% increase in equipment sales revenue, reflecting the inclusion of GIS since May 2007 as well as color multifunction products install growth.
- 65% color multifunction device install growth led by strong demand for Xerox WorkCentre products.
- 5% increase in installs of black-and-white copiers and multifunction devices, including 4% growth in Segment 1&2 products (11-30 ppm) and 7% growth in Segment 3-5 products (31-90 ppm) that includes the 95 ppm device with an embedded controller.
- 10% decline in color printer installs due to lower OEM sales.

Management's Discussion

Operating Profit

2008 Operating profit of \$1,062 million decreased \$53 million from 2007. The decrease was primarily due to lower gross profits reflecting lower margins as well as higher SAG expenses partially offset by the full year inclusion of GIS.

2007 Operating profit of \$1,115 million increased \$105 million from 2006. The increase was primarily due to the inclusion of GIS since May 2007 and higher gross profits partially offset by higher SAG expenses.

Other

Revenue

2008 Other revenue of \$2,543 million increased 4% primarily reflecting the full year inclusion of GIS and increased paper revenue partially offset by lower revenue from wide format systems. There was no impact from currency. Paper comprised approximately 50% of Other segment revenue.

2007 Other revenue of \$2,440 million increased 15%, including a 3-percentage point benefit from currency, primarily reflecting the inclusion of GIS since May 2007 as well as increased paper and value-added services revenues. Paper comprised approximately 50% of Other segment revenue.

Operating Loss

2008 Operating loss of \$165 million increased \$76 million from 2007 reflecting lower wide format revenue, higher foreign exchange losses and lower interest income partially offset by gains on sales of assets.

2007 Operating loss of \$89 million decreased \$35 million from 2006 reflecting higher revenue as well as lower currency exchange losses and litigation charges, partially offset by higher interest expense and lower gains on the sales of businesses and assets.

Costs, Expenses and Other Income

Gross Margin

Gross margins by revenue classification were as follows:

	Year Ended December 31,		
	2008	2007	2006
Sales	33.7%	35.9%	35.7%
Service, outsourcing and rentals	41.9%	42.7%	43.0%
Finance income	61.8%	61.6%	63.7%
Total Gross margin	38.9%	40.3%	40.6%

2008 Total gross margin decreased 1.4-percentage points compared to 2007 as price declines and mix of approximately 2.0-percentage points were only partially offset by cost productivity improvements. Cost improvements were limited by an unfavorable impact on product costs of approximately 0.5-percentage points from the significant strengthening of the Yen versus the U.S. Dollar and Euro. The negative impact of 0.3-percentage points from an Office product line equipment write-off was offset by positive adjustments related to the capitalized costs for equipment on operating leases and European product disposal costs.

- Sales gross margin decreased 2.2-percentage points primarily due to the approximately 2.5-percentage point impact of price declines as well as channel and product mix. Cost improvements, which historically tend to offset price declines, were limited in 2008 by the adverse impact of the strengthening Yen on our inventory purchases.
- Service, outsourcing and rentals margin decreased 0.8-percentage points primarily due to mix as price declines of 1.3-percentage points were offset by cost improvements. Mix reflects margin pressure from document management services.
- Financing income margin of approximately 62% remained comparable to 2007.

Since a large portion of our inventory procurement is from Japan, the strengthening of the Yen versus the U.S. Dollar and Euro in 2008 significantly impacted our product cost. The Yen strengthened approximately 14% against the U.S. Dollar and 6% against the Euro in 2008 as compared to 2007. A significant portion of that strengthening occurred in the fourth quarter 2008 when the Yen strengthened 17% against the U.S. Dollar and 29% against the Euro as compared to prior year. We expect product costs and gross margins to continue to be negatively impacted in 2009 if Yen exchange rates remain at current levels.

2007 Total Gross margin was down slightly as compared to 2006 as cost improvements were offset by price and product mix.

- Sales gross margin increased 0.2-percentage points primarily as cost improvements and other variances more than offset the 2.0-percentage point impact of price declines.
- Service, outsourcing and rentals margin decreased 0.3-percentage points as cost improvements and other variances did not fully offset price declines and unfavorable product mix of approximately 2.0-percentage points.
- Financing income margin declined 2.1-percentage points reflecting additional interest expense due to higher interest rates.

Management's Discussion

Research, Development and Engineering Expenses ("R,D&E")

We invest in technological development, particularly in color, and believe our R,D&E spending is sufficient to remain technologically competitive.

(in millions)	Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
Total R,D&E expenses	\$884	\$912	\$922	\$28	\$10
R,D&E % Revenue	5.0%	5.3%	5.8%	(0.3)pts	(0.5)pts

2008 R,D&E of \$884 million decreased \$28 million from 2007. We expect our 2009 R,D&E spending to approximate 4% to 5% of total revenue.

- R&D of \$750 million decreased \$14 million from 2007. Our R&D is strategically coordinated with that of Fuji Xerox, which invested \$788 million and \$672 million in R&D in 2008 and 2007, respectively. Much of the reported Fuji Xerox R&D increase was caused by changes in foreign exchange rates.
- Sustaining engineering costs of \$134 million were \$14 million lower than 2007 due primarily to lower spending related to environmental compliance activities and maturing product platforms in the Production segment.
- R,D&E as a percentage of revenue declined 0.3-percentage points reflecting the capture of efficiencies following a significant number of new product launches over the past two years as well as leveraging our current R,D&E investments to support our GIS operations.

2007 R,D&E of \$912 million decreased \$10 million from 2006.

- R&D of \$764 million increased \$3 million from 2006. Our R&D is strategically coordinated with that of Fuji Xerox, which invested \$672 million and \$660 million in R&D in 2007 and 2006, respectively.
- Sustaining engineering costs of \$148 million were \$13 million lower than 2006 due primarily to lower spending related to environmental compliance activities and maturing product platforms in the Production segment.
- R,D&E as a percentage of revenue declined 0.5-percentage points as we leveraged our current R,D&E investments to support GIS operations.

Selling, Administrative and General Expenses ("SAG")

(in millions)	Year Ended December 31,			Change	
	2008	2007	2006	2008	2007
Total SAG expenses	\$4,534	\$4,312	\$4,008	\$222	\$304
SAG as a % of revenue	25.7%	25.0%	25.2%	0.7pts	(0.2)pts

2008 SAG expenses of \$4,534 million were \$222 million higher than 2007, including a \$12 million unfavorable impact from currency. The SAG expense increase was the result of the following:

- \$94 million increase in selling expenses primarily reflecting the full year inclusion of GIS, investments in selling resources and marketing communications and unfavorable currency partially offset by lower compensation.
- \$75 million increase in general and administrative ("G&A") expenses primarily from the full year inclusion of GIS and unfavorable currency.
- \$54 million increase in bad debt expense reflecting increased write-offs, particularly in the fourth quarter 2008, which included several high value account bankruptcies in the U.S., U.K. and Germany.

2007 SAG expenses of \$4,312 million were \$304 million higher than 2006, including a \$141 million negative impact from currency. The SAG expense increase was the result of the following:

- \$93 million increase in selling expenses primarily reflecting the negative impact from currency and the inclusion of GIS. This increase was partially offset by lower costs reflecting the benefits from the 2006 restructuring programs intended to realign our sales infrastructure.
- \$164 million increase in G&A expenses primarily from the inclusion of GIS, unfavorable currency and information technology investments.
- \$47 million increase in bad debt expense primarily as a result of an increase in reserves for several customers in Europe as well as a 2006 reduction in expense due to adjustments to the reserves to reflect improvement in write-offs and aging.

Bad debt expense included in SAG was \$188 million, \$134 million and \$87 million in 2008, 2007 and 2006, respectively. Bad debt expense as a percent of total revenue increased in the fourth quarter 2008 but was 1.1% in 2008 as compared to 0.8% and 0.5% for 2007 and 2006, respectively. Despite the fourth quarter 2008 increase in the provision and write-offs, days sales outstanding at December 31, 2008 remained fairly flat year-over-year and the aging of receivables as compared to historical levels

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has not increased significantly. However, due to the current economic conditions, there is an increased risk for our provision for bad debts to trend higher in 2009 as compared to 2008. At December 31, 2008, bad debt reserves, as a percentage of receivables, were comparable to year end 2007.

Restructuring and Asset Impairment Charges

For the years ended December 31, 2008, 2007 and 2006 we recorded net restructuring and asset impairment charges (credits) of \$429 million, \$(6) million and \$385 million, respectively. The 2008 net charge included \$357 million related to headcount reductions of approximately 4,900 employees primarily in North America and Europe and lease termination and asset impairment charges of \$72 million primarily reflecting the exit from certain leased and owned facilities resulting from a rationalization of our worldwide operating locations. These actions applied equally to both North America and Europe with approximately half focused on SAG expense reductions, approximately a third on gross margin improvements and the remainder focused on the optimization of R,D&E investments. We expect to realize savings in 2009 of approximately \$250 million as a result of the 2008 restructuring actions. Restructuring activity was minimal in 2007 and the related credit of \$6 million primarily reflected changes in estimates for prior years' severance costs. The 2006 net charge included \$318 million related to headcount reductions of approximately 3,400 employees in North America and Europe, and lease termination and asset impairment charges of \$67 million primarily reflecting the relocation of certain manufacturing operations and the exit from certain leased and owned facilities. The restructuring reserve balance as of December 31, 2008, for all programs was \$352 million of which approximately \$325 million is expected to be spent over the next twelve months. Refer to Note 9 – Restructuring and Asset Impairment Charges in the Consolidated Financial Statements for further information regarding our restructuring programs.

Worldwide Employment

Worldwide employment of 57,100 as of December 31, 2008 decreased approximately 300 from December 31, 2007, primarily reflecting the reductions from restructuring partially offset by additions as a result of 2008 acquisition activity. Worldwide employment was approximately 57,400 and 53,700 at December 31, 2007 and 2006, respectively.

Other Expenses, Net

Other expenses, net for each of the three years ended December 31, 2008, 2007 and 2006 consisted of the following:

(in millions)	Year Ended December 31,		
	2008	2007	2006
Non-financing interest expense	\$ 262	\$ 263	\$ 239
Interest income	(35)	(55)	(69)
Gain on sales of businesses and assets	(21)	(7)	(44)
Currency losses, net	34	8	39
Amortization of intangible assets	54	42	41
Legal matters	781	(6)	89
All other expenses, net	47	50	41
Total Other expenses, net	\$ 1,122	\$ 295	\$ 336

Non-financing interest expense: 2008 non-financing interest expense was flat compared to 2007, as the benefit of lower interest rates was offset by higher average non-financing debt balances. In 2007 non-financing interest expense increased primarily due to higher average non-financing debt balances as well as higher interest rates.

Interest income: Interest income is derived primarily from our invested cash and cash equivalent balances. The decline in interest income in 2008 was primarily due to lower average cash balances and rates of return. The decline in 2007 was primarily due to lower average cash balances partially offset by higher rates of return.

Gain on sales of businesses and assets: 2008 gain on sales of business and assets primarily consisted of the sale of certain surplus facilities in Latin America.

The 2006 gain on sales of businesses and assets primarily consisted of \$15 million on the sale of our Corporate headquarters, \$11 million on the sale of a manufacturing facility and \$10 million receipt from escrow of additional proceeds related to our 2005 sale of Integic.

Currency losses net: Currency losses primarily result from the re-measurement of foreign currency-denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities, the mark-to-market of foreign exchange contracts utilized to hedge those foreign currency-denominated assets and liabilities and the mark-to-market impact of hedges of anticipated transactions, primarily future inventory purchases, for those that we do not apply cash flow hedge accounting treatment.

The 2008 currency losses were primarily due to net re-measurement losses associated with our Yen-denominated payables, foreign currency denominated assets and liabilities in our developing markets and the cost of hedging. The currency losses on Yen-denominated payables were largely limited to the first

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quarter 2008 as a result of the significant and rapid weakening of the U.S. Dollar and Euro versus the Yen.

The 2006 currency losses primarily reflected the mark-to-market of derivative contracts which are economically hedging anticipated foreign currency denominated payments. The mark-to-market losses were primarily due to the strengthening of the Euro against other currencies, in particular the Canadian Dollar, U.S. Dollar and the Yen, as compared to the weakening Euro in 2005.

Amortization of intangible assets: 2008 amortization of intangible assets expense of \$54 million reflects amortization expense of \$33 million for intangible assets acquired as part of our recent acquisitions.

2007 amortization of intangible assets expense of \$42 million reflects amortization expense of \$16 million associated with intangible assets acquired as part of our acquisition of GIS, partially offset by reduced amortization from prior years due to the full amortization of certain intangible assets from previous acquisitions.

Legal matters: In 2008 legal matters consisted of the following:

- \$721 million reflecting provisions for the \$670 million court approved settlement of *Carlson v. Xerox Corporation* ("Carlson") and other pending securities-related cases, net of expected insurance recoveries. On January 14, 2009, the United States Court for the District of Connecticut entered a Final Order and Judgment approving the settlement in the Carlson litigation.
- \$36 million for probable losses on Brazilian labor-related contingencies. Following an assessment of the most recent trend in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of \$36 million in the fourth quarter of 2008.
- \$24 million associated with probable losses from various other legal matters.

In 2006 legal matters consisted of the following:

- \$68 million for probable losses on Brazilian labor-related contingencies.
- \$33 million associated with probable losses from various legal matters partially offset by \$12 million of proceeds from the Palm litigation matter.

Refer to Note 16 – Contingencies in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Income Taxes

(in millions)	Year Ended December 31,		
	2008	2007	2006
Pre-tax (loss) income	\$ (114)	\$ 1,438	\$ 808
Income tax (benefits) expenses	(231)	400	(288)
Effective tax rate	202.6%	27.8%	(35.6)%

The 2008 effective tax rate of 202.6% reflected the tax benefits from certain discrete items including the net provision for litigation matters; the second, third and fourth quarter restructuring and asset impairment charges; the product line equipment write-off; and the settlement of certain previously unrecognized tax benefits. Excluding these items, the adjusted effective tax rate was 21.5%*. The adjusted 2008 effective tax rate was lower than the U.S. statutory tax rate primarily reflecting the benefit to taxes from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions, the utilization of foreign tax credits and tax law changes.

The 2007 effective tax rate of 27.8% was lower than the U.S. statutory rate primarily reflecting tax benefits from the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and the utilization of foreign tax credits as well as the resolution of other tax matters. These benefits were partially offset by changes in tax law.

The 2006 effective tax rate of (35.6%) was lower than the U.S. statutory rate primarily due to the tax benefits of \$518 million from the resolution of tax issues associated with the 1999-2003 IRS audits and other domestic and foreign tax audits; tax benefits of \$19 million as a result of tax law changes and tax treaty changes; and \$11 million from the reversal of a valuation allowance on deferred tax assets associated with foreign net operating loss carryforwards, as well as the geographical mix of income before taxes and related effective tax rates in those jurisdictions. These benefits were partially offset by losses in certain jurisdictions where we are not providing tax benefits and continue to maintain deferred tax valuation allowances.

Our effective tax rate will change based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes and the related effective tax rates in those jurisdictions and available foreign tax credits. In addition, our effective tax rate will change based on discrete or other nonrecurring events (such as audit settlements) that may not be predictable. We anticipate that our effective tax rate for 2009 will approximate 28%, excluding the effect of any discrete items.

* See the "Non-GAAP Measures" section for additional information.

Management's Discussion

Equity in Net Income of Unconsolidated Affiliates

2008 equity in net income of unconsolidated affiliates of \$113 million is principally related to our 25% share of Fuji Xerox ("FX") income. The \$16 million increase from 2007 is primarily due to a \$14 million reduction in our share of FX restructuring charges.

2007 equity in net income of unconsolidated affiliates reflects a reduction from 2006 of \$17 million, primarily due to \$30 million for our after-tax share of FX restructuring charges.

Recent Accounting Pronouncements

Refer to Note 1 – Summary of Significant Accounting Policies in the Consolidated Financial Statements for a description of recent accounting pronouncements including the respective dates of adoption and the effects on results of operations and financial condition.

Capital Resources and Liquidity

Cash Flow Analysis

The following summarizes our cash flows for each of the three years ended December 31, 2008, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

(in millions)	2008	2007	2006	Change	
				2008	2007
Net cash provided by operating activities	\$ 939	\$ 1,871	\$ 1,617	\$ (932)	\$ 254
Net cash used in investing activities	(441)	(1,612)	(143)	1,171	(1,469)
Net cash used in financing activities	(311)	(619)	(1,428)	308	809
Effect of exchange rate changes on cash and cash equivalents	(57)	60	31	(117)	29
Increase (decrease) in cash and cash equivalents	130	(300)	77	430	(377)
Cash and cash equivalents at beginning of period	1,099	1,399	1,322	(300)	77
Cash and cash equivalents at end of period	\$1,229	\$ 1,099	\$ 1,399	\$ 130	\$ (300)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$939 million for the year ended December 31, 2008. The \$932 million decrease in cash was primarily due to the following:

- \$330 million decrease in pre-tax income before litigation and restructuring.
- \$615 million decrease due to net payments for the settlement of the securities-related litigation.
- \$90 million decrease due to higher net income tax payments, primarily resulting from the absence of prior year tax refunds.
- \$74 million decrease primarily due to lower benefit and compensation accruals.
- \$71 million decrease due to higher inventory levels as a result of lower equipment and supplies sales in 2008.
- \$136 million increase from accounts receivable due to strong collection effectiveness throughout 2008.
- \$107 million increase from derivatives, primarily due to the termination of certain interest rate swaps in fourth quarter 2008.

Net cash provided by operating activities was \$1,871 million for the year ended December 31, 2007. The \$254 million increase in cash was primarily due to the following:

- \$348 million increase in pre-tax income before restructuring, depreciation, other provisions and net gains.
- \$108 million increase in other liabilities primarily reflecting the absence of the prior year payment of \$106 million related to the MPI litigation.
- \$57 million increase reflecting lower pension contributions to our U.S. pension plans.
- \$30 million increase as a result of lower restructuring payments due to minimal activity in 2007.
- \$114 million decrease due to year-over-year inventory growth of \$54 million primarily related to increased product launches in 2007, as well as a \$60 million increase in equipment on operating leases reflecting higher operating lease install activity.
- \$73 million decrease due to a lower net run-off of finance receivables.

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- \$49 million decrease primarily due to higher accounts receivable reflecting increased revenue, partially offset by \$110 million year-over-year benefit from increased receivables sales.
- \$45 million decrease due to lower benefit accruals, partially offset by higher accounts payable due to the timing of payments to vendors and suppliers.

Cash Flows from Investing Activities

Net cash used in investing activities was \$441 million for the year ended December 31, 2008. The \$1,171 million increase in cash was primarily due to the following:

- \$1,460 million increase due to less cash used for acquisitions. 2008 acquisitions included \$138 million for Veenman B.V. and Saxon Business Systems as compared to \$1,568 million for GIS and its additional acquisitions in the prior year.
- \$192 million decrease due to lower funds from escrow and other restricted investments in 2008. The prior year reflected funds received from the run-off of our secured borrowing programs.
- \$134 million decrease in other investing cash flows due to the absence of proceeds from liquidations of short-term investments.

Net cash used in investing activities was \$1,612 million for the year ended December 31, 2007. The \$1,469 million decrease in cash was primarily due to the following:

- \$1,386 million decrease due to \$1,615 million in 2007 acquisitions primarily comprised of \$1,568 for GIS and its additional acquisitions and \$30 million for Advectis, Inc., as compared to \$229 million in acquisitions in 2006 comprised of Amici, LLC and XMPie, Inc.
- \$123 million decrease in other investing cash flows reflecting the absence of the 2006 \$122 million distribution related to the sale of investments held by Ridge Re.
- \$65 million decrease due to higher capital and internal use software investments in 2007.
- \$57 million decrease due to higher 2006 proceeds from sales of land, buildings and equipment, which included the sale of our corporate headquarters and a parcel of vacant land.
- \$162 million increase due to a reduction in escrow and other restricted investments in 2007, as we continue to run-off our secured borrowing programs.

Cash Flows from Financing Activities

Net cash used in financing activities was \$311 million for the year ended December 31, 2008. The \$308 million increase in cash was primarily due to the following:

- \$1,642 million increase from lower net repayments on secured debt. 2007 reflects termination of our secured financing programs with GE in the United Kingdom and Canada of \$634 million and Merrill Lynch in France for \$469 million as well as the repayment of secured borrowings to DLL of \$153 million. The remainder reflects lower payments associated with our GE U.S. secured borrowings.
- \$888 million decrease from lower net cash proceeds from unsecured debt. 2008 reflects the issuance of \$1.4 billion in Senior Notes, \$250 million from a private placement borrowing and net payments of \$354 million on the Credit Facility and \$370 million on other debt. 2007 reflects the issuance of \$1.1 billion Senior Notes, \$400 million from private placement borrowings and net proceeds of \$600 million on the Credit Facility, offset by net payments of \$286 million on other debt.
- \$180 million decrease due to additional purchases under our share repurchase program.
- \$154 million decrease due to common stock dividend payments.
- \$79 million decrease due to lower proceeds from the issuance of common stock, reflecting a decrease in stock option exercises as well as lower related tax benefits.
- \$33 million decrease due to share repurchases related to employee withholding taxes on stock-based compensation vesting.

Net cash used in financing activities was \$619 million in year ended December 31, 2007. The \$809 million increase in cash was primarily due to the following:

- \$538 million increase due to higher net cash proceeds from unsecured debt. This reflects the May 2007 issuance of the \$1.1 billion Senior Notes, the issuances of two zero coupon bonds in 2007 resulting in net proceeds of approximately \$400 million, and the net drawdown of \$600 million under the 2007 Credit Facility. These higher net proceeds were partially offset by the March 2006 issuance of the \$700 million Senior Notes and the August 2006 issuance of an additional \$650 million of Senior Notes, as well as, higher repayments on other unsecured debt in 2007 as compared to 2006.
- \$437 million increase due to lower purchases under our share repurchase program as cash was invested in acquisitions.
- \$100 million increase relating to the 2006 payment of our liability to Xerox Capital LLC in connection with their redemption of Canadian deferred preferred shares.

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- \$278 million decrease due to higher net repayments of secured financing. Refer to Note 4-Receivables, net in the consolidated financial statements for further information.

Financing Activities

Customer Financing Activities

We provide equipment financing to the majority of our customers. Because finance leases allow our customers to pay for equipment over time rather than at the date of installation, we maintain a certain level of debt to support our investment in these customer finance leases. We currently fund our customer financing activity through cash generated from operations, cash on hand, borrowings under bank credit facilities and proceeds from capital markets offerings. We also have funding available through a secured borrowing arrangement with General Electric Capital Corporation ("GECC") referred to as the Loan Agreement.

We have arrangements in certain international countries and domestically through the acquisition of GIS, where third party financial institutions originate lease contracts directly with our customers. In these arrangements, we sell and transfer title of the equipment to these financial institutions. Generally, we have no continuing ownership rights in the equipment subsequent to its sale; therefore, the related receivable and debt are not included in our Consolidated Financial Statements.

The following represents total finance assets associated with our lease or finance operations as of December 31, 2008 and 2007 (in millions):

	2008	2007
Total Finance receivables, net ⁽¹⁾	\$ 7,278	\$ 8,048
Equipment on operating leases, net	594	587
Total finance assets, net	\$ 7,872	\$ 8,635

The reduction of \$763 million in Total finance assets, net includes unfavorable currency of \$473 million.

(1) Includes (i) billed portion of finance receivables, net, (ii) finance receivables, net and (iii) finance receivables due after one year, net as included in the Consolidated Balance Sheets as of December 31, 2008 and 2007.

The following tables summarize our debt as of December 31, 2008 and 2007:

(in millions)	2008	2007
Debt secured by finance receivables	\$ 56	\$ 275
Capital leases	9	19
Total Secured Debt	65	294
Senior Notes	7,574	5,781
Credit Facility	246	600
Other Debt	499	789
Total Unsecured Debt	8,319	7,170
Total Debt	\$ 8,384	\$ 7,464

At December 31, 2008, less than 1% of total debt was secured by finance receivables and other assets compared to 4% at December 31, 2007.

(in millions)	2008	2007
Principal Debt Balance	\$ 8,201	\$ 7,465
Less: Net unamortized discount	(6)	(13)
Add: FAS 133 fair value adjustments	189	12
Total Reported Debt	8,384	7,464
Less: Current maturities and short-term debt	(1,610)	(525)
Total long-term debt	\$ 6,774	\$ 6,939

Principal debt balance at December 31, 2008 and 2007 includes short-term debt of \$61 million and \$99 million, respectively. Refer to Note 11 – Debt in the Consolidated Financial Statements for additional information regarding the above balances.

Liquidity, Financial Flexibility and Other Financing Activity

Liquidity

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvement therein, access to capital markets, securitizations, funding from third parties and borrowings secured by our finance receivables portfolios. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access to financial markets, both of which are

Management's Discussion

subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The following is a discussion of our liquidity position as of December 31, 2008:

- As of December 31, 2008, total cash and cash equivalents was \$1.2 billion and our borrowing capacity under our Credit Facility was \$1.7 billion, reflecting \$246 million outstanding borrowings and no outstanding letters of credit. In addition we currently have approximately \$1.0 billion available under the Loan Agreement through 2010, which has not been accessed in almost three years.
- We have consistently delivered strong cash flow from operations over the past three years driven by the strength of our annuity based revenue model. Cash flows from operations were \$939 million, \$1,871 million and \$1,617 million for the years ended December 31, 2008, 2007 and 2006, respectively. Cash flows from operations in 2008 included \$615 million in net payments for our securities litigation.
- Our debt maturities are in line with historical and projected cash flows and are spread over the next ten years as follows (in millions):

Year	Amount
2009	\$ 1,610
2010	962
2011	802
2012	1,169
2013	1,138
2014	69
2015	—
2016	950
2017	501
2018 and thereafter	1,000
Total	\$ 8,201

On January 15, 2009, we repaid in-full at maturity, our outstanding U.S. Dollar and Euro-denominated 9.75% Senior Notes. The total repayment of approximately \$900 million was made using cash on hand and the proceeds of a \$400 million borrowing under our Credit Facility.

Debt Activity

Credit facility: In February 2008, we exercised our right under our \$2.0 billion Credit Facility to request a one-year extension of the maturity date. Lenders representing approximately \$1.4 billion (or approximately 70%) of the commitments under the Credit Facility agreed to the extension and the portion represented by these Lenders now has a maturity date of April 30, 2013, with the remaining portion of the Credit Facility to mature on April 30, 2012.

In October 2008, we amended our Credit Facility to increase the permitted leverage ratio (debt/consolidated EBITDA) to a fixed ratio of 3.75x. The amendment also included a re-pricing of the Credit Facility such that borrowings will bear interest at LIBOR plus an all-in spread that will vary between 1.25% and 4.00% subject to our credit rating and percent of Credit Facility utilization at the time of borrowing. Based upon our current rating and utilization, the all-in spread is 1.75%.

Capital markets offerings and other: In 2008, we raised net proceeds of \$1.4 billion through the issuance of Senior Notes and \$250 million from a private placement transaction.

Loan covenants and compliance: At December 31, 2008, we were in full compliance with the covenants and other provisions of the Credit Facility, our Senior Notes and the Loan Agreement. We have the right to prepay any outstanding loans or to terminate the Credit Facility without penalty. Failure to be in compliance with any material provision or covenant of these agreements could have a material adverse effect on our liquidity and operations and our ability to continue to fund our customers' purchase of Xerox equipment.

Refer to Note 11 – Debt and Note 4 – Receivables, Net in the Consolidated Financial Statements for additional information regarding the above noted transactions and Loan Agreement, respectively.

Share Repurchase Programs

The Board of Directors has authorized share repurchase programs totaling \$4.5 billion through December 31, 2008, which included additional authorizations of \$1.0 billion in both January and July of 2008. Since launching this program in October 2005, we have repurchased 194.1 million shares, totaling approximately \$2.9 billion. Refer to Note 17 – Shareholders' Equity – "Treasury Stock" in the Consolidated Financial Statements for further information regarding our share repurchase programs.

Although we have \$1.6 billion of remaining authorization, at the current time, we have no immediate plans for further share repurchases.

Dividends

The Board of Directors declared a 4.25 cent per share dividend on common stock in each quarter of 2008.

Financial Instruments

Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Management's Discussion

Credit Ratings

We are currently rated investment grade by all major rating agencies. As of January 31, 2009 the ratings were as follows:

	Senior Unsecured Debt	Outlook
Moody's	Baa2	Positive
Standard & Poors ("S&P")	BBB	Stable
Fitch	BBB	Stable

Contractual Cash Obligations and Other Commercial Commitments and Contingencies

At December 31, 2008, we had the following contractual cash obligations and other commercial commitments and contingencies (in millions):

	2009	2010	2011	2012	2013	Thereafter
Long-term debt, including capital lease obligations ⁽¹⁾	\$1,610	\$ 962	\$ 802	\$1,169	\$1,138	\$ 2,520
Minimum operating lease commitments ⁽²⁾	223	188	151	100	84	123
Liability to subsidiary trust issuing preferred securities ⁽³⁾	—	—	—	—	—	648
Retiree Health Payments	105	99	99	98	97	445
Purchase Commitments						
Flextronics ⁽⁴⁾	700	—	—	—	—	—
EDS Contracts ⁽⁵⁾	239	137	77	77	77	16
Other ⁽⁶⁾	17	12	11	—	—	—
Total contractual cash obligations	\$2,894	\$1,398	\$1,140	\$1,444	\$1,396	\$ 3,752

(1) Refer to Note 11– Debt in our Consolidated Financial Statements for additional information and interest payments related to long-term debt (amounts above include principal portion only).

(2) Refer to Note 6 – Land, Buildings and Equipment, Net in our Consolidated Financial Statements for additional information related to minimum operating lease commitments.

(3) Refer to Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities in our Consolidated Financial Statements for additional information and interest payments (amounts above include principal portion only).

(4) Flextronics: We outsource certain manufacturing activities to Flextronics and are currently in the second year of the Master Supply Agreement. The term of this agreement is three years, with two additional one year extension periods at our option. The amounts discussed in the table reflect our estimate of purchases over the next year and are not contractual commitments.

(5) EDS Contract: We have an information management contract with Electronic Data Systems Corp. ("EDS") through June 30, 2009. Services to be provided under this contract include support for global mainframe system processing, application maintenance, workplace and service desk, voice and data network management and server management. In 2008, the contracts for global mainframe system processing and workplace and service desk were extended through December 2013 and March 2014, respectively. In January 2009, the contract for voice and data network management services was revised and extended through March 2014. There are no minimum payments required under this contract. The amounts disclosed in the table reflect our estimate of probable minimum payments for the periods shown. We can terminate the contract for convenience with six months notice, as defined in the contract, with no termination fee and with payment to EDS for costs incurred as of the termination date. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the EDS contract.

(6) Other Purchase Commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record losses, if any, when they are probable and reasonably estimable. We currently do not have, nor do we anticipate, material loss contracts.

Management's Discussion

Pension and Other Post-Retirement Benefit Plans

We sponsor pension and other post-retirement benefit plans that may require periodic cash contributions. Our 2008 cash fundings for these plans were \$299 million for pensions and \$105 million for our retiree health plans. Our required cash fundings for 2009 are approximately \$108 million for pensions and approximately \$105 million for our retiree health plans. Cash contribution requirements for our domestic tax qualified pension plans are governed by the Employment Retirement Income Security Act ("ERISA") and the Internal Revenue Code. Cash contribution requirements for our international plans are subject to the applicable regulations in each country. The expected 2009 pension contributions do not include contributions to the domestic tax-qualified plans because none are required due to the availability of a credit balance which resulted from funding prior to 2008 in excess of minimum requirements. This credit balance can be utilized in lieu of any 2009 pension contributions. However, once the January 1, 2009 actuarial valuations and projected results as of the end of the 2009 measurement year are available, the desirability of additional contributions will be assessed. Based on these results, we may voluntarily decide to contribute to these plans, even though no contribution is required. In prior years, after making this assessment, we decided to contribute \$165 million and \$158 million in 2008 and 2007, respectively, to our domestic tax qualified plans in order to make them 100% funded on a current liability basis under the ERISA funding rules.

Our retiree health benefit plans are non-funded and are almost entirely related to domestic operations. Cash contributions are made each year to cover medical claims costs incurred in that year. The amounts reported in the above table as retiree health payments represent our estimated future benefit payments.

Fuji Xerox

We purchased products, including parts and supplies, from Fuji Xerox totaling \$2.1 billion, \$1.9 billion and \$1.7 billion in 2008, 2007 and 2006, respectively. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. We do not anticipate 2009 purchases from Fuji Xerox to exceed 2008 levels. Related party transactions with Fuji Xerox are discussed in Note 7 – Investments in Affiliates, at Equity in the Consolidated Financial Statements.

Brazil Tax and Labor Contingencies

As of December 31, 2008, our Brazilian operations are involved in various litigation matters and have been the subject of numerous governmental assessments related to indirect and other taxes as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. Following our assessment of the most recent trends in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of \$36 million in 2008. As of December 31, 2008, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately \$839 million, with the decrease from the December 31, 2007 balance of \$1.1 billion primarily related to currency partially offset by the additional reserve. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2008 we had \$167 million of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of \$30 million and additional letters of credit of approximately \$88 million. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Other Contingencies and Commitments

As more fully discussed in Note 16 – Contingencies in the Consolidated Financial Statements, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act. In addition, guarantees, indemnifications and claims may arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates. Nonperformance under a contract including a guarantee, indemnification or claim could trigger an obligation of the Company. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. Should developments in any of these areas cause a change in our determination as to an unfavorable outcome and result in the

Management's Discussion

need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Unrecognized Tax Benefits

As of December 31, 2008, we had \$170 million of unrecognized tax benefits. This represents the tax benefits associated with various tax positions taken, or expected to be taken, on domestic and international tax returns that have not been recognized in our financial statements due to uncertainty regarding their resolution. The resolution or settlement of these tax positions with the taxing authorities is at various stages and therefore we are unable to make a reliable estimate of the eventual cash flows by period that may be required to settle these matters. In addition, certain of these matters may not require cash settlement due to the existence of credit and net operating loss carryforwards as well as other offsets, including the indirect benefit from other taxing jurisdictions that may be available.

Off-Balance Sheet Arrangements

Although we rarely utilize off-balance sheet arrangements in our operations, we enter into operating leases in the normal course of business. The nature of these lease arrangements is discussed in Note 6 – Land, Buildings and Equipment, Net in the Consolidated Financial Statements. Additionally, we have utilized special purpose entities ("SPEs") in conjunction with certain financing transactions. The SPEs utilized in conjunction with these transactions are consolidated in our financial statements. These transactions, which are discussed further in Note 4 – Receivables, Net in the Consolidated Financial Statements, have been accounted for as secured borrowings with the debt and related assets remaining on our balance sheets. Although the obligations related to these transactions are included in our balance sheet, recourse is generally limited to the secured assets and no other assets of the Company.

Refer to Note 16 – Contingencies in the Consolidated Financial Statements for further information regarding our guarantees, indemnifications and warranty liabilities.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as reduce earnings and cash flow volatility resulting from shifts in market rates. Refer to Note 13 – Financial Instruments in the Consolidated Financial Statements for further discussion on our financial risk management.

Assuming a 10% appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2008, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would not be significant because all material currency asset and liability exposures were economically hedged as of December 31, 2008. A 10% appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2008 would have an \$824 million impact on our cumulative translation adjustment portion of equity. The amount permanently invested in foreign subsidiaries and affiliates, primarily Xerox Limited, Fuji Xerox, Xerox Canada Inc. and Xerox do Brasil, and translated into Dollars using the year-end exchange rates, was \$8.2 billion at December 31, 2008.

Interest Rate Risk Management

The consolidated weighted-average interest rates related to our debt and liabilities to subsidiary trust issuing preferred securities for 2008, 2007 and 2006 approximated 6.6%, 7.1%, and 6.8%, respectively. Interest expense includes the impact of our interest rate derivatives.

Virtually all customer-financing assets earn fixed rates of interest. The interest rates on a significant portion of the Company's term debt are fixed.

As of December 31, 2008, approximately \$1.1 billion of our debt and liability to subsidiary trust issuing preferred securities carried variable interest rates, including the effect of pay-variable interest rate swaps we are utilizing with the intent to reduce the effective interest rate on our high coupon debt.

The fair market values of our fixed-rate financial instruments are sensitive to changes in interest rates. At December 31, 2008, a 10% change in market interest rates would change the fair values of such financial instruments by approximately \$317 million. The recent market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk.

Management's Discussion

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles ("GAAP"). A reconciliation of the following non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below:

Adjusted Revenue

We discussed the revenue growth for the year ended December 31, 2008 using non-GAAP financial measures. To understand trends in the business, we believe that it is helpful to adjust the revenue growth rates to illustrate the impact of the acquisition of GIS by including their estimated revenue for the comparable 2007 and 2006 periods. We refer to this adjusted revenue as "As Adjusted" in the following reconciliation table. Revenue "As Adjusted" adds GIS's revenues from January 1, 2006 to May 8, 2007 to our 2006 and 2007 reported revenue. Management believes these measures give investors an additional perspective on revenue trends, as well as the impact to the Company of the acquisition of GIS that was completed in May 2007.

(in millions)	Year Ended December 31			% Change	
	2008	2007	2006	2008	2007
Equipment Sales Revenue:					
As Reported	\$ 4,679	\$ 4,753	\$ 4,457	(2)%	7%
As Adjusted	\$ 4,679	\$ 4,938	\$ 4,992	(5)%	(1)%
Post Sale Revenue:					
As Reported	\$ 12,929	\$ 12,475	\$ 11,438	4%	9%
As Adjusted	\$ 12,929	\$ 12,681	\$ 12,000	2%	6%
Total Revenues:					
As Reported	\$ 17,608	\$ 17,228	\$ 15,895	2%	8%
As Adjusted	\$ 17,608	\$ 17,619	\$ 16,992	—	4%

Adjusted Effective Tax Rate

The effective tax rate for the year ended December 31, 2008 is discussed using non-GAAP financial measures that exclude the effects of charges associated with an equipment write-off; second, third and fourth quarter 2008 restructuring and asset impairments; certain litigation matters and the settlement of certain previously unrecognized tax benefits. Management believes that it is helpful to exclude these effects to better understand and analyze the current period's effective tax rate given the discrete nature of these items.

(in millions)	Year Ended December 31, 2008		
	Pre-Tax Income	Income Taxes	Effective Tax Rate
As Reported	\$ (114)	\$ (231)	202.6%
Restructuring and asset impairment charges	426	134	
Equipment write-off	39	15	
Litigation	774	283	
Tax settlements	—	41	
As Adjusted	\$ 1,125	\$ 242	21.5%

Management believes that these non-GAAP financial measures provide an additional means of analyzing the current period results against the corresponding prior period results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Forward-Looking Statements

This Annual Report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Information concerning these factors is included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC"). We do not intend to update these forward-looking statements, except as required by law.

Xerox Corporation

Consolidated Statements of Income

(in millions, except per-share data)	Year Ended December 31,		
	2008	2007	2006
Revenues			
Sales	\$ 8,325	\$ 8,192	\$ 7,464
Service, outsourcing and rentals	8,485	8,214	7,591
Finance income	798	822	840
Total Revenues	17,608	17,228	15,895
Costs and Expenses			
Cost of sales	5,519	5,254	4,803
Cost of service, outsourcing and rentals	4,929	4,707	4,328
Equipment financing interest	305	316	305
Research, development and engineering expenses	884	912	922
Selling, administrative and general expenses	4,534	4,312	4,008
Restructuring and asset impairment charges	429	(6)	385
Other expenses, net	1,122	295	336
Total Costs and Expenses	17,722	15,790	15,087
(Loss) Income before Income Taxes and Equity Income	(114)	1,438	808
Income tax (benefits) expenses	(231)	400	(288)
Equity in net income of unconsolidated affiliates	113	97	114
Net Income	\$ 230	\$ 1,135	\$ 1,210
Basic Earnings per Share	\$ 0.26	\$ 1.21	\$ 1.25
Diluted Earnings per Share	\$ 0.26	\$ 1.19	\$ 1.22

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Balance Sheets

(in millions, except share data in thousands)

	December 31,	
	2008	2007
Assets		
Cash and cash equivalents	\$ 1,229	\$ 1,099
Accounts receivable, net	2,184	2,457
Billed portion of finance receivables, net	254	304
Finance receivables, net	2,461	2,693
Inventories	1,232	1,305
Other current assets	790	682
Total current assets	8,150	8,540
Finance receivables due after one year, net	4,563	5,051
Equipment on operating leases, net	594	587
Land, buildings and equipment, net	1,419	1,587
Investments in affiliates, at equity	1,080	932
Intangible assets, net	610	621
Goodwill	3,182	3,448
Deferred tax assets, long-term	1,692	1,349
Other long-term assets	1,157	1,428
Total Assets	\$ 22,447	\$ 23,543
Liabilities and Shareholders' Equity		
Short-term debt and current portion of long-term debt	\$ 1,610	\$ 525
Accounts payable	1,446	1,367
Accrued compensation and benefits costs	625	673
Other current liabilities	1,769	1,512
Total current liabilities	5,450	4,077
Long-term debt	6,774	6,939
Liability to subsidiary trust issuing preferred securities	648	632
Pension and other benefit liabilities	1,747	1,115
Post-retirement medical benefits	896	1,396
Other long-term liabilities	694	796
Total Liabilities	16,209	14,955
Common stock, including additional paid-in-capital	3,313	4,096
Treasury stock, at cost	—	(31)
Retained earnings	5,341	5,288
Accumulated other comprehensive loss	(2,416)	(765)
Total Shareholders' Equity	6,238	8,588
Total Liabilities and Shareholders' Equity	\$ 22,447	\$ 23,543
Shares of common stock issued	864,777	919,013
Treasury stock	—	(1,836)
Shares of common stock outstanding	<u>864,777</u>	<u>917,177</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Statements of Cash Flows

(in millions)	Year Ended December 31,		
	2008	2007	2006
Cash Flows from Operating Activities:			
Net income	\$ 230	\$ 1,135	\$ 1,210
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	669	656	636
Provisions for receivables and inventory	314	197	145
Deferred tax (benefit) expense	(324)	224	99
Net gain on sales of businesses and assets	(21)	(7)	(44)
Undistributed equity in net income of unconsolidated affiliates	(53)	(60)	(70)
Stock-based compensation	85	89	64
Provision for litigation, net	781	—	—
Payments for securities litigation, net	(615)	—	—
Restructuring and asset impairment charges	429	(6)	385
Payments for restructurings	(131)	(235)	(265)
Contributions to pension benefit plans	(299)	(298)	(355)
Decrease (increase) in accounts receivable and billed portion of finance receivables	57	(79)	(30)
(Increase) decrease in inventories	(114)	(43)	11
Increase in equipment on operating leases	(331)	(331)	(271)
Decrease in finance receivables	164	119	192
(Increase) decrease in other current and long-term assets	(8)	130	64
Increase in accounts payable and accrued compensation	211	285	330
(Decrease) increase in other current and long-term liabilities	(174)	38	(70)
Net change in income tax assets and liabilities	(92)	73	(459)
Net change in derivative assets and liabilities	230	(10)	9
Other, net	(69)	(6)	36
Net cash provided by operating activities	<u>939</u>	<u>1,871</u>	<u>1,617</u>
Cash Flows from Investing Activities:			
Cost of additions to land, buildings and equipment	(206)	(236)	(215)
Proceeds from sales of land, buildings and equipment	38	25	82
Cost of additions to internal use software	(129)	(123)	(79)
Acquisitions, net of cash acquired	(155)	(1,615)	(229)
Net change in escrow and other restricted investments	8	200	38
Other, net	3	137	260
Net cash used in investing activities	<u>(441)</u>	<u>(1,612)</u>	<u>(143)</u>
Cash Flows from Financing Activities:			
Net debt payments on secured financings	(227)	(1,869)	(1,591)
Net proceeds on other debt	926	1,814	1,276
Payment of liability to subsidiary trust issuing preferred securities	—	—	(100)
Common stock dividends	(154)	—	—
Preferred stock dividends	—	—	(43)
Proceeds from issuances of common stock	6	65	82
Excess tax benefits from stock-based compensation	2	22	25
Payments to acquire treasury stock, including fees	(812)	(632)	(1,069)
Repurchases related to stock-based compensation	(33)	—	—
Other	(19)	(19)	(8)
Net cash used in financing activities	<u>(311)</u>	<u>(619)</u>	<u>(1,428)</u>
Effect of exchange rate changes on cash and cash equivalents	(57)	60	31
Increase (decrease) in cash and cash equivalents	130	(300)	77
Cash and cash equivalents at beginning of year	1,099	1,399	1,322
Cash and cash equivalents at end of year	<u>\$1,229</u>	<u>\$ 1,099</u>	<u>\$ 1,399</u>

The accompanying notes are an integral part of these Consolidated Financial Statements.

Xerox Corporation

Consolidated Statements of Shareholders' Equity

(in millions, except share data in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In- Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings	AOCL ⁽¹⁾	Total
Balance at December 31, 2005	945,106	\$ 945	\$ 3,796	(13,917)	\$ (203)	\$ 3,021	\$(1,240)	\$ 6,319
Net income	—	—	—	—	—	1,210	—	1,210
Translation adjustments	—	—	—	—	—	—	485	485
Minimum pension liability	—	—	—	—	—	—	131	131
Other unrealized gains	—	—	—	—	—	—	1	1
Comprehensive income								\$ 1,827
Adjustment to initially apply FAS 158, net	—	—	—	—	—	—	(1,024)	(1,024)
Stock option and incentive plans, net	10,256	11	156	—	—	—	—	167
Series C mandatory convertible preferred stock dividends (\$6.25 per share)	—	—	—	—	—	(29)	—	(29)
Series C mandatory convertible preferred stock conversion	74,797	75	814	—	—	—	—	889
Payments to acquire treasury stock	—	—	—	(70,111)	(1,069)	—	—	(1,069)
Cancellation of treasury stock	(75,665)	(75)	(1,056)	75,665	1,131	—	—	—
Other	74	—	—	—	—	—	—	—
Balance at December 31, 2006	954,568	\$ 956	\$ 3,710	(8,363)	\$ (141)	\$ 4,202	\$(1,647)	\$ 7,080
Net income	—	—	—	—	—	1,135	—	1,135
Translation adjustments	—	—	—	—	—	—	501	501
Cumulative Effect of Change in Accounting Principles	—	—	—	—	—	(9)	—	(9)
Changes in defined benefit plans ⁽²⁾	—	—	—	—	—	—	382	382
Other unrealized losses	—	—	—	—	—	—	(1)	(1)
Comprehensive income								\$ 2,008
Cash dividends declared on common stock (\$0.0425 per share)	—	—	—	—	—	(40)	—	(40)
Stock option and incentive plans, net	7,588	7	165	—	—	—	—	172
Payments to acquire treasury stock	—	—	—	(36,638)	(632)	—	—	(632)
Cancellation of treasury stock	(43,165)	(43)	(699)	43,165	742	—	—	—
Other	22	—	—	—	—	—	—	—
Balance at December 31, 2007	919,013	\$ 920	\$ 3,176	(1,836)	\$ (31)	\$ 5,288	\$(765)	\$ 8,588
Net income						230		230
Translation adjustments	—	—	—	—	—	—	(1,364)	(1,364)
Cumulative Effect of Change in Accounting Principles	—	—	—	—	—	(25)	—	(25)
Changes in defined benefit plans ⁽²⁾	—	—	—	—	—	—	(286)	(286)
Other unrealized losses	—	—	—	—	—	—	(1)	(1)
Comprehensive loss								\$(1,446)
Cash dividends declared on common stock (\$0.17 per share)	—	—	—	—	—	(152)	—	(152)
Stock option and incentive plans, net	4,442	5	55	—	—	—	—	60
Payments to acquire treasury stock	—	—	—	(56,842)	(812)	—	—	(812)
Cancellation of treasury stock	(58,678)	(59)	(784)	58,678	843	—	—	—
Balance at December 31, 2008	864,777	\$ 866	\$ 2,447	—	—	5,341	\$(2,416)	\$ 6,238

(1) Refer to Note 1 "Accumulated Other Comprehensive Loss (AOCL)" section for additional information.

(2) Refer to Note 1 "Benefit Plans Accounting" section for additional information.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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

Note 1 – Summary of Significant Accounting Policies

References herein to “we,” “us,” “our,” the “Company,” and Xerox refer to Xerox Corporation and its consolidated subsidiaries unless the context specifically requires otherwise.

Description of Business and Basis of Presentation

We are a technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

Basis of Consolidation

The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership), are accounted for using the equity method of accounting. Upon the sale of stock of a subsidiary, we recognize a gain or loss in our Consolidated Statements of Income equal to our proportionate share of the corresponding increase or decrease in that subsidiary’s equity. Operating results of acquired businesses are included in the Consolidated Statements of Income from the date of acquisition.

We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income from the date such determination is made.

For convenience and ease of reference, we refer to the financial statement caption “(Loss) Income before Income Taxes and Equity Income” as “pre-tax loss” or “pre-tax income,” throughout the notes to the Consolidated Financial Statements.

Use of Estimates

The preparation of our Consolidated Financial Statements, in accordance with accounting principles generally accepted in the United States of America, requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: (i) allocation of revenues and fair values in leases and other multiple element arrangements; (ii) accounting for residual values; (iii) economic lives of leased assets; (iv) allowance for doubtful accounts; (v) inventory valuation; (vi) restructuring and related charges; (vii) asset impairments; (viii) depreciable lives of assets; (ix) useful lives of intangible assets; (x) pension and post-retirement benefit plans; (xi) income tax reserves and valuation allowances and (xii) contingency and litigation reserves. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Actual results could differ from those estimates.

Notes to the Consolidated Financial Statements

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

The following table summarizes certain significant charges that require management estimates:

(in millions)	Year Ended December 31,		
	2008	2007	2006
Restructuring provisions and asset impairments	\$ 429	\$ (6)	\$ 385
Amortization of intangible assets (\$4 for patents included in cost of sales)	58	46	45
Provisions for receivables	199	131	76
Provisions for obsolete and excess inventory	115	66	69
Provisions for litigation and regulatory matters	781	(6)	89
Depreciation and obsolescence of equipment on operating leases	298	269	230
Depreciation of buildings and equipment	257	262	277
Amortization of internal use and product software	56	79	84
Pension benefits – net periodic benefit cost	174	235	355
Other post-retirement benefits – net periodic benefit cost	77	102	117
Deferred tax asset valuation allowance provisions	17	14	12

Changes in Estimates

In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate, and as we become aware of circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements.

New Accounting Standards and Accounting Changes

Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133”. The new standard requires additional disclosures regarding a company’s derivative instruments and hedging activities by requiring disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires disclosure of derivative features that are credit risk – related as well as cross-referencing within the notes to the financial statements to enable financial statement users to locate important information about derivative instruments, financial performance and cash flows. We adopted this standard effective as of December 31, 2008. The only impact from this standard was to require us to expand our disclosures regarding our derivative instruments. Refer to Note 13 – Financial Instruments for additional information.

Fair Value Accounting

In 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“FAS 157”). We adopted the provisions of FAS 157 on January 1, 2008. FAS 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value and expands disclosures about fair value measurements. FAS 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. FAS 157 does not expand or require any new fair value measures; however, the application of this statement may change current practice. FAS 157 does not apply to fair value measurements for purposes of lease classification or measurement under SFAS No. 13, “Accounting for Leases”. In February 2008, the FASB decided that an entity need not apply this standard to nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis until 2009. Accordingly, our adoption of this standard in 2008 was limited to financial assets and liabilities, which primarily affects the valuation of our derivative contracts. The adoption of FAS 157 did not have a material effect on our financial condition or results of operations. We do not believe the full adoption of FAS 157 with respect to our nonfinancial assets and liabilities will have a material effect on our financial condition or results of operations. Nonfinancial assets and liabilities for which we have not applied the provisions of FAS 157 primarily include those measured at fair value in impairment testing and those initially measured at fair value in a business combination.

In 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115” (“FAS 159”). FAS 159 became effective for us on January 1, 2008. FAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. FAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. FAS 159 did not have an effect on our financial condition or results of operations as we did not elect this fair value option, nor is it expected to have a material impact on future periods as the election of this option for our financial instruments is expected to be at most, limited.

Business Combinations and Noncontrolling Interests

In 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“FAS 141(R)"). FAS 141(R) requires the acquiring entity in a business combination to recognize the full fair value of

Notes to the Consolidated Financial Statements

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

assets acquired and liabilities assumed in the transaction (whether a full or partial acquisition); establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires expensing of most transaction and restructuring costs; and requires the acquirer to disclose the information needed to evaluate and understand the nature and financial effect of the business combination. FAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after January 1, 2009. The impact of FAS No. 141(R) on our consolidated financial statements will depend upon the nature, terms and size of the acquisitions we consummate after the effective date.

In 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51" ("FAS 160"). FAS 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to as a liability) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. As of December 31, 2008, we had approximately \$120 in noncontrolling interests classified in other long-term liabilities. FAS 160 applies prospectively as of January 1, 2009, except for the presentation and disclosure requirements which will be applied retrospectively for all periods presented.

Benefit Plans Accounting

In 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("FAS 158") which requires the recognition of an asset or liability for the funded status of defined pension and other postretirement benefit plans in the statement of financial position of the sponsoring entity. The funded status of a benefit plan is measured as the difference between plan assets at fair value and the benefit obligation. The initial incremental recognition of the funded status under FAS 158 of our defined pension and other post retirement benefit plans, as well as subsequent changes in our funded status that are not included in net periodic benefit cost will be reflected in shareholders' equity and other comprehensive loss, respectively. As of December 31, 2006, the net unfunded status of our benefit plans was \$2,842 and recognition of this net unfunded status upon the adoption of FAS 158 resulted in an after-tax charge to equity of \$1,024. Prior to the adoption of FAS 158, we recorded an after-tax credit to our minimum pension liability of \$131, for a total equity charge in 2006 related to the funded status of our benefit plans of \$893. Amounts recognized in accumulated other comprehensive loss are adjusted as they are subsequently recognized as a component of net periodic benefit cost. The method of calculating net periodic benefit cost did not change from existing guidance. Refer to Note 14 – Employee Benefit Plans for additional information.

The funded status recognition and certain disclosure provisions of FAS 158 were effective as of our fiscal year ending December 31, 2006. FAS 158 also requires the consistent measurement of plan assets and benefit obligations as of the date of our fiscal year-end statement of financial position effective for the year ending December 31, 2008. Since several of our international plans had a September 30th measurement date, this standard required us to change that measurement date to December 31st in 2008. The adoption of this requirement by our international plans did not have a material effect on our financial condition or results of operations. The effect of adoption by our international plans resulted in a January 1, 2008 opening retained earnings charge of \$16, deferred tax asset increase of \$4, pension asset reduction of \$9, a pension liability increase of \$6 and a credit to accumulated other comprehensive loss of \$5.

FAS 158 was not effective for our equity investment in Fuji Xerox ("FX") until their annual year-end of March 31, 2007. Upon FX's adoption of FAS 158, we recorded a \$5 charge to equity representing our share of their after-tax charge to equity for the unfunded status of their benefit plans. We also recorded a \$44 after-tax charge to equity for our portion of a minimum pension liability adjustment recorded by FX prior to their adoption of FAS 158 for a total equity charge in 2007 related to the funded status of FX's benefit plans of \$49.

Other Accounting Changes

In December 2008, the FASB issued Staff Position No. FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities" ("FSP FAS 140-4 and FIN 46(R)-8"). This FSP required additional disclosures about transfers of financial assets and about an entity's involvement with variable interest entities. The FSP is effective for our fiscal year ended December 31, 2008. Adoption of this FSP affects disclosures only and therefore has no impact on the Company's financial condition, results of operations or cash flows. Since our transfers of financial assets and involvement with variable interest entities are not material, we do not expect a material disclosure requirement from this standard.

In April 2008, the FASB issued Staff Position No. FAS 142-3, "Determination of Useful Life of Intangible Assets" ("FSP FAS 142-3"). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS 142, "Goodwill and Other Intangible Assets." FSP FAS 142-3 also requires expanded disclosures related to the determination of intangible asset useful lives. This standard applies prospectively to intangible assets acquired and/or recognized on or after January 1, 2009. We do not believe that the adoption of this standard will have a material effect on our financial condition or results of operations.

Notes to the Consolidated Financial Statements

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In 2007, the FASB's Emerging Issues Task Force issued EITF Issue No. 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements" ("EITF 06-10"). EITF 06-10 provides that an employer should recognize a liability for the postretirement benefit related to collateral assignment split-dollar life insurance arrangements in accordance with either SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," or Accounting Principles Board Opinion No. 12, "Omnibus Opinion." We recorded a \$11 after-tax charge to retained earnings in 2008 reflecting the cumulative effect upon adoption of EITF 06-10. The standard is not expected to have a material impact on results of operations in the future.

In 2006, the FASB ratified the consensus reached on EITF Issue No. 06-2, "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2 clarifies recognition guidance on the accrual of employees' rights to compensated absences under a sabbatical or other similar benefit arrangement. We recorded a \$7 after-tax charge to Retained earnings in 2007 reflecting our share of the cumulative effect recorded by Fuji Xerox upon adoption of EITF 06-2. This was adjusted by a \$2 credit in 2008. With the exception of this charge, the adoption of EITF 06-2 did not impact the Company as we do not have a similar benefit arrangement.

Summary of Accounting Policies

Revenue Recognition

We generate revenue through the sale and rental of equipment, service and supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to sales of our products and services is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered to and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Service: Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products in the Office segment, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Revenues associated with outsourcing services as well as professional and value-added services are generally recognized as such services are performed. In those service arrangements where final acceptance of a system or solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Costs associated with service arrangements are generally recognized as incurred. Initial direct costs of an arrangement are capitalized and amortized over the contractual service period. Long-lived assets used in the fulfillment of the arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract. Losses on service arrangements are recognized in the period that the contractual loss becomes probable and estimable.

Sales to distributors and resellers: We utilize distributors and resellers to sell certain of our products to end-users. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. Distributors and resellers participate in various cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. We also similarly account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales terms.

Software: Software included within our equipment and services is generally considered incidental and is therefore accounted for as part of the equipment sales or services revenues. Software accessories sold in connection with our equipment sales as well as free-standing software revenues are accounted for in accordance with AICPA Statement of Position No. 97-2, "Software Revenue Recognition" ("SOP 97-2"). In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence ("VSOE") of fair value. VSOE of fair value is based on the price charged when the deliverable is sold separately by us on a regular basis and not as part of the multiple- element arrangement. Revenue allocated to software is normally

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

recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

Revenue Recognition for Leases: Our accounting for leases involves specific determinations under FAS 13, which often involve complex provisions and significant judgments. The two primary criteria of FAS 13 which we use to classify transactions as sales-type or operating leases are 1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and 2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Our leases in our Latin America operations have historically been recorded as operating leases given the cancellability of the contract or because the recoverability of the lease investment is deemed not to be predictable at lease inception.

The critical elements that we consider with respect to our lease accounting are the determination of the economic life and the fair value of equipment, including the residual value. For purposes of determining the economic life, we consider the most objective measure to be the original contract term, since most equipment is returned by lessees at or near the end of the contracted term. The economic life of most of our products is five years since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases have original terms longer than five years. We continually evaluate the economic life of both existing and newly introduced products for purposes of this determination. Residual values, if any, are established at lease inception using estimates of fair value at the end of the lease term.

The vast majority of our leases that qualify as sales-type are non-cancelable and include cancellation penalties approximately equal to the full value of the lease receivables. A portion of our business involves sales to governmental units. Governmental units are those entities that have statutorily defined funding or annual budgets that are determined by their legislative bodies. Certain of our governmental contracts may have cancellation provisions or renewal clauses that are required by law, such as 1) those dependant on fiscal funding outside of a governmental unit's control, 2) those that can be cancelled if deemed in the best interest of the governmental unit's taxpayers or 3) those that must be renewed each fiscal year, given limitations that may exist on entering into multi-year contracts that are imposed by statute. In these circumstances, we carefully evaluate these contracts to assess whether cancellation is remote. The evaluation of a lease agreement with a renewal option includes an assessment as to whether the renewal is reasonably assured based on the apparent intent and our experience of such governmental unit. We further ensure that the contract provisions described above are offered only in instances where required by law. Where such contract terms are not legally required, we consider the arrangement to be cancelable and account for the lease as an operating lease.

After the initial lease of equipment to our customers, we may enter subsequent transactions with the same customer whereby we extend the term. Revenue from such lease extensions is typically recognized over the extension period.

Revenue Recognition Under Bundled Arrangements: We sell the majority of our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements typically also include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price per page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make ("fixed payments") over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded ("contingent payments"). The minimum contractual committed page volumes are typically negotiated to equal the customer's estimated page volume at lease inception. In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are inherently uncertain and therefore are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract. Revenues under bundled arrangements are allocated considering the relative fair values of the lease and non-lease deliverables included in the bundled arrangement based upon the estimated relative fair values of each element. Lease deliverables include maintenance and executory costs, equipment and financing, while non-lease deliverables generally consist of the supplies and non-maintenance services. Our revenue allocation for the lease deliverables begins by allocating revenues to the maintenance and executory costs plus profit thereon. The remaining amounts are allocated to the equipment and financing elements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, including money-market funds, and investments with original maturities of three months or less.

Notes to the Consolidated Financial Statements

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

Restricted Cash and Investments

Several of our secured financing arrangements and other contracts, require us to post cash collateral or maintain minimum cash balances in escrow. In addition, as more fully discussed in Note 16 – Contingencies, various litigation matters in Brazil require us to make cash deposits as a condition of continuing the litigation. These cash amounts are reported in our Consolidated Balance Sheets, depending on when the cash will be contractually released. At December 31, 2008 and 2007, such restricted cash amounts were as follows (in millions):

	December 31,	
	2008	2007
Escrow and cash collections related to secured borrowing arrangements	\$ 16	\$ 41
Tax and other litigation deposits in Brazil	167	200
Other restricted cash	20	23
Total	\$ 203	\$ 264

Of these amounts, \$20 and \$45 were included in Other current assets and \$183 and \$219 were included in Other long-term assets, as of December 31, 2008 and 2007, respectively.

Provisions for Losses on Uncollectible Receivables

The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of our receivables and evaluations of the default risks of repayment. Allowances for doubtful accounts receivable were \$131 and \$128, as of December 31, 2008 and 2007, respectively. Allowances for doubtful accounts on finance receivables were \$198 and \$203 at December 31, 2008 and 2007, respectively.

Inventories

Inventories are carried at the lower of average cost or market. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value. Salvage value consists of the estimated market value (generally determined based on replacement cost) of the salvageable component parts, which are expected to be used in the remanufacturing process. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations.

Cost of sales in 2008 included a charge of \$39 associated with an Office segment product line equipment and residual value write-off. The write-off was the result of a late 2008 change in strategy reflecting our decision to discontinue the remanufacture of end-of-lease returned inventory from a certain Office segment product line following an assessment of the current and expected market for these products.

Land, Buildings and Equipment and Equipment on Operating Leases

Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 5 – Inventories and Equipment on Operating Leases, Net and Note 6 – Land, Buildings and Equipment, Net for further discussion.

Internal Use Software

We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented. Useful lives of the software generally vary from 3 to 5 years. Amortization expense was \$50, \$76, and \$73 for the years ended December 31, 2008, 2007 and 2006, respectively. Capitalized costs were \$288 and \$270 as of December 31, 2008 and 2007, respectively.

Goodwill and Other Intangible Assets

Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. We estimate the fair value of each reporting unit using a discounted cash flow methodology. This requires us to use significant judgment including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our business, the useful life over which cash flows will occur, determination of our weighted average cost of capital, and relevant market data.

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Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, patents on existing technology and trademarks. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company. Refer to Note 8 – Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal-use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Treasury Stock

We account for repurchased common stock under the cost method and include such treasury stock as a component of our Common shareholders' equity. Retirement of Treasury stock is recorded as a reduction of Common stock and Additional paid-in-capital at the time such retirement is approved by our Board of Directors.

Research, Development and Engineering ("R,D&E")

Research, development and engineering costs are expensed as incurred. R,D&E was \$884, \$912 and \$922, for the three years ended December 31, 2008, respectively. Research and development ("R&D") costs were \$750 in 2008, \$764 in 2007 and \$761 in 2006. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Our sustaining engineering costs were \$134, \$148, and \$161, for the three years ended December 31, 2008, respectively.

Restructuring Charges

Costs associated with exit or disposal activities, including lease termination costs and certain employee severance costs associated with restructuring, plant closing or other activity, are recognized when they are incurred. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize severance costs when they are both probable and reasonably estimable.

Pension and Post-Retirement Benefit Obligations

We sponsor pension plans in various forms in several countries covering substantially all employees who meet eligibility requirements. Post-retirement benefit plans cover U.S. and Canadian employees for retirement medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes. At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost, are recognized in Accumulated other comprehensive loss, net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and post-retirement benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases, and mortality, among others. Actual returns on plan assets are not immediately recognized in our income statement, due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return to the plan assets that support our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a calculated value approach in determining the value of the pension plan assets, as opposed to a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is then applied to the calculated asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The calculated value approach reduces the volatility in net periodic pension cost that results from using the fair market value approach.

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

The discount rate is used to present value our future anticipated benefit obligations. In estimating our discount rate, we consider rates of return on high quality fixed-income investments included in various published bond indexes, adjusted to eliminate the effects of call provisions and differences in the timing and amounts of cash outflows related to the bonds, as well as, the expected timing of pension and other benefit payments. In the U.S. and the U.K., which comprise approximately 80% of our projected benefit obligation, we consider the Moody's Aa Corporate Bond Index and the International Index Company's iBoxx Sterling Corporate AA Cash Bond Index, respectively, in the determination of the appropriate discount rate assumptions. Refer to Note 14 – Employee Benefit Plans for further information.

Each year, the difference between the actual return on plan assets and the expected return on plan assets as well as increases or decreases in the benefit obligation as a result of changes in the discount rate are added to, or subtracted from, any cumulative actuarial gain or loss that arose in prior years. This resultant amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss and is subject to subsequent amortization to net periodic pension cost in future periods over the remaining service lives of the employees participating in the pension plan.

Foreign Currency Translation

The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange, and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss. The U.S. Dollar is used as the functional currency for certain subsidiaries that conduct their business in U.S. Dollars or operate in hyperinflationary economies. A combination of current and historical exchange rates is used in remeasuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were \$34, \$8 and \$39 in 2008, 2007 and 2006, respectively, and are included in Other expenses, net in the accompanying Consolidated Statements of Income.

Accumulated Other Comprehensive Loss (“AOCL”)

AOCL is composed of the following for the three years ending December 31, 2008 (in millions):

	December 31,		
	2008	2007	2006
Income (loss):			
Cumulative translation adjustments	\$ (1,395)	\$ (31)	\$ (532)
Benefit plans net actuarial losses and prior service credits (includes our share of Fuji Xerox)	(1,021)	(735)	(1,097)
Minimum pension liabilities	—	—	(20)
Other unrealized gains	—	1	2
Total Accumulated Other Comprehensive Loss	\$ (2,416)	\$ (765)	\$ (1,647)

Note 2 – Segment Reporting

Our reportable segments are consistent with how we manage the business and view the markets we serve. Our reportable segments are Production, Office and Other. The Production and Office segments are centered around strategic product groups which share common technology, manufacturing and product platforms, as well as classes of customers.

The Production segment includes black-and-white products which operate at speeds over 90 pages per minute (“ppm”) excluding 95 ppm with an embedded controller and color products which operate at speeds over 40 ppm excluding 50, 60 and 70 ppm products with an embedded controller. Products include the Xerox iGen3 and iGen4 digital color production press, Xerox Nuvera[®], DocuTech[®], DocuPrint[®] and DocuColor families, as well as older technology light-lens products. These products are sold predominantly through direct sales channels to Fortune 1000, graphic arts, government, education and other public sector customers.

The Office segment includes black-and-white products which operate at speeds up to 90 ppm as well as 95 ppm with an embedded controller and color products up to 40 ppm as well as 50, 60 and 70 ppm products with an embedded controller. Products include the suite of CopyCentre[®], WorkCentre[®], WorkCentre Pro and Phaser[®] digital multifunction systems, DocuColor color multifunction products, color laser, solid ink color printers and multifunction devices, monochrome laser desktop printers, digital and light-lens copiers and facsimile products and non-Xerox branded products with similar specifications. These products are sold through direct and indirect sales channels to global, national and mid-size commercial customers as well as government, education and other public sector customers. Approximately 75% of Global Imaging Systems’ (“GIS”) revenue is included in our Office segment representing those sales and services that align to our Office segment.

Notes to the Consolidated Financial Statements

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

The segment classified as Other includes several units, none of which met the thresholds for separate segment reporting. This group primarily includes Xerox Supplies Business Group (predominantly paper sales), value-added services, Wide Format Systems, Xerox Technology Enterprises, royalty and licensing revenues, GIS network integration solutions and electronic presentation systems, equity net income and non-allocated Corporate items. Other segment profit (loss) includes the operating results from these entities, other less significant businesses, our equity income from Fuji Xerox, and certain costs which have not been allocated to the Production and Office segments, including non-financing interest as well as other items included in Other expenses, net.

Selected financial information for our Operating segments for each of the years ended December 31, 2008, 2007 and 2006, respectively, was as follows (in millions):

	Production	Office	Other	Total
2008⁽¹⁾				
Revenues	\$ 4,937	\$9,347	\$2,526	\$16,810
Finance income	300	481	17	798
Total Segment Revenues	\$ 5,237	\$9,828	\$2,543	\$17,608
Interest expense	\$ 117	\$ 181	\$ 269	\$ 567
Segment profit (loss) ⁽²⁾	394	1,062	(165)	1,291
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 113	\$ 113
2007⁽¹⁾				
Revenues	\$ 5,001	\$8,980	\$2,425	\$16,406
Finance income	314	493	15	822
Total Segment Revenues	\$ 5,315	\$9,473	\$2,440	\$17,228
Interest expense	\$ 123	\$ 186	\$ 270	\$ 579
Segment profit (loss) ⁽²⁾	562	1,115	(89)	1,588
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 97	\$ 97
2006⁽¹⁾				
Revenues	\$ 4,735	\$8,207	\$2,113	\$15,055
Finance income	320	505	15	840
Total Segment Revenues	\$ 5,055	\$8,712	\$2,128	\$15,895
Interest expense	\$ 119	\$ 181	\$ 244	\$ 544
Segment profit (loss) ⁽²⁾	504	1,010	(124)	1,390
Equity in net income of unconsolidated affiliates	\$ —	\$ —	\$ 114	\$ 114

(1) Asset information on a segment basis is not disclosed as this information is not separately identified and internally reported to our chief executive officer.

(2) Depreciation and amortization expense is recorded in cost of sales, research, development and engineering expenses and selling, administrative and general expenses and is included in the segment profit above. This information is neither identified nor internally reported to our chief executive officer. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

Notes to the Consolidated Financial Statements

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

The following is a reconciliation of segment profit to pre-tax income (in millions):

	Year Ended December 31,		
	2008	2007	2006
Total Segment profit	\$1,291	\$1,588	\$1,390
Reconciling items:			
Restructuring and asset impairment charges	(429)	6	(385)
Restructuring charges of Fuji Xerox	(16)	(30)	—
Litigation matters ⁽¹⁾	(774)	—	(68)
Equipment write-off	(39)	—	—
Equity in net income of unconsolidated affiliates	(113)	(97)	(114)
Other	(34)	(29)	(15)
Pre-tax (loss) income	\$ (114)	\$1,438	\$ 808

(1) The 2008 provision for litigation represents \$670 for the *Carlson v. Xerox Corporation* court approved settlement, as well as provisions for other litigation matters including \$36 for the probable loss related to the Brazil labor related contingencies. The 2006 provision for litigation represents \$68 related to probable losses on Brazilian labor-related contingencies. Refer to Note 16 – Contingencies for further discussion.

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows (in millions):

	Revenues			Long-Lived Assets ⁽¹⁾		
	2008	2007	2006	2008	2007	2006
United States	\$ 9,122	\$ 9,078	\$ 8,406	\$1,386	\$1,375	\$1,309
Europe	6,011	5,888	5,378	680	746	572
Other Areas	2,475	2,262	2,111	248	341	356
Total	\$17,608	\$17,228	\$15,895	\$2,314	\$2,462	\$2,237

(1) Long-lived assets are comprised of (i) land, buildings and equipment, net, (ii) equipment on operating leases, net, (iii) internal use software, net and (iv) capitalized software costs, net.

Note 3 – Acquisitions

Veenman B.V.

In June 2008, we acquired Veenman B.V. (“Veenman”), expanding our reach into the small and mid-sized business market in Europe, for approximately \$69 (€44 million) in cash, including transaction costs. Veenman is the Netherlands’ leading independent distributor of office printers, copiers and multifunction devices serving small and mid-size businesses. The operating results of Veenman are not material to our financial statements, and are included within our Office segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on third-party valuations and management’s estimates.

Global Imaging Systems, Inc.

In 2007, we acquired GIS, a provider of office technology for small and mid-size businesses in the United States. The acquisition of GIS expanded our access to the U.S. small and mid-size business market. The aggregate purchase price was approximately \$1.5 billion. In addition, in connection with the closing, we also repaid \$200 of GIS’s then outstanding bank debt. The results of operations for GIS are included in our Consolidated Statements of Income as of May 9, 2007. Refer to Note 2 – Segment Reporting for a discussion of the segment classification of GIS.

The total cost of the acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective estimated fair values. Goodwill of \$1,335 and intangible assets of \$363 were recorded in connection with the acquisition based on third-party valuations and management’s estimates for those acquired intangible assets. The majority of the goodwill is not deductible for tax purposes and the primary elements that generated goodwill are the value of the acquired assembled workforce, specialized processes and procedures and operating synergies, none of which qualify as a separate intangible asset. Intangible assets included customer relationships of \$189 with a 12 year weighted average useful life and tradenames of \$174 with a 20 year weighted average useful life.

The unaudited pro forma results presented below include the effects of the GIS acquisition as if it had been consummated as of January 1, 2006. The pro forma results include the amortization associated with the estimated value of acquired intangible assets

Notes to the Consolidated Financial Statements

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

and interest expense associated with debt used to fund the acquisition. However, pro forma results do not include any anticipated synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been consummated as of January 1, 2006.

(in millions)	Year Ended December 31,	
	2007	2006
Revenue	\$ 17,619	\$ 16,992
Net income	1,139	1,222
Basic earnings per share	1.22	1.26
Diluted earnings per share	1.20	1.23

GIS Acquisitions

In May 2008, GIS acquired Saxon Business Systems, an office equipment supplier in Florida, for approximately \$69 in cash, including transaction costs. GIS acquired three other similar businesses in 2008 for a total of \$17 in cash. In 2007, GIS acquired four businesses that provide office-imaging solutions and related services for \$39 in cash. These acquisitions continue GIS's development of a national network of office technology suppliers to serve its expanding base of small and mid-size businesses. The operating results of these acquired entities are not material to our financial statements and are included within our Office segment from the date of acquisition. The purchase prices were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

Advectis, Inc.

In 2007, we acquired Advectis, Inc. ("Advectis"), a privately-owned provider of a web-based solution to electronically manage the process needed to underwrite, audit, collaborate, deliver and archive mortgage loan documents, for \$30 in cash. The operating results of Advectis are not material to our financial statements, and are included within our Other segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on management's estimates.

XMPie, Inc.

In 2006, we acquired the stock of XMPie, Inc. ("XMPie"), a provider of variable information software, for \$54 in cash, including transaction costs. XMPie's software enables printers and marketers to create and print personalized and customized marketing materials to help improve response rates. We had an existing relationship with XMPie, as its largest reseller, and its software is primarily sold together with our Production systems including the iGen3.

The operating results of XMPie are not material to our financial statements, and are included within our Production segment from the date of acquisition. The purchase price was primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates.

Amici LLC

In 2006, we acquired all of the net assets of Amici LLC ("Amici"), a provider of electronic-discovery (e-discovery) services, for \$175 in cash, including transaction costs. Amici provides comprehensive litigation discovery management services, including the conversion, hosting and production of electronic and hardcopy documents. Amici also provides consulting and professional services to assist attorneys in the discovery process. The operating results of Amici were not material to our financial statements and are included within our Other segment from the date of acquisition.

The purchase price was allocated to Net assets \$2, Intangible assets \$37 (consisting of customer relationships of \$29 and software of \$8), and Goodwill of \$136. The primary elements that generated the Goodwill are the value of synergies and the acquired assembled workforce, neither of which qualify as a separate intangible asset. The allocations were based on third-party valuations and management's estimates.

Note 4 – Receivables, Net

Finance Receivables

Finance receivables result from installment arrangements and sales-type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Gross receivables	\$ 8,718	\$ 9,643
Unearned income	(1,273)	(1,461)
Residual values	31	69
Allowance for doubtful accounts	(198)	(203)
Finance receivables, net	7,278	8,048
Less: Billed portion of finance receivables, net	(254)	(304)
Current portion of finance receivables not billed, net	(2,461)	(2,693)
Amounts due after one year, net	\$ 4,563	\$ 5,051

Contractual maturities of our gross finance receivables as of December 31, 2008 were as follows (including those already billed of \$254 (in millions):

2009	2010	2011	2012	2013	Thereafter	Total
\$3,288	\$2,414	\$1,690	\$953	\$335	\$38	\$8,718

Notes to the Consolidated Financial Statements

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

Secured Borrowings

We have an agreement in the U.S. (the "Loan Agreement") under which General Electric Capital Corporation, a subsidiary of GE, provides secured funding for our customer leasing activities in the U.S. The maximum potential level of borrowing under this agreement is a function of the size of the portfolio of finance receivables generated by us that meet GE's funding requirements and cannot exceed \$5 billion.

Under this agreement, lease originations to be funded by GE are transferred to a wholly-owned consolidated subsidiary. The funds received under this agreement are recorded as secured borrowings and together with the associated lease receivables are included in our Consolidated Balance Sheet. We and GE intended for the transfers of the lease contracts to be "true sales at law" and that the wholly-owned consolidated subsidiary be bankruptcy remote and have received opinions to that effect from outside legal counsel. As a result, the transferred receivables are not available to satisfy any of our other obligations. The final funding date for the U.S. facility is December 2010. There have been no new borrowings under the Loan Agreement since December 2005.

As of December 31, 2008 and 2007, net encumbered finance receivables were \$104 and \$377, respectively, and secured debt associated with those receivables was \$56 and \$275, respectively.

Accounts Receivable Sales Arrangements

We have a facility in Europe that enables us to sell, on an on-going basis, certain accounts receivables without recourse to a third-party. During 2008 and 2007, we sold approximately \$717 and \$326, respectively, of accounts receivables under this facility. Fees associated with these sales were \$4 and \$2, respectively. Of the amounts sold, \$178 and \$170 remained uncollected by the third-party as of December 31, 2008 and 2007, respectively. In the fourth quarter of 2008, we also sold an additional \$43 of accounts receivable in Europe without recourse under a separate one-time factoring arrangement.

Note 5 – Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Finished goods	\$ 1,044	\$ 1,099
Work-in-process	80	70
Raw materials	108	136
Total Inventories	\$ 1,232	\$ 1,305

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non-cash adjustment. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term. We recorded \$115, \$66 and \$69 in inventory write-down charges for the years ended December 31, 2008, 2007 and 2006, respectively.

Equipment on operating leases and the related accumulated depreciation at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Equipment on operating leases	\$ 1,507	\$ 1,435
Less: Accumulated depreciation	(913)	(848)
Equipment on operating leases, net	\$ 594	\$ 587

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Depreciation and obsolescence expense for equipment on operating leases was \$298, \$269 and \$230 for the years ended December 31, 2008, 2007 and 2006, respectively. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are (in millions):

2009	2010	2011	2012	2013	Thereafter
\$ 380	\$ 282	\$ 183	\$ 86	\$ 38	\$ 21

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2008, 2007 and 2006 amounted to \$117, \$117 and \$112, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net at December 31, 2008 and 2007 were as follows (in millions):

	Estimated Useful Lives (Years)	2008	2007
Land		\$ 45	\$ 48
Buildings and building equipment	25 to 50	1,156	1,208
Leasehold improvements	Varies	372	371
Plant machinery	5 to 12	1,597	1,710
Office furniture and equipment	3 to 15	973	998
Other	4 to 20	100	86
Construction in progress	—	95	88
Subtotal		4,338	4,509
Less: Accumulated depreciation		(2,919)	(2,922)
Land, buildings and equipment, net		\$ 1,419	\$ 1,587

Notes to the Consolidated Financial Statements

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

Depreciation expense and operating lease rent expense for the three years ended December 31, 2008 were as follows (in millions):

	2008	2007	2006
Depreciation expense	\$ 257	\$ 262	\$ 277
Operating lease rent expense ⁽¹⁾	\$ 252	\$ 286	\$ 269

(1) We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2008 were as follows (in millions):

2009	2010	2011	2012	2013	Thereafter
\$ 223	\$ 188	\$ 151	\$ 100	\$ 84	\$ 123

EDS Contract: We have an information management contract with Electronic Data Systems Corp. ("EDS") through June 30, 2009. Services to be provided under this contract include support for global mainframe system processing, application maintenance, workplace and service desk, voice and data network management and server management. In 2008, the contracts for global mainframe system processing and workplace and service desk were extended through December 2013 and March 2014, respectively. In January 2009, the contract for voice and data network management services was revised and extended through March 2014. There are no minimum payments required under this contract. The amounts disclosed in the table reflect our estimate of probable minimum payments for the periods shown. We can terminate the contract for convenience with six months notice, as defined in the contract, with no termination fee and with payment to EDS for costs incurred as of the termination date. Should we terminate the contract for convenience, we have an option to purchase the assets placed in service under the EDS contract. Payments to EDS, which are primarily recorded in selling, administrative and general expenses, were \$279, \$294 and \$288 for the years ended December 31, 2008, 2007 and 2006, respectively.

In January 2009, we entered into a three year contract with Verizon Business to provide data network transport services. There are annual volume commitments included in the contract of \$5, \$7 and \$8 for the three years ended December 31, 2009, 2010 and 2011. We expect to meet the minimum volume commitments throughout the course of the contract.

Note 7 – Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Fuji Xerox	\$ 1,028	\$ 887
All other equity investments	52	45
Investments in affiliates, at equity	\$ 1,080	\$ 932

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand and other areas of the Pacific Rim. Our investment in Fuji Xerox of \$1,028 at December 31, 2008, differs from our implied 25% interest in the underlying net assets, or \$1,139, due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox, partially offset by goodwill related to the Fuji Xerox investment established at the time we acquired our remaining 20% of Xerox Limited from The Rank Group plc.

Our equity in net income of our unconsolidated affiliates for the three years ended December 31, 2008 was as follows (in millions):

	2008	2007	2006
Fuji Xerox	\$ 101	\$ 89	\$ 107
Other investments	12	8	7
Total	\$ 113	\$ 97	\$ 114

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different than that implied by our 25% ownership interest. Equity income for 2008 and 2007 includes after-tax restructuring charges of \$16 and \$30, respectively, primarily reflecting employee related costs as part of Fuji Xerox's continued cost-reduction actions to improve its competitive position.

Condensed financial data of Fuji Xerox for the three calendar years ended December 31, 2008 was as follows (in millions):

	2008	2007	2006
Summary of Operations			
Revenues	\$ 11,190	\$ 10,218	\$ 9,859
Costs and expenses	10,451	9,565	9,119
Income before income taxes	739	653	740
Income taxes	287	252	281
Minorities' interests	7	6	5
Net income	\$ 445	\$ 395	\$ 454
Balance Sheet			
Assets:			
Current assets	\$ 4,734	\$ 4,242	\$ 3,731
Long-term assets	5,470	4,639	4,184
Total Assets	\$ 10,204	\$ 8,881	\$ 7,915
Liabilities and Shareholders' Equity:			
Current liabilities	\$ 3,534	\$ 3,322	\$ 2,954
Long-term debt	996	900	685
Other long-term liabilities	1,095	746	590
Minorities' interests in equity of subsidiaries	23	25	21
Shareholders' equity	4,556	3,888	3,665
Total Liabilities and Shareholders' Equity	\$ 10,204	\$ 8,881	\$ 7,915

Notes to the Consolidated Financial Statements

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

Yen/U.S. Dollar exchange rates used to translate above are as follows:

	Exchange Basis	2008	2007	2006
Summary of Operations	Weighted Average Rate	103.31	117.53	116.36
Balance Sheet	Year-End Rate	90.28	112.55	118.89

In 2008, 2007 and 2006, we received dividends of \$56, \$37 and \$41, respectively, which were reflected as a reduction in our investment. Additionally, we have a technology agreement with Fuji Xerox whereby we receive royalty payments for their use of our Xerox brand trademark, as well as rights to access their patent portfolio in exchange for access to our patent portfolio.

In 2008, 2007 and 2006, we earned royalty revenues under our Technology Agreement of \$112, \$108 and \$117, respectively, which are included in Service, outsourcing and rental revenues in the Consolidated Statements of Income. We also have arrangements with Fuji Xerox whereby we purchase inventory from and sell inventory to Fuji Xerox. Pricing of the transactions under these arrangements is based upon negotiations conducted at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. Purchases from and sales to Fuji Xerox for the three years ended December 31, 2008 were as follows (in millions):

	2008	2007	2006
Sales	\$ 162	\$ 186	\$ 168
Purchases	\$ 2,150	\$ 1,946	\$ 1,677

In addition to the amounts described above, in 2008, 2007 and 2006, we paid Fuji Xerox \$34, \$30 and \$28, respectively, and Fuji Xerox paid us \$5, \$3 and \$3, in 2008, 2007 and 2006, respectively, for unique research and development. As of December 31, 2008 and 2007, amounts due to Fuji Xerox were \$194 and \$205, respectively.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment, for the three years ended December 31, 2008 (in millions):

	Production	Office	Other	Total
Balance at December 31, 2005	\$ 745	\$ 807	\$ 119	\$1,671
Foreign currency translation adjustment	99	69	1	169
Acquisition of Amici LLC	—	—	136	136
Acquisition of XMPie, Inc.	48	—	—	48
Balance at December 31, 2006	\$ 892	\$ 876	\$ 256	\$2,024
Foreign currency translation adjustment	21	17	—	38
Acquisition of GIS	—	1,218	105	1,323
Acquisition of Advectis, Inc.	—	—	26	26
GIS Acquisitions	—	30	3	33
Other	—	—	4	4
Balance at December 31, 2007	\$ 913	\$2,141	\$ 394	\$3,448
Foreign currency translation adjustment	(233)	(161)	(1)	(395)
Acquisition of Veenman B.V.	—	44	—	44
GIS acquisitions	—	73	—	73
Purchase Price allocation adjustment – GIS	—	120	(108)	12
Balance at December 31, 2008	\$ 680	\$2,217	\$ 285	\$3,182

In 2008, we finalized the GIS purchase price allocation. As a result, the \$108 of Goodwill reflected in our Other segment in 2007 was reallocated to our Office segment. This adjustment aligned goodwill to the reporting unit benefiting from the synergies of the purchase.

Notes to the Consolidated Financial Statements

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

Intangible Assets, Net

Intangible assets primarily relate to the Office operating segment. Intangible assets were comprised of the following as of December 31, 2008 and 2007 (in millions):

	Weighted Average Amortization Period	December 31, 2008			December 31, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	14 years	\$ 492	\$ 155	\$ 337	\$ 462	\$ 118	\$ 344
Distribution network	25 years	123	44	79	123	39	84
Trademarks	20 years	191	15	176	175	6	169
Technology, patents and non-compete	6 years	40	22	18	39	15	24
Total		\$ 846	\$ 236	\$ 610	\$ 799	\$ 178	\$ 621

Amortization expense related to intangible assets was \$58, \$46, and \$45 for the years ended December 31, 2008, 2007 and 2006, respectively, and, excluding the impact of additional acquisitions, is expected to approximate \$58 annually from 2009 through 2013. Amortization expense is primarily recorded in Other expenses, net, with the exception of amortization expense associated with licensed technology, which is recorded in Cost of sales and Cost of service, outsourcing and rentals, as appropriate.

Note 9 – Restructuring and Asset Impairment Charges

The net restructuring and asset impairment charges in the Consolidated Statements of Income totaled \$429, \$(6) and \$385 in 2008, 2007 and 2006, respectively. Detailed information related to restructuring program activity during the three years ended December 31, 2008 is outlined below (in millions):

Restructuring Activity	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽¹⁾	Total
Balance December 31, 2005	\$ 217	\$ 19	\$ —	\$ 236
Restructuring provision	351	39	30	420
Reversals of prior accruals	(33)	(2)	—	(35)
Net current year charges ⁽²⁾	318	37	30	385
Charges against reserve and currency	(242)	(12)	(30)	(284)
Balance December 31, 2006	\$ 293	\$ 44	\$ —	\$ 337
Restructuring provision	27	7	1	35
Reversals of prior accruals	(38)	(3)	—	(41)
Net current year charges ⁽²⁾	(11)	4	1	(6)
Charges against reserve and currency	(211)	(10)	(1)	(222)
Balance December 31, 2007	\$ 71	\$ 38	\$ —	\$ 109
Restructuring provision	363	20	53	436
Reversals of prior accruals	(6)	(1)	—	(7)
Net current year charges ⁽²⁾	357	19	53	429
Charges against reserve and currency	(108)	(25)	(53)	(186)
Balance December 31, 2008⁽³⁾	\$ 320	\$ 32	\$ —	\$ 352

(1) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

(2) Represents amount recognized within the Consolidated Statements of Income for the years shown.

(3) We expect to utilize the majority of the December 31, 2008 restructuring balance in 2009.

Notes to the Consolidated Financial Statements

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

Reconciliation to Consolidated Statements of Cash Flows

(in millions)	Year Ended December 31,		
	2008	2007	2006
Charges to reserve	\$ (186)	\$ (222)	\$ (284)
Asset impairments	53	1	30
Effects of foreign currency and other non-cash items	2	(14)	(11)
Cash payments for restructurings	\$ (131)	\$ (235)	\$ (265)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment for the three years ended December 31, 2008 (in millions):

	2008	2007	2006
Production	\$ 190	\$ (6)	\$ 147
Office	200	3	138
Other	39	(3)	100
Total net charges	\$ 429	\$ (6)	\$ 385

Over the past several years we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce our cost structure and improve productivity. These initiatives primarily include severance actions and impact all major geographies and segments. Management continues to evaluate our business and, therefore, there may be additional provisions for new plan initiatives as well as changes in estimates to amounts previously recorded, as payments are made or actions are completed. Asset impairment charges were also incurred in connection with these restructuring actions for those assets made obsolete as a result of these programs.

2008 Activity

During 2008, we recorded \$357 of net restructuring charges predominantly consisting of severance and costs related to the elimination of approximately 4,900 positions primarily in both North America and Europe. Focus areas for the actions include the following:

- Improving efficiency and effectiveness of infrastructure including: marketing, finance, human resources & training.
- Capturing efficiencies in technical services, managed services and supply chain & manufacturing infrastructure.
- Optimizing product development and engineering resources.

In addition, related to these activities, we also recorded lease cancellation and other costs of \$19 and asset impairment charges of \$53. The lease termination and asset impairment charges primarily related to: (i) the relocation of certain manufacturing operations including the closing of our toner plant in Oklahoma City and the consolidation of our manufacturing operations in Ireland; and (ii) the exit from certain leased and owned facilities as a result of the actions noted above.

2007 Activity

Restructuring activity was minimal in 2007 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.

2006 Activity

The 2006 charges primarily relate to the elimination of approximately 3,400 positions primarily in North America and Europe. The actions associated with these charges primarily include the following: technical and professional services infrastructure and global back-office optimization; continued R&D efficiencies and productivity improvements; supply chain optimization to ensure, for example, alignment to our global two-tier model implementation; and selected off-shoring opportunities. The lease termination and asset impairment charges primarily related to the relocation of certain manufacturing operations as well as an exit from certain leased and owned facilities. These charges were offset by reversals of \$35 primarily related to changes in estimates in severance costs from previously recorded actions.

Note 10 – Supplementary Financial Information

The components of other current assets and other current liabilities at December 31, 2008 and 2007 were as follows:

(in millions)	2008	2007
Other current assets		
Deferred taxes	\$ 305	\$ 200
Restricted cash	20	45
Prepaid expenses	119	120
Financial derivative instruments	39	27
Other	307	290
Total Other current assets	\$ 790	\$ 682
Other current liabilities		
Income taxes payable	\$ 47	\$ 84
Other taxes payable	173	179
Interest payable	141	137
Restructuring reserves	325	81
Unearned income	203	242
Financial derivative instruments	134	30
Product warranties	25	25
Dividends payable	38	40
Other	683	694
Total Other current liabilities	\$ 1,769	\$ 1,512

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

The components of other long-term assets and other long-term liabilities at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Other long-term assets		
Prepaid pension costs	\$ 61	\$ 322
Net investment in discontinued operations ⁽¹⁾	259	277
Internal use software, net	288	270
Restricted cash	183	219
Debt issuance costs, net	48	47
Other	318	293
Total Other long-term assets	\$ 1,157	\$ 1,428
Other long-term liabilities		
Deferred and other tax liabilities	\$ 182	\$ 250
Minorities' interests in equity of subsidiaries	120	103
Financial derivative instruments	—	14
Other	392	429
Total Other long-term liabilities	\$ 694	\$ 796

(1) At December 31, 2008, our net investment in discontinued operations primarily consists of a \$285 performance-based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of \$26. The recovery of the performance-based instrument is dependent on the sufficiency of TRG's available cash flows, as guaranteed by TRG's ultimate parent, which are expected to be recovered in annual cash distributions through 2017.

Note 11 – Debt

Short-term borrowings at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Current maturities of long-term debt	\$ 1,549	\$ 426
Notes payable	7	18
France Bridge Facility due 2008	—	81
Italy Credit Facility due 2009	54	—
Total	\$ 1,610	\$ 525

We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term or to the first put date, in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income.

Notes to the Consolidated Financial Statements

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

Long-term debt at December 31, 2008 and 2007 was as follows (in millions):

	Weighted Average Interest Rates at December 31, 2008	2008	2007
U.S. Operations			
Xerox Corporation			
Notes due 2008	—	\$ —	\$ 2
Notes due 2011	2.83%	1	—
Senior Notes due 2009	10.75%	583	600
Euro Senior Notes due 2009	10.62%	317	330
Floating Senior Notes due 2009	2.60%	150	150
Senior Notes due 2010	7.13%	700	700
Notes due 2011	7.01%	50	50
Senior Notes due 2011	6.59%	750	750
Credit Facility due 2012	2.21%	246	600
Senior Notes due 2012	5.59%	1,100	1,100
Senior Notes due 2013	5.65%	400	—
Senior Notes due 2013	7.63%	550	550
Convertible Notes due 2014	9.00%	19	19
Notes due 2016	7.20%	250	250
Senior Notes due 2016	6.48%	700	700
Senior Notes due 2017	6.83%	500	500
Senior Notes due 2018	6.37%	1,000	—
Zero Coupon Notes due 2022	5.77%	433	409
Zero Coupon Notes due 2023	5.41%	253	—
Subtotal		<u>\$ 8,002</u>	<u>\$6,710</u>
Xerox Credit Corporation			
Notes due 2012	—	—	25
Notes due 2013	6.42%	10	60
Notes due 2014	6.06%	50	50
Notes due 2018	—	—	25
Subtotal		<u>\$ 60</u>	<u>\$ 160</u>
Other U.S. Operations			
Borrowings secured by finance receivables ⁽¹⁾	5.59%	56	275
Borrowings secured by other assets	10.34%	6	8
Subtotal		<u>\$ 62</u>	<u>\$ 283</u>
Total U.S. Operations		<u>\$ 8,124</u>	<u>\$7,153</u>
International Operations			
Euro Bank Facility due 2008	—	—	177
Other debt due 2009-2010	4.12%	16	36
Total International Operations		<u>\$ 16</u>	<u>\$ 213</u>
Principal debt balance		8,140	7,366
Less: Unamortized discount		(6)	(13)
Add: SFAS No. 133 fair value adjustments ⁽²⁾		189	12
Total Debt		8,323	7,365
Less current maturities		(1,549)	(426)
Total Long-term debt		<u>\$ 6,774</u>	<u>\$6,939</u>

Notes to the Consolidated Financial Statements

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

(1) Refer to Note 4 – Receivables, Net for further discussion of borrowings secured by finance receivables, net.

(2) SFAS No. 133 fair value adjustments represent changes in the fair value of hedged debt obligations attributable to movements in benchmark interest rates. SFAS No. 133 requires hedged debt instruments to be reported at an amount equal to the sum of their carrying value (principal value plus/minus premiums/discounts) and any fair value adjustment.

Scheduled payments due on long-term debt for the next five years and thereafter are as follows (in millions):

2009	2010	2011	2012	2013	Thereafter	Total
\$1,549 ⁽¹⁾	\$962	\$802	\$1,169	\$1,138	\$2,520	\$8,140

(1) Quarterly total debt maturities for 2009 are \$937, \$12, \$442 and \$158 for the first, second, third and fourth quarters, respectively.

The zero coupon notes of \$433 due 2022 and \$253 due 2023 are included in the above maturity schedule based on the year of their first potential put date of 2009 and 2010, respectively.

Credit Facility

The borrowing capacity under our \$2 billion Credit Facility was \$1.7 billion at December 31, 2008, reflecting \$246 outstanding borrowings and no outstanding letters of credit.

In February 2008, we exercised our right to request a one-year extension of the maturity date of the Credit Facility. Lenders representing approximately \$1.4 billion (or approximately 70%) agreed to the extension and the portion represented by these Lenders now has a maturity date of April 30, 2013, with the remaining portion of the Credit Facility to mature on April 30, 2012.

The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries and includes provisions that would allow us to increase the overall size of the Credit Facility up to an aggregate amount of \$2.5 billion. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us.

In October 2008, we amended our Credit Facility to increase the permitted leverage ratio (debt/consolidated EBITDA) and modify the pricing on borrowings. The following description of the key terms and conditions of the Credit Facility reflect the changes from the amendment.

Borrowings under the Credit Facility bear interest at LIBOR plus an all-in spread that will vary between 1.25% and 4.00% subject to our credit rating and our percentage utilization of the facility, in each case, at the time of borrowing. Based upon our current credit rating and utilization, the all-in spread was 1.75% as of December 31, 2008.

The Credit Facility contains various conditions to borrowing, and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

(a) Maximum leverage ratio (debt divided by consolidated EBITDA) calculated quarterly and at the date of each borrowing of 3.75.

(b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense) may not be less than 3.00:1.

(c) Limitations on (i) liens securing debt of Xerox and certain of our subsidiaries, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries.

The Credit Facility also contains various events of default, the occurrence of which could result in a termination by the lenders and the acceleration of all our obligations under the Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

Private Placement Transaction

In September 2008, we issued \$250 of zero coupon notes in a private placement transaction. The bonds mature in 2023 and the final amount due at maturity is \$709. The bonds are putable annually at the option of the bond holder beginning in September 2010.

Senior Notes Offerings

In April 2008, we issued \$400 of 5.65% senior notes due 2013 (the "2013 Senior Notes") at 99.996 percent of par and \$1.0 billion of 6.35% senior notes due 2018 (the "2018 Senior Notes") at 99.856 percent of par, resulting in net proceeds of approximately \$1,390. The 2013 Senior Notes accrue interest at the rate of 5.65% per annum, payable semiannually, and as a result of the discount, have a weighted average effective interest rate of 5.65%. The 2018 Senior Notes accrue interest at the rate of 6.35% per annum, payable semiannually, and as a result of the discount, have a weighted average effective interest rate of 6.37%. Debt issuance costs of approximately \$10 were deferred. The 2013 Senior Notes and 2018 Senior Notes are subordinated to our secured

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indebtedness and rank equally with our other existing senior unsecured indebtedness. Proceeds from the offering were used to repay borrowings under the Credit Facility and for general corporate purposes.

Guarantees

At December 31, 2008, we have issued guarantees of \$139 to our foreign subsidiaries. Of this amount, \$67 is related to indebtedness of our foreign subsidiaries and is included in our Consolidated Balance Sheet as of December 31, 2008 with the remainder primarily representing letters of credit. In addition, as of December 31, 2008, \$55 of letters of credit have been issued in connection with insurance guarantees.

Interest

Interest paid on our short-term debt, long-term debt and liabilities to subsidiary trusts issuing preferred securities amounted to \$527, \$552 and \$512 for the years ended December 31, 2008, 2007 and 2006, respectively.

Interest expense and interest income for the three years ended December 31, 2008 was as follows (in millions):

	2008	2007	2006
Interest expense ⁽¹⁾	\$ 567	\$ 579	\$ 544
Interest income ⁽²⁾	\$ 833	\$ 877	\$ 909

(1) Includes Equipment financing interest expense, as well as, non-financing interest expense included in Other expenses, net in the Consolidated Statements of Income.

(2) Includes Finance income, as well as, other interest income that is included in Other expenses, net in the Consolidated Statements of Income.

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on a blended rate for term and duration comparable to available borrowing rates for a BBB rated company, which are reviewed at the end of each period. The estimated level of debt is based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Net cash proceeds on debt other than secured borrowings as shown on the Consolidated Statements of Cash Flows for the three years ended December 31, 2008 was as follows (in millions):

	2008	2007	2006
Cash payments on notes payable, net	\$ (238)	\$ (143)	\$ (19)
Net cash proceeds from issuance of long-term debt	1,883	2,254	1,502
Cash payments on long-term debt	(719)	(297)	(207)
Net cash proceeds on other debt	\$ 926	\$ 1,814	\$ 1,276

Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities

The Liability to Subsidiary Trust Issuing Preferred Securities included in our Consolidated Balance Sheets of \$648 and \$632 as of December 31, 2008 and 2007, respectively, reflects our obligations to Xerox Capital Trust I ("Trust I") as a result of their loans to us from proceeds related to their issuance of preferred securities. This subsidiary is not consolidated in our financial statements because we are not the primary beneficiary of the trust.

In 1997, Trust I issued 650 thousand of 8.0% preferred securities (the "Preferred Securities") to investors for \$644 (\$650 liquidation value) and 20,103 shares of common securities to us for \$20. With the proceeds from these securities, Trust I purchased \$670 principal amount of 8.0% Junior Subordinated Debentures due 2027 of the Company ("the Debentures"). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of \$637 which was net of fees and discounts of \$13. Interest expense, together with the amortization of debt issuance costs and discounts, was \$54 in 2008, 2007 and 2006. We have guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities. The guarantee, our obligations under the Debentures, the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8% per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

Note 13 – Financial Instruments

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. These derivative financial instruments are utilized to hedge economic exposures as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage

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interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Yen, Euro, and Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate market during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings. As of December 31, 2008 and 2007, pay variable/receive fixed interest rate swaps with notional amounts of \$675 and \$1.1 billion with a net asset (liability) fair value of \$53 and \$(6), respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings during 2008, 2007, or 2006. The following is a summary of our fair value hedges at December 31, 2008:

<u>Debt Instrument</u>	<u>Year First Designated</u>	<u>Notional Amount</u>	<u>Net Fair Value</u>	<u>Weighted Average Interest Rate Paid</u>	<u>Interest Rate Received</u>	<u>Basis</u>	<u>Maturity</u>
Notes due 2016	2004	\$ 250	\$ 39	5.43%	7.20%	Libor	2016
Senior Notes due 2011	2004	125	8	5.28%	6.88%	Libor	2011
Liability to Capital Trust I	2005	300	6	5.64%	8.00%	Libor	2027
Total		\$ 675	\$ 53				

Cash Flow Hedges

During 2008, pay fixed/receive variable interest rate swaps with notional amounts of \$150 and a net liability fair value of \$2 were designated and accounted for as cash flow hedges. The swaps were structured to hedge the LIBOR interest rate of the floating Senior Notes due 2009 by converting it from a variable rate instrument to a fixed rate instrument. No ineffective portion was recorded to earnings during 2008 and all components of the derivative gain or loss was included in the assessment of hedged effectiveness.

Terminated Swaps

During the period from 2004 to 2008, we terminated several interest rate swaps which had been designated as fair value hedges of certain debt instruments. These terminated interest rate swaps had an aggregate notional value of \$4.2 billion including \$1.6 billion terminated in 2008. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2008, 2007 and 2006, the amortization of these fair value adjustments reduced interest expense by \$12, \$9 and \$9,

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respectively, and we expect to record a net decrease in interest expense of \$116 in future years through 2027.

Foreign Exchange Risk Management

We may use certain derivative instruments to manage the exposures associated with the foreign currency exchange risks discussed below.

Foreign Currency Denominated Assets and Liabilities

We generally utilize forward foreign exchange contracts and purchased option contracts to hedge these exposures. Changes in the value of these currency derivatives are recorded in earnings together with the offsetting foreign exchange gains and losses on the underlying assets and liabilities.

Forecasted Purchases and Sales in Foreign Currency

We generally utilize forward foreign exchange contracts and purchased option contracts to hedge these anticipated transactions. These contracts generally mature in six months or less. A portion of these contracts are designated as cash-flow hedges.

At December 31, 2008, we had outstanding forward exchange and purchased option contracts with gross notional values of \$2.6 billion which is reflective of the amounts that are normally outstanding at any point during the year. The following is a summary of the primary hedging positions and corresponding fair values held as of December 31, 2008:

Currency Hedged (Buy/Sell) (in millions)	Gross Notional Value	Fair Value Asset (Liability) ⁽¹⁾
U.K. Pound Sterling/Euro	\$ 628	\$ (85)
Euro/U.S. Dollar	555	3
U.S. Dollar/Euro	308	(6)
Swedish Kronor/Euro	112	(9)
Swiss Franc/Euro	184	4
Japanese Yen/U.S. Dollar	110	6
Japanese Yen/Euro	243	(8)
Euro/U.K. Pound Sterling	42	1
U.S. Dollar/Canadian Dollar	16	—
Canadian Dollar/Euro	149	2
Canadian Dollar/U.S. Dollar	73	1
All Other	180	(2)
Total	\$2,600	\$ (93)

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2008.

Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency denominated inventory purchases and sales. The changes in fair value for these contracts were reported in Accumulated other comprehensive loss and reclassified to Cost of sales and revenue in the period or periods during which the related inventory was sold to a third party. No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. As of December 31, 2008, the net liability fair value of these contracts was \$1.

The following tables provide a summary of the fair value amounts of derivative instruments and gains and losses on derivative instruments at and for the years ended December 31, 2008 and 2007, respectively.

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Fair Values of Derivative Instruments at December 31, 2008 and 2007 (in millions)

Designation of Derivatives	Balance Sheet Location	Fair Value	
		2008	2007
Derivatives designated as hedging instruments	Other long-term assets:		
	Interest Rate Swaps	\$ 53	\$ 8
	Other current liabilities:		
	Interest Rate Swaps	\$ 2	\$—
	Foreign Exchange Contracts – Forwards	1	—
	Total	\$ 3	\$—
	Other long-term liabilities:		
	Interest Rate Swaps	\$—	\$ 14
Derivatives NOT designated as hedging instruments	Other current assets:		
	Foreign Exchange Contracts – Forwards	\$ 39	\$ 26
	Foreign Exchange Contracts – Options	—	1
	Total	\$ 39	\$ 27
	Other current liabilities:		
	Foreign Exchange Contracts – Forwards	\$131	\$ 31
	Total Derivative Assets	\$ 92	\$ 35
	Total Derivative Liabilities	134	45
	Total Net Derivative Liabilities	\$ (42)	\$ (10)

Fair Value Hedges and Cash Flow Hedges for the Years Ended December 31, 2008 and 2007

Derivatives in Fair Value Hedging Relationships (in millions) :

	Location of Gain (Loss) Recognized In Income	Derivative Gain (Loss) Recognized in Income		Hedged Item Gain (Loss) Recognized in Income	
		2008	2007	2008	2007
		Interest Rate Contracts	Interest expense	\$ 206	\$ 36

Derivatives in Cash Flow Hedging Relationships (in millions) :

	Derivative Gain (Loss) Recognized in OCI (Effective Portion)		Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion)	Gain (Loss) Reclassified from AOCI to Income (Effective Portion)	
	2008	2007		2008	2007
	Interest rate contracts	\$ (2)		\$ 9	Interest expense
Foreign exchange contracts – forwards	4	—	Cost of sales	2	(1)
Total Cash Flow Hedges	\$ 2	\$ 9		\$ 2	\$ 9

Note: No amount of ineffectiveness was recorded in the Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness.

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Non Designated Derivatives for the Years Ended December 31, 2008 and 2007 (in millions)

Derivatives Not designated as hedging instruments	Location of Derivative Gain (Loss)	2008	2007
Foreign exchange contracts – forwards	Other expense	\$ (143)	\$ (10)
Foreign exchange contracts – options	Other expense	(4)	3
	Total Non Designated Derivatives	\$ (147)	\$ (7)

Accumulated Other Comprehensive Loss (“AOCL”)

The following table provides a summary of the activity associated with all of our designated cash flow hedges (interest rate and foreign currency) reflected in AOCL for the three years ended December 31, 2008 (in millions):

	Year Ended December 31,		
	2008	2007	2006
Beginning balance, net of tax	\$ —	\$ 1	\$ 1
Changes in fair value gain (loss)	1	4	(1)
Reclass to earnings	(1)	(5)	1
Ending balance, net of tax	\$ —	\$ —	\$ 1

Fair Value of Financial Assets and Liabilities

As discussed in Note 1 – Summary of Significant Accounting Policies, we adopted FAS 157 on January 1, 2008, which among other things, requires enhanced disclosures about assets and liabilities measured at fair value on a recurring basis. Our adoption of FAS 157 was limited to financial assets and liabilities, which primarily relate to our derivative contracts.

FAS 157 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

- Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 – Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.
- Level 3 – Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The following table represents our assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 and the basis for that measurement (in millions):

	Total Fair Value Measurement December 31, 2008	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Derivative Assets	\$ 92	\$ —	\$ 92	\$ —
Derivative Liabilities	\$ 134	\$ —	\$ 134	\$ —

We utilize the income approach to measure fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis at December 31, 2008 and 2007 were as follows (in millions):

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,229	\$ 1,229	\$ 1,099	\$ 1,099
Accounts receivable, net	2,184	2,184	2,457	2,457
Short-term debt	1,610	1,593	525	525
Long-term debt	6,774	5,918	6,939	7,176
Liability to subsidiary trust issuing preferred securities	648	555	632	632

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt, as well as our Liability to subsidiary trust issuing preferred securities, was estimated based on quoted market prices for publicly traded securities or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

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Note 14 – Employee Benefit Plans

We sponsor numerous pension and other post-retirement benefit plans, primarily retiree health, in our U.S. and international operations. December 31 is the measurement date for all of our other post-retirement benefit plans, including all of our domestic plans. Refer to Note 1 – “New Accounting Standards and Accounting Changes” for further information regarding recent accounting changes for our benefit plans. Information regarding our benefit plans is presented below (in millions):

	Pension Benefits		Retiree Health	
	2008	2007	2008	2007
Change in Benefit Obligation				
Benefit obligation, January 1	\$ 10,458	\$ 10,467	\$ 1,501	\$ 1,592
Service cost	209	237	14	17
Interest cost	(5)	578	84	87
Plan participants' contributions	13	12	31	20
Plan amendments	1	11	(219)	—
Actuarial gain	(550)	(508)	(251)	(114)
Acquisitions	20	—	—	—
Currency exchange rate changes	(1,090)	331	(23)	21
Curtailments	3	(1)	—	—
Benefits paid/settlements	(657)	(669)	(135)	(122)
Other *	93	—	—	—
Benefit obligation, December 31	\$ 8,495	\$ 10,458	\$ 1,002	\$ 1,501
Change in Plan Assets				
Fair value of plan assets, January 1	\$ 9,805	\$ 9,217	\$ —	\$ —
Actual return on plan assets	(1,527)	667	—	—
Employer contribution	299	298	105	102
Plan participants' contributions	13	12	30	20
Acquisitions	20	—	—	—
Currency exchange rate changes	(1,049)	280	—	—
Benefits paid/settlements	(657)	(669)	(135)	(122)
Other *	19	—	—	—
Fair value of plan assets, December 31	\$ 6,923	\$ 9,805	\$ —	\$ —
Net funded status (including under-funded and non-funded plans) at December 31	\$ (1,572)	\$ (653)	\$ (1,002)	\$ (1,501)
Amounts recognized in the Consolidated Balance Sheets:				
Other long-term assets	\$ 61	\$ 322	\$ —	\$ —
Accrued compensation and benefit costs	(48)	(48)	(106)	(105)
Pension and other benefit liabilities	(1,585)	(927)	—	—
Post-retirement medical benefits	—	—	(896)	(1,396)
Net amounts recognized	\$ (1,572)	\$ (653)	\$ (1,002)	\$ (1,501)

* Other reflects adjustments associated with the change in measurement dates for several European countries as required by FAS 158. See Note 1 – Summary of Significant Accounting Policies for additional information.

The pre-tax amounts recognized in Accumulated other comprehensive (income) loss consist of (in millions):

	Pension Benefits		Retiree Health	
	2008	2007	2008	2007
Net actuarial loss (gain)	\$ 1,818	\$ 1,032	\$ (85)	\$ 169
Prior service (credit) cost	(192)	(212)	(186)	11
Total	\$ 1,626	\$ 820	\$ (271)	\$ 180

Notes to the Consolidated Financial Statements

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

The accumulated benefit obligation for all defined benefit pension plans was \$7,902 and \$9,748 at December 31, 2008 and 2007, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented below (in millions):

	2008	2007
Aggregate projected benefit obligation	\$5,374	\$1,193
Aggregate accumulated benefit obligation	5,051	1,109
Aggregate fair value of plan assets	3,821	399

Our domestic retirement defined benefit plans provide employees a benefit, depending on eligibility, at the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

(in millions)	Pension Benefits			Retiree Health		
	2008	2007	2006	2008	2007	2006
Components of Net Periodic Benefit Cost						
Service cost	\$ 209	\$ 237	\$ 244	\$ 14	\$ 17	\$ 19
Interest cost ⁽¹⁾	(5)	578	732	84	87	92
Expected return on plan assets ⁽²⁾	(80)	(668)	(802)	—	—	—
Recognized net actuarial loss	36	75	104	—	10	19
Amortization of prior service credit	(20)	(20)	(16)	(21)	(12)	(13)
Recognized curtailment/settlement loss	34	33	93	—	—	—
Net periodic defined benefit cost	174	235	355	77	102	117
Defined contribution plans	80	80	70	—	—	—
Total Net Periodic Benefit Costs	<u>\$ 254</u>	<u>\$ 315</u>	<u>\$ 425</u>	<u>\$ 77</u>	<u>\$ 102</u>	<u>\$ 117</u>
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain)	1,062	(499)		(244)	(114)	
Prior service cost (credit)	1	5		(219)	—	
Amortization of net actuarial (loss) gain	(70)	(108)		—	(10)	
Amortization of prior service (cost) credit	20	20		21	12	
Total recognized in other comprehensive income ⁽³⁾	<u>1,013</u>	<u>(582)</u>		<u>(442)</u>	<u>(112)</u>	
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	<u>\$1,267</u>	<u>\$ (267)</u>		<u>\$ (365)</u>	<u>\$ (10)</u>	

(1) Interest cost includes interest expense on non-TRA obligations of \$408, \$374, and \$340 and interest expense (income) directly allocated to TRA participant accounts of \$(413), \$204, and \$392 for the years ended December 31, 2008, 2007 and 2006, respectively.

(2) Expected return on plan assets includes expected investment income on non-TRA assets of \$493, \$464, and \$410 and actual investment income (expense) on TRA assets of \$(413), \$204, and \$392 for the years ended December 31, 2008, 2007 and 2006, respectively.

(3) Amount represents the pre-tax effect included within other comprehensive income. The net of tax amount and effect of translation adjustments as well as our share of Fuji Xerox benefit plan changes are included within the Consolidated Statements of Common Shareholders' Equity. The net after-tax loss (gain) included in other comprehensive (loss) income for the two years ended December 31, 2008 was \$286 and \$(382), respectively.

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are \$20 and \$(20), respectively. The net actuarial loss and prior service credit for the retiree health benefit plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are less than \$1 and \$(42) respectively.

Notes to the Consolidated Financial Statements

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

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown above in the actual return on plan assets caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

Plan Amendment

In October 2008, we amended our domestic retiree health benefit plan to eliminate the subsidy currently paid to current and future Medicare-eligible retirees effective January 1, 2010. The amendment resulted in a net decrease of approximately \$225 in the benefit obligation and a corresponding after-tax increase to shareholders equity. The amendment is also expected to decrease pre-tax net retiree health benefit expense by approximately \$50 in 2009. Retiree health expense may also be impacted by other factors, including but not limited to changes in the discount rate and health care costs in the future.

Plan Assets

Current Allocation and Investment Targets

As of the 2008 and 2007 measurement dates, the global pension plan assets were \$6.9 billion and \$9.8 billion, respectively. These assets were invested among several asset classes. None of the investments include debt or equity securities of Xerox Corporation. The amount and percentage of assets invested in each asset class as of December 31, 2008 and 2007 is shown below:

(in millions)	Asset Value		Percentage of Total Assets	
	2008	2007	2008	2007
Asset Category				
Equity securities	\$ 3,042	\$ 5,060	44%	52%
Debt securities	3,296	3,973	47	40
Real estate	465	720	7	7
Other	120	52	2	1
Total	\$ 6,923	\$ 9,805	100%	100%

Our pension plan assets at December 31, 2008, were as follows: U.S. \$3.2 billion; U.K. \$2.2 billion; Canada \$0.4 billion and Other \$1.1 billion.

Investment strategy: The target asset allocations for our worldwide plans for 2008 were 50% invested in equities, 42% invested in fixed income, 7% invested in real estate and 1% invested in Other. The target asset allocations for our worldwide plans for 2007 were 50% invested in equities, 42% invested in fixed income, 7% invested in real estate and 1% invested in Other.

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long-term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. This consideration involves the use of long-term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected long-term rate of return: We employ a "building block" approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions: We expect to contribute approximately \$108 to our worldwide defined benefit pension plans and approximately \$105 to our retiree health benefit plans in 2009. The 2009 expected pension plan contributions do not include any planned contribution for our domestic tax-qualified defined benefit plans because none are required due to the availability of a credit balance which results from funding prior to 2008 in excess of minimum requirements. This credit balance can be utilized in lieu of any 2009 pension contributions. However, once the January 1, 2009 actuarial valuations and projected results as of the end of the 2009 measurement year are available, the desirability of additional contributions will be reassessed. Based on these results, we may voluntarily decide to contribute to these plans. In 2008 and 2007, after making this assessment, we contributed \$165 and \$158, respectively, to our domestic tax qualified plans to make them 100% funded on a current liability basis under the ERISA funding rules.

Notes to the Consolidated Financial Statements

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

Estimated future benefit payments: The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years (in millions):

	Pension Benefits	Retiree Health
2009	\$ 557	\$ 105
2010	606	99
2011	603	99
2012	636	98
2013	633	97
Years 2014-2018	3,300	445

Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

	Pension Benefits			Retiree Health		
	2008	2007	2006	2008	2007	2006
Discount rate	6.3%	5.9%	5.3%	6.3%	6.2%	5.8%
Rate of compensation increase	3.9	4.1	4.1	—(1)	—(1)	—(1)

(1) Rate of compensation increase is not applicable to the retiree health benefits as compensation levels do not impact earned benefits.

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Benefits				Retiree Health			
	2009	2008	2007	2006	2009	2008	2007	2006
Discount rate	6.3%	5.9%	5.3%	5.2%	6.3%	6.2%	5.8%	5.6%
Expected return on plan assets	7.4	7.6	7.6	7.8	—(1)	—(1)	—(1)	—(1)
Rate of compensation increase	3.9	4.1	4.1	3.9	—(2)	—(2)	—(2)	—(2)

(1) Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded.

(2) Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates at December 31,

	2008	2007
Health care cost trend rate assumed for next year	9.4%	10.4%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2013	2013

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in millions):

	One-percentage-point increase	One-percentage-point decrease
Effect on total service and interest cost components	\$ 6	\$ (5)
Effect on post-retirement benefit obligation	68	(61)

Note 15 – Income and Other Taxes

(Loss) income before income taxes for the three years ended December 31, 2008 were as follows (in millions):

	2008	2007	2006
Domestic (loss) income	\$ (662)	\$ 667	\$ 429
Foreign income	548	771	379
(Loss) income before income taxes	\$ (114)	\$ 1,438	\$ 808

(Benefits) provisions for income taxes for the three years ended December 31, 2008 were as follows (in millions):

	2008	2007	2006
Federal income taxes			
Current	\$ (26)	\$ 30	\$ (448)
Deferred	(285)	92	94
Foreign income taxes			
Current	118	144	50
Deferred	4	120	(9)
State income taxes			
Current	1	2	11
Deferred	(43)	12	14
Total	\$ (231)	\$ 400	\$ (288)

Notes to the Consolidated Financial Statements

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

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate for the three years ended December 31, 2008 was as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	(13.5)	0.9	1.4
Effect of tax law changes	11.1	1.1	(1.8)
Change in valuation allowance for deferred tax assets	(14.6)	1.0	1.4
State taxes, net of federal benefit	25.4	1.3	1.8
Audit and other tax return adjustments	58.5	(4.2)	(62.5)
Tax-exempt income	5.9	(0.6)	(0.9)
Other foreign, including earnings taxed at different rates	103.2	(7.4)	(10.5)
Other	(8.4)	0.7	0.5
Effective income tax rate	<u>202.6%</u>	<u>27.8%</u>	<u>(35.6)%</u>

On a consolidated basis, we paid a total of \$194, \$104, and \$76 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2008, 2007 and 2006, respectively.

Total income tax (benefit) expense for the three years ended December 31, 2008 was allocated as follows (in millions):

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Pre-tax income	\$ (231)	\$ 400	\$ (288)
Common shareholders' equity:			
Defined benefit plans/minimum pension liability	(183)	222	(432)
Stock option and incentive plans, net	(2)	(22)	(25)
Translation adjustments and other	10	24	(9)
Total	<u>\$ (406)</u>	<u>\$ 624</u>	<u>\$ (754)</u>

Unrecognized Tax Benefits and Audit Resolutions

In 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48") which we adopted on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a minimum recognition threshold for a tax position taken or expected to be taken in a tax return that is required to be met before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The cumulative effect of adopting FIN 48 of \$2 was recorded as a reduction to Retained earnings. The total amount of unrecognized tax benefits as of the date of adoption was \$287.

Due to the extensive geographical scope of our operations, we are subject to ongoing tax examinations in numerous jurisdictions. Accordingly, we may record incremental tax expense based upon the more-likely-than-not outcomes of any uncertain tax positions. In addition, when applicable, we adjust the previously recorded tax expense to reflect examination results when the position is effectively settled. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2008, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	<u>2008</u>	<u>2007</u>
Balance at January 1	\$303	\$287
Additions from acquisitions	—	4
Additions related to current year	12	33
Additions related to prior years positions	13	78
Reductions related to prior years positions	(65)	(33)
Settlements with taxing authorities ⁽¹⁾	(28)	(66)
Reductions related to lapse of statute of limitations	(45)	(14)
Currency	(20)	14
Balance at December 31	<u>\$170</u>	<u>\$303</u>

(1) Majority of settlements did not result in the utilization of cash.

Included in the balance at December 31, 2008 and 2007 are \$67 and \$137, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

We have filed claims in certain jurisdictions to assert our position should the law be clarified by judicial means. At this point in time, we believe it is unlikely that we will receive any benefit from these types of claims but we will continue to analyze as the issues develop. Accordingly, we have not included any benefit for these types of claims in the amount of unrecognized tax benefits.

Notes to the Consolidated Financial Statements

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

We recognized interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense. We had \$22 and \$23 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2008 and 2007, respectively.

We file income tax returns in the U.S. federal jurisdiction and various foreign jurisdictions. In the U.S. we are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2007. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities before 2000.

Audit Resolution

In 2006, we recognized an income tax benefits of \$472 from the favorable resolution of certain tax issues associated with the finalization of our 1999-2003 Internal Revenue Service ("IRS") audit as well as an income tax benefits of \$46 related to the favorable resolution of certain tax matters associated with the finalization of foreign tax audits. The recorded benefits did not result in a significant cash refund, but it did increase tax credit carryforwards and reduced taxes otherwise potentially due.

Deferred Income Taxes

In substantially all instances, deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings included in consolidated retained earnings at December 31, 2008 was approximately \$7.5 billion. These earnings have been indefinitely reinvested and we currently do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings. Our 2001 sale of half of our ownership interest in Fuji Xerox resulted in our investment no longer qualifying as a foreign corporate joint venture. Accordingly, deferred taxes are required to be provided on the undistributed earnings of Fuji Xerox, arising subsequent to such date, as we no longer have the ability to ensure indefinite reinvestment.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Tax effect of future tax deductions		
Research and development	\$ 930	\$ 895
Post-retirement medical benefits	392	577
Depreciation	249	292
Net operating losses	486	576
Other operating reserves	249	216
Tax credit carryforwards	552	434
Deferred compensation	248	249
Allowance for doubtful accounts	84	100
Restructuring reserves	88	15
Pension	373	58
Other	182	181
	<u>3,833</u>	<u>3,593</u>
Valuation allowance	<u>(628)</u>	<u>(747)</u>
Total	<u>\$ 3,205</u>	<u>\$ 2,846</u>
Tax effect of future taxable income		
Unearned income and installment sales	\$ (1,119)	\$ (1,283)
Intangibles and goodwill	(160)	(142)
Other	(53)	(40)
Total	<u>(1,332)</u>	<u>(1,465)</u>
Total deferred taxes, net	<u>\$ 1,873</u>	<u>\$ 1,381</u>

The above amounts are classified as current or long-term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate or, when applicable, based on the expected timing of the reversal. Current deferred tax assets at December 31, 2008 and 2007 amounted to \$305 and \$200, respectively.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2008 and 2007 was a decrease of \$119 and an increase of \$100, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more-likely-than-not that these items will not be realized in the ordinary course of operations.

Notes to the Consolidated Financial Statements

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

Although realization is not assured, we have concluded that it is more-likely-than-not that the deferred tax assets for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2008, we had tax credit carryforwards of \$552 available to offset future income taxes, of which \$213 are available to carryforward indefinitely while the remaining \$339 will begin to expire, if not utilized, in 2009. We also had net operating loss carryforwards for income tax purposes of \$345 that will expire in 2009 through 2024, if not utilized, and \$2.3 billion available to offset future taxable income indefinitely.

Note 16 – Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our position. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. Following our assessment of the most recent trend in the outcomes of these matters, we reassessed the probable estimated loss and, as a result, recorded an additional reserve of \$36 in 2008. As of December 31, 2008, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately \$839, with the decrease from December 31, 2007 balance of \$1.1 billion primarily related to currency partially offset by the additional reserve. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of December 31, 2008 we had \$167 of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of \$30 and additional letters of credit of approximately \$88. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Legal Matters

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act ("ERISA"). We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

The following is a summary of significant developments in litigation matters:

- *Carlson v. Xerox Corporation, et al.* – settlement reached, approved by the district court and paid.
- *In re Xerox Corp. ERISA Litigation* – settlement reached and preliminary court approval granted.
- *Florida State Board of Administration, et al v. Xerox Corporation, et al.* – settlement reached and paid.
- *National Union Fire Insurance Company v. Xerox Corporation, et al.* – settlement reached and payment made to Xerox.
- *Digwamaje et al. v. IBM et al.* – amended complaint drops Xerox as a defendant.
- *Warren, et al. v. Xerox Corporation* – settlement received final court approval and was paid.

Notes to the Consolidated Financial Statements

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

Litigation Against the Company

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action is a class action on behalf of all persons and entities who purchased Xerox Corporation common stock during the period October 22, 1998 through October 7, 1999 inclusive ("Class Period") and who suffered a loss as a result of misrepresentations or omissions by Defendants as alleged by Plaintiffs (the "Class"). The Class alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended ("1934 Act"), and SEC Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts relating to the defendants' alleged failure to disclose the material negative impact that the April 1998 restructuring had on the Company's operations and revenues. The complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. In 2001, the Court denied the defendants' motion for dismissal of the complaint. The plaintiffs' motion for class certification was denied by the Court in 2006, without prejudice to refiling. In February 2007, the Court granted the motion of the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164, Robert W. Roten, Robert Agius ("Agius") and Georgia Stanley to appoint them as additional lead plaintiffs. In July 2007, the Court denied plaintiffs' renewed motion for class certification, without prejudice to renewal after the Court holds a pre-filing conference to identify factual disputes the Court will be required to resolve in ruling on the motion. After that conference and Agius's withdrawal as lead plaintiff and proposed class representative, in February 2008 plaintiffs filed a second renewed motion for class certification. In April 2008, Defendants filed their response and motion to disqualify Milberg LLP as a lead counsel. On September 30, 2008, the Court entered an order certifying the class and denying the appointment of Milberg LLP as a lead counsel. The parties have filed motions to exclude certain expert testimony. Briefing with respect to those motions is complete. The Court has not yet rendered a decision. On November 6, 2008, the defendants filed a motion for summary judgment, which has not yet been fully briefed. The individual defendants and we deny any wrongdoing and are vigorously defending the action. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of this matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs.

Carlson v. Xerox Corporation, et al.: A consolidated securities law action (consisting of 21 cases) was pending in the United States District Court for the District of Connecticut against the Company, KPMG and Paul A. Allaire, G. Richard Thoman, Anne M. Mulcahy, Barry D. Romeril, Gregory Tayler and Philip Fishbach. Plaintiffs purported to bring this case as a class action on behalf of a class consisting of all persons and/or entities who purchased Xerox common stock and/or bonds during the period between February 17, 1998 through June 28, 2002 and who were purportedly damaged thereby ("Class"). Two claims were asserted: one alleging that each of the Company, KPMG, and the individual defendants violated Section 10(b) of the 1934 Act and SEC Rule 10b-5 thereunder; and the other alleging that the individual defendants are also liable as "controlling persons" of the Company pursuant to Section 20(a) of the 1934 Act. Plaintiffs claimed that the defendants participated in a fraudulent scheme that operated as a fraud and deceit on purchasers of the Company's common stock and bonds by disseminating materially false and misleading statements and/or concealing material adverse facts relating to various of the Company's accounting and reporting practices and financial condition. The plaintiffs further alleged that this scheme deceived the investing public regarding the true state of the Company's financial condition and caused the plaintiffs and other members of the purported Class to purchase the Company's common stock and bonds at artificially inflated prices. On March 27, 2008, the Court granted preliminary approval of an agreement to settle this case, pursuant to which the Company agreed to make cash payments totaling \$670 and KPMG agreed to make cash payments totaling \$80. The individual defendants and the Company did not admit any wrongdoing as a part of the settlement. On January 15, 2009, the Court entered an order and final judgment approving the settlement, awarding attorneys' fees and expenses, and dismissing the action with prejudice. The Company's portion of the settlement amount has been paid. On February 9, 2009, three class members filed a notice of appeal of the Court's January 15, 2009 order and final judgment and ruling on motion for award of attorneys fees.

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

In Re Xerox Corp. ERISA Litigation: On July 1, 2002, a class action complaint captioned *Patti v. Xerox Corp. et al.* was filed in the United States District Court for the District of Connecticut (Hartford) alleging violations of the ERISA. Four additional class actions were subsequently filed, and the five actions were consolidated as *In Re Xerox Corporation ERISA Litigation*. The purported class includes all persons who invested or maintained investments in the Xerox Stock Fund in the Xerox 401(k) Plans (either salaried or union) during the proposed class period, May 12, 1997 through November 15, 2002, and allegedly exceeds 50,000 persons. The defendants include Xerox Corporation and the following individuals or groups of individuals during the proposed class period: the Plan Administrator, the Board of Directors, the Fiduciary Investment Review Committee, the Joint Administrative Board, the Finance Committee of the Board of Directors, and the Treasurer. The complaint alleges that the defendants breached their fiduciary duties under ERISA to protect the Plan's assets and act in the interest of Plan participants. Specifically, plaintiffs allege that the defendants failed to provide accurate and complete material information to participants concerning Xerox stock, including accounting practices which allegedly artificially inflated the value of the stock, and misled participants regarding the soundness of the stock and the prudence of investing their retirement assets in Xerox stock. The plaintiffs filed a Second Consolidated Amended Complaint, alleging that some or all defendants breached their ERISA fiduciary duties during 1997-2002 by (1) maintaining the Xerox Stock Fund as an investment option under the Plan; (2) failing to monitor the conduct of Plan fiduciaries; and (3) misleading Plan participants about Xerox stock as an investment option under the Plans. The complaint does not specify the amount of damages sought, but demands that the losses to the Plans be restored, which it describes as "millions of dollars." It also seeks other legal and equitable relief, as appropriate, to remedy the alleged breaches of fiduciary duty, as well as interest, costs and attorneys' fees. On January 28, 2009, the Court granted preliminary approval of an agreement to settle this case, the terms of which are within the amount previously reserved by the Company for this matter. The Company and the other defendants do not admit any wrongdoing as a part of the settlement, which is subject to final Court approval and other conditions. A fairness hearing has been scheduled for April 13, 2009.

Digwamaje et al. v. IBM et al.: A purported class action was filed in the United States District Court for the Southern District of New York on September 27, 2002. Service of the complaint on the Company was deemed effective as of December 6, 2002. The purported class includes all persons who lived in South Africa at any time from 1948 until the present and purportedly suffered damages as a result of human rights violations and crimes against humanity through the system of apartheid. The defendants included the Company and a number of other corporate defendants who were accused of providing material assistance to the apartheid government in South Africa from 1948 to 1994, by engaging in commerce in South Africa and with the South African government and by employing forced labor, thereby violating both international and common law. Specifically, plaintiffs claimed violations of the Alien Tort Claims Act, the Torture Victims Protection Act and RICO. They also asserted human rights violations and crimes against humanity. Plaintiffs sought compensatory damages in excess of \$200 billion and punitive damages in excess of \$200 billion. On October 27, 2008, plaintiffs filed an amended complaint that did not name the Company as a defendant, so the Company is no longer a party to the action.

Arbitration between MPI Technologies, Inc. and MPI Tech S.A. and Xerox Canada Ltd. and Xerox Corporation: In an arbitration proceeding the hearing of which commenced in January 2005, MPI Technologies, Inc. and MPI Tech S.A. (collectively "MPI") sought damages from the Company and Xerox Canada Ltd. ("XCL") for royalties owed under a license agreement between MPI and XCL (the "Agreement") and breach of fiduciary duty, breach of confidence, equitable royalties and punitive damages and disgorgement of profits and injunctive relief with respect to a claim of copyright infringement. In September 2005, the arbitration panel rendered its decision, holding in part that the Agreement had been assigned to Xerox and that no punitive damages should be granted, and awarded MPI approximately \$89, plus interest thereon. In December 2005, the arbitration panel rendered its decision on the applicable rate of pre-judgment interest resulting in an award of \$13 for pre- and post-judgment interest. In 2006, Xerox's application for judicial review of the award, seeking to have the award set aside in its entirety, was denied by the Ontario Superior Court in Toronto and Xerox released all monies and software it had placed in escrow. In January 2007, Xerox and XCL served an arbitration claim against MPI seeking a declaratory award concerning the preclusive effect of the remedy awarded by the prior arbitration panel. In March 2007, MPI delivered to Xerox a statement of defense and counterclaim in response to Xerox's arbitration claim. MPI claims entitlement to an unspecified amount of damages for royalties. In addition, MPI claims damages of \$50 for alleged "misuse" of its licensed software by Xerox after December 2006. MPI also claims entitlement to unspecified amounts of pre and post-judgment interest and its costs of the arbitration. A panel of three arbitrators has been appointed to hear the dispute. The panel heard oral arguments relating to preliminary dispositive motions on May 20-21, 2008. The panel's decision was released on August 28, 2008, in which the panel determined that MPI is precluded from advancing certain claims to royalties in respect of Xerox's Version 8 software and its derivatives, but that

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

certain other claims being advanced by MPI are not precluded. A hearing relating to most of the issues raised in the current arbitration, other than damages issues relating to one of MPI's claims that has been bifurcated, is expected to take place in October 2009. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or a settlement for a significant amount, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment or settlement occurs. Based on the present stage of the proceeding, it is not possible to estimate the amount of any material loss or range of material loss that might result from any of the claims advanced in such counterclaim.

Warren, et al. v. Xerox Corporation: On March 11, 2004, the United States District Court for the Eastern District of New York entered an order certifying a nationwide class of all black salespersons employed by Xerox from February 1, 1997 to the present under Title VII of the Civil Rights Act of 1964, as amended, and the Civil Rights Act of 1871. The suit was commenced on May 9, 2001 by six black sales representatives. The plaintiffs alleged that Xerox had engaged in a pattern or practice of race discrimination against them and other black sales representatives by assigning them to less desirable sales territories, denying them promotional opportunities, and paying them less than their white counterparts. Although the complaint did not specify the amount of damages sought, plaintiffs sought, on behalf of themselves and the classes they sought to represent, front and back pay, compensatory and punitive damages, and attorneys' fees. A settlement agreement was reached, the terms of which are not material to Xerox. On September 22, 2008, an Order and Judgment of Final Approval of the Settlement was entered. The Company denies any wrongdoing as part of the settlement. The period for appeal has expired and the settlement is now final.

Other Matters

It is our policy to promptly and carefully investigate, often with the assistance of outside advisers, allegations of impropriety that may come to our attention. If the allegations are substantiated, appropriate prompt remedial action is taken. When and where appropriate, we report such matters to the U.S. Department of Justice and to the SEC, and/or make public disclosure.

India: In recent years we became aware of a number of matters at our Indian subsidiary, Xerox India Ltd. (formerly Xerox Modicorp Ltd.), that occurred over a period of several years, much of which occurred before we obtained majority ownership of these operations in mid-1999. These matters include misappropriations of funds and payments to other companies that may have been inaccurately recorded on the subsidiary's books and certain alleged improper payments in connection with sales to government customers. These transactions were not material to the Company's financial statements. We reported these transactions to the Indian authorities, the U.S. Department of Justice ("DOJ") and to the SEC. In 2005, the private Indian investigator engaged by the Indian Ministry of Company Affairs completed an investigation of these matters and issued a report ("Report"). A copy of the Report was provided to our Indian subsidiary, which was asked by the Indian Ministry of Company Affairs to comment on the Report. The Report addresses the previously disclosed misappropriation of funds and alleged improper payments and includes allegations that Xerox India Ltd.'s senior officials and the Company were aware of such activities. The Report also asserts the need for further investigation into potential criminal acts related to the improper activities addressed by the Report. The matter is now pending in the Indian Ministry of Company Affairs. The Company reported these developments and made a copy of the Report received by Xerox India Ltd. available to the DOJ and the SEC.

On November 17, 2005, Xerox India Ltd. filed its reply with the Ministry of Company Affairs (or "MCA"). Xerox sent copies of the reply to the SEC and DOJ in the United States. In its reply, Xerox India Ltd. argued that the alleged violations of Indian Company Law by means of alleged improper payments and alleged defaults/failures of the Xerox India Ltd. board of directors were generally unsubstantiated and without any basis in law. Further, Xerox India Ltd. stated that the Report's findings of other alleged violations were unsubstantiated and unproven. The MCA will consider our reply and will let us know their conclusions. There is the possibility of fines or criminal penalties if conclusive proof of wrongdoing is found. We have told the MCA that Xerox's conduct in voluntarily disclosing the initial information and readily and willingly submitting to investigation, coupled with the non-availability of earlier records, warrants complete closure and early settlement. In January 2006, we learned that the MCA had issued a "Show Cause Notice" to certain former executives of Xerox India Ltd. seeking a response to allegations of potential violations of the Indian Companies Act. We also learned that Xerox India Ltd. had received a formal Notice of Enquiry from the Indian Monopolies & Restrictive Trade Practices Commission ("MRTP Commission") alleging that Xerox India Ltd. committed unfair trading practices arising from the events described in the Report. Xerox India Ltd. filed its reply to the Notice of Enquiry and the investigating officer subsequently filed his response to our reply. At a hearing in August 2007, Xerox India Ltd. argued that the Enquiry is not maintainable under the Commission's jurisdiction. The issue of maintainability of the Notice of Enquiry has been framed as the preliminary issue, which was argued in hearings held on November 17, 2008 and February 3, 2009; the matter is now fixed for further arguments on April 17, 2009. Our Indian subsidiary is contesting the Notice of Enquiry and has been fully cooperating with the authorities.

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Other Contingencies

Guarantees, Indemnifications and Warranty Liabilities

Guarantees and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2008, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Indemnifications Provided as Part of Contracts and Agreements

We are a party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Contracts that we entered into for the sale or purchase of businesses or real estate assets, under which we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including obligations to pay rent. Typically, these relate to such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition.
- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.
- Agreements to indemnify various service providers, trustees and bank agents from any third party claims related to their performance on our behalf, with the exception of claims that result from third-party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. These indemnifications usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by-laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments may not be covered under our directors' and officers' insurance coverage. In addition, we indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales-type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our lower-end products in the Office segment, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for

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the three years ended December 31, 2008 were \$39, \$40 and \$43, respectively. Total product warranty liabilities as of December 31, 2008 and 2007 were \$27 and \$26, respectively.

Note 17 – Shareholders' Equity

Preferred Stock

As of December 31, 2008, we had no preferred stock shares or preferred stock purchase rights outstanding. We are authorized to issue approximately 22 million shares of cumulative preferred stock, \$1.00 par value.

Common Stock

We have 1.75 billion authorized shares of common stock, \$1 par value. At December 31, 2008, 90 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges and 2 million shares were reserved for the conversion of convertible debt.

Stock-Based Compensation

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units ("RSUs"), performance shares ("PSs") and non-qualified stock options.

We grant PSs and RSUs in order to continue to attract and retain employees and to better align employee interest with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2008 and 2007, 15 million and 19 million shares, respectively, were available for grant of awards.

Stock-based compensation expense for the three years ended December 31, 2008 was as follows (in millions):

	2008	2007	2006
Stock-based compensation expense, pre-tax	\$ 85	\$ 89	\$ 64
Stock-based compensation expense, net of tax	52	55	39

Restricted stock units: Compensation expense is based upon the grant date market price and is recorded over the vesting period. RSU awards vest three years from the date of the grant. A summary of the activity for RSUs as of December 31, 2008, 2007 and 2006, and changes during the years then ended, is presented below (Shares in thousands):

	2008		2007		2006	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested Restricted Stock Units						
Outstanding at January 1	11,696	\$16.78	8,635	\$ 15.71	5,491	\$ 15.69
Granted	5,923	13.63	4,444	18.17	4,256	15.18
Vested	(3,350)	16.92	(935)	13.65	(686)	13.70
Cancelled	(232)	15.98	(448)	16.42	(426)	13.45
Outstanding at December 31	<u>14,037</u>	<u>\$15.43</u>	<u>11,696</u>	<u>\$ 16.78</u>	<u>8,635</u>	<u>\$ 15.71</u>

At December 31, 2008, the aggregate intrinsic value of RSUs outstanding was \$112. The total intrinsic value of RSUs vested during 2008, 2007 and 2006 was \$54, \$16 and \$10, respectively. The actual tax benefit realized for the tax deductions for vested RSUs totaled \$18, \$3 and \$3 for the years ended December 31, 2008, 2007 and 2006, respectively.

At December 31, 2008, there was \$105 of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized ratably over a remaining weighted-average contractual term of 1.6 years.

Performance shares: We grant officers and selected executives PSs whose vesting is contingent upon meeting pre-determined Diluted Earnings per Share ("EPS") and Core Cash Flow from Operations targets. These shares entitle the holder to one share of common stock, payable after a three-year period and the attainment of the stated goals. If the cumulative three-year actual results for EPS and Cash Flow from Operations exceed the stated targets, then the plan participants have the potential to earn additional shares of common stock. This overachievement can not exceed 50% for officers and 25% for non-officers of the original grant.

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

A summary of the activity for PSs as of December 31, 2008, 2007 and 2006, and changes during the years then ended, is presented below (shares in thousands):

	2008		2007		2006	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested Performance Shares						
Outstanding at January 1	6,585	\$ 16.16	4,571	\$ 15.04	2,052	\$ 14.87
Granted	3,696	13.67	2,160	18.48	2,588	15.17
Vested	(2,734)	14.87	—	—	—	—
Cancelled	(169)	16.05	(146)	15.41	(69)	14.95
Outstanding at December 31	7,378	\$ 15.39	6,585	\$ 16.16	4,571	\$ 15.04

At December 31, 2008, the aggregate intrinsic value of PSs outstanding was \$59. The total intrinsic value of PS's vested during 2008 was \$41. The actual tax benefit realized for the tax deductions for vested PS's totaled \$13 for the year ended December 31, 2008.

We account for PSs using fair value determined as of the grant date. If the stated targets are not met, any recognized compensation cost would be reversed. As of December 31, 2008, there was \$48 of total unrecognized compensation cost related to nonvested PSs; this cost is expected to be recognized ratably over a remaining weighted-average contractual term of 1.5 years.

Stock options: Stock options generally vest over a period of three years and expire between eight and ten years from the date of grant. We have not issued any new stock options since 2004 and all options currently outstanding are fully vested and exercisable. The following table provides information relating to the status of, and changes in, outstanding stock options for each of the three years ended December 31, 2008 (stock options in thousands):

	2008		2007		2006	
	Stock Options	Average Option Price	Stock Options	Average Option Price	Stock Options	Average Option Price
Employee Stock Options						
Outstanding at January 1	52,424	\$19.73	60,480	\$18.56	76,307	\$19.40
Cancelled/Expired	(6,559)	50.08	(922)	24.18	(5,478)	49.44
Exercised	(680)	8.89	(7,134)	9.22	(10,349)	8.46
Outstanding at December 31	45,185	\$15.49	52,424	\$19.73	60,480	\$18.56

Options outstanding and exercisable at December 31, 2008 were as follows (stock options in thousands):

	Number Outstanding and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Range of Exercise Prices			
\$ 4.75 to \$6.98	2,526	2.01	\$ 4.97
7.13 to 10.69	18,493	3.37	9.23
10.72 to 15.27	8,024	2.99	13.68
16.91 to 21.78	11,092	1.00	21.76
25.38 to 27.00	3,536	0.94	26.19
47.50 to 60.44	1,514	1.00	48.00
	<u>45,185</u>		

At December 31, 2008, the aggregate intrinsic value of stock options outstanding and exercisable was \$8.

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

The following table provides information relating to stock option exercises for the three years ended December 31, 2008:

(in millions)	2008	2007	2006
Total intrinsic value	\$ 4	\$61	\$72
Cash received	6	65	82
Tax benefit realized for tax deductions	2	22	25

Treasury Stock

The Board of Directors has cumulatively authorized programs for the repurchase of the Company's common stock totaling \$4.5 billion as of December 31, 2008. The \$4.5 billion includes additional authorizations of \$1.0 billion in both January and July of 2008.

Through December 31, 2008, we have repurchased a cumulative total of 194.1 million shares at a cost of \$2,945 (including associated fees of \$4) under these stock repurchase programs.

Note 18 – Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock for the three years ended December 31, 2008 (shares in thousands):

	2008	2007	2006
Basic Earnings per Share:			
Net Income	\$ 230	\$ 1,135	\$ 1,210
Accrued dividends on Series C Mandatory Convertible Preferred Stock	—	—	(29)
Adjusted net income available to common shareholders	\$ 230	\$ 1,135	\$ 1,181
Weighted Average Common Shares Outstanding	885,471	934,903	943,852
Basic Earnings per Share	\$ 0.26	\$ 1.21	\$ 1.25
Diluted Earnings per Share:			
Net Income	\$ 230	\$ 1,135	\$ 1,210
Interest on Convertible securities, net	—	1	1
Adjusted net income available to common shareholders	\$ 230	\$ 1,136	\$ 1,211
Weighted Average Common Shares Outstanding	885,471	934,903	943,852
Common shares issuable with respect to:			
Stock options	3,885	8,650	9,300
Restricted stock and performance shares	6,186	7,396	3,980
Series C Mandatory Convertible Preferred Stock	—	—	37,398
Convertible securities	—	1,992	1,992
Adjusted Weighted Average Shares Outstanding	895,542	952,941	996,522
Diluted Earnings per Share	\$ 0.26	\$ 1.19	\$ 1.22

The 2008, 2007 and 2006 computation of diluted earnings per share did not include the effects of 29 million, 23 million and 27 million stock options, respectively, because their respective exercise prices were greater than the corresponding market value per share of our common stock. In addition, the common shares issuable with respect to convertible securities were not included in the 2008 computation of diluted EPS because to do so would have been anti-dilutive.

Reports of Management

Management's Responsibility for Financial Statements

Our management is responsible for the integrity and objectivity of all information presented in this annual report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have free access to the Audit Committee.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in "*Internal Control – Integrated Framework*" issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on the above evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2008.

/s/ ANNE M. MULCAHY
Chief Executive Officer

/s/ LAWRENCE A. ZIMMERMAN
Chief Financial Officer

/s/ GARY R. KABURECK
Chief Accounting Officer

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows and shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the Consolidated Financial Statements, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)" as of December 31, 2006.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, Connecticut

February 13, 2009

Quarterly Results of Operations (Unaudited)

(in millions, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
2008					
Revenues	\$4,335	\$4,533	\$4,370	\$4,370	\$17,608
Costs and Expenses ⁽¹⁾	4,853	4,288	4,132	4,449	17,722
(Loss) Income before Income Taxes and Equity Income	(518)	245	238	(79)	(114)
Income tax (benefits) expenses ⁽²⁾	(246)	59	15	(59)	(231)
Equity in net income of unconsolidated affiliates ⁽³⁾	28	29	35	21	113
Net (Loss) Income	\$ (244)	\$ 215	\$ 258	\$ 1	\$ 230
Basic (Loss) Earnings per Share ⁽⁴⁾	\$ (0.27)	\$ 0.24	\$ 0.30	\$ —	\$ 0.26
Diluted (Loss) Earnings per Share ⁽⁴⁾	\$ (0.27)	\$ 0.24	\$ 0.29	\$ —	\$ 0.26
2007					
Revenues	\$3,836	\$4,208	\$4,302	\$4,882	\$17,228
Costs and Expenses	3,507	3,893	3,978	4,412	15,790
Income before Income Taxes and Equity Income	329	315	324	470	1,438
Income tax expenses	102	76	97	125	400
Equity in net income of unconsolidated affiliates ⁽³⁾	6	27	27	37	97
Net Income	\$ 233	\$ 266	\$ 254	\$ 382	\$ 1,135
Basic Earnings per Share ⁽⁴⁾	\$ 0.25	\$ 0.28	\$ 0.27	\$ 0.41	\$ 1.21
Diluted Earnings per Share ⁽⁴⁾	\$ 0.24	\$ 0.28	\$ 0.27	\$ 0.41	\$ 1.19

(1) Costs and expenses include charges for restructuring and asset impairments and an equipment write-off of \$63, \$14 and \$388 for the second, third and fourth quarters of 2008, respectively. In addition, the first and fourth quarters of 2008 include \$795 and \$(21) for litigation matters.

(2) The first, second, third and fourth quarters of 2008 include \$304, \$20, \$5 and \$124 of tax benefits, respectively, from the above noted charges. Third quarter 2008 also included a \$41 income tax benefit from the settlement of certain previously unrecognized tax benefits.

(3) The first, second, third and fourth quarters of 2008 include \$10, \$3, \$2 and \$1 of charges, respectively, for our share of Fuji Xerox restructuring charges. The first, third and fourth quarters of 2007 include \$23, \$5, and \$2 of charges, respectively, for our share of Fuji Xerox restructuring charges.

(4) The sum of quarterly earnings per share may differ from the full-year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti-dilutive in certain quarters may not be anti-dilutive on a full-year basis.

Five Years in Review

(in millions, except per-share data)

	2008	2007 ⁽²⁾	2006	2005	2004
Per-Share Data					
Income from continuing operations					
Basic	\$ 0.26	\$ 1.21	\$ 1.25	\$ 0.91	\$ 0.84
Diluted	0.26	1.19	1.22	0.90	0.78
Earnings					
Basic	\$ 0.26	\$ 1.21	\$ 1.25	\$ 0.96	\$ 0.94
Diluted	0.26	1.19	1.22	0.94	0.86
Common stock dividends	\$ 0.17	\$0.0425	—	—	—
Operations					
Revenues	\$17,608	\$17,228	\$15,895	\$15,701	\$15,722
Sales	8,325	8,192	7,464	7,400	7,259
Service, outsourcing and rentals	8,485	8,214	7,591	7,426	7,529
Finance income	798	822	840	875	934
Research, development and engineering expenses	884	912	922	943	914
Selling, administrative and general expenses	4,534	4,312	4,008	4,110	4,203
Income from continuing operations	230	1,135	1,210	933	776
Net income	230	1,135	1,210	978	859
Financial Position					
Cash, cash equivalents and short-term investments	\$ 1,229	\$ 1,099	\$ 1,536	\$ 1,566	\$ 3,218
Accounts and finance receivables, net	9,462	10,505	10,043	9,886	10,573
Inventories	1,232	1,305	1,163	1,201	1,143
Equipment on operating leases, net	594	587	481	431	398
Land, buildings and equipment, net	1,419	1,587	1,527	1,627	1,759
Total Assets	22,447	23,543	21,709	21,953	24,884
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	1,610	525	1,485	1,139	3,074
Long-term debt	6,774	6,939	5,660	6,139	7,050
Total Debt	8,384	7,464	7,145	7,278	10,124
Minorities' interests in equity of subsidiaries	120	103	108	90	80
Liabilities to subsidiary trusts issuing preferred securities ⁽¹⁾	648	632	624	724	717
Series C mandatory convertible preferred stock	—	—	—	889	889
Common shareholders' equity	6,238	8,588	7,080	6,319	6,244
Total Consolidated Capitalization	\$15,390	\$16,787	\$14,957	\$15,300	\$18,054
Selected Data and Ratios					
Common shareholders of record at year-end	46,541	48,261	40,372	53,017	55,152
Book value per common share	\$ 7.21	\$ 9.36	\$ 7.48	\$ 6.79	\$ 6.53
Year-end common stock market price	\$ 7.97	\$ 16.19	\$ 16.95	\$ 14.65	\$ 17.01
Employees at year-end	57,100	57,400	53,700	55,220	58,100
Gross margin	38.9%	40.3%	40.6%	41.2%	41.6%
Sales gross margin	33.7%	35.9%	35.7%	36.6%	37.4%
Service, outsourcing and rentals gross margin	41.9%	42.7%	43.0%	43.3%	43.0%
Finance gross margin	61.8%	61.6%	63.7%	62.7%	63.1%
Working capital	\$ 2,700	\$ 4,463	\$ 4,056	\$ 4,390	\$ 4,628
Current ratio	1.5	2.1	1.9	2.0	1.7
Cost of additions to land, buildings and equipment	\$ 206	\$ 236	\$ 215	\$ 181	\$ 204
Depreciation on buildings and equipment	\$ 257	\$ 262	\$ 277	\$ 280	\$ 305

(1) For 2005, the amount includes \$98 reported in other current liabilities.

(2) 2007 results include the acquisition of GIS. Refer to Note 3 – Acquisitions in the Consolidated Financial Statements.

Corporate Information

Stock Listed and Traded

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

Xerox Common Stock Prices and Dividends

<u>New York Stock Exchange composite prices*</u>	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>	<u>Quarter</u>
2008				
High	\$ 15.82	\$ 15.36	\$ 14.39	\$ 11.30
Low	13.10	13.28	11.05	5.25
Dividends Paid	0.0425	0.0425	0.0425	0.0425
2007				
High	\$ 18.09	\$ 19.40	\$ 19.90	\$ 17.68
Low	16.53	17.08	15.79	15.82
Dividends Paid ⁽¹⁾	—	—	—	—

* Prices as of close of business

(1) In the fourth quarter of 2007, the Board of Directors declared a 4.25 cent per share dividend on common stock payable January 31, 2008 to shareholders of record on December 31, 2007. The Board of Directors did not declare any other dividends on common stock in 2006 or 2007.

CERTIFICATIONS

We have filed with the SEC the certification required by Section 302 of the Sarbanes-Oxley Act as an exhibit to our 2008 Annual Report on Form 10-K, and have submitted to the NYSE in 2008 the CEO certification required by the NYSE corporate governance rules.

Subsidiaries of Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of December 31, 2008. Unless otherwise noted, a subsidiary is a company in which Xerox Corporation or a subsidiary of Xerox Corporation holds 50% or more of the voting stock. The names of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

<u>Name of Subsidiary</u>	<u>Incorporated In</u>
FairCopy Services Inc.	Canada
Global Imaging Systems, Inc.	Delaware
American Photocopy Equipment Company of Pittsburgh, LLC	Delaware
Arizona Office Technologies, Inc.	Arizona
Berney Office Solutions, LLC	Alabama
N&L Enterprises, LLC	Alabama
Capitol Office Solutions, LLC	Delaware
Carr Business Systems, Inc.	New York
Connecticut Business Systems, LLC	Delaware
Conway Office Products, LLC	New Hampshire
Blackstone Valley Office Systems, Inc.	Rhode Island
Business Equipment Unlimited	Maine
Global Imaging Finance Company, LLC	Delaware
Cameron Office Products, LLC	Massachusetts
Eastern Copy Products, Inc.	New York
Northeast Copier Systems, LLC	Massachusetts
CopyCo Office Solutions, Inc.	Indiana
MRSCO, Inc.	Indiana
CTX Business Solutions, Inc.	Oregon
Global Operations Texas, L.P. d/b/a Dahill	Texas
Distinctive Business Products, Inc.	Illinois
Global Imaging Operations, LLC	Delaware
Electronic Systems, Inc.	Virginia
TML Enterprises, Inc.	Virginia
Image Quest, Inc.	Kansas
Image Technology Specialists, Inc.	Massachusetts
Inland Business Machines, Inc.	California
Precision Copier Service, Inc. d/b/a/ Sierra Office Solutions	Nevada
Lucas Business Systems, Inc.	Delaware
Lewan & Associates, Inc.	Colorado
Imaging Concepts of New Mexico, Inc.	New Mexico
Michigan Office Solutions, Inc.	Michigan
MWB Copy Products, Inc.	California
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
Saxon Business Systems, Inc.	Florida
Southern Business Communications, Inc.	Georgia
AV Presentations, Inc.	Georgia
Centre Business Products, Inc.	Pennsylvania
Daniel Communications, Inc.	Alabama
ProView, Inc.	North Carolina
Stewart Business Systems, LLC	New Jersey
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Infotonics Technology Center Inc.	New York (15)
Institute for Research on Learning	Delaware
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware

Name of Subsidiary	Incorporated In
STHQ Realty LLC	Delaware
The Xerox Foundation	Delaware
Xerox Argentina Industrial y Comercial, I.C.S.A.	Argentina (1)
Xerox Canada Capital Ltd.	Canada
Xerox Canada Inc.	Ontario
Xerox (Barbados) SRL	Barbados (14)
Approximo Limited	Ireland
Mega Colour Limited	Ireland
Oriel Star Limited	Ireland
Topspeed Limited	Ireland
Xerox (Barbados) Leasing SRL	Barbados
Xerox Finance (Luxembourg) Sarl	Luxembourg
Xerox Canada Facilities Management Ltd.	Ontario
Xerox Canada Finance Inc.	Ontario
Xerox Canada Leasing Partnership	Ontario (16)
Xerox Canada Ltd.	Canada (4)
Ionographic Operations Partnership	Massachusetts (18)
Xerox Canada Leasing Company	Nova Scotia
Xerox Canada Realty Inc.	Ontario (3)
Xerox Capital, LLC	Turks & Caicos Islands (9)
Xerox Capital Services LLC	Delaware (17)
Xerox Capital Trust I	Delaware (11)
Xerox de Chile S.A.	Chile (40)
Xerox de Colombia S.A.	Colombia (29)
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox del Ecuador, S.A.	Ecuador (32)
Xerox Engineering Systems NV	Belgium
Xerox Export, LLC	Delaware
Xerox Europe Finance Limited Partnership	Scotland (20)
Xerox European Funding LLC	Delaware
Xerox Finance, Inc.	Delaware
Xerox Investments Holding (Bermuda) Limited	Bermuda
Xerox Financial Services, Inc.	Delaware
Talegen Holdings, Inc.	Delaware
Xerox Credit Corporation	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox d'Haiti, S.A.	Haiti
Xerox de Honduras, S.A.	Honduras
Xerox Imaging Systems, Inc.	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California (10)
Xerox Investments Europe B.V.	Netherlands
XC Trading Singapore Pte Ltd.	Singapore
XC Trading Hong Kong Limited	Hong Kong
XC Trading Japan G.K.	Japan
XC Trading Korea VH	Korea
XC Trading Malaysia	Malaysia
XC trading Shenzhen Co., Ltd.	China
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Bipolar Limited	Ireland
Monocolour Limited	Ireland
Pirrup Limited	Ireland
Toblersong Limited	Ireland
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
Xerox Leasing Ireland Limited	Jersey
Xerox Israel Ltd.	Israel

Name of Subsidiary	Incorporated In
Xerox UK Holdings Limited	United Kingdom
Triton Business Finance Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom
Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom
Xerox Capital (Europe) plc	United Kingdom (12)
Veenman B.V.	Netherlands
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox Limited	United Kingdom (6)
Continua Limited	United Kingdom
Continua Sanctum Limited	United Kingdom
Limited Liability Company Xerox (C.I.S.)	Russia
NV Xerox Management Services S.A.	Belgium
N.V. Xerox S.A.	Belgium
Xerox Luxembourg S.A.	Luxembourg (27)
The Xerox (UK) Trust	United Kingdom
Xerox AG	Switzerland
Xerox A/S	Denmark
Xerox Financial Services Danmark A/S	Denmark
Xerox AS	Norway
Xerox Austria GmbH	Austria
Xerox Business Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Office Supplies GmbH	Austria
Xerox Bulgaria EOOD	Bulgaria
Xerox Buro Araciari Ticaret ve Servis A.S.	Turkey
Xerox Channels Limited	United Kingdom
XEROX CZECH Republic s r.o.	Czech Republic
Xerox Direct Rhein-Main GmbH	Germany
Xerox Espana, S.A.U.	Spain
Xerox Fabricacion S.A.U.	Spain
Xerox Renting S.A.U.	Spain
Xerox Financial Services (Espana) SAU	Spain
Xerox Office Supplies S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Finance AG	Switzerland
Xerox Finance (Nederland) BV	Netherlands
Xerox Financial Services Belux NV	Belgium
Xerox Financial Services Norway AS	Norway
Xerox Financial Services Sverige AB	Sweden
Xerox GmbH	Germany
Xerox Capital Services Verwaltungs GmbH	Germany
Xerox Capital Services GmbH & Co. KG	Germany (19)
Xerox Dienstleistungsgesellschaft GmbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Hellas AEE	Greece
Xerox Hungary Trading Limited	Hungary
Xerox (Ireland) Limited	Ireland
Xerox India Limited	India (8)
Xerox Kazakhstan Limited Liability Partnership	Kazakhstan (38)
Xerox (Nederland) BV	Netherlands
"Veco" Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands

Name of Subsidiary	Incorporated In
Xerox Rentalease BV	Netherlands
Xerox Services BV	Netherlands
Xerox Oy	Finland
Xerox Financial Services Finland Oy	Finland
Xerox Pensions Limited	United Kingdom
Xerox Polska Sp.zo.o	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal (21)
CREDITEX - Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox Property Services Limited	United Kingdom
Xerox (Romania) Echipmante Si Servici S.A.	Romania
Xerox Slovenia d.o.o.	Slovenia
Xerox S.p.A.	Italy
Xerox Italia Rental Services S.r.l.	Italy
Xerox Sverige AB	Sweden
Xerox Telebusiness GmbH	Germany
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Inserco Manufacturing Limited	United Kingdom
Xerox Finance Limited	United Kingdom
Xerox Office Supplies Limited	United Kingdom
Xerox (R & S) Limited	United Kingdom
Xerox (Ukraine) Ltd LLC	Ukraine
Xerox West Africa Limited	United Kingdom
Xexco Trading Limited	United Kingdom
Xerox S.A.S.	France (22)
Set Electronique SA	France
Set Belgium (EPC)	Belgium
Set R&D Belgium (EES)	Belgium
Xerobail SAS	France
Xerox Financial Services SAS	France (23)
Xerox Document Supplies SNC	France (24)
Xerox Global Services SAS	France
Xerox General Services SAS	France
Xerox XHB Limited	Bermuda (6)
Xerox XIB Limited	Bermuda (6)
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
XRI Limited	United Kingdom
RRXH Limited	United Kingdom
RRXO Limited	United Kingdom
RRXIL Limited	United Kingdom (6)
Xerox Latinamerican Holdings, Inc.	Delaware
XGUA Servicios, Ltda.	Guatemala
Xerox Lease Funding LLC	Delaware
Xerox Lease Equipment LLC	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico (28)
Xerox Middle East Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt
Xerox Finance Leasing S.A.E.	Egypt
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda
Xerox Mortgage Services, Inc.	Delaware
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox Serviços e Participacoes Ltda.	Brazil

<u>Name of Subsidiary</u>	<u>Incorporated In</u>
Xerox Comercio e Industria Ltda	Brazil
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Xerox Trinidad Limited	Trinidad
Xerox de Venezuela, C.A.	Venezuela (5)
Xerox XBS Warehouse Holding LLC	Delaware
Xerox XBS Warehouse Funding LLC	Delaware
Xerox XBS Warehouse Funding II LLC	Delaware
XESystems Foreign Sales Corporation	Barbados
XMPie Inc.	Delaware
Nuvisio, Inc.	New York
Nuvisio, Ltd.	Israel
XMPie, Ltd.	Israel

- (1) Xerox Corporation owns 90% of the shares of Xerox Argentina; the remaining 10% is owned by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
- (2) Owned 99.9% by XMEIBL and .1% by several individuals.
- (3) 1,000 shares held by Xerox Canada Inc. and 9,000 shares held by Xerox Corporation.
- (4) Owned 65% by Xerox Canada Inc. and 35% by Xerox Canada Finance Inc.
- (5) Owned 86.25% by Xerox Corporation, and 13.25% by Pacific Services and Development Corporation.
- (6) Includes indirect holdings.
- (7) [Reserved]
- (8) Owned 45.579% by Xerox Limited, 38.871% by Sidh Securities Limited (Mauritius) (a subsidiary of Xerox Developing Markets Limited) and 4.421% through Xerox's wholly-owned subsidiary, Xerox Developing Markets Limited. The total ownership by Xerox Corporation is 88.871%.
- (9) Owned 99.9% by Xerox Corporation and .1% by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
- (10) Xerox International Partners is a California general partnership between FX Global, Inc. (49%) and Xerox International Joint Marketing, Inc. (51%).
- (11) Xerox Capital Trust I is a Delaware statutory business trust which is 100% beneficially owned by Xerox Corporation. The Trust is a special purpose financing vehicle.
- (12) Owned 99% by Xerox Overseas Holdings Limited and 1% by Xerox Property Services Limited as nominee for Xerox Overseas Holdings Limited.
- (13) [Reserved]
- (14) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation.
- (15) This is a not-for-profit corporation which will act as a research and development consortium of businesses and universities. The initial members are Xerox, Corning, Kodak, University of Rochester, RIT and Cornell.
- (16) Xerox Canada Leasing Partnership is an Ontario general partnership between Xerox Canada Inc. (99%) and Xerox Canada Finance Inc. (1%).
- (17) Owned 19% by Xerox Corporation and 81% by GE Capital Information Technology Solutions, Inc. [Included in Xerox Corporation's consolidated financial statements.]
- (18) Owned 66.995% by Xerox Canada Ltd. and 33.005% by Xerox Canada Inc. It was formerly known as Delphax Systems Partnership but changed to Ionographic Operations Partnership on 2/12/02. This name was registered under the Business Names Act in Ontario on 2/13/02.
- (19) [Reserved]
- (20) Xerox Europe Finance Limited Partnership is owned 99.9% by Xerox Export LLC and .1% by Xerox Corporation.
- (21) Owned 74% by Xerox Limited and 26% by Xerox Property Services Limited.
- (22) Remaining shares in Xerox SAS held by Xerox Overseas Holding Limited after share capital reduction exercise.
- (23) Owned 87.5% by Xerobail SAS and 12.5% by Xerox SAS.
- (24) Owned 99.99% by XEROX S.A.S. and .01% by Xerobail SAS.
- (25) [Reserved]
- (26) [Reserved]
- (27) Owned 99% by NV Xerox SA and 1% by Xerox Financial Services Belux NV.
- (28) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.
- (29) Owned 94.24% by Xerox Corporation, 5.56% by Pacific Services and Development Corporation and .20% by a Minority owner.
- (30) Owned 95.73% by Xerox Corporation and 4.27% by Pacific Services and Development Corporation.

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- (31) [Reserved]
 - (32) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation. (PSDC owns only one share)
 - (33) [Reserved]
 - (34) Owned 99% by Conway Office Products, LLC (limited partner) and 1% by Global Imaging Systems, Inc. (general partner).
 - (35) [Reserved]
 - (36) [Reserved]
 - (37) [Reserved]
 - (38) Owned 99% by Xerox Limited and 1% by Xerox Property Services Limited.
 - (39) Owned 50% by Xerox Latinamerican Holdings, Inc. and 50% by Pacific Services and Development Corporation.
 - (40) Owned 99.99% by Xerox Corporation and .01% by Pacific Services and Development Corporation.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-155743 and 333-142900) and Form S-8 (Nos. 333-142417, 333-125250, 333-93269, 333-09821, 333-22313, 33-65269 and 33-44314) of Xerox Corporation of our report dated February 13, 2009 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in the Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference of our report dated February 13, 2009 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Stamford, CT

February 13, 2009

CFO CERTIFICATIONS

I, Lawrence A. Zimmerman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

February 13, 2009

/s/ LAWRENCE A. ZIMMERMAN

Lawrence A. Zimmerman
Principal Financial Officer

**CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO
§ 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Form 10-K of Xerox Corporation, a New York corporation (the "Company"), for the year ending December 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Anne M. Mulcahy, Chairman of the Board and Chief Executive Officer of the Company, and Lawrence A. Zimmerman, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ ANNE M. MULCAHY

**Anne M. Mulcahy
Chief Executive Officer
February 13, 2009**

/S/ LAWRENCE A. ZIMMERMAN

**Lawrence A. Zimmerman
Chief Financial Officer
February 13, 2009**

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.