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, 2007

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: to

1-4471 (Commission File Number)

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

New York	16-0468020
(State of incorporation)	**(I.R.S. Employer Identification No.)**

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

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

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

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

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

None

Indicate by check mark 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act Rule

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, 2007 was: $17,294,622,391.

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

Class	Outstanding at January 31, 2008
Common Stock, $1 par value	917,567,890 Shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference:

Document	Part of Form 10-K in Which Incorporated
Xerox Corporation 2007 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 2008 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 risk that we will not realize all of the anticipated benefits from our 2007 acquisition of Global Imaging Systems, Inc. ("GIS"); 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; 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.

PART I

Item 1. Business

Overview

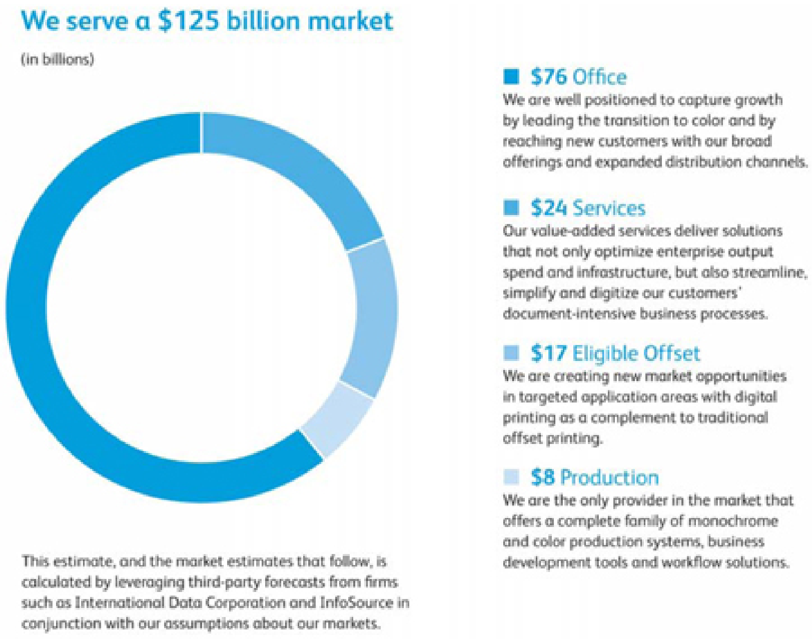
We are a $17.2 billion technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services.

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.

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 $125 billion market we serve.

In our core markets of Production and Office, we are well-positioned to lead in this large and growing market through our four growth planks:

- Accelerate the adoption of color
- Lead with services in large enterprises
- Drive the New Business of Printing®
- Expand participation in small/mid-size business market



Color is the fastest growing portion of our market, and we estimate that it represents $27 billion of the market opportunity. Economic and quality improvements in color are driving the market transition to color. We have the broadest color portfolio in the industry and our leading technologies, such as solid ink, position us well to participate in this transition and accelerate the adoption of color. At the same time, we continue to compete to capture growth opportunities within the black-and-white segment of our core markets, which we estimate is a $58 billion market.

We are growing our core markets by leading with document management services (also referred to as Xerox Global Services), which is the combination of managed services and value-added services. We have organized our document management services around three offerings:

1) Xerox Office Services, where we help our customers reduce costs and improve productivity by optimizing their global print infrastructure through analyzing the most efficient ways to create and share documents in the office;

2) Document Outsourcing and Communication Services, which focuses on optimizing the production environment as well as operating in-house production centers; and

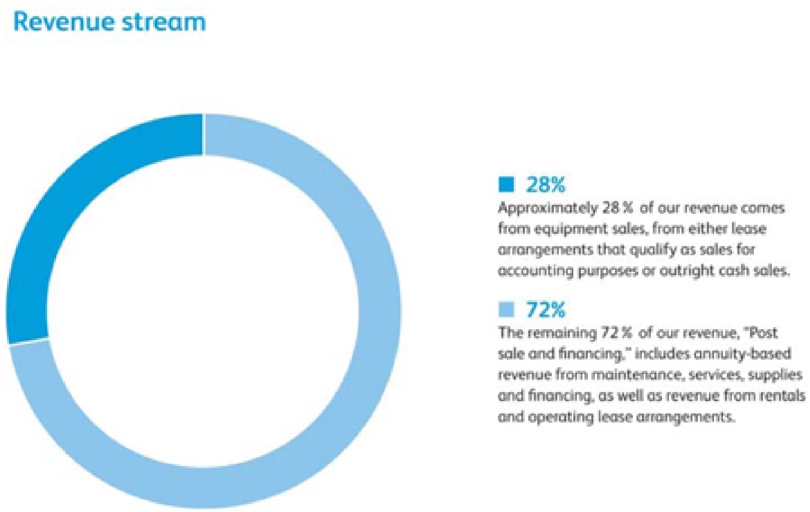
3) Business Process Services, where we show our customers how to use digital workflow to re-engineer their business processes and develop online document repositories.

We are creating 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 and represent what we refer to as the "eligible offset" market. With our leading business development tools, workflow and digital technology, led by our market-making Xerox iGen3® technology, we are uniquely positioned to meet the increasing demand for short-run, customized and quick-turnaround offset quality printing.

Over the past year we have scaled up our presence in the small and mid-size business (SMB) market, most notably through our acquisition of Global Imaging Systems, Inc. (GIS). This increased distribution capacity, along with a strong product portfolio in this segment, is expanding our participation in SMB and opening up new growth opportunities.

Our products include high-end printing and publishing systems; digital multifunctional devices (MFDs) which can print, copy, scan and fax; digital copiers; laser and solid ink printers; fax machines; document-management software; and supplies such as toner, paper and ink. 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 business model is an annuity model where post sale and financing revenue growth is driven by increasing equipment installations which increases the number of page producing machines in the field (MIF) and expanding the document management services we offer our customers. 72% of our 2007 total revenue was post sale and financing 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 28% of our 2007 total revenue.



The number of equipment installations is a key indicator of post sale and financing revenue trends as is the growth in document management services. The mix of color pages is another 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 eligible offset market, is key to increasing pages and we have leading tools and resources to develop this large market opportunity.

Acquisitions

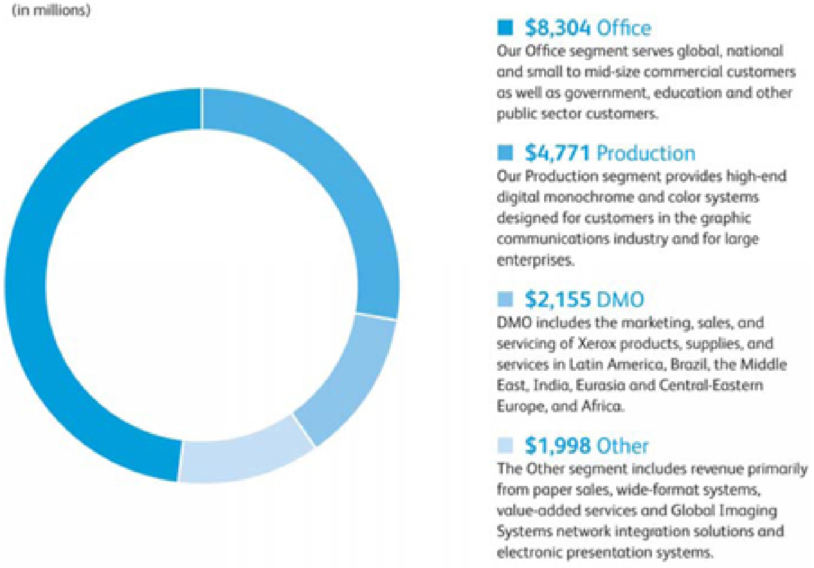
We made two acquisitions in 2007:
A provider of office technology for small and mid-size businesses in the U.S. and a provider of a web-based solution to electronically manage mortgage loan documents.

To further our business goals, in 2007 we completed the acquisitions of GIS, a provider of office technology for small and mid-size businesses in the United States, and Advectis, Inc. (Advectis), a provider of a web-based solution that electronically manages the process to underwrite, audit, collaborate, deliver and archive mortgage loan documents. GIS focuses on the SMB market through 22 regional core companies in the U.S. that sell and service document management systems. With the GIS acquisition, we increased our distribution capacity in the SMB market in the U.S. by approximately 50%, where the total opportunity for document-related offerings is estimated at $16 billion. GIS currently serves about 200,000 customers with about 1,400 sales representatives and 1,700 service technicians. Since acquiring GIS, they acquired four additional companies in 2007, further expanding our distribution. In addition, as of the fourth quarter of 2007, roughly half of GIS equipment available for sale was Xerox equipment compared to none a year ago.

Advectis' web-based BlitzDocs Collaboration Suite helps users reduce costs associated with the lending process, deliver better services, decrease credit risk and build a competitive advantage in capturing new loan applications. Advectis, now branded Xerox Mortgage Services, similar to our acquisition last year of Amici, expands our business process services capabilities into yet another vertical document intensive area.

Reviews by business segment

(in millions)



Segment Information

Our reportable segments are Production, Office, Developing Markets Operations (DMO), 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, both geographically and demographically, ranging from SMB to graphic communications companies, governmental entities, educational institutions and large (Fortune 1,000) 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.

Beginning in 2008, we will not report DMO results in a separate segment, but will include their results within our Office, Production and Other segments. More details on this change are included on page 17 within the Segment Reporting Change section of the Management Discussion and Analysis in our 2007 Annual Report.

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, 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.

Our 2007 Production Goals

Our 2007 goals for our Production segment were to continue strengthening our leadership position in monochrome and color and to build on the power of digital printing in the eligible offset market. 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 model, the right workflow, and the right technology are fundamental to this transformation.

In 2007 we launched an application-focused program to assist our customers implement solutions in four major categories. The "Can Do" program provides our customers live end-to-end applications for: Collaterals by Request, Books, Transactional/Promotional and Direct Mail.

We continued to increase installations of our flagship Digital Color Production Presses. In April 2007, according to estimates by InfoTrends, a leading independent research firm, Xerox's installed base of DocuColor and iGen3 presses accounted for approximately 50 percent of the total worldwide page volume printed by high speed production color printers. We are the industry leader in the number of pages produced on digital production color presses, with our flagship Xerox iGen3 Digital Production Press and DocuColor® Digital Presses.

In 2007, 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 reach our goals:

Our 2007 Production Accomplishments

Right Business Model

- **ProfitAccelerator™** - this robust set of tools and programs designed to maximize our customer's investment in digital printing equipment expanded in 2007 to now include more than 75 tools. It brings together Xerox's unparalleled experience and expertise, world-class resources and industry-leading support. Some of the newest additions include an audio sales training course, a kit to assist customers pursuing the digital book opportunity, and a new financial modeling tool that will increase productivity and achieve cost and efficiency savings.
- **New Business of Printing Services** - Business Development Services were built in response to customer requirements and will provide both training and professional services to help print providers increase page volume and revenue. The three initial services offerings are developing a digital marketing plan, selling one-to-one marketing campaigns and web-to-print jobs, and training and managing a digital sales force. The offerings are executed by a dedicated team of Xerox business development consultants and industry experts.

Right Workflow

With our Freeflow™ digital workflow collection our customers can improve efficiency for everything from content creation and management to production and fulfillment. In 2007 the FreeFlow suite of workflow software was enhanced to uniquely enable our customers to connect with print users 24 hours a day, 7 days a week, reduce costs, and enable new applications and revenue streams. A few highlights include:

- **Xerox FreeFlow Process Manager 6.0** - software that provides automated, "touchless" file preparation and decision making to automate prepress and eliminate manual production steps.

- **Xerox FreeFlow Variable Information Suite 6.0** - software that delivers the maximum productivity for personalized and customized documents. The software also now supports award winning specialty effects that help print providers minimize document security concerns while enabling new applications. These effects include MicroText marks, Correlation Marks, Glossmark®, FlorescentMark, and InfraRed text.
- **FreeFlow Print Server** - a newly launched, powerful print server that delivers superior performance, advanced workflow interoperability, state-of-the-art color management, and a common workflow for Xerox production printers.

Right Technology

- **Xerox DocuColor 8000AP and Xerox DocuColor 7000AP** - In May and September we launched 80 ppm and 70 ppm full-color production systems, respectively, which provide excellent print resolution, color reproduction and reliability for a wide range of application and weights, all at rated speed.
- **Xerox DocuColor 260** - We expanded our full color offerings with the launch of the DocuColor 260 in September, a 60 ppm light production printer. The combination of quality, reliability and price point makes it easy to get started in digital full color printing.
- **Xerox 490/980 Color Continuous Feed Printing System** - We announced the world's fastest toner based full color roll fed printer that produces up to 986 full color duplex images per minute. This system is ideal for the Transactional/Promotional and Direct Mail market segments that require high speed, high volume variable data printing.
- **Xerox 495 Continuous Feed Duplex Printer** - We expanded our offerings within the Continuous Feed market with the February launch of a 500 ppm continuous feed duplex printer with two imaging systems built into one device, flash fusing and a small footprint ideal for high quality, high volume duplex applications.
- **Xerox Nuvera® 288 Digital Perfecting System** - Launched in April, this is the fastest cut sheet monochrome duplex printer in the market. 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** - A new family of Xerox Nuvera digital production systems was launched in April, utilizing Emulsion Aggregate (EA) toner for greater reliability and image quality. This modular, scalable print engine also expands digital printing applications due to its high quality and flexibility of substrates.
- **Xerox DocuTech® Highlight Color 128 and 155 Publishing System** - In April, we expanded our highlight color publishing system family for print on demand. These systems print both black and white, as well as highlight color at rated speeds of 128 and 155 ppm, respectively.
- **Xerox 4595 CP and 4110 CP with DocuSP** - In April, we continued to expand our presence in the light production segment with the launch of the Xerox 4595 CP and 4110 CP with DocuSP. These digital light production systems at 95 ppm and 110 ppm feature high quality, easy to use systems that offer production workflow software that can make them part of an Enterprise distributed print solution.
- **Xerox 4112/4127** - In September, we introduced our latest light production monochrome printers. The 4112 and 4127 include upgrades in speed, up to 125 ppm, enhanced application capabilities and substrate handling. Both products were launched with FreeFlow PrintServer.
- **Custom Blended Color Program for DocuTech Highlight Color systems** - In 2007, we expanded the range of colors to over 80 custom colors, enabling our customers to match company logos for brand identity applications.

Office

Our Office segment serves global, national, and small to mid-size commercial customers as well as government, education and other public sector customers. Office systems and services, which include monochrome devices at speeds up to 95 ppm and color devices up to 60 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 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.

Our 2007 Office Goals

Our 2007 Office goals were to drive the transition to color in the office, to extend our market reach, particularly in the SMB market, and to continue to expand our Office Services business. We aimed to broaden our product line and complement our industry-leading product offerings with expanded distribution 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. The breadth of our color 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:

Our 2007 Office Accomplishments

- **Phaser 8560** - With the February introduction of the 8560, we continued to leverage our patented solid ink technology to provide offices with affordable, easy to use color. The 8560 can print at speeds up to 30 ppm in color and black-and-white and is offered in both standalone printer and multifunction configurations.
- **Phaser 6180** - In February, we strengthened our color laser offerings with the introduction of the Phaser 6180. The 6180 prints at speeds up to 20 color ppm and 26 ppm in black-and-white and utilizes Xerox's environmentally friendly EA toner. The 6180 is offered in both standalone printer and multifunction configurations.
- **Phaser 6360** - In February, we introduced the Phaser 6360. With speeds up to 42 ppm in color and black-and-white, the 6360 is the world's fastest letter-size color laser printer.
- **WorkCentre 7328/7335/7345** - In April, we introduced the WorkCentre 7300 product family. These devices print and copy at speeds ranging from 26 to 35 ppm color and 28 to 45 ppm black-and-white. The systems also scan and fax, and include new tools to integrate and improve workflows and manage color costs.

- **DocuColor 260** - Introduced in April, the DocuColor 260 Digital Color Printer/Copier is the fastest color system in the Xerox office line, printing and copying at up to 60 ppm in color and 75 ppm in black-and-white. It features the EFI® Fiery® embedded controller, which enables customers to easily program, monitor and manage workflow. As a result, the DocuColor 260 brings outstanding image quality and productivity to offices and departments that want to create their own high-end materials without having to invest in a full production press.
- **WorkCentre 7232/7242** - In September, we continued to bring affordable color to the office with the WorkCentre 7232 and 7242 color-capable multifunction products. The 7232 is capable of printing 10 ppm color and 32 ppm black-and-white, while the 7242 increases the black-and-white productivity to 40 ppm.
- **WorkCentre 7675** - In September, we introduced the WorkCentre 7675, offering color pages at 50 ppm and black-and-white pages at 75 ppm. The 7675 provides superior image quality, excellent productivity, extensive media handling and professional in-line finishing capabilities.
- **Phaser 8860** - Launched in September, this is the first printer to feature the next generation of Xerox's solid ink technology, enabling us to bring affordable color to offices of any size. The new solid ink dramatically lowers the cost of color prints enabling Xerox to offer innovative pricing, giving our customers 'color for the price of black-and-white'. The 8860 operates at print speeds as fast as 30 ppm in color and black-and-white and is offered in both standalone printer and multifunction configurations

We completely refreshed the core of our black-and-white multifunction series, further strengthening our position.

- **WorkCentre 5632/5638/5645/5655/5665/5675** - Introduced in August, the 5600 product family refreshed the entire black-and-white multifunction product line in the Segments 3–5 market.
- **Xerox 4595 Digital Copier/Printer** - Introduced in April, the 4595 is a high-volume, black-and-white copier/printer to meet the continuing need for high volume monochrome office printing. With scanning speeds up to 100 ppm and print and copy speeds up to 95 ppm, this system is a true workhorse for high-volume environments such as office workgroups, and educational and financial institutions. The Xerox 4595 is also available with the light-production finisher for a full range of output choices.
- **Extensible Interface Platform** - Announced in October 2006, Xerox's Extensible Interface Platform (EIP) is a software platform developers can use to create server-based applications for multifunction devices and that can be configured for the MFD's touch-screen user interface. Using this interface, workers can enter a password or use a secure smart card at the MFD and access a set of features and options designed specifically for their business needs. A wide range of document management and workflow software has already been developed by Xerox and its Alliance Partners to help organizations manage costs, boost productivity and improve efficiency. In 2007, Xerox expanded the worldwide implementation of this platform including it on all major workgroup and departmental MFD introductions.

DMO

DMO includes the marketing, sales and servicing of Xerox products, supplies, and services in Latin America, Brazil, the Middle East, India, Eurasia and Central-Eastern Europe and Africa. In countries with developing economies, DMO manages the Xerox business through operating companies, subsidiaries, joint ventures, product distributors, affiliates, concessionaires, value-added resellers and dealers. Our two-tiered distribution model has proven very successful in the high-growth geographies of Russia and Central-Eastern Europe. Our 2007 DMO goals included revenue growth, a continued focus on improving the entire cost base and providing a foundation for profitable growth.

Other

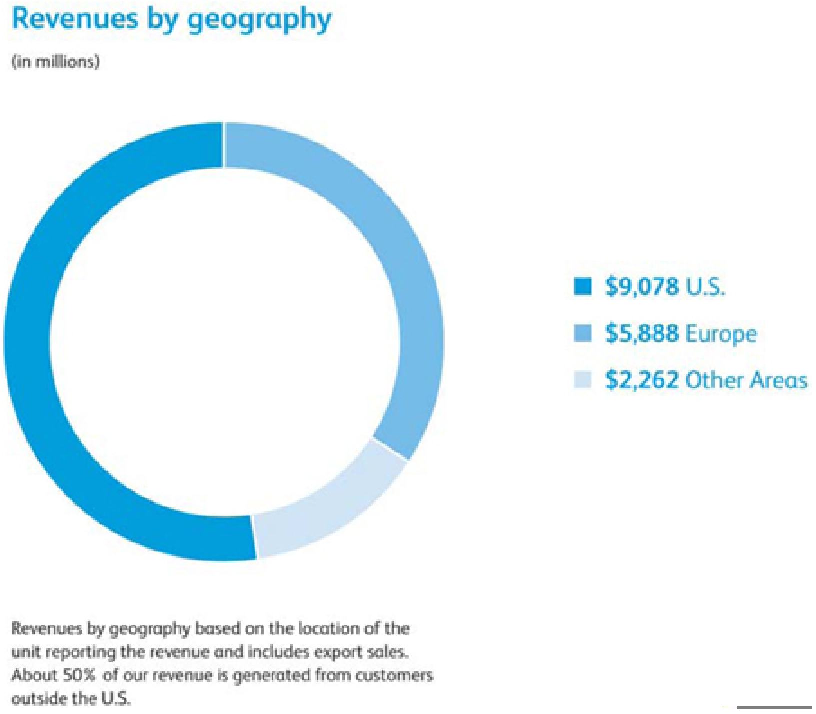
The Other segment primarily includes revenue from paper sales, value-added services, wide-format systems and GIS network integration solutions and electronic presentation systems.

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 uses 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. In October 2007, we acquired Advectis, a provider of a web-based solution that electronically manages the process to underwrite, audit, collaborate, deliver and archive mortgage loan documents. In July 2006 we acquired Amici, a provider of web-based electronic discovery (E-discovery) services, primarily supporting litigation and regulatory compliance. Often our value-added services solutions lead to larger managed services contracts which include our equipment, supplies, service, and labor. We report the revenue from managed services contracts in the Production, Office, or DMO segments. In 2007, 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.

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 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 and other revenue” and “finance income” 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 the entire monthly payment over the term of the lease agreement, whether rental or operating lease, and report it in “post sale and other 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 2007 Annual Report.

Research and Development

Investment in R&D is critical for competitiveness in Xerox's fast-paced markets where more than two-thirds of our equipment sales are from products launched during the past two years.

Xerox's 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.
- Creating new business opportunities to drive future growth by reaching new customers.

R,D&E expenses

(in millions)

To ensure our success, we have aligned our R&D investment portfolio with our strategic planks: accelerating the color transition, driving the "New Business of Printing®", enhancing customer value by leading with services and expanding our participation in the SMB market. 2007 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 iGen3, an advanced next-generation digital printing press that produces photographic-quality prints indistinguishable from offset, the Xerox Nuvera 288 Digital Perfecting System that 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 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. We are incorporating by reference the amounts spent for research, development and engineering for 2007, 2006 and 2005 that are included in Note 1–Summary of Significant Accounting Policies in the Consolidated Financial Statements in our 2007 Annual Report.

Our R&D is strategically coordinated with that of Fuji Xerox, which invested $672 million in R&D in 2007, $660 million in 2006 and $720 million in 2005.

Patents, Trademarks and Licenses

We are a technology company. Including our Xerox Palo Alto Research Center (PARC) subsidiary, we were awarded 584 U.S. utility patents in 2007. We were ranked 33rd on the list of companies that were awarded the most U.S. patents during the year and would have been ranked 27th with the inclusion of PARC patents. Including our research partner, Fuji Xerox Co., Limited, we were awarded over 900 U.S. utility patents in 2007. Our patent portfolio evolves as new patents are awarded to us and as older patents expire. As of December 31, 2007, we held approximately 8,600 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 of the patent licenses expire concurrently with the expiration of the last patent identified in the license. In 2007, including our PARC subsidiary, we added 9 agreements to our portfolio of patent licensing agreements, and either we or our PARC subsidiary was a licensor in 7 of the agreements. We also have a number of cross-licensing agreements with companies with substantial patent portfolios, including Canon, Microsoft, IBM, Hewlett Packard, Océ and Sharp. Those agreements vary in subject matter, scope, compensation, significance and time.

In the U.S., we own approximately 550 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 primarily 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, IKON, 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

The Xerox brand is a valuable resource and continues to be recognized in the top ten percent of all U.S. brands.

We manage our business based on the principal business segments described earlier. However, we have organized the marketing and selling of our products and solutions according to geography and channel types. 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 and systems integrators. We use 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 allows us to address two basic challenges facing large enterprises:

1) How to optimize their infrastructure to be both cost effective and globally consistent.

2) How to improve their value proposition and communication with their customers.

In response to these needs, we bring 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.

In 2007 we substantially increased our distribution capabilities to the SMB market in the U.S. through our acquisition of GIS. GIS has a proven track record of delivering value to customers in the SMB market through a decentralized management structure that emphasizes local customer connections and empowerments. We have maintained that operating structure and approach. GIS, which had previously not distributed Xerox products, now brings Xerox product options to a segment of the market where we were previously underrepresented. GIS was built up over the years through acquisitions and now operates in 32 states in the U.S. In 2007 GIS acquired six additional companies, four after our acquisition of GIS, and going forward we will continue to support GIS in expanding its footprint.

We market our Phaser line of color and monochrome laser-class and solid ink printers primarily through office information technology industry resellers, who typically access our products through distributors. In 2007, we expanded our distribution partnerships in North America by recruiting an expanded set of information technology resellers and enhancing our network of independent agents. We also continued to increase the product offerings available through a two-tiered distribution model in Europe and DMO.

We operate in more than 160 countries worldwide. Xerox develops, manufactures, markets and supports document management systems, supplies and services through a variety of distribution channels around the world.

Xerox North America
Xerox North America operates across the United States and Canada.

DMO
Developing Markets Operations supports more than 130 countries.

Xerox Europe
Xerox Europe covers 17 countries across Europe.

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

We are increasing our use of partners to expand our market coverage. Through reseller alliances with Fujifilm Graphics Systems and Fujifilm Imaging Systems, we distribute our production products to graphic communications customers and the photo market industries. In 2007 we signed a contract with Fujifilm Graphics Systems in Europe to compliment the contracts in the U.S. and Canada. We have launched in six western European countries and will continue to expand throughout 2008. We also signed a reseller contract with Fujifilm Imaging Systems in both the U.S. and Canada to enable a channel for production products that support the digital photo specialty application market. We also have an alliance with Electronic Data Systems (EDS) which is designed to integrate EDS' information technology (IT) services with our document management systems and services to provide customers with full IT infrastructure support. Overall, through The Xerox Connection partner program, we have over 125 partners who work with us to provide solutions.

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 all of which we refer to as Xerox Limited. Xerox Limited enters into distribution agreements with unaffiliated third parties covering distribution of our products in some of the countries located in these regions, and previously entered into agreements with unaffiliated third parties covering 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 had 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 related to Sudan and Syria in August 2006 and terminated its distribution agreement related to Iran in December 2006, and now has only legacy obligations such as providing spare parts and supplies to these third parties. In 2007, we had total revenues of $17.2 billion, of which approximately $7.7 million was attributable to Iran and less than $0.25 million in total was attributable to Sudan and Syria. As a result of the termination of these agreements, we anticipate that our revenues attributable to these countries will decline.

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 according to the U.S. laws and government regulations that relate to Libya.

Service

As of December 31, 2007, we had a worldwide service force of approximately 13,000 employees and an extensive variable contract service force. We are expanding 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 in that the service force is continually trained on our products and their 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

We are currently in the first year of a 2007 master supply agreement with Flextronics, a global electronics manufacturing services company, to outsource portions of manufacturing for our Office segment. The agreement is for three years with two additional one year extension periods at our option. Our inventory purchases from Flextronics currently represent approximately 20% of our overall worldwide inventory procurement. We have agreed to purchase from Flextronics some products and consumables within specified product families. Flextronics must acquire inventory in anticipation of meeting our forecasted requirements and must maintain sufficient manufacturing capacity to satisfy these requirements. Under certain circumstances, we may be obligated to purchase inventory that remains unused for more than 180 days or becomes obsolete, or on the termination of the supply agreement.

We acquire other office products from various third parties, to increase the breadth of our product portfolio, and to meet channel requirements. We also have arrangements with Fuji Xerox under which we purchase some products from and sell other products to Fuji Xerox. Some of these purchases and sales are the result of mutual research and development arrangements. Our remaining manufacturing operations are primarily located in Rochester, New York and Dundalk, Ireland for our high-end production products and consumables, and in Wilsonville, Oregon for solid ink products, consumable supplies, and components for our Office segment products.

In 2007 Xerox opened a $60 million emulsion aggregation (EA) toner plant in Webster, New York. EA toner was developed by Xerox and is protected by more than 300 patents. EA toner is chemically grown enabling the size, shape and structure of the particles to be precisely controlled which leads to improved print quality, less toner usage, less toner waste and less energy required for manufacturing and for printing. Xerox also opened in 2007 a $24 million state-of-the art automated ink manufacturing plant in Wilsonville, Oregon to serve growing demand for its proprietary solid ink color printers.

Fuji Xerox

Fuji Xerox Co., Limited is an unconsolidated entity in which we currently own 25% and FUJIFILM Holdings Corporation (FujiFilm) owns 75%. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong and 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 2007, 2006 and 2005 that are included in Note 2-Segment Reporting in the Consolidated Financial Statements in our 2007 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

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.

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.

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 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 are continually reviewing 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. 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.

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 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.

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 capital market offerings, cash generated from operations, cash on hand, 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, 2007, we had $7.5 billion of total debt ($275 million of which is secured by finance receivables) and a $632 million liability to a subsidiary trust issuing preferred securities. The total value of financing activities, shown on the balance sheet as Finance Receivables and On-Lease equipment, was $8.6 billion at December 31, 2007. The total cash and cash equivalents was $1.1 billion at December 31, 2007. 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, 2007, total cash and cash equivalents was $1.1 billion, and our borrowing capacity under our 2007 Credit Facility was $1.4 billion, reflecting $600 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 parties, all of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The 2007 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 2007 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. Our U.S. Loan Agreement with GECC (effective through 2010) 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, 2007, $275 million was outstanding under the Loan Agreement. The Loan Agreement incorporates the financial maintenance covenants contained in the 2007 Credit Facility and contains other affirmative and negative covenants.

At December 31, 2007, we were in full compliance with the covenants and other provisions of the 2007 Credit Facility, the senior notes and the Loan Agreement. Any failure to be in compliance with any material provision or covenant of the 2007 Credit Facility or the senior notes could have a material adverse effect on our liquidity, results of operations and financial condition. Failure to be in compliance with the covenants in the Loan Agreement, including the financial maintenance covenants incorporated from the 2007 Credit Facility, would result in an event of termination under the Loan Agreement and in such case GECC would not be required to make further loans to us. If GECC were to make no further loans to us, and assuming a similar facility was not established and that we were unable to 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. 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 potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with legal 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 our legal 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 proposed or are expected to adopt restrictions on the types and amounts of chemicals that may be present in electronic equipment or other items. The previously enacted European Union Directive known as the Restriction on the Use of Hazardous Substances ("RoHS") is one example. 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 prevented 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 proposed, or are expected to propose, programs that make producers of electrical goods, including computers and printers, responsible for certain labeling, collection, recycling, treatment and disposal of these recovered products. The previously enacted European Union Directive on Waste Electrical and Electronic Equipment ("WEEE") is one example. 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, 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 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 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.

We need to successfully bring GIS into our operations in order to realize all of the anticipated benefits from the transaction.

Our ability to realize the anticipated benefits of the GIS acquisition is subject to certain risks including, but not limited to the risks that the future business operations of GIS will not be successful; customer retention and revenue expansion goals for the GIS transaction will not be met; and disruptions from the GIS transaction will harm relationships with customers, employees, agents, distributors and suppliers.

Item 1B. Unresolved Staff Comments

None

Item 2. Properties

In December 2006, we sold our Corporate headquarters facility in Stamford, Connecticut. In connection with the sale, we leased our former headquarters until October of 2007 when we relocated to a leased facility in Norwalk, Connecticut.

We own several manufacturing, engineering and research facilities and lease additional facilities. The 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, those in Oregon by the Office Segment, and those in Brazil for both the Office and the DMO Segment, as well as India for the DMO Segment. In 2007, we completed construction of a new color toner plant on our manufacturing campus in Webster, NY and opened an automated ink manufacturing plant on the Company's campus in Wilsonville, Oregon. 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 our operating segments.

As we implemented our restructuring programs (refer to Note 9-"Restructuring and Asset Impairment Charges" in the Consolidated Financial Statements of our Annual Report, incorporated by reference), several leased properties became surplus. The surplus properties have leases that we are obligated to maintain through required contractual periods. We have disposed or subleased certain of these properties and are aggressively pursuing the successful disposition and subleasing of all remaining surplus properties anticipating the majority to be disposed by 2009. With respect to United States properties, at December 31, 2007, there were approximately 9 surplus facilities totaling approximately 248,000 square feet.

We continue to implement our Virtual Office Program for the United States sales force locations. As part of this program, approximately 3,100 employees are working virtually. In combination with other initiatives, this program has reduced our real estate portfolio by approximately 900,000 square feet. Overall, this program has been a success and is generally well received.

We own or lease numerous facilities, which encompass general offices, sales offices, service locations and distribution centers. As a result of the acquisition of GIS and Advectis, we acquired several leased facilities which have been incorporated into the portfolio and rationalized as appropriate. Our principal owned facilities are located in the United States, Ireland, Brazil, Netherlands and India and 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 500,000 square feet for their use. Our two principal Xerox Capital Services administrative facilities are located in Illinois and Texas. A third vacant administrative facility, located in Florida, is in the process of being closed. 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 our functions.

Item 3. Legal Proceedings

The information set forth under the "Contingencies" note in the Consolidated Financial Statements, of the Xerox Corporation 2007 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 2007 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, 2007

During the quarter ended December 31, 2007, registrant issued no securities in transactions which were not registered under the Securities Act of 1993, as amended.

(c) Issuer Purchases of Equity Securities during the Quarter ended December 31, 2007

Repurchases of Xerox Common Stock, par value $1.00 per Share

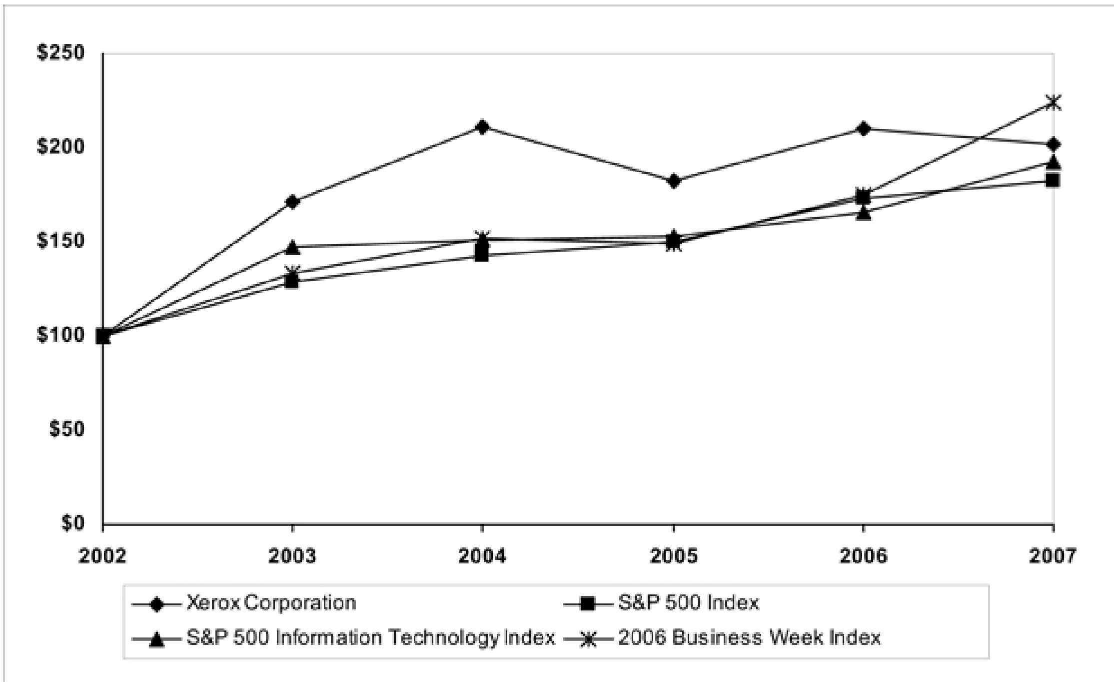
	Total Number of Shares Purchased	*Average Price Paid per Share(1)*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)*	*Approximate Dollar Value of Shares That May Yet Be Purchased under the Plans or Programs(2)*
October 1 through 31	**412,300**	**$ 16.8153**	**412,300**	**$ 492,967,062**
November 1 through 30	**5,595,800**	**16.5471**	**5,595,800**	**400,372,862**
December 1 through 31	**1,836,400**	**$ 16.6082**	**1,836,400**	**$ 369,873,608**
Total	**7,844,500**		**7,844,500**	

(1) Exclusive of fees and costs.

(2) In each of October 2005, January 2006, July 2006, November 2006 and February 2007, our Board of Directors authorized a $500 million stock repurchase program and in January 2008, our Board of Directors authorized an additional $1.0 billion stock repurchase program, covering the aggregate repurchase of up to $3.5 billion of our common stock, par value $1.00 per share. The $3.5 billion is exclusive of fees and expenses. Approximately $2.13 billion of this authority has been used through December 31, 2007. 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.

(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, 2002 in Xerox Corp., in the S&P 500 Index, and in the S&P 500 Information Technology (IT) Index respectively, and assumes dividends are reinvested.

The graph also includes a comparison to the 2006 Business Week Computers & Peripherals Industry Group (2006 Business Week Index). Substantial changes have been made to the Business Week Computers & Peripherals Industry Group since 2006. Due to these changes and the subjective nature of this Group, the S&P 500 Information Technology Index has been selected to replace this index since we believe it is a more appropriate and standardized index for comparison.

The companies included in the 2006 Business Week Index are as follows:
Apple, Dell, Diebold, EMC Corp., Gateway (included through 2006), Hewlett-Packard, International Business Machines, Lexmark International, NCR, Network Appliance, Palm, Sandisk, Seagate Technology, Sun Microsystems and Western Digital.
2006 Business Week Index is weighted by market capitalization and assumes reinvestment of dividends.

	Dec02	Dec03	Dec04	Dec05	Dec06	Dec07
Xerox Corporation	$100	$171	$211	$182	$211	$202
S&P 500 Index	100	129	143	150	173	183
S&P 500 Information Technology Index	100	147	151	152	165	192
2006 Business Week Index	100	133	152	150	175	224

The graph and other information furnished under 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, 2007, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2007 Annual Report to Shareholders, is incorporated by reference in this
Form 10-K.

Revenues
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle
Per-Share Data
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle - Basic and Diluted
Earnings - Basic and Diluted
Common stock dividends
Total Assets
Long-term debt
Liabilities to subsidiary trusts issuing preferred securities
Series B convertible preferred stock
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 Results of Operations and Financial Condition," of the Xerox Corporation 2007 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 2007 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 2007 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 2007 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 2007 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 free 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, 2007, our principal executive officer 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, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in our 2007 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

Directors:

On February 14, 2008, Ralph S. Larsen informed the Company that he will not stand for re-election to the Xerox Board of Directors at the May 2008 Annual Shareholders Meeting.

Executive Compensation

On February 14, 2008, the Compensation Committee of the Board of Directors of the Company took the following actions:

2007 and 2008 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. The measures on which awards are based for the 2007 fiscal year are set out on Exhibit 10(e)(11) attached hereto and the measures for awards for fiscal year 2008 are set out on Exhibit 10(e)(16) attached hereto. The Compensation Committee approved cash awards under the 2004 PIP for fiscal year 2007 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 2007 (collectively with Mrs. Mulcahy, the "Named Executive Officers"). The Compensation Committee approved a cash award of $2,178,000 to Mrs. Mulcahy, $1,168,750 to Ms. Burns, $770,000 to Mr. Zimmerman, $770,000 to Mr. Firestone, and $579,983 to Mr. Machon.

2005 E-LTIP Awards:

The Compensation Committee determined that one-third of the performance shares granted under the 2005 Executive Long-Term Incentive Program ("2005 E-LTIP") were earned based on the Company's 2007 performance against the annual targets established for Diluted Earnings Per Share from Continuing Operations ("EPS") and Net Cash provided by Operating Activities. A description of the targets is set out on Exhibit 10(e)(4). The number of shares earned for 2007 for each Named Officer is as follows: Mrs. Mulcahy, 98,034 shares; Ms. Burns, 35,300 shares; Mr. Zimmerman, 31,367 shares; Mr. Firestone, 31,367 shares; and Mr. Machon, 19,634 shares.

The Compensation Committee also determined that an additional 46.36% of the 2005 original award amount was earned based on achievement of three-year cumulative performance results against the three-year targets established for EPS and Net Cash provided by Operating Activities. A description of the targets is set out on Exhibit 10(e)(4). The number of additional shares earned for each Named Executive Officer is as follows: Mrs. Mulcahy, 136,345 shares; Ms. Burns, 49,095 shares; Mr. Zimmerman, 43,625 shares; Mr. Firestone, 43,625 shares; and Mr. Machon, 27,307 shares. All performance shares earned under the 2005 E-LTIP vested on February 14, 2008. There are no performance shares remaining under the 2005 E-LTIP.

The Compensation Committee previously approved a modification to the EPS definition as originally established to exclude any gains/losses resulting from the settlement of tax audits. This modification was made to align the 2005 EPS definition with the 2006 E-LTIP EPS definition and to exclude the significant tax gains that occurred in 2006. As a result, the cumulative EPS result was lower than it otherwise would have been absent the modification.

2006 E-LTIP Awards:

The Compensation Committee determined that one-third of the performance shares granted under the 2006 Executive Long-Term Incentive Program ("2006 E-LTIP") were earned based on the Company's 2007 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)(6). The number of shares earned for 2007 for each Named Executive Officer is as follows: Mrs. Mulcahy, 148,000 shares; Ms. Burns, 56,933 shares; Mr. Zimmerman, 36,433 shares; Mr. Firestone, 45,567 shares; and Mr. Machon, 22,800 shares. Earned shares vest three years from their grant date.

2007 E-LTIP Awards:

The Compensation Committee determined that one-third of the performance shares granted under the 2007 Executive Long-Term Incentive Program ("2007 E-LTIP") were earned based on the Company's 2007 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 2007 for each Named Executive Officer is as follows: Mrs. Mulcahy, 162,533 shares; Ms. Burns, 46,200 shares; Mr. Zimmerman, 49,232 shares; Mr. Firestone, 36,966 shares; and Mr. Machon, 18,500 shares. Earned shares vest three years from their grant date.

2008 E-LTIP Awards:

2008 E-LTIP awards made to Named Executive Officers reflect their leadership role in the Company, their historical and future contributions, and competitive award levels. The purpose of the 2008 E-LTIP is to provide the necessary incentives to retain and reward executives for sustained performance improvements over the next three-year period. Awards under the 2008 E-LTIP for Named Executive Officers are comprised entirely of performance shares that may be earned based on achieving annual performance targets and three-year cumulative performance between threshold and maximum as determined by the Committee. All performance shares that are earned vest in 2011. Named Executive Officers who retire, are involuntarily terminated (without cause) or voluntarily terminate due to a reduction in force prior to the end of the three-year performance cycle will vest in a portion of the performance shares earned on a pro rata basis.

Performance metrics for the 2008 E-LTIP are Earnings Per Share (weighted 60%) and Core Cash Flow from Operations (weighted 40%). Earnings Per Share and Core Cash Flow from Operations are defined in Exhibit 10(e)(17) attached hereto. The Committee has established annual and cumulative targets. Based on annual or cumulative performance versus targets, the number of performance shares earned by Named Executive Officers under the 2008 E-LTIP may vary from 0% to 150% of the initial number of shares subject to the grant. The form of award agreement pursuant to which such grants were made is attached hereto as Exhibit 10(e)(19).

Participants in the 2008 E-LTIP are subject to meaningful ownership requirements and mandatory share holding requirements of 50% of the net vested shares until their ownership requirements have been met.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information regarding directors is incorporated herein by reference to the section entitled “Proposal 1 - Election of Directors” in our definitive Proxy Statement (“2008 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 22, 2008. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2007.

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 2008 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 2008 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*	55	Chairman of the Board and Chief Executive Officer	2002	1992
Ursula M. Burns*	49	President	2007	1997
Lawrence A. Zimmerman	65	Executive Vice President and Chief Financial Officer	2007	2002
James A. Firestone	53	Executive Vice President, President, Xerox North America	2007	1998
Willem Appelo	43	Senior Vice President, President, Strategic Services Group	2007	2004
Don H. Liu	46	Senior Vice President, General Counsel and Secretary	2007	2007
Jean-Noel Machon	55	Senior Vice President, President, Developing Markets Operations	2004	2000
Armando Zagalo de Lima	49	Senior Vice President, President Xerox Europe	2004	2000
Quincy Allen	47	Vice President, President, Production Systems Group	2007	2004
Michael Stephen Cronin	54	Vice President, President, Xerox Global Services	2007	2004
Gary R. Kabureck	54	Vice President and Chief Accounting Officer	2003	2000
James H. Lesko	56	Vice President, Investor Relations	2004	1993
Russell Peacock	49	Vice President, President, Xerox Office Group	2007	2007
Rhonda L. Seegal	57	Vice President and Treasurer	2003	2003
Leslie F. Varon	51	Vice President and Controller	2006	2001

* Member of Xerox Board of Directors

Each officer named above, with the exception of Rhonda L. Seegal and 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 2003, Ms. Seegal had been with Avaya Inc., where she was Vice President and Treasurer from 2000 to 2003. Prior to that, she was Deputy Treasurer at General Electric Company from 1996 to 2000.

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 2008 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2007”, “Outstanding Equity Awards at 2007 Fiscal Year-End”, “Option Exercises and Stock Vested in 2007", "Pension Benefits for the 2007 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 2008 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 2008 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 2008 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 2008 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 2008 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, 2007

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2007

Consolidated Statements of Common Shareholders' Equity for each of the years in the three-year period ended December 31, 2007

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm on Financial Statement Schedule

Schedule II – Valuation and qualifying accounts

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

(2) Supplementary Data:

Quarterly Results of Operations (unaudited)

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 2008 Proxy Statement are preceded by an asterisk (*).

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

XEROX CORPORATION

By: /s/ ANNE M. MULCAHY

Anne M. Mulcahy
Chairman of the Board and Chief Executive Officer

February 15, 2008

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

February 15, 2008

Signature	Title
Principal Executive Officer:	
/S/ ANNE M. MULCAHY **Anne M. Mulcahy**	Chairman of the Board, Chief Executive Officer and Director
Principal Financial Officer:	
/S/ LAWRENCE A. ZIMMERMAN **Lawrence A. Zimmerman**	Executive Vice President and Chief Financial Officer
Principal Accounting Officer:	
/S/ GARY R. KABURECK **Gary R. Kabureck**	Vice President and Chief Accounting Officer
/S/ GLENN A. BRITT **Glenn A. Britt**	Director
/S/ URSULA M. BURNS **Ursula M. Burns**	President and Director
/S/ RICHARD J. HARRINGTON **Richard J. Harrington**	Director
/S/ WILLIAM CURT HUNTER **William Curt Hunter**	Director
/S/ VERNON E. JORDAN, JR. **Vernon E. Jordan, Jr.**	Director
/S/ RALPH S. LARSEN **Ralph S. Larsen**	Director
/s/ Robert A. McDONALD **Robert A. McDonald**	Director
/S/ N. J. NICHOLAS, JR. **N. J. Nicholas, Jr.**	Director
/S/ ANN N. REESE **Ann N. Reese**	Director
/S/ MARY AGNES WILDEROTTER **Mary Agnes Wilderotter**	Director

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 15, 2008 appearing in the 2007 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 15, 2008

SCHEDULE II

Valuation and Qualifying Accounts

Year ended December 31, 2007, 2006 and 2005

(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
2007					
Allowance for Losses on:					
Accounts Receivable	$ 116	$ 55	$ (1)	$ (42)	$ 128
Finance Receivables	198	79	(2)	(72)	203
	$ 314	$ 134	$ (3)	$ (114)	$ 331
2006					
Allowance for Losses on:					
Accounts Receivable	$ 136	$ 36	$ (9)	$ (47)	$ 116
Finance Receivables	229	51	(2)	(80)	198
	$ 365	$ 87	$ (11)	$ (127)	$ 314
2005					
Allowance for Losses on:					
Accounts Receivable	$ 183	$ 36	$ (14)	$ (69)	$ 136
Finance Receivables	276	36	(8)	(75)	229
	$ 459	$ 72	$ (22)	$ (144)	$ 365

(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 and Certificate of Change filed with the Department of State of the State of New York on October 31, 2007.

(b) By-Laws of Registrant, as amended through May 24, 2007.

Incorporated by reference to Exhibit 3(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007.

(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.

(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.

(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.

(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.

(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.

(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.

(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) 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.

(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.

(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.

(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.

(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.

(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.
(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.
(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.
(e)(1)	Indenture, dated as of January 17, 2002, between Registrant and Wells Fargo, as trustee, relating to Registrant's 9 3/4% Senior Notes due 2009 (Denominated in U.S. Dollars) (the "January 17, 2002 U.S. Dollar Indenture").
	Incorporated by reference to Exhibit 4(h)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(2)	Indenture, dated as of January 17, 2002, between Registrant and Wells Fargo, as trustee, relating to Registrant's 9 3/4% Senior Notes due 2009 (Denominated in Euros) (the "January 17, 2002 Euro Indenture").
	Incorporated by reference to Exhibit 4(h)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(3)	Registration Rights Agreement, dated as of January 17, 2002, among Registrant and the initial purchasers named therein, relating to Registrant's $600,000,000 9 3/4% Senior Notes due 2009.
	Incorporated by reference to Exhibit 4(h)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(4)	Registration Rights Agreement, dated as of January 17, 2002, among Registrant and the initial purchasers named therein, relating to Registrant's (euro) 225,000,000 9 3/4% Senior Notes due 2009.
	Incorporated by reference to Exhibit 4(h)(4) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.
(5)	First Supplemental Indenture dated as of June 21, 2002 between Registrant and Wells Fargo, as trustee, to the January 17, 2002 U.S. Dollar Indenture.
	Incorporated by reference to Exhibit (4)(h)(5) to Registrant's Current Report on Form 8-K dated June 21, 2002.
(6)	First Supplemental Indenture dated as of June 21, 2002 between Registrant and Wells Fargo, as trustee, to the January 17, 2002 Euro Indenture.
	Incorporated by reference to Exhibit (4)(h)(6) to Registrant's Current Report on Form 8-K dated June 21, 2002.
(7)	Second Supplemental Indenture dated as of July 30, 2002 between Registrant, the guarantors named therein and Wells Fargo, as trustee, to the January 17, 2002 U.S. Dollar Indenture.
	Incorporated by reference to Exhibit 4 (h)(7) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(8)	Second Supplemental Indenture dated as of July 30, 2002 between Registrant, the guarantors named therein and Wells Fargo, as trustee, to the January 17, 2002 Euro Indenture.
	Incorporated by reference to Exhibit 4 (h)(8) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(9)	Third Supplemental Indenture, dated June 25, 2003 among Registrant, the guarantors named therein and Wells Fargo, as trustee, to the January 17, 2002 U.S. Dollar Indenture.
	Incorporated by reference to Exhibit 4.11 to Registrant's Current Report on Form 8-K dated June 25, 2003.

(10)	Third Supplemental Indenture, dated June 25, 2003 among Registrant, the guarantors named therein and Wells Fargo, as trustee, to the January 17, 2002 U.S. Euro Indenture.
	Incorporated by reference to Exhibit 4.12 to Registrant's Current Report on Form 8-K dated June 25, 2003.
(f)	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.
	Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement Nos. 33-61481 and 333-29677.
(g)(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.
(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.
(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.
(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.
(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.
(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.
(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.
(h)	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.
	Incorporated by reference to Exhibit 10(j) to Registrant's Current Report on Form 8-K dated April 30, 2007.
(i)	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.
(j)	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 2008 Proxy Statement are preceded by an asterisk (*).
*(a)	Registrant's Form of Salary Continuance Agreement.
	Incorporated by reference to Exhibit 10(a) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2001, as amended.
*(b)(1)	Registrant's 1991 Long-Term Incentive Plan, as amended and restated December 4, 2007 ("1991 LTIP").
(2)	Form of Agreements under 1991 LTIP, as amended through July 12, 2007.
(3)	Amendment dated December 4, 2007 to 1991 LTIP.

(c)(1)	Registrant's 1996 Non-employee Director Stock Option Plan, as amended and restated December 5, 2007 ("1996 NDSOP").
(2)	Amendment dated December 5, 2007 to 1999 to 1999 NDSOP.
(d)(1)	Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated December 5, 2007 ("2004 ECPNED").
(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.
(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.
(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.
(5)	Amendment dated December 5, 2007 to 2004 ECPNED.
*(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.
(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.
(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.
(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.
(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.
(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.
(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.
(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.
(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)	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.
(11)	Annual Performance Incentive Plan for 2007.
(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.

(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.
(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.
(15)	Registrant's 2004 Performance Incentive Plan, as amended and restated as of December 4, 2007 ("2007-2 PIP").
(16)	Annual Performance Incentive Plan for 2008.
(17)	Performance Elements for 2008 Executive Long-Term Incentive Program ("2008 ELTIP").
(18)	Form of Executive Long-Term Incentive Program Award Summary under 2008 ELTIP.
(19)	2008 Form of Executive Long-Term Incentive Program Award Agreement under the 2007-2 PIP.
(20)	Amendment dated December 4, 2007 to 2007-2 PIP.
*(f)(1)	2004 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through December 7, 2004 ("2004 URIGP").
	Incorporated by reference to Exhibit 10(F) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.
(2)	Amendment No. 1 to 2004 URIGP.
	Incorporated by reference to Exhibit 10(f)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2005.
(3)	Amendment No. 2 to 2004 URIGP.
	Incorporated by reference to Exhibit 10(f)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2006.
*(g)(1)	2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 ("2004 USERP").
(2)	Amendment dated December 4, 2007 to Registrant's 2004 USERP.
(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.
*(i)(1)	Form of Severance Letter Agreement entered into with various executive officers, effective October 12, 2007 ("2007 Severance Letter").
(2)	Amendment dated December 4, 2007 to 2007 Severance Letter.
*(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.
(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.
(k)(1)	Registrant's Deferred Compensation Plan for Directors, as amended and restated December 5, 2007 ("DCPD").
(2)	Amendment dated December 5, 2007 to DCPD.
*(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.
*(m)	Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000.
	Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(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.
(o) (1)	Master Supply Agreement, dated as of November 30, 2001, between Registrant and Flextronics International Ltd. ("Master Supply Agreement").**
	Incorporated by reference to Exhibit 10(t)(1) to Registrant's Current Report on Form 8-K dated June 2, 2003.
(2)	Amended and Restated Letter Agreement dated as of November 30, 2001 between Registrant and Flextronics International Ltd. regarding collateral matters relating to the relationship between Registrant and Flextronics.**
	Incorporated by reference to Exhibit 10(t)(2) to Registrant's Current Report on Form 8-K dated June 2, 2003.
*(p)	Letter Agreement dated May 20, 2002 between Registrant and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant.
	Incorporated by reference to Exhibit 10(u) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(q)	Amended and Restated Loan Agreement dated as of October 21, 2002 between Xerox Lease Funding LLC and General Electric Capital Corporation.
	Incorporated by reference to Exhibit 10(v) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002.
*(r)	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.
(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 2007 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).
(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.

As Amended Through October 31, 2007

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 (herein after 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 converti-

ble 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.

THE SERIES A CUMULATIVE PREFERRED STOCK

13. (a) The distinctive serial designation of the second series of Cumulative Preferred Stock is "Series A Cumulative Preferred Stock" (hereinafter called "Series A Preferred Stock").

(b) The number of shares constituting the Series A Preferred Stock is 1,500,000 shares.

(c) The quarterly dividend rate for the Series A Preferred Stock is an amount per share (rounded to the nearest cent) equal to the greater of (i) $10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all noncash dividends or other distributions other than a dividend payable in shares of

Common Stock or Class B Stock or a subdivision of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise), declared on the Common Stock or Class B Stock of the Corporation since the immediately preceding quarterly dividend payment date, or, with respect to the first quarterly dividend payment date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock or Class B Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock or Class B Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock or Class B Stock that were outstanding immediately prior to such event.

The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in this paragraph (c) immediately after it declares a dividend or distribution on the Common Stock or Class B Stock; provided that, in the event no dividend or distribution shall have been declared on the Common Stock or Class B Stock during the period between any quarterly dividend payment date and the next subsequent quarterly dividend payment date, a dividend of $10.00 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent quarterly dividend payment date.

Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Stock from the date of issue of such shares of Series A Preferred Stock.

(d) Except as prescribed by law and in addition to the rights provided for in Section 7 of Article FOURTH of the Certificate of Incorporation of the Corporation and in paragraph (i) of this Section 13, and subject to the provision for adjustment hereinafter set forth, the holders of the Series A Preferred Stock shall be entitled to one vote for each share held and shall be entitled to exercise such voting rights with the holders of Common Stock and Class B Stock, without distinction as to class, at any annual or special meeting of shareholders for the election of directors and on any other matter coming before such meeting.

(e) Any Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Cumulative Preferred Stock and may be reissued as part of a new series of Cumulative Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(f)(i) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made to the holders of junior stock unless, prior thereto, the holders of Series A Preferred Stock shall have received the greater of (i) $100.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an amount per share which shall be determined by (A) dividing (1) the value of the assets of the Corporation available for distribution to shareholders, less the amount to be paid upon liquidation, dissolution, or winding up to the holders of all other series of stock ranking on a parity with the Series A Preferred Stock, by (2) the sum of the number of one-hundredths shares of Series A Preferred Stock outstanding as of the date of such event plus the number of shares of Common Stock and Class B Stock, as adjusted by multiplying such number of shares of Common Stock and Class B Stock outstanding as of the date of such event by the Adjustment Number (as defined below), and (B) multiplying the result obtained in clause (A) by 100, (the "Series A Preferred Stock Liquidation Preference"). Following the payment of the full amount of the Series A Preferred Stock Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock. Following the payment of the full amount of the Series A Preferred Stock Liquidation Preference in respect of all outstanding shares of Series A Preferred Stock holders of Common Stock and Class B Stock shall receive their ratable and proportionate share of the remaining assets to be distributed, on a per share basis.

(ii) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Preferred Stock Liquidation Preference and the liquidation preferences of all other series of stock ranking on a parity upon liquidation, dissolution or winding up with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of the Series A Preferred Stock and such other series of parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon liquidation, dissolution or winding up.

(iii) The Adjustment Number as of the date of this Certificate of Amendment shall be one (1). In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock and Class B Stock outstanding immediately prior to such event and the denominator of which is the number of shares of Common Stock and Class B Stock that were outstanding immediately after such event.

(iv) The merger or consolidation of the Corporation with or into any other corporation or the merger or consolidation of any other corporation with or into the Corporation, or the sale, transfer, exchange or conveyance by the Corporation of all or substantially all the assets of the Corporation, as an entirety, shall not be deemed to be a liquidation for purposes of paragraph (f) of this Section 13.

(g) In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock or Class B Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock or Class B Stock is changed or exchanged. In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock or Class B Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock and Class B Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock and Class B Stock that were outstanding immediately prior to such event.

(h) The Series A Preferred Stock shall not be redeemable.

(i) Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in liquidating distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

(j) The Series A Preferred Stock is not convertible into, or exchangeable for, shares of stock of any other class.

THE 6.25% SERIES C MANDATORY CONVERTIBLE PREFERRED STOCK

14.(a) *Designation and Ranking*. The distinctive serial designation of the sixth series of Cumulative Preferred Stock shall be called the "6.25% Series C Mandatory Convertible Preferred Stock" and is hereinafter referred to as the "Series C Mandatory Convertible Preferred Stock"; and the number of shares constituting the Series C Mandatory Convertible Preferred Stock shall be 9,200,000 shares. The Series C Mandatory Convertible Preferred Stock shall rank, with respect to dividend distributions and distributions upon the dissolution, liquidation and winding-up of the Corporation, (i) senior to the common stock, par value $1.00 per share, of the Corporation (the "*Common Stock*") and the class B common stock, par value $1.00 per share, of the Corporation (the "*Class B Common Stock*") and to each other class or series of stock of the Corporation (including any series of Cumulative Preferred Stock established after June 25, 2003 by the Board of Directors), now or hereafter existing, the terms of which do not expressly provide that such class or series will rank senior to or *pari passu* with the Series C Senior Mandatory Convertible Preferred Stock as to dividend distributions and distributions upon the liquidation, dissolution or winding-up of the Company (collectively referred to as "*Junior Securities*"); (ii) *pari passu* with the Corporation's Series B Convertible Preferred Stock (the "*Series B Convertible Preferred Stock*" and together, with the "*Series C Mandatory Convertible Preferred Stock*," the "*Cumulative Preferred Stock*") and with each other class or series of stock of the Corporation, now or hereafter existing, the terms of which expressly provide that such class or series will rank *pari passu* with the Series C Mandatory Convertible Preferred Stock as to dividend distributions and distributions upon liquidation, dissolution or winding-up of the Corporation (collectively referred to as "*Parity Securities*"); and (iii) junior to each other class or series of stock of the Corporation, now or hereafter existing, the terms of which expressly provide that such class or series will rank senior to the Series C Mandatory Convertible Preferred Stock as to dividend distributions and distributions upon liquidation, dissolution or winding-up of the Corporation (collectively referred to as "*Senior Securities*").

(b) *Dividends*.

(i) *General*. Dividends on the Series C Mandatory Convertible Preferred Stock shall be payable quarterly, when, as and if declared by the Board of Directors or a duly authorized committee thereof, out of the assets of the Corporation legally available therefor, on the first calendar day (or the following Business Day if the first calendar day is not a Business Day) of January, April, July and October of each year (each such date being referred to herein as a "*Dividend Payment Date*") at the annual rate of $6.25 per share subject to adjustment as provided in Section 18(l)(ii). The initial dividend on the Series C Mandatory Convertible Preferred Stock for the dividend period commencing on June 25, 2003, to but excluding October 1, 2003, will be $1.6667, and shall be payable, when, as and if declared, on October 1, 2003. The dividend on the Series C Mandatory Convertible Preferred Stock for each subsequent dividend period shall be $1.5625 per share. The amount of dividends payable on each share of Series C Mandatory Convertible Preferred Stock for each full quarterly period thereafter shall be computed by dividing the annual dividend rate by four. The amount of dividends payable for any other period that is shorter or longer than a full quarterly dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months.

A dividend period with respect to a Dividend Payment Date is the period commencing on the preceding Dividend Payment Date or, if none, the date of issue and ending on the day immediately prior to the next Dividend Payment Date. Dividends payable, when, as and if declared, on a Dividend Payment Date shall be payable to Holders (as defined below) of record on the date not exceeding forty calendar days preceding the relevant Dividend Payment Date, fixed by the Board of Directors in advance of payment of the relevant dividend (each, a "*Dividend Record Date*").

Dividends on the Series C Mandatory Convertible Preferred Stock shall be cumulative if the Corporation fails to declare one or more dividends on the Series C Mandatory Convertible Preferred Stock in any amount, whether or not there are assets of the Corporation legally available for the payment of such dividends in whole or in part.

The Corporation may pay dividends, at its sole option, (a) in cash, (b) by delivering shares of Common Stock to the Transfer Agent (as defined below) on behalf of the Holders, to be sold on the Holders' behalf for cash or (c) in any combination thereof. By and upon acquiring the Series C Mandatory Convertible Preferred Stock each Holder is deemed to appoint the Transfer Agent as such Holder's agent for any such sale, and the Transfer Agent shall serve as a designated agent of the Holders in making any such sales. To pay dividends in shares of Common Stock, the Corporation must deliver to the Transfer Agent a number of shares of Common Stock which, when sold by the Transfer Agent on the Holders' behalf, will result in net cash proceeds to be distributed to the Holders in an amount equal to the cash dividend otherwise payable to the Holders.

If the Corporation pays dividends in shares of Common Stock by delivering them to the Transfer Agent, those shares shall be owned beneficially by the Holders upon delivery to the Transfer Agent, and the Transfer Agent shall hold those shares and the net cash proceeds from the sale of those shares up to the amount of such dividends for the exclusive benefit of the Holders until the Dividend Payment Date, or such other date as is fixed by the Board of Directors pursuant to the terms and conditions set forth in the last paragraph of this Section 18(b)(i), at which time the portion of such net cash proceeds equal to the non-cash component of the declared dividend on the Series C Mandatory Convertible Preferred Stock shall be distributed to the Holders entitled thereto with any remainder to be returned to the Company.

Holders shall not be entitled to any dividend, whether payable in cash, property or stock, in excess of the then applicable full dividends calculated pursuant to this Section 15(b)(i) (including accrued dividends, if any) on shares of Series C Mandatory Convertible Preferred Stock. No interest or sum of money in lieu of interest shall be payable in respect of any dividend or payment which may be in arrears.

(ii) In order to pay dividends on any Dividend Payment Date, or such other date as is fixed by the Board of Directors or a duly authorized committee thereof pursuant to the terms and conditions set forth in the last paragraph of Section 15(b)(i) hereof, in shares of Common Stock, (A) the shares of Common Stock delivered to the Transfer Agent shall have been duly authorized, (B) the Corporation shall have provided to the Transfer Agent an effective registration statement under the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "*Securities Act*") permitting the immediate sale of the shares of Common Stock in the public market, (C) the shares of Common Stock, once purchased by the purchasers thereof, shall be validly issued, fully paid and non-assessable and (D) such shares shall have been registered under the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder, if required, and shall be listed or admitted for trading on each United States securities exchange on which the Common Stock is then listed.

(c) *Liquidation Preference*. In the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, the Holders shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, before any distribution or payment of assets is made on any Junior Securities, $100.00 per share, subject to adjustment as provided in Section 15(l)(ii) hereof, plus an amount equal to the sum of all accrued and unpaid dividends (whether or not declared) for the then-current dividend period and all dividend periods prior thereto.

Neither the sale, lease or conveyance of all or substantially all of the property or business of the Corporation (other than in connection with the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation), nor the consolidation, or merger of the Corporation into or with any other Person, shall constitute a voluntary or involuntary liquidation, dissolution or winding-up of the Corporation for the purposes of the foregoing paragraph.

In the event the assets of the Corporation available for distribution to the holders of Cumulative Preferred Stock upon any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation shall be insufficient to pay in full all amounts to which such holders are entitled as provided above, the holders of shares of the Cumulative Preferred Stock, including the Series C Mandatory Convertible Preferred Stock, shall share ratably in any distribution of assets of the Corporation based on the relative aggregate liquidation preference of the outstanding shares of each series.

After the payment to the Holders of the full preferential amounts provided above, the Holders will have no right or claim to any remaining assets of the Corporation.

(d) *Voting Rights*.

(i) The Holders shall have no voting rights, except as otherwise set forth in the Certificate of Incorporation of the Corporation or as expressly required by applicable state law. In exercising any such vote, each outstanding share of Series C Mandatory Convertible Preferred Stock shall be entitled to one vote.

(ii) 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, including the Series C Mandatory Convertible 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, including the Series C Mandatory Convertible Preferred Stock, shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(1) The authorization of, or any increase in the authorized amount of any class of stock ranking prior to the Cumulative Preferred Stock, including the Series C Mandatory Convertible Preferred Stock.

(2) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation, in either case by way of merger, consolidation or otherwise, which would affect adversely any right, preference, privilege or voting power of the Cumulative Preferred Stock, including the Series C Mandatory Convertible Preferred Stock, or 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, including the Series C Mandatory Convertible 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, including the Series C Mandatory Convertible Preferred Stock, as a class; or

(3) 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.

(e) *Automatic Conversion*. Each share of Series C Mandatory Convertible Preferred Stock will automatically convert (unless previously converted at the option of the Corporation in accordance with Section 15(f) or at the option of the Holder in accordance with Section 15(g), or a Merger Early Conversion has occurred in accordance with Section 15(h)), on July 1, 2006 (the "*Automatic Conversion Date*"), into a number of newly issued shares of Common Stock equal to the number of shares of Common Stock resulting from the application of the Conversion Rate (as defined in Section 18(i) below). The Holders on the Automatic Conversion Date shall have the right to receive a dividend payment of cash, shares of Common Stock, or any combination thereof, as the Corporation determines in its sole discretion, in an amount equal to any accrued and unpaid dividends on the Series C Mandatory Convertible Preferred Stock as of the Automatic Conversion Date (other than previously declared dividends on the Series C Mandatory Convertible Preferred Stock payable to a Holder of record as of a prior date), whether or not declared, out of legally available assets of the Corporation. To the extent the Corporation pays some or all of such dividend in shares of Common Stock, the number of shares of Common Stock issuable to a Holder in respect of such accrued and unpaid dividends shall equal the amount of accrued and unpaid dividends on the Series C Mandatory Convertible Preferred Stock on the Automatic Conversion Date that the Corporation determines to pay in shares of Common Stock divided by the 5-Day Average Market Price (as defined below).

Dividends on the shares of Series C Mandatory Convertible Preferred Stock shall cease to accrue and such shares of Series C Mandatory Convertible Preferred Stock shall cease to be outstanding on the Automatic Conversion Date. The Corporation shall make such arrangements as it deems appropriate for the issuance of certificates, if any, representing shares of Common Stock (both for purposes of the automatic conversion of shares of Series C Mandatory Convertible Preferred Stock and for purposes of any dividend payment by the Corporation of shares of Common Stock in respect of accrued and unpaid dividends on the Series C Mandatory Convertible Preferred Stock), and for any payment of cash in respect of accrued and unpaid dividends on the Series C Mandatory Convertible Preferred Stock or cash in lieu of fractional shares, if any, in exchange for and contingent upon the surrender of certificates representing the shares of Series C Mandatory Convertible Preferred Stock (if such shares are held in certificated form), and the Corporation may defer the payment of dividends on such shares of Common Stock and the voting thereof until, and make such payment and voting contingent upon, the surrender of such certificates representing the shares of Series C Mandatory Convertible Preferred Stock, *provided*, *however,* that the Corporation shall give the Holders such notice of any such actions as the Corporation deems appropriate and upon such surrender such Holders shall be entitled to receive such dividends declared and paid on such shares of Common Stock subsequent to the Automatic Conversion Date. Amounts payable in cash in respect of the shares of Series C Mandatory Convertible Preferred Stock or in respect of such shares of Common Stock shall not bear interest.

(f) *Provisional Conversion at the Option of the Corporation*.

(i) Prior to the Automatic Conversion Date, the Corporation may, at its option, cause the conversion of all, but not less than all, the shares of Series C Mandatory Convertible Preferred Stock then outstanding into shares of Common Stock at a rate of 8.1301 shares of Common Stock for each share of Series C Mandatory Convertible Preferred Stock (the "*Provisional Conversion Rate*"), subject to adjustment as set forth in Section 15(i)(ii) below (as though references in Section 15(i)(ii) to the Conversion Rate were replaced with references to the Provisional Conversion Rate); *provided*, *however*, that the Closing Price of the Common Stock has exceeded 150% of the Threshold Appreciation Price (as defined below) for at least 20 Trading Days (as defined below) within a period of 30 consecutive Trading Days ending on the Trading Day prior to the date on which the Corporation notifies the Holders (pursuant to Section 15(f)(ii)) that it is exercising its option to cause the conversion of the Series C Mandatory Convertible Preferred Stock pursuant to this Section 15(f) (the "*Provisional Conversion Notice Date*"). The Corporation shall be able to cause this conversion only if, in addition to issuing the Holders shares of Common Stock, the Corporation pays the Holders in cash (a) an amount equal to any accrued and unpaid dividends on the shares of Series C Mandatory Convertible Preferred Stock then outstanding, whether or not declared, and (b) the present value of all remaining dividend payments on the shares of Series C Mandatory Convertible Preferred Stock then outstanding, through and including July 1, 2006, in each case, out of legally available assets of the Corporation. The present value of the remaining dividend payments will be computed using a discount rate equal to the Treasury Yield.

(ii) A written notice (the "*Provisional Conversion Notice*") shall be sent by or on behalf of the Corporation, by first class mail, postage prepaid, to the Holders of record as they appear on the stock register of the Corporation on the Provisional Conversion Notice Date (a) notifying such Holders of the election of the Corporation to convert and of the Provisional Conversion Date (as defined below), which date shall not be less than 30 days nor be more than 60 days after the Provisional Conversion Notice Date, and (b) stating the Corporate Trust Office of the Transfer Agent at which the shares of Series C Mandatory Convertible Preferred Stock called for conversion shall, upon presentation and surrender of the certificate(s) (if such shares are held in certificated form) evidencing such shares, be converted, and the Provisional Conversion Rate to be applied thereto.

(iii) The Corporation shall deliver to the Transfer Agent irrevocable written instructions authorizing the Transfer Agent, on behalf and at the expense of the Corporation, to cause the Provisional Conversion Notice to be duly mailed as soon as practicable after receipt of such irrevocable instructions from the Corporation and in accordance with the above provisions. The shares of Common Stock to be issued upon conversion of the Series C Mandatory Convertible Preferred Stock pursuant to this Section 15(f) and all funds necessary for the payment in cash of (1) any accrued and unpaid dividends on the shares of Series C Mandatory Convertible Preferred Stock then outstanding, whether or not declared, and (2) the present value of all remaining dividend payments on the shares of Series C Mandatory Convertible Preferred Stock then outstanding through and including July 1, 2006, shall be deposited with the Transfer Agent in trust at least one Business Day prior to the Provisional Conversion Date, for the *pro rata* benefit of the Holders of record as they appear on the stock register of the Corporation, so as to be and continue to be available therefor. Neither failure to mail such Provisional Conversion Notice to one or more such Holders nor any defect in such Provisional Conversion Notice shall affect the sufficiency of the proceedings for conversion as to other Holders.

(iv) If a Provisional Conversion Notice shall have been given as hereinbefore provided, then each Holder shall be entitled to all preferences and relative, participating, optional and other special rights accorded by this certificate until and including the Provisional Conversion Date. From and after the Provisional Conversion Date, upon delivery by the Corporation of the Common Stock and payment of the funds to the Transfer Agent as described in paragraph (iii) above, the Series C Mandatory Convertible Preferred Stock shall no longer be deemed to be outstanding, and all rights of such Holders shall cease and terminate, except the right of the Holders, upon surrender of certificates therefor, to receive Common Stock and any amounts to be paid hereunder.

(v) The deposit of monies in trust with the Transfer Agent up to the amount necessary for the Provisional Conversion shall be irrevocable except that the Corporation shall be entitled to receive from the Transfer Agent the interest or other earnings, if any, earned on any monies so deposited in trust, and the Holders of the shares converted shall have no claim to such interest or other earnings, and any balance of monies so deposited by the Corporation and unclaimed by the Holders entitled thereto at the expiration of two years from the Provisional Conversion Date shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the Holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for such payment without interest.

(g) *Early Conversion at the Option of the Holder*.

(i) Shares of Series C Mandatory Convertible Preferred Stock are convertible, in whole or in part, at the option of the Holders thereof ("*Optional Conversion*"), at any time prior to the Automatic Conversion Date, into shares of Common Stock at a rate of 8.1301 shares of Common Stock for each share of Series C Mandatory Convertible Preferred Stock (the "*Optional Conversion Rate*"), subject to adjustment as set forth in Section 15(i)(ii) below (as though references in Section 15(i)(ii) to the Conversion Rate were replaced with references to the Optional Conversion Rate).

(ii) Optional Conversion of shares of Series C Mandatory Convertible Preferred Stock may be effected by delivering certificates evidencing such shares (if such shares are held in certificated form), together with written notice of conversion and a proper assignment of such certificates to the Corporation or in blank (and, if applicable, payment of an amount equal to the dividend payable on such shares pursuant to paragraph (iii) below), to the Corporate Trust Office of the Transfer Agent for the Series C Mandatory Convertible Preferred Stock or to any other office or agency maintained by the Corporation for that purpose. Each Optional Conversion shall be deemed to have been effected immediately prior to the close of business on the date on which the foregoing requirements shall have been satisfied.

(iii) Holders of shares of Series C Mandatory Convertible Preferred Stock at the close of business on a Dividend Record Date shall be entitled to receive the dividend payable on such shares on the corresponding Dividend Payment Date (if such dividend has been declared) notwithstanding the Optional Conversion of such shares following such Dividend Record Date and prior to such Dividend Payment Date. However, shares of Series C Mandatory Convertible Preferred Stock surrendered for Optional Conversion after the close of business on a Dividend Record Date and before the opening of business on the corresponding Dividend Payment Date must be accompanied by payment in cash of an amount equal to the dividend payable on such shares on such Dividend Payment Date. Except as provided above, upon any Optional Conversion of shares of Series C Mandatory Convertible Preferred Stock, the Corporation shall make no payment or allowance for unpaid preferred dividends, whether or not in arrears, on such shares of Series C Mandatory Convertible Preferred Stock as to which Optional Conversion has been effected or for dividends or distributions on the shares of Common Stock issued upon such Optional Conversion.

(h) *Early Conversion upon Cash Merger*.

(i) In the event of a merger or consolidation of the Corporation of the type described in Section 15(i)(iii)(1) in which the Common Stock outstanding immediately prior to such merger or consolidation is exchanged for consideration consisting of at least 30% cash or cash equivalents (any such event a "*Cash Merger*"), then the Corporation (or the successor to the Corporation hereunder) shall be required to offer all Holders of shares of Series C Mandatory Convertible Preferred Stock that remain outstanding after the Cash Merger (if any) the right to convert their shares of Series C Mandatory Convertible Preferred Stock prior to the Automatic Conversion Date ("*Merger Early Conversion*") as provided herein.

On or before the fifth Business Day after the consummation of a Cash Merger, the Corporation or, at the request and expense of the Corporation, the Transfer Agent shall give all Holders notice of the occurrence of the Cash Merger and of the right of Merger Early Conversion arising as a result thereof. The Corporation shall also deliver a copy of such notice to the Transfer Agent. Each such notice shall contain:

(1) the date, which shall be not less than 20 nor more than 30 calendar days after the date of such notice, on which the Merger Early Conversion will be effected (the "*Merger Early Conversion Date*");

(2) the date, which shall be on or one Business Day prior to the Merger Early Conversion Date, by which the Merger Early Conversion right must be exercised;

(3) the Conversion Rate (as adjusted pursuant to Section 15(i)(ii)) in effect immediately before such Cash Merger and the kind and amount of securities, cash and other property receivable by the Holder upon conversion of its shares of Series C Mandatory Convertible Preferred Stock pursuant to Section 15(i)(iii); and

(4) the instructions a Holder must follow to exercise the Merger Early Conversion right.

(ii) To exercise a Merger Early Conversion right, a Holder shall deliver to the Transfer Agent at the Corporate Trust Office (as defined below) by 5:00 p.m., New York City time, on or before the date by which the Merger Settlement right must be exercised as specified in the notice, the certificate(s) (if such shares are held in certificated form) evidencing the shares of Series C Mandatory Convertible Preferred Stock with respect to which the Merger Early Conversion right is being exercised duly endorsed for transfer to the Corporation or in blank with a written notice to the Corporation stating the Holder's intention to convert early in connection with the Cash Merger and providing the Corporation with payment instructions.

(iii) On the Merger Early Conversion Date, the Corporation shall deliver or cause to be delivered the cash, securities and other property to be received by such exercising Holder determined by assuming the Holder had converted the shares of Series C Mandatory Convertible Preferred Stock for which such Merger Early Conversion right was exercised into Common Stock immediately before the Cash Merger at the Conversion Rate (as adjusted pursuant to Section 15(i)(ii)).

(iv) Upon a Merger Early Conversion, the Transfer Agent shall, in accordance with the instructions provided by the Holder thereof on the notice provided to the Corporation as set forth in paragraph (ii) above, deliver to the Holder such cash, securities or other property issuable upon such Merger Early Conversion together with payment in lieu of any fractional shares, as provided herein.

(v) In the event that Merger Early Conversion is effected with respect to shares of Series C Mandatory Convertible Preferred Stock representing less than all the shares of Series C Mandatory Convertible Preferred Stock held by a Holder, upon such Merger Early Conversion the Corporation (or the successor to the Corporation hereunder) shall execute and the Transfer Agent shall authenticate, countersign and deliver to the Holder thereof, at the expense of the Corporation, a certificate evidencing the shares as to which Merger Early Conversion was not effected.

(i) *Definition of Conversion Rate; Anti-dilution Adjustments*.

(i) Subject to the immediately following sentence, the “Conversion Rate” is equal to:

(1) if the 20-Day Average Market Price is greater than or equal to $12.30 (the “*Threshold Appreciation Price*”), 8.1301 shares of Common Stock per share of Series C Mandatory Convertible Preferred Stock;

(2) if the 20-Day Average Market Price is less than the Threshold Appreciation Price, but is greater than $10.25, the number of shares of Common Stock per share of Series C Mandatory Convertible Preferred Stock equal to $100.00 (the “*Stated Amount*”) divided by the 20-Day Average Market Price; and

(3) if the 20-Day Average Market Price is equal to or less than $10.25, 9.7561 shares of Common Stock per share of Series C Mandatory Convertible Preferred Stock,

in each case subject to adjustment as provided in Section 15(i)(ii) (and in each case rounded upward or downward to the nearest 1/10,000th of a share). In each of the clauses in the immediately preceding sentence, the number of newly issued shares of Common Stock issuable upon conversion of each share of the Series C Mandatory Convertible Preferred Stock on the Automatic Conversion Date in respect of a conversion pursuant to Section 18(e) shall be increased by an amount equal to any accrued and unpaid dividends on the Series C Mandatory Convertible Preferred Stock on the Automatic Conversion Date (taking into account any payment of such dividends on the Automatic Conversion Date) divided by the 20-Day Average Market Price.

(ii) In connection with the Conversion Rate as set forth in Section 15(i)(i), the formula for determining the Conversion Rate and the number of shares of Common Stock to be delivered on any conversion date on an early conversion as set forth in Section 15(f), (g) or (h) shall be subject to the following adjustments:

(1) *Stock Dividends*. In case the Corporation shall pay or make a dividend or other distribution on the Common Stock or Class B Common Stock in Common Stock or Class B Common Stock, the Conversion Rate, as in effect at the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such dividend or other distribution, shall be increased by dividing such Conversion Rate by a fraction of which the numerator shall be the number of shares of Common Stock and Class B Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares and the total number of shares constituting such dividend or other distribution, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination.

(2) *Stock Purchase Rights*. In case the Corporation shall issue to all holders of its Common Stock and/or Class B Common Stock (such issuance not being available on an equivalent basis to Holders of the shares of Series C Mandatory Convertible Preferred Stock upon conversion) (1) rights, options or warrants entitling them to subscribe for or purchase shares of Common Stock or Class B Common Stock, or (2) securities convertible or exchangeable into shares of Common Stock or Class B Common Stock or rights, options or warrants to purchase or acquire securities convertible or exchangeable into shares of Common Stock or Class B Common Stock, in each case at a price per share of Common Stock or Class B Common Stock, as applicable, less than the Current Market Price on the date fixed for the determination of shareholders entitled to receive such rights, options, warrants or securities (other than pursuant to a dividend reinvestment, share purchase or similar plan), the Conversion Rate in effect at the opening of business on the day following the date fixed for such determination shall be increased by dividing such Conversion Rate by a fraction, the numerator of which shall be the number of shares of Common Stock and Class B Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock and Class B Common Stock, as applicable, which the aggregate consideration expected to be received by the Corporation upon the exercise, conversion or exchange of such rights, options, warrants or securities (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) would purchase at such Current Market Price and the denominator of which shall be the number of shares of Common Stock and Class B Common Stock outstanding at the close of business on the date fixed for such determination plus the number of shares of Common Stock or Class B Common Stock, as applicable, so offered for subscription or purchase, either directly or indirectly, or into which such securities are convertible or exchangeable, such increase to become effective immediately after the opening of business on the day following the date fixed for such determination.

(3) *Stock Subdivisions, Splits, Reclassifications and Combinations*. In case outstanding shares of Common Stock and/or Class B Common Stock shall be subdivided, split or reclassified into a greater number of shares of Common Stock or Class B Common Stock, respectively, the Conversion Rate

in effect at the opening of business on the day following the day upon which such subdivision, split or reclassification becomes effective shall be proportionately increased, and, conversely, in case outstanding shares of Common Stock and/or Class B Common Stock shall each be combined or reclassified into a smaller number of shares of Common Stock or Class B Common Stock, respectively, the Conversion Rate in effect at the opening of business on the day following the day upon which such combination or reclassification becomes effective shall be proportionately reduced, such increase or reduction, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision, split, reclassification or combination becomes effective.

(4) *Debt, Asset or Security Distributions*.

(A) In case the Corporation shall, by dividend or otherwise, distribute to all holders of its Common Stock and/or Class B Common Stock evidences of its indebtedness, assets or securities (but excluding (w) any rights, options, warrants or securities referred to in Section 15(i)(ii)(2), (x) any dividend or distribution paid exclusively in cash, (y) any dividend, shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit in the case of a Spin-Off referred to in Section 15(i)(ii)(4)(B), or (z) any dividend or distribution referred to in Section 15(i)(ii)(1)), the Conversion Rate shall be increased by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for the determination of shareholders entitled to receive such distribution by a fraction, the numerator of which shall be the Current Market Price on the date fixed for such determination less the then fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) of the portion of the assets or evidences of indebtedness so distributed applicable to one share of Common Stock or Class B Common Stock, as the case may be, and the denominator of which shall be such Current Market Price, such adjustment to become effective immediately prior to the opening of business on the day following the date fixed for the determination of shareholders entitled to receive such distribution. In any case in which this Section 15(i)(ii)(4)(A) is applicable, Section 15(i)(ii)(4)(B) shall not be applicable.

(B) In the case of a Spin-Off, the Conversion Rate in effect immediately before the close of business on the record date fixed for determination of shareholders entitled to receive that distribution will be increased by multiplying the Conversion Rate by a fraction, the numerator of which is the Current Market Price plus the Fair Market Value (as defined below) of the portion of those shares of Capital Stock or similar equity interests so distributed applicable to one share of Common Stock or Class B Common Stock, as the case may be, and the denominator of which is the Current Market Price. Any adjustment to the Conversion Rate under this Section 15(i)(ii)(4)(B) will occur at the earlier of (A) the tenth Trading Day from, and including, the effective date of the Spin-Off and (B) the date of the securities being offered in the Initial

Public Offering of the Spin-Off, if that Initial Public Offering is effected simultaneously with the Spin-Off.

(5) *Cash Distributions*. In case the Corporation shall (A) by dividend or otherwise, distribute to all holders of its Common Stock and/or Class B Common Stock, cash (excluding (x) any cash that is distributed in a Reorganization Event to which Section 15(i)(iii) applies or as part of a distribution referred to in Section 15(i)(ii)(4)) in an aggregate amount that, combined together with (B) the aggregate amount of any other distributions to all holders of Common Stock and/or Class B Common Stock made exclusively in cash within the 12 months preceding the date of payment of such distribution and in respect of which no adjustment pursuant to this Section 15(i)(ii)(5) or (6) has been made and (C) the aggregate of any cash plus the fair market value, as of the date of the expiration of the tender or exchange offer referred to below (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution), of the consideration payable in respect of any tender or exchange offer by the Corporation or any of its subsidiaries for all or any portion of the Common Stock and/or Class B Common Stock concluded within the 12 months preceding the date of payment of the distribution described in clause (A) of this Section 15(i)(ii)(5) and in respect of which no adjustment pursuant to this Section 15(i)(ii)(5) or (6) has been made, exceeds 10% of the product of the Current Market Price on the date for the determination of shareholders entitled to receive such distribution times the number of shares of Common Stock and Class B Common Stock outstanding on such date, then, and in each such case, immediately after the close of business on such date for determination, the Conversion Rate shall be increased by dividing the Conversion Rate in effect immediately prior to the close of business on the date fixed for determination of the shareholders entitled to receive such distribution by a fraction (A) the numerator of which shall be equal to the Current Market Price on the date fixed for such determination less an amount equal to the quotient of (x) the combined amount distributed or payable in the transactions described in clauses (A), (B) and (C) of this Section 15(i)(ii)(5) and (y) the number of shares of Common Stock and Class B Common Stock outstanding on the date fixed for such determination and (B) the denominator of which shall be equal to the Current Market Price on the date fixed for such determination.

(6) *Tender Offers*. In case (A) a tender or exchange offer made by the Corporation or any subsidiary of the Corporation for all or any portion of the Common Stock and/or Class B Common Stock shall expire and such tender or exchange offer (as amended through the expiration thereof) shall require the payment to shareholders (based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of Purchased Shares (as defined below)) of an aggregate consideration having a fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution) that combined together with (B) the aggregate of the cash plus the fair market value (as determined in good faith by the Board of Directors, whose determination shall be conclusive and described in a Board Resolution), as of the expiration of such tender or exchange offer, of consideration payable in respect of any other tender

or exchange offer by the Corporation or any subsidiary of the Corporation for all or any portion of the Common Stock and/or Class B Common Stock expiring within the 12 months preceding the expiration of such tender or exchange offer and in respect of which no adjustment pursuant to Section 15(i)(ii)(5) or (6) has been made and (C) the aggregate amount of any distributions to all holders of shares of Common Stock and/or Class B Common Stock made exclusively in cash within the 12 months preceding the expiration of such tender or exchange offer and in respect of which no adjustment pursuant to Section 15(i)(ii)(5) or (6) has been made, exceeds 10% of the product of the Current Market Price as of the last time (the "*Expiration Time*") tenders could have been made pursuant to such tender or exchange offer (as amended through the expiration thereof) times the number of shares of Common Stock and Class B Common Stock outstanding (including any tendered shares) at the Expiration Time, then, and in each such case, immediately prior to the opening of business on the day after the date of the Expiration Time, the Conversion Rate shall be increased by dividing the Conversion Rate immediately prior to the close of business on the date of the Expiration Time by a fraction (A) the numerator of which shall be equal to (x) the product of (I) the Current Market Price on the date of the Expiration Time and (II) the number of shares of Common Stock and Class B Common Stock outstanding (including any tendered shares) on the date of the Expiration Time less (y) the amount of cash plus the fair market value (determined as aforesaid) of the aggregate consideration payable to shareholders based on the transactions described in clauses (A), (B) and (C) of this Section 15(i)(ii)(6) (assuming in the case of clause (A) the acceptance, up to any maximum specified in the terms of the tender or exchange offer, of Purchased Shares), and (B) the denominator of which shall be equal to the product of (x) the Current Market Price on the date of the Expiration Time and (y) the number of shares of Common Stock and Class B Common Stock outstanding (including any tendered shares) on the date of the Expiration Time less the number of all shares validly tendered, not withdrawn and accepted for payment on the date of the Expiration Time (such validly tendered shares, up to any such maximum, being referred to as the "*Purchased Shares*").

(7) *Calculation of Adjustments*. All adjustments to the Conversion Rate shall be calculated to the nearest 1/10,000th of a share of Common Stock (or if there is not a nearest 1/10,000th of a share to the next lower 1/10,000th of a share). No adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least one percent therein; *provided*, that any adjustments which by reason of this subparagraph are not required to be made shall be carried forward and taken into account in any subsequent adjustment. If an adjustment is made to the Conversion Rate pursuant to Section 15(i)(ii)(1), (2), (3), (4), (5), (6) or (7), an adjustment shall also be made to the 20-Day Average Market Price solely to determine which of clauses (1), (2) or (3) of the definition of Conversion Rate will apply on the Automatic Conversion Date. Such adjustment shall be made by multiplying the 20-Day Average Market Price by a fraction, the numerator of which shall be the Conversion Rate immediately before such adjustment and the denominator of which shall be the Conversion Rate immediately after such adjustment pursuant to Section 15(i)(ii)(1), (2), (3), (4),

(5), (6) or (7); *provided*, *however*, that if such adjustment to the Conversion Rate is required to be made pursuant to the occurrence of any of the events contemplated Section 15(i)(ii)(1), (2), (3), (4), (5), (6) or (7) during the period taken into consideration for determining the 20-Day Average Market Price, appropriate and customary adjustments shall be made to the Conversion Rate.

(8) *Increase of Conversion Rate*. The Corporation may make such increases in the Conversion Rate, in addition to those required by this Section 15(i)(ii), as it considers to be advisable in order to avoid or diminish any income tax to any holders of shares of Common Stock resulting from any dividend or distribution of stock or issuance of rights or warrants to purchase or subscribe for stock or from any event treated as such for income tax purposes or for any other reasons.

(9) *Notice of Adjustment*. Whenever the Conversion Rate is adjusted in accordance with this Section 15(i)(ii), the Corporation shall: (A) forthwith compute the Conversion Rate in accordance with this Section 15(i)(ii) and prepare and transmit to the Transfer Agent an Officer's Certificate setting forth the Conversion Rate, the method of calculation thereof in reasonable detail, and the facts requiring such adjustment and upon which such adjustment is based; and (B) as soon as practicable following the occurrence of an event that requires an adjustment to the Conversion Rate pursuant to this Section 15(i)(ii) (or if the Corporation is not aware of such occurrence, as soon as practicable after becoming so aware), provide a written notice to the Holders of the occurrence of such event and a statement setting forth in reasonable detail the method by which the adjustment to the Conversion Rate was determined and setting forth the adjusted Conversion Rate.

(iii) In the event of:

(1) any consolidation or merger of the Corporation with or into another Person or of another Person with or into the Corporation; or

(2) any sale, transfer, lease or conveyance to another Person of the property of the Corporation as an entirety or substantially as an entirety; or

(3) any reclassification (other than a reclassification to which Section 15(i)(ii)(3) applies),

(any such event, a "*Reorganization Event*"), each share of Series C Mandatory Convertible Preferred Stock prior to such Reorganization Event shall, after such Reorganization Event, be converted into the right to receive the kind and amount of securities, cash and other property receivable in such Reorganization Event (without any interest thereon, and without any right to dividends or distributions thereon which have a record date that is prior to the date of the Reorganization Event) per share of Series C Mandatory Convertible Preferred Stock by a holder of Common Stock that (A) is not a Person with which the Corporation consolidated or into which the Corporation merged or which merged into the Corporation or to which such sale or transfer was made, as the case may be (any such Person, a "*Constituent Person*"), or an Affiliate (as defined below) of a Constituent Person to the extent such Reorganization Event provides for different treatment of Common Stock held by Affiliates of the Corporation and non-Affiliates, and (B) has failed to exercise the rights of election, if any, as to the kind or amount of securities, cash and other property receivable upon such Reorganization Event (provided that if the kind or amount of securities, cash and other property receivable upon such Reorganization Event is not the same for each share of Common Stock held immediately prior to such Reorganization Event by other than a Constituent Person or an Affiliate thereof and in respect of which such rights of election shall not have been exercised ("*Non-electing Share*"), then for the purpose of this Section 15(i)(iii) the kind and amount of securities, cash and other property receivable upon such Reorganization Event by each Non-electing Share shall be deemed to be the kind and amount so receivable per share by a plurality of the Non-electing Shares). On the Automatic Conversion Date, the Conversion Rate then in effect shall be applied to the value or amount on the Automatic Conversion Date of such securities, cash or other property.

On the occurrence of such a Reorganization Event, the Person formed by such consolidation or merger or the Person which acquires the assets of the Corporation shall execute and deliver to the Transfer Agent an agreement supplemental hereto providing that the Holder of each share of Series C Mandatory Convertible Preferred Stock that remains outstanding after the Reorganization Event (if any) shall have the rights provided by this Section 15(i)(iii). Such supplemental agreement shall provide for adjustments which, for events subsequent to the effective date of such supplemental agreement, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 15(i). The above provisions of this Section 15(i)(iii) shall similarly apply to successive Reorganization Events.

(j) *Definitions*.

(i) "*5-Day Average Market Price*" as of any date means the arithmetic average of the volume-weighted average price per share of the Common Stock for each of the five Trading Days ending on the earlier of the day preceding the date in question and the day before the "ex date" with respect to the issuance or distribution requiring such computation, as reported by Bloomberg Professional Service accessed using the reference "XRX Equity VAP" for the period beginning at 9:30 am, New York City time, and ending at 4:00 pm, New York City time. If such day is not a Trading Day, the five Trading Days will end on the last Trading Day prior to such day. For purposes of this paragraph, the term "Ex Date," when used with respect to any such issuance or distribution, means the first date on which the Common Stock trades without the right to receive such issuance or distribution. If, on any trading day no volume-weighted average price is reported for the Common Stock by Bloomberg Professional Service, the Closing Price of a share of the Common Stock will be substituted for the volume-weighted average price for such day.

(ii) "*20-Day Average Market Price*" as of any conversion date means the arithmetic average of the volume-weighted average price per share of the Common Stock for each of the 20 Trading Days ending on the third business day prior to the applicable conversion date, as reported by Bloomberg Professional Service accessed using the reference "XRX Equity VAP" for the period beginning at 9:30 am, New York City time, and ending at 4:00 pm, New York City time. If the third business day prior to such conversion date is not a Trading Day, the 20 Trading

Days will end on the last trading day prior to the third business day prior to such conversion date. For purposes of this definition, the term “ex date,” when used with respect to any such issuance or distribution, means the first date on which the Common Stock trades without the right to receive such issuance or distribution. If, on any Trading Day no volume-weighted average price is reported for the Common Stock by Bloom-berg Professional Service, the Closing Price of a share of the Common Stock will be substituted for the volume-weighted average price for such day.

(iii) “*Affiliate*” has the same meaning as given to that term in Rule 405 of the Securities Act or any successor rule thereunder.

(iv) “*Board Resolution*” means a copy of a resolution certified by the Secretary or any Assistant Secretary of the Corporation to have been duly adopted by the Board of Directors or any authorized committee thereof and to be in full force and effect and filed with the Transfer Agent.

(v) “*Business Day*” means any day other than a Saturday or Sunday or any other day on which banks in The City of New York are authorized or required by law or executive order to close.

(vi) “*Capital Stock*” of any Person means any and all shares, interests, participations or other equivalents however designated of corporate stock or other equity participations, including partnership interests, whether general or limited, of such Person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such Person.

(vii) The “*Closing Price*” of the Common Stock or any securities distributed in a Spin-Off, as the case may be, on any date of determination means the closing sale price (or, if no closing sale price is reported, the last reported sale price) per share on the New York Stock Exchange (the “*NYSE*”) on such date or, if such security is not listed for trading on NYSE on any such date, as reported in the composite transactions for the principal United States securities exchange on which such security is so listed or quoted or, if such security is not so listed or quoted on a United States national or regional securities exchange, as reported by the Nasdaq stock market or, if such security is not so reported, the last quoted bid price for such security in the over-the-counter market as reported by the National Quotation Bureau or similar organization or, if such bid price is not available, the market value of such security on such date as determined by a nationally recognized independent investment banking firm retained for this purpose by the Corporation.

(viii) “*Corporate Trust Office*” means the principal corporate trust office of the Transfer Agent at which, at any particular time, its corporate trust business shall be administered.

(ix) “*Current Market Price*” means (1) on any day the average of the Closing Prices of the Common Stock for the five consecutive Trading Days preceding the earlier of the day preceding the day in question and the day before the “ex date” with respect to the issuance or distribution requiring computation, (2) in the case of any Spin-Off that is effected simultaneously with an Initial Public Offering of the securities being distributed in the Spin-Off, the Closing Price of the Common Stock on the Trading Day on which the initial public offering price of the securities being distributed in the Spin-Off is determined, and (3) in the case of any other Spin-Off, the average of the Closing Prices of the Common Stock over the first 10 Trading Days after the effective date of such Spin-Off. For purposes of this paragraph, the term "ex date," when used with respect to any issuance or distribution, shall mean the first date on which the Common Stock trades in a regular way on such exchange or in such market without the right to receive such issuance or distribution.

(x) "*Fair Market Value*" means (1) in the case of any Spin-Off that is effected simultaneously with an Initial Public Offering of the securities being distributed in the Spin-Off, the initial public offering price of those securities, and (2) in the case of any other Spin-Off, the average of the Closing Prices of the securities being distributed in the Spin-Off over the first 10 Trading Days after the effective date of such Spin-Off.

(xi) "*Holder*" means the Person in whose name a share of Series C Mandatory Convertible Preferred Stock is registered.

(xii) "*Initial Public Offering*" means the first time securities of the same class or type as the securities being distributed in the Spin-Off are offered to the public for cash.

(xiii) "*Officer*" means the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary of the Corporation.

(xiv) "*Officer's Certificate*" means a certificate signed by two Officers.

(xv) "*Person*" means any individual, corporation, limited liability corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

(xvi) "*Provisional Conversion Date*" means the date fixed for conversion of shares of Series C Mandatory Convertible Preferred Stock into shares of Common Stock pursuant to Section 15(f) above or, if the Corporation shall default in the cash payment of (1) an amount equal to any accrued and unpaid dividends on the shares of Series C Mandatory Convertible Preferred Stock then outstanding, whether or not declared, and (2) the present value of all remaining dividend payments on the shares of Series C Mandatory Convertible Preferred Stock then outstanding, through and including July 1, 2006, in connection with such conversion on such date, the date the Corporation actually makes such payment.

(xvii) "*Spin-Off*" means a dividend or other distribution of shares of capital stock of any class or series, or similar equity interests, of or relating to a subsidiary or other business unit of the Corporation.

(xviii) "*Subsidiary*" means, with respect to any Person, (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or a combination thereof) and (2) any partnership (A) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (B) the only general partners of which are such Person or one or more Subsidiaries of such Person (or any combination thereof).

(xix) "*Trading Day*" means a day on which the Common Stock or any security distributed in a Spin-Off, as the case may be, (1) is not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the close of business and (2) has traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of such security.

(xx) "*Treasury Yield*" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) which has become publicly available at least two Business Days prior to the Provisional Conversion Date (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the then remaining term to July 1, 2006; *provided*, *however*, that if the then remaining term to July 1, 2006 is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Treasury Yield shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of U.S. Treasury securities for which such yields are given, except that if the then remaining term to July 1, 2006 is less than one year, the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year shall be used.

(xxi) "*Transfer Agent*" means the Equiserve Trust Company, N.A. unless and until a successor is selected by the Corporation, and then such successor.

(k) *Fractional Shares*.

No fractional shares of Common Stock shall be issued to Holders. In lieu of any fraction of a share of Common Stock which would otherwise be issuable in respect of the aggregate number of shares of the Series C Mandatory Convertible Preferred Stock surrendered by the same Holder upon a conversion as described in Section 15(e), (f)(i), (g)(ii) or (h)(i) or which would otherwise be issuable in respect of a stock dividend payment upon a conversion as described in Section 18(e), such Holder shall have the right to receive an amount in cash (computed to the nearest cent) equal to the same fraction of (i) in the case of Section 15(e), the 5-Day Average Market Price or (b) in the case of Section 6(a), 7(b) or 8(c), the Closing Price of the Common Stock determined as of the second Trading Day immediately preceding the effective date of conversion. If more than one share of Series C Mandatory Convertible Preferred Stock shall be surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Series C Mandatory Convertible Preferred Stock so surrendered.

(l) *Miscellaneous*.

(i) Procedures for conversion of shares of Series C Mandatory Convertible Preferred Stock, in accordance with Section 15(e), (f), (g) or (h), not held in certificated form will be governed by arrangements among the depositary of the shares of Series C Mandatory Convertible Preferred Stock, its participants and persons that may hold beneficial interests through such participants designed to permit settlement without the physical movement of certificates. Payments, transfers, deliveries, exchanges and other matters relating to beneficial interests in global security certificates may be subject to various policies and procedures adopted by the depositary from time to time.

(ii) The Liquidation Preference and the annual dividend rate set forth in this Section 15 each shall be subject to equitable adjustment whenever there shall occur a stock split, combination, reclassification or other similar event involving the Series C Mandatory Convertible Preferred Stock. Such adjustments shall be determined in good faith by the Board of Directors and submitted by the Board of Directors to the Transfer Agent.

(iii) For the purposes of Section 15(i), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Corporation but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock.

(iv) If the Corporation shall take any action affecting the Common Stock, other than any action described in Section 15(i), that in the opinion of the Board of Directors would materially adversely affect the conversion rights of the Holders, then the Conversion Rate, the Provisional Conversion Rate and/or the Optional Conversion Rate for the Series C Mandatory Convertible Preferred Stock may be adjusted, to the extent permitted by law, in such manner, and at such time, as the Board of Directors may determine to be equitable in the circumstances.

(v) The Corporation covenants that it will at all times reserve and keep available, free from preemptive rights, out of the aggregate of its authorized but unissued shares of Common Stock for the purpose of effecting conversion of the Series C Mandatory Convertible Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all outstanding shares of Series C Mandatory Convertible Preferred Stock not theretofore converted. For purposes of this Section 15(l)(v), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series C Mandatory Convertible Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(vi) The Corporation covenants that any shares of Common Stock issued upon conversion of the Series C Mandatory Convertible Preferred Stock or issued in respect of a stock dividend payment upon a conversion described in Section 15(e) shall be validly issued, fully paid and non-assessable.

(vii) The Corporation shall use its best efforts to list the shares of Common Stock required to be delivered upon conversion of the Series C Mandatory Convertible Preferred Stock or upon issuance in respect of a stock dividend payment upon a conversion described in Section 18(e), prior to such delivery, upon each national securities exchange or quotation system, if any, upon which the outstanding Common Stock is listed at the time of such delivery.

(viii) Prior to the delivery of any securities that the Corporation shall be obligated to deliver upon conversion of the Series C Mandatory Convertible Preferred Stock or upon issuance in respect of a stock dividend payment upon a conversion described in Section 15(e) , the Corporation shall use its best efforts to comply with all federal and state laws and regulations thereunder requiring the registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(ix) The Corporation shall pay any and all documentary, stamp or similar issue or transfer taxes payable in respect of the issue or delivery of shares of Common Stock or other securities or property upon conversion of the Series C Mandatory Convertible Preferred Stock pursuant thereto or upon issuance in respect of a stock dividend payment upon a conversion described in Section 15(e); *provided*, *however*, that the Corporation shall not be required to pay any tax that may be payable in respect of any transfer involved in the issue or delivery of shares of Common Stock or other securities or property in a name other than that of the Holder of the Series C Mandatory Convertible Preferred Stock to be converted and no such issue or delivery shall be made unless and until the person requesting such issue or delivery has paid to the Corporation the amount of any such tax or established, to the reasonable satisfaction of the Corporation, that such tax has been paid or is not applicable.

(x) The Series C Senior Mandatory Convertible Preferred Stock is not redeemable.

(xi) The Series C Senior Mandatory Convertible Preferred Stock is not entitled to any preemptive or subscription rights in respect of any securities of the Corporation.

(xii) Whenever possible, each provision hereof shall be interpreted in a manner as to be effective and valid under applicable law, but if any provision hereof is held to be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating or otherwise adversely affecting the remaining provisions hereof. If a court of competent jurisdiction should determine that a provision hereof would be valid or enforceable if a period of time were extended or shortened or a particular percentage were increased or decreased, then such court may make such change as shall be necessary to render the provision in question effective and valid under applicable law.

(xiii) Series C Mandatory Convertible Preferred Stock may be issued in fractions of a share which shall entitle the Holder, in proportion to such Holder’s fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of Holders of Series C Mandatory Convertible Preferred Stock.

(xiv) Subject to applicable escheat laws, any monies set aside by the Corporation in respect of any payment with respect to shares of the Series C Mandatory Convertible Preferred Stock, or dividends thereon, and unclaimed at the end of two years from the date upon which such payment is due and payable shall revert to the general funds of the Corporation, after which reversion the Holders of such shares shall look only to the general funds of the Corporation for the payment thereof. Any interest accrued on funds so deposited shall be paid to the Corporation from time to time.

(xv) Except as may otherwise be required by law, the shares of Series C Mandatory Convertible Preferred Stock shall not have any voting powers, preferences and relative, participating, optional or other special rights, other than those specifically set forth in this Certificate of Incorporation.

(xvi) The headings of the various subdivisions hereof are for convenience of reference only and shall not affect the interpretation of any of the provisions hereof.

(xvii) If any of the voting powers, preferences and relative, participating, optional and other special rights of the Series C Mandatory Convertible Preferred Stock and qualifications, limitations and restrictions thereof set forth herein is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other voting powers, preferences and relative, participating, optional and other special rights of the Series C Mandatory Convertible Preferred Stock and qualifications, limitations and restrictions thereof set forth herein which can be given effect without the invalid, unlawful or unenforceable voting powers, preferences and relative, participating, optional and other special rights of the Series C Mandatory Convertible Preferred Stock and qualifications, limitations and restrictions thereof shall, nevertheless, remain in full force and effect, and no voting powers, preferences and relative, participating, optional or other special rights of the Series C Mandatory Convertible Preferred Stock and qualifications, limitations and restrictions thereof herein set forth shall be deemed dependent upon any other such voting powers, preferences and relative, participating, optional or other special rights of the Series C Mandatory Convertible Preferred Stock and qualifications, limitations and restrictions thereof unless so expressed herein.

(xviii) Shares of Series C Mandatory Convertible Preferred Stock that (a) have not been issued on or before August 1, 2003 or (b) have been issued and reacquired in any manner, including shares purchased or redeemed or exchanged or converted, shall (upon compliance with any applicable provisions of the laws of New York) have the status of authorized but unissued shares of Cumulative Preferred Stock of the Corporation undesignated as to series and may be designated or redesignated and issued or reissued, as the case may be, as part of any series of preferred stock of the Corporation; *provided*, *however*, that any issuance of such shares as Series C Mandatory Convertible Preferred Stock must be in compliance with the terms hereof.

(xix) If any of the Series C Mandatory Convertible Preferred Stock certificates shall be mutilated, lost, stolen or destroyed, the Corporation shall issue, in exchange and in substitution for and upon cancellation of the mutilated Series C Mandatory Convertible Preferred Stock certificate, or in lieu of and substitution for the Series C Mandatory Convertible Preferred Stock certificate lost, stolen or destroyed, a new Series C Mandatory Convertible Preferred Stock certificate of like tenor and representing an equivalent number of shares of Series C Mandatory Convertible Preferred Stock, but only upon receipt of evidence of such loss, theft or destruction of such Series C Mandatory Convertible Preferred Stock certificate and indemnity, if requested, satisfactory to the Corporation and the Transfer Agent. The Corporation is not required to issue any certificates representing Series C Mandatory Convertible Preferred Stock on or after the Automatic Conversion Date. In place of the delivery of a replacement certificate following the Automatic Conversion Date, the Transfer Agent, upon delivery of the evidence and indemnity described above, will deliver the shares of Common Stock pursuant to the terms of the Series C Mandatory Convertible Preferred Stock evidenced by the certificate.

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.

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.

IN WITNESS WHEREOF, this Certificate has been signed on the 6th day of November, 2003 and the statements contained therein are affirmed as true under penalties of perjury.

/s/ Anne M. Mulcahy
Anne M. Mulcahy
Chairman of the Board

/s/ Leslie F. Varon
Leslie F. Varon
Secretary

Exhibit 10(b)(1)

XEROX CORPORATION
1991 LONG-TERM INCENTIVE PLAN

2007 AMENDMENT AND RESTATEMENT

1. Purpose

The purpose of the Xerox Corporation 1991 Long-Term Incentive Plan (the "Plan") is to advance the interests of Xerox Corporation (the "Company") and to increase shareholder value by providing officers and employees with a proprietary interest in the growth and performance of the Company and with incentives for continued service with the Company, its subsidiaries and affiliates.

2. Term

The Plan shall be effective as of May 16, 1991 and shall remain in effect until May 20, 2004 unless sooner terminated by the Company's Board of Directors (the "Board"). After termination of the Plan, no future awards may be granted but previously made awards shall remain outstanding in accordance with their applicable terms and conditions and the terms and conditions of the Plan. This Amendment and Restatement is effective as of the date hereof and dates set forth herein.

3. Plan Administration

The Executive Compensation and Benefits Committee of the Board, or such other committee as the Board shall determine, comprised of not less than three members shall be responsible for administering the Plan (the "Compensation Committee"). To the extent specified by the Compensation Committee it may delegate its administrative responsibilities to a subcommittee of the Compensation Committee comprised of not less than three members (the Compensation Committee and such subcommittee being hereinafter referred to as the "Committee"). The Compensation Committee or such subcommittee members, as appropriate, shall be qualified to administer this Plan as contemplated by (a) Rule 16b-3 under the Securities and Exchange Act of 1934 (the "1934 Act") or any successor rule and (b) Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder ("Section 162(m)"). The Committee, and such subcommittee to the extent provided by the Committee, shall have full and exclusive power to interpret, construe and implement the Plan and any rules, regulations, guidelines or agreements adopted hereunder and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. These powers shall include, but not be limited to, (i) determination of the type or types of awards to be granted under the Plan; (ii) determination of the terms and conditions of any awards under the Plan; (iii) determination of whether, to what extent and under what circumstances awards may be settled, paid or exercised in cash, shares, other securities, or other awards, or other property, or canceled, forfeited or suspended; (iv) adoption of such modifications, amendments, procedures, subplans and the like as are necessary to comply with provisions of the laws of other countries in which the Company may operate in order to assure the viability of awards granted under the Plan and to enable participants employed in such other countries to receive advantages and benefits under the Plan and such laws; (v) subject to the rights of participants, modification, change, amendment or cancellation of any award to correct an administrative error and (vi) taking any other action the Committee deems necessary or desirable for the administration of the Plan. All determinations, interpretations, and other decisions under or with respect to the Plan or any award by the Committee shall be final, conclusive and binding upon the Company, any participant, any holder or beneficiary of any award under the Plan and any employee of the Company. Except for the power to amend this Plan as provided in Section 13 and except for determinations regarding employees who are subject to Section 16 of the 1934 Act or certain key employees who are or may become, as determined by the Committee, subject to the Section 162(m) compensation deductibility limit (the "Covered Employees"), the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Committee may establish to any officer or officers of the Company.

4. *Eligibility*

Any employee of the Company shall be eligible to receive an award under the Plan. “Employee” shall also include any former employee of the Company eligible to receive a replacement award as contemplated in Sections 5 and 7, and “Company” shall include any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee.

5. *Shares of Stock Subject to the Plan*

For each calendar year from and including 1991 to but excluding 1999, a number of shares of Common Stock, par value $1.00 per share, of the Company (“Common Stock”) equal in an amount of up to one percent (1%) of the adjusted average shares of Common Stock outstanding used to calculate diluted earnings per share (previously known as fully diluted earnings per share) as reported in the annual report to shareholders for the preceding year shall become available for issuance under the Plan; and for the calendar year 1999, and for each calendar year thereafter, a number of shares of Common Stock equal in an amount to two percent (2%) of the adjusted average shares of Common Stock outstanding used to calculate diluted earnings per share (previously known as fully diluted earnings per share) as reported in the annual report to shareholders for the preceding year shall become available for issuance under the Plan.

For purposes of the preceding paragraph, the following shall not be counted against shares available for issuance under the Plan: (i) settlement of stock appreciation rights (“SAR”) in cash or any form other than shares and (ii) payment in shares of dividends and dividend equivalents in conjunction with outstanding awards. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company shall not be counted against the shares available for issuance under the Plan.

In no event, however, except as subject to adjustment as provided in Section 6 shall more than (a) fifteen million (15,000,000) shares of Common Stock be available for issuance pursuant to the exercise of incentive stock options (“ISOs”) awarded under the Plan[(1)]; [1](b) thirteen million seven hundred ninety six thousand one hundred eighty-one (13,796,181) shares of Common Stock shall be available for issuance pursuant to stock awards granted under Section 7(c) of the Plan[(1)] [2]; and (c) five million (5,000,000) shares of Common Stock shall be made the subject of awards under any combination of awards under Sections 7(a), 7(b) or 7(c) of the Plan to any single individual[(2)]. [3]SARs whether settled in cash or shares of Common Stock shall be counted against the limit set forth in (c).

Any shares issued under the Plan may consist in whole or in part, of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in settlements of awards under the Plan.

6. *Adjustments and Reorganizations*

(a) 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 (other than by normal cash dividends), such change shall be made with respect to (i) the aggregate number of shares that may be issued under the Plan; (ii) the number of shares

[1](1) Effective May 23, 1996
[2](1) Effective May 23, 1996
[3](2) Effective May 15, 1997

subject to awards of a specified type or to any individual under the Plan; and/or (iii) the price per share for any outstanding stock options, SARs and other awards under the Plan.

(b) Except as otherwise provided in subsection 6(a) above, notwithstanding any other provision of the Plan, and without affecting the number of shares reserved or available hereunder, the Committee shall authorize the issuance, continuation or assumption of outstanding stock options, SARs and other awards under the Plan or provide for other equitable adjustments after changes in the shares resulting from any merger, consolidation, sale of all or substantially all 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 the rights of the holders of awards under the Plan.

(c) In the case of any sale of all or substantially all 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 individual holding an outstanding award under the Plan, including any Optionee who holds an outstanding Option, shall have the right (subject to the provisions of the Plan and any limitation applicable to the award) thereafter, and for Optionees during the term of the Option upon the exercise thereof, to receive the Acquisition Consideration (as defined below) receivable upon the Acquisition by a holder of the number of applicable shares which would have been obtained upon exercise of the Option or portion thereof or obtained pursuant to the terms of the applicable award, 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."

(d) No adjustment or modification to any outstanding award pursuant to this Section 6 shall cause such award to be treated as the grant of a new stock right or a change in the form of payment of the existing stock right for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), as set forth in Treasury guidance.

7. Awards

The Committee shall determine the type or types of award(s) to be made to each participant under the Plan and shall approve the terms and conditions governing such awards in accordance with Section 12. Awards may include but are not limited to those listed in this Section 7. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. However, under no circumstances may stock option awards be made which provide by their terms for the automatic award of additional stock options upon the exercise of such awards.

(a) Stock Option—is a grant of a right to purchase a specified number of shares of Common Stock during a specified period. The purchase price of each option shall be not less than 100% of Fair Market Value (as defined in Section 10) on the effective date of grant, except that, in the case of a stock option granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted. A stock option may be exercised in whole or in installments, which may be cumulative. A stock option may be in the form of an ISO which complies with Section 422 of the Code and the regulations thereunder at the time of grant. The price at which shares of Common Stock may be purchased under a stock option shall be paid in full at the time of the exercise in cash or such other method as provided by the Committee at the time of grant or as provided in the form of agreement approved in accordance herewith, including tendering (either actually or by attestation) Common Stock, surrendering a stock award valued at Fair Market Value on the date of surrender, surrendering a cash award, or any combination thereof.

(b) Stock Appreciation Right—is a right to receive a payment, in cash and/or Common Stock, as determined by the Committee, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value on the date of grant of the SAR as set forth in the applicable award agreement, except that, in the case of a SAR granted retroactively in tandem with or as a substitution for another award, the exercise or designated price may be no lower than the Fair Market Value of a share on the date such other award was granted

(c) Stock Award—is an award made in stock or denominated in units of stock. All or part of any stock award may be subject to conditions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance.

(d) Cash Award—is an award denominated in cash with the eventual payment amount subject to future service and such other restrictions and conditions as may be established by the Committee, and as set forth in the award agreement, including, but not limited to, continuous service with the Company, achievement of specific business objectives, and other measurement of individual, business unit or Company performance. Cash Awards to any single Covered Employee, including dividend equivalents in cash or shares of Common Stock payable based upon attainment of specific performance goals, may not exceed in the aggregate $5,000,000 for each performance period established by the Committee under Section 23 of the Plan.

8. Dividends and Dividend Equivalents

The Committee may provide that awards denominated in stock earn dividends or dividend equivalents. Such dividend equivalents may be paid currently in cash or shares of Common Stock or may be credited to an account established by the Committee under the Plan in the name of the participant. In addition, dividends or dividend equivalents paid on outstanding awards or issued shares may be credited to such account rather than paid currently. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

9. Deferrals and Settlements

Payment of awards may be in the form of cash, stock, other awards, or in such combinations thereof as the Committee shall determine at the time of grant, and with such restrictions as it may impose. The Committee may also require or permit participants to elect to defer the issuance of shares or the settlement of awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts or the payment or crediting of dividend equivalents on deferred settlements denominated in shares.

10. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean the average of the high and low prices of Common Stock as reported in The Wall Street Journal in the New York Stock Exchange composite transactions or similar successor consolidated transactions reports for the relevant date, or if no sales of Common Stock were made on said exchange on that date, the average of the high and low prices of Common Stock as reported in said composite transaction report for the preceding day on which sales of Common Stock were made on said Exchange. Under no circumstances shall Fair Market Value be less than the par value of the Common Stock.

11. Transferability and Exercisability

All awards under the Plan will be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the participant 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 Committee. In the event that a participant terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, the Committee may authorize a third party, including but not limited to a "blind" trust, to act on behalf of and for the benefit of the respective participant with respect to any outstanding awards. Except as otherwise provided in this Section 11, during the life of the participant, awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Committee. In addition, if so permitted by the Committee, a participant may designate a beneficiary or beneficiaries to exercise the rights of the participant and receive any distributions under this Plan upon the death of the participant.

12. Award Agreements

Awards under the Plan shall be evidenced by one or more agreements approved by the Committee that set forth the terms and conditions of and limitations on an award, except that in no event shall the term of any ISO exceed a period of ten years from the date of its grant. The Committee need not require the execution of any such agreement by a participant in which case acceptance of the award by the respective participant will constitute agreement to the terms of the award.

13. Plan Amendment

The Compensation Committee may amend the Plan as it deems necessary or appropriate, except that no such amendment which would cause the Plan not to comply with the requirements of (i) Section 162(m) with respect to performance-based compensation, (ii) the Code with respect to ISOs or (iii) the New York Business Corporation Law as in effect at the time of such amendment shall be made without the approval of the Company's shareholders. No such amendment shall adversely affect any outstanding awards under the Plan without the consent of all of the holders thereof.

14. Tax Withholding

The Company shall have the right to deduct from any settlement of an award made under the Plan, including the delivery or vesting of shares, an amount sufficient to cover withholding required by law for any federal, state or local taxes or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the Fair Market Value as of the settlement date of the applicable award.

15. Other Company Benefit and Compensation Programs

Unless otherwise determined by the Committee, settlements of awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any Company benefit plan, severance program or severance pay law of any country.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or right to be granted an award under the Plan, and no participant shall have any right by reason of the grant of any award under the Plan to continued employment by the Company or any subsidiary of the Company.

18. General Restriction

Each award shall be subject to the requirement that, if at any time the Committee shall determine, in its sole discretion, that the listing, registration or qualification of any award 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 award or the exercise settlement thereof, such award may not be granted, 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 Committee.

19. 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.

20. Successors and Assigns

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

21. Rights as a Shareholder

A participant shall have no rights as a shareholder until he or she becomes the holder of record of Common Stock.

22. Change in Control

Notwithstanding anything to the contrary in the Plan, the following shall apply to all awards granted and outstanding under the Plan:

(a) Definitions. The following definitions shall apply to this Section 22:

A "Change in Control," unless otherwise defined by the Compensation Committee, shall be deemed to have occurred if:

(i) 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;

(ii) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (A) individuals who, on October 9, 2000, constitute the Board, and (B) 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;

(iii) 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 (A) 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 (B) 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

(iv) 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (A) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 clause (6) 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.

"CIC Price" shall mean the higher of (a) the highest price paid for a share of the Company's Common Stock 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 of the Company's Common Stock 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.

(b) Acceleration of Vesting and Payment of SARs, Stock Awards, Cash Awards, and Dividends and Dividend Equivalents.

(1) Upon the occurrence of an event constituting a Change in Control, all SARs, stock awards, cash awards, dividends and dividend equivalents outstanding on such date shall become 100% vested and shall be paid in cash as soon as may be practicable. Upon such payment, such awards and any related stock options shall be cancelled.

(2) The amount of cash to be paid shall be determined by multiplying the number of such awards, as the case may be, by: (i) in the case of stock awards, the CIC Price; (ii) in the case of SARs, the difference between the exercise price of the related option per share and the CIC Price; (iii) in the case of cash awards where the award period, if any, has not been completed upon the occurrence of a Change in Control, the maximum value of such awards as determined by the Committee at the time of grant, without regard to the performance criteria, if any, applicable to such award; and (iv) in the case of cash awards where the award period, if any, has been completed on or prior to the occurrence of a Change in Control: (aa)

where the cash award is payable in cash, the value of such award as determined in accordance with the award agreement, and (bb) where the cash award is payable in shares of Common Stock, the CIC Price.

(c) Option Surrender Rights.

(1) All stock options granted under the Plan shall be accompanied by option surrender rights ("OSRs"). OSRs shall be evidenced by OSR agreements in such form and not inconsistent with the Plan as the Committee shall approve from time to time. 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 stock options, shall be paid in cash as soon as may be practicable. Upon such payment, such rights and any related stock options shall be cancelled.

(2) The amount of cash payable in respect of an OSR shall be determined by multiplying the number of unexercised shares as to which the right then relates by the difference between the option price of such shares and the CIC Price.

(3) Upon the grant of SARs, with respect to the same shares covered by then outstanding OSRs the OSRs relating to such shares shall be automatically cancelled.

(d) Notwithstanding the foregoing subsections (a), (b) and (c), SARs, OSRs and any stock-based award held by an officer or director subject to Section 16 of the 1934 Act which have been outstanding less than six months (or such other period as may be required by the 1934 Act) upon the occurrence of an event constituting a Change in Control shall not be paid in cash until the expiration of such period, if any, as shall be required pursuant to such Section, and the amount to be paid shall be determined by multiplying the number of SARs, OSRs or stock awards by the CIC Price determined as though the event constituting the Change in Control had occurred on the first day following the end of such period.

23. Certain Provisions Applicable to Awards to Covered Employees

Performance-based awards made to Covered Employees shall be made by the Committee within the time period required under Section 162(m) for the establishment of performance goals and shall specify, among other things, the performance period(s) for such award (which shall be not less than one year), the performance criteria and the performance targets. The performance criteria shall be any one or more of the following as determined by the Committee and may differ as to type of award and from one performance period to another: earnings per share, total shareholder return, return on shareholders' equity, economic value added measures, return on assets, revenue, profit before tax, profit after tax, stock price and return on sales. Payment or vesting of awards to Covered Employees shall be contingent upon satisfaction of the performance criteria and targets as certified by the Committee by resolution of the Committee. To the extent provided at the time of an award, the Committee may in its sole discretion reduce any award to any Covered Employee to any amount, including zero.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 4th day of December, 2007, effective as of the date hereof and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

2004 E-LTIP—Option, Restricted Stock Units & OSRs

**EXECUTIVE LONG-TERM INCENTIVE PROGRAM AGREEMENT
PURSUANT TO
THE XEROX CORPORATION
1991 LONG-TERM INCENTIVE PLAN**

AGREEMENT, of Xerox Corporation, a New York corporation (hereinafter referred to as the “Company”) in favor of the employee of the Company or one of its Subsidiaries (as hereinafter defined) whose name is set forth on the Award Summary (“Award Summary”) attached hereto (hereinafter referred to as the “Employee”) selected by the Compensation Committee (hereinafter the “Committee”) in accordance with the Company’s 1991 Long-Term Incentive Plan as amended (hereinafter referred to as the “Plan”).

The Award Summary contains the details of awards covered by this Agreement and is incorporated herein in its entirety.

Terms used herein which are defined in the Plan or this Agreement shall have the meanings assigned to them in the Plan or this Agreement, respectively.

In accordance with the provisions of the Plan, the Committee has authorized the execution and delivery of this Agreement.

NOW THEREFORE, in consideration of the premises and for other good and valuable consideration the Company hereby agrees as follows:

1. Award of Option and Restricted Stock Units. Subject to the terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee as of the date indicated in the Award Summary on the terms and conditions herein set forth (the “Award”):

(a) options to purchase the number of shares shown on the Award Summary (such number being subject to adjustment, as provided in the Plan) of the Common Stock, par value $1.00 per share, of the Company (the “Common Stock”) (the “Option”);

(b) the number of Restricted Stock Units shown on the Award Summary (“RSUs”); and

(c) option surrender rights (the “Option Surrender Rights”) as shown on the Award Summary.

TERMS OF THE OPTIONS

2. Option Purchase Price. The purchase price of the shares of Common Stock covered by the Option shall be as set forth on the Award Summary, which is not less than 100% of the Fair Market Value on the effective date of the Award. The Option is a non-statutory option not intended to qualify as an incentive stock option.

3. Waiting Period and Exercise Dates of Option. Except as provided in Paragraph 14 hereof the Option may not be exercised at any time unless the Employee shall then be an Employee of the Company or a Subsidiary thereof. After the expiration of the Waiting Period indicated on the Award Summary ("Waiting Period") the shares optioned to Employee may be purchased as indicated on the Exercise Dates set forth on the Award Summary.

To the extent the Option is not exercised by Employee when it becomes initially exercisable, it shall not expire but shall be carried forward and shall be exercisable at any time thereafter; provided, however, that the Option is not exercisable after the period expiring on the date indicated on the Award Summary, which period is referred to herein as the "Exercise Period". Partial exercise of the Option will be permitted from time to time provided that no partial exercise may be for less than 20 full shares of Common Stock or its equivalent or the total number of shares remaining unexercised hereunder, whichever is less.

Upon the occurrence of an event constituting a Change in Control (as that term is defined in the Plan) pursuant to which Option Surrender Rights become payable, the Option outstanding hereunder to the extent shares under such Option are used in calculating a payment in connection with the related Option Surrender Rights (as provided herein under "Terms of the Option Surrender Rights") shall be cancelled.

4. Method of Exercising Option. The Option may be exercised from time to time through a website provided for such purpose or a voice response unit so provided by the Company or its duly authorized agent in the manner herein described or as otherwise determined to be acceptable by the Company The person exercising the Option shall state the election to exercise and the number of shares with respect to which the Option is being exercised. The person exercising the Option must issue a check payable to the authorized agent for payment of the full purchase price. The authorized agent shall advise the person exercising the Option of the amount of withholding tax (including FICA) 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 authorized agent shall, without transfer or issue tax to the person exercising the Option, issue a certificate or certificates for the number of shares covered by such notice of exercise.

In the event that the Option is being exercised through the Company's cashless exercise program, if applicable, 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.

5. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee in its sole discretion at or before the making of the Award as communicated to Employee in writing at the time this Agreement is delivered to Employee.

6. Holding Requirements. The Employee must retain fifty percent (50%) of the shares of Common Stock acquired from the exercise of an Option (net of purchase price, withholding tax and exercise fees) until ownership guidelines are met under Paragraph 5 hereof. Such shares shall be held in the Employee's Salomon Smith Barney account or at another account acceptable to the Company.

Once such ownership guidelines are met, Employee (including terminated and retired) must retain fifty percent (50%) of the shares so acquired for one year following the exercise of the Option.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee terminates for any other reason, the holding requirement will be applicable for up to a one year period following termination.

TERMS OF THE RESTRICTED STOCK UNITS

7. Waiting Period and Entitlement to Shares. Upon the lapse of the Waiting Period indicated on the Award Summary in connection with the RSUs, on the Vesting Date set forth in the Award Summary ("Vesting Date") the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of RSUs as to which a Waiting Period has lapsed (subject to reduction for payment of withholding taxes as described below.) The number of shares to be issued to Employee shall be reduced by the amount of withholding taxes which must be paid under U. S. Federal and, where applicable, state and local law at the time of each distribution. No fractional shares shall be issued. Instead, the Company shall apply the equivalent of any fractional share amount to Federal, and where applicable, state and local, withholding taxes.

Notwithstanding anything herein to the contrary, an Employee may irrevocably elect, on or before the last business day in June following the date of the grant, to defer receipt of Common Stock, in such manner as shall be determined by the Committee in its sole discretion at or before the making of the Award as communicated to Employee in writing at the time this Agreement is delivered to Employee. If such deferral is elected, the right to receive the Common Stock pursuant to the grant shall be one year following the date of termination of employment or retirement, the date of death, or any other deferral date that may be elected under the terms communicated to the Employee in writing in the manner described above (the "Deferral Date"), provided that such Deferral Date does not occur prior to the Vesting Date (except in the case of Employee's death in which case, on the date of death, regardless of the Vesting Date, the Common Stock pursuant to the grant shall be delivered to the Employee's personal representatives, heirs or legatees). If any taxes must be withheld at the Vesting Date, the payment of such withholding taxes will be settled in a manner acceptable to the Company.

8. Dividend Equivalents. The Employee shall be entitled to receive from the Company cash payments at the same time and in the same amounts, that the holder of record of a number of shares of Common Stock equal to the number of RSUs covered by this Agreement would be entitled to receive as dividends on such Common Stock. Such right to cash payment on an RSU covered hereby shall apply to all dividends the record date for which occurs at any time during the period commencing on the date hereof and ending on the date that the Employee becomes a shareholder of record with respect to such unit as a result of (i) the lapse of a Waiting Period or on the Deferral Date as provided under Paragraph 7, or (ii) the date this RSU otherwise terminates, whichever occurs first. Payments under this Paragraph shall be net of any required U.S. Federal, state or local withholding taxes.

9. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee in its sole discretion at or before the making of the Award as communicated to Employee in writing at the time this Agreement is delivered to Employee.

10. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the RSUs (net of withholding tax and exercise fees) until ownership guidelines are met under Paragraph 9 hereof. Such shares shall be held in the Employee's Salomon Smith Barney account or at another account acceptable to the Company.

Once such ownership guidelines are met, Employee must retain fifty percent (50%) of the shares so acquired for one year following the receipt of Common Stock in connection with the RSUs.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death.

TERMS OF THE OPTION SURRENDER RIGHTS

11. Value of Option Surrender Rights. In the event of the occurrence of an event constituting a Change in Control (as defined in the Plan), to the extent that the CIC Price (as defined in the Plan) exceeds the exercise price of the related Option, the Employee shall receive cash, in lieu of exercise of the Option, determined by multiplying the excess of the CIC Price over the option price of each unexercised share under the Option and aggregating the results. Upon such payment, such rights and the number of shares under the Option to the extent used in calculating such payment shall be canceled.

Each share subject to the Option shall be used only once to calculate the amount to be received pursuant to a payment of the Option Surrender Rights.

Upon the grant of stock appreciation rights to the Employee with respect to the same shares subject to the Option, the Option Surrender Rights shall be cancelled automatically.

12. Rights of a Shareholder. The Employee shall have no rights as a shareholder with respect to any shares of Common Stock covered by the Option awarded pursuant to this Agreement until the date of issuance of a stock certificate registered in the name of the Employee for such shares. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

13. Non-Assignability. This Agreement and any rights hereunder shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. During the lifetime of the Employee the Option and the Option Surrender Rights may be exercised only by him.

14. Effect of Termination of Employment or Death

(a) Effect on Option. In the event that the Employee

(i) ceases to be an employee of the Company or of any Subsidiary of the Company for any reason, other than death or retirement under applicable Company policies (“Retirement”) or terminated for Cause (as hereinafter defined), the Option or unexercised portion thereof which was otherwise exercisable on the date of termination of employment shall expire unless exercised within a period of three months from the date on which Employee ceased to be an employee. To the extent that the Option is not exercisable as of the date on which Employee ceases to be an employee, the Option shall terminate and be null and void;

(ii) dies during such three-month period, the Option shall be exercisable by his or her personal representatives, heirs or legatees to the same extent and during the same period that Employee could have exercised the Option if he or she had not died;

(iii) dies while an employee of the Company or any Subsidiary of the Company, the Option (which if not otherwise exercisable shall become exercisable), awarded to the deceased Employee shall be exercisable by his or her personal representatives, heirs or legatees, at any time prior to the expiration of 12 months from the date of the death of the Employee;

(iv) retires from the Company or any Subsidiary of the Company, the Option to the extent otherwise exercisable on the date of Retirement shall continue to be exercisable following the commencement of Retirement to the same extent as though such retiree had continued in the employ of the Company or any Subsidiary of the Company and the Option to the extent not exercisable on the date of Retirement shall be cancelled;

(v) dies after Retirement, the Option shall continue be exercisable by his or her personal representatives, heirs or legatees at any time prior to the expiration of twelve months from the date of the death of the Employee to the same extent as such retiree could have exercised the Option pursuant to the foregoing subparagraph (iv) if he or she had not died;

(vi) ceases to be an employee of the Company or of any Subsidiary of the Company for any reason, other than death or Retirement, prior to the lapse of the Waiting Period his or her Option shall terminate and be null and void.

(vii) ceases to be an employee of the Company or of any Subsidiary of the Company due to termination for Cause, the Option, whether vested or not, shall terminate and be null and void.

Under no circumstances may the Option be exercised after the expiration of the Exercise Period.

(b) Effect on RSUs. In the event that the Employee

(i) ceases to be an Employee of the Company for any reason other than death (including Retirement), and the RSUs have not vested in accordance with Paragraph 7, the RSUs shall be cancelled on the date of termination of employment. In the event of any such cessation of employment after the RSUs have become vested in accordance with Paragraph 7, the full number of the certificates for shares to the extent not already delivered shall be delivered as soon as practicable following the later of the date of termination of employment or the Deferral Date if an election to defer has been timely made in accordance with Paragraph 7;

(ii) ceases to be an employee of the Company or any Subsidiary of the Company by reason of death, the RSUs vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 7 to the personal representatives, heirs or legatees of the deceased employee; and

(iii) ceases to be an employee of the Company or any Subsidiary due to termination for Cause, the RSUs shall be cancelled.

(c) Cause. "Cause" means (i) a violation of any of the rules, policies, procedures or guidelines of the Company, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement; (ii) any conduct which qualifies for "immediate discharge" under the Company's Human Resource Policies as in effect from time to time; (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Company or represents a conflict of interest with the interests of the Company; (iv) conviction of, or entering a guilty plea with respect to a crime whether or not connected with the Company; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Company.

(d) Cessation of active employment due to commencement of long-term disability under the Company's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Agreement and during the continuance of such long-term disability the Employee shall be deemed to continue active employment with the Company.

15. Interpretation of the Agreement. The Committee shall have the authority to interpret the Plan and this Agreement and to take whatever administrative actions, including correction of administrative errors in the awards subject to this Agreement and in this Agreement, as the Committee in its sole good faith judgment shall be determined to be advisable. All decisions, interpretations and administrative actions made by the Committee hereunder or under the Plan shall be binding and conclusive on the Company and the Employee. In the event there is inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

16. Governing Law. The validity, construction and effect of this Agreement and any actions taken under or relating to this Agreement shall be determined in accordance with the laws of the state of New York and applicable Federal law.

17. Successor and Assigns. This Agreement shall bind and inure to the benefit of the Company and the Employee and the successors and assigns of the Company and to the extent provided in Paragraph 14 to the personal representatives, legatees and heirs of the Employee.

18. Amendment of This Agreement. With the consent of the Employee, the Committee may amend this Agreement in a manner not inconsistent with the Plan.

19. Subsidiary. As used herein the term "Subsidiary" shall mean any present or future corporation which would be a "Subsidiary corporation" of the Company as the term is defined in Section 424 of the Internal Revenue Code of 1986 on the date of the Award.

20. Separability. In case any provision in this Agreement, or in any other instrument referred to herein, shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions in this Agreement, or in any other instrument referred to herein, shall not in any way be affected or impaired thereby.

21. Notices. Notices hereunder shall be in writing and, if to the Company shall be mailed to the Company at P.O. Box 1600, MS 22B, Stamford, Connecticut 06904, addressed to the attention of Executive Compensation Administrator; and, if to the Employee, shall be delivered personally or mailed to the Employee at his or her address as the same appears on the records of the Company.

22. Integration of Terms. Except as otherwise provided in this Agreement, this Agreement contains the entire agreement between the parties relating to the subject matter hereof and supersedes any and all oral statements and prior writings with respect thereto.

23. General Restrictions. If at any time the Committee in its sole discretion, shall determine that the listing, registration or qualification of any shares subject to this Agreement 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 awarding of the Option or RSUs or the issue or purchase of shares hereunder, the Option may not be exercised or certificates for shares issued in respect of RSUs 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 Committee as the case may be and any delay caused thereby shall in no way affect the date of termination of the Option or RSUs.

Exhibit 10(b)(3)

**AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION**

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the "Company") has established the following plans (the "Plans"),

Amended and Restated Severance Letter Agreement Providing Certain Benefits
Upon Termination of Employment Following a Change in Control,

Xerox Corporation 2004 Performance Incentive Plan, December 2007 Amendment and Restatement,

Xerox Corporation 1991 Long-Term Incentive Plan, 2007 Amendment and Restatement

Xerox Corporation Unfunded Supplemental Executive Retirement Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

"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."

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 4th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(c)(1)

XEROX CORPORATION
1996 NON-EMPLOYEE DIRECTOR STOCK OPTION PLAN

2007 AMENDMENT AND RESTATEMENT

ARTICLE I—Purpose of the Plan

The purpose of the Xerox Corporation 1996 Non-Employee Director Stock Option Plan (“Plan”) is to increase the ownership interest in the Company of non-employee directors whose services are considered essential to the Company’s continued progress, to align such interests with those of the shareholders of the Company and to provide a further incentive to serve as a director of the Company.

ARTICLE II—Definitions

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

2.1 “1996 Annual Meeting” means the annual meeting of shareholders of the Company scheduled to be held on May 16, 1996, or any adjournment thereof.

2.2 “Award Summary” means the award summary delivered by the Administrator to each Non-Employee Director upon grant of an Option under the Plan.

2.3 “Board” means the Board of Directors of Xerox Corporation.

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

2.5 “Company” means Xerox Corporation.

2.6 “Exercise Period” means the date which is ten years after the Option Grant Date of such Option.

2.7 “Fair Market Value” means, with respect to any date, the average between the highest and lowest sale prices per Share on the New York Stock Exchange Composite Transactions Tape on such date, 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 on such Composite Tape for the last preceding date on which sales of Shares were reported.

2.8 “Option” means an option to purchase Shares awarded under Article VIII which does not meet the requirements of Section 422 of the Internal Revenue Code of 1986, as amended, or any successor law.

2.9 “Option Grant Date” means the date upon which an Option is granted to a Non-Employee Director except that for purposes of the Option granted as of the 1996 Annual Meeting, the Option Grant Date shall be on the effective date of the Stock Split.

2.10 “Optionee” means a Non-Employee Director of the Company to whom an Option has been granted.

2.11 “Non-Employee Director” means a director of the Company who is neither an employee of the Company nor any subsidiary of the Company.

2.12 “Plan” means the Xerox Corporation 1996 Non-Employee Director Stock Option Plan, as amended and restated from time to time.

2.13 “Shares” means shares of the Common Stock, par value $1.00 per share, of the Company after giving effect to the three for one stock split declared by the Board of Directors on January 23, 1996 subject to shareholder approval of an increase in the number of authorized shares of stock at the 1996 Annual Meeting (the “Stock Split”).

ARTICLE III—Administration of the Plan

3.1 Administrator of Plan. The Plan shall be administered by the Office of Corporate Secretary (“Administrator”).

3.2 Authority of the Administrator. Except as otherwise provided herein, the Administrator shall have full power and authority to (i) interpret and construe the Plan and to adopt such rules and regulations it shall deem necessary and advisable to implement and administer the Plan and (ii) designate persons to carry out his or her responsibilities, subject to such limitations, restrictions and conditions as he or she 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 subject to applicable conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (“Rule 16b-3”). The Administrator may delegate administrative duties under the Plan to one or more agents as he or she shall deem necessary or advisable.

ARTICLE IV—Awards under the Plan

Awards in the form of Options shall be granted to Non-Employee Directors in accordance with Article VIII. Each Option granted under the Plan shall be evidenced by a an Award Summary.

ARTICLE V—Eligibility

Non-Employee Directors of the Company shall be eligible to participate in the Plan in accordance with Article VIII.

ARTICLE VI—Shares Subject to the Plan

Subject to adjustment as provided in Article XI, the aggregate number of Shares which may be issued upon the exercise of Options shall not exceed 1,000,000 Shares. To the extent an outstanding Option expires or terminates unexercised or is canceled or forfeited, the Shares subject to the expired, unexercised, canceled or forfeited portion of such Option shall again be available for grants of Options under the Plan.

ARTICLE VII—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. However , any contrary requirement of Rule 16b-3 under the 1934 Act or any successor rule shall prevail over the provisions of this section.

ARTICLE VIII—Options

Each Non-Employee Director shall be granted Options, subject to the following terms and conditions:

8.1 Time of Grant. On the date of the 1996 Annual Meeting of shareholders of the Company and, thereafter, on the date of each annual meeting of shareholders of the Company through 1998 each person who is a Non-Employee Director immediately after such meeting of shareholders shall be granted an Option to purchase 2,500 Shares. On the date of each Annual Meeting of shareholders of the Company (or any adjournment thereof) for the calendar years 1999 and thereafter, each person who is a Non-Employee Director immediately after such meeting of shareholders shall be granted an Option to purchase 5,000 Shares. The number referred to in the preceding sentence shall be subject to adjustment as provided in Article XI. Any person elected to the Board subsequent to the 1996 Annual Meeting at a time other than at any other annual meeting of shareholders who becomes a Non-Employee Director, upon the date of such election, shall be granted an Option to purchase a number of Shares determined by multiplying the number set forth in the preceding sentence by a fraction, the numerator of which shall be the number of days between the date of such election and the date which is the first anniversary of the date of the last preceding annual meeting of shareholders and the denominator of which shall be 365.

8.2 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.

8.3 Option Waiting Period and Exercise Dates. The Shares subject to an Option may be purchased commencing on the January 1 next following the annual meeting of shareholders (the "Waiting Period") as follows:

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

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

34% of such Shares commencing on the first day of the second year following the Waiting Period.

Subject to Article IX, 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 twenty Shares.

Upon the occurence of a Change in Control, the Waiting Period shall terminate and all outstanding Options shall become immediately fully exercisable pursuant to the other terms and conditions of the Option until the expiration of the Exercise Period.

8.4 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, U.S., 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.

ARTICLE IX—Termination of Directorship

9.1 Termination of Service. If an Optionee ceases to be a director of the Company other than by reason of disability, retirement from service on the Board, termination of service on the Board following five years of such service, 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 a director of the Company shall terminate.

9.2 Disability, Retirement, Termination Following Five Years of Service, or Death. If an Optionee ceases to be a director of the Company by reason of disability, termination of service on the Board following five years of such service, or retirement from service on the Board, each Option held by such Optionee may thereafter be exercised by such Optionee in accordance with the provisions of Article VIII. If the Optionee dies following termination of service from the Board by reason of retirement, termination of service on the Board following five years of such service 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 a director 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 a director of the Company in accordance with the foregoing shall terminate.

ARTICLE X—Amendment and Termination

The Board may amend the Plan from time to time or terminate the Plan at any time; 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 and, subject to Article XI, the number of Shares subject to an Option granted under Article VIII, the purchase price therefor, the date of grant of any such Option and the termination provisions relating to such Option, shall not be amended more than once every six months, other than to comply with changes in the Internal Revenue Code of 1986, as amended, or any successor law, or the Employee Retirement Income Security Act of 1974, as amended, or any successor law, or the rules and regulations thereunder.

ARTICLE XI—Adjustment Provisions

11.1 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 total number of Shares reserved for issuance under the Plan and the number of Shares subject to Options to be granted under Section 8.1 shall be appropriately adjusted and 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.

11.2 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 their rights under the Plan.

11.3 In the case of any sale of assets, merger, consolidation or combination of the Corporation 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 Non-Employee Director 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.

11.4**.** No adjustment or modification to any outstanding Option pursuant to this Article XI shall cause such Option to be treated as the grant of a new stock right or a change in the form of payment of the existing stock right for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), as set forth in Treasury guidance.

ARTICLE XII—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 all outstanding shares entitled to vote thereon at the 1996 annual meeting of shareholders, shall become effective as of the date of adoption by shareholders. The effective date of this amendment and restatement is the date hereof and dates set forth herein.

ARTICLE XIII- Miscellaneous Provisions

13.1 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.

13.2 Successors and Assigns. The Plan shall be binding on all successors and permitted assigns of a Non-Employee Director, including, without limitation, the estate of such Non-Employee Director and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Non-Employee Director's creditors.

13.3 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.

13.4 Future Rights. No Non-Employee Director shall have any claim or rights to be granted an Option under the Plan, and no Non-Employee Director shall have any rights by reason of the grant of any Options under the Plan to continue as a Director for any period of time, or at any particular rate of compensation.

13.5 Rights as a Shareholder. A Non-Employee Director 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.

13.6 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.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 5th day of December, 2007, effective as of the date hereof, and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the "Company") has established the following plans (the "Plans"):

Deferred Compensation Plan for Directors, 2007 Amendment and Restatement

2004 Equity Compensation Plan for Non-Employee Directors, 2007 Amendment and Restatement

1996 Non-Employee Director Stock Option Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

"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."

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 5th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

XEROX CORPORATION
2004 EQUITY COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS
2007 AMENDMENT AND RESTATEMENT

1. Purpose

The purpose of the Xerox 2004 Equity Compensation Plan for Non-Employee Directors (the "Plan") is to provide the means whereby Xerox Corporation (the "Company") may include the Company's equity in the total compensation of non-employee members of the Company's Board of Directors ("Board").

2. Effective Date and Term of Plan

This Plan shall be effective as of May 20 2004, subject to the approval of the Company's shareholders at the 2004 annual meeting and remain in effect until the earlier of: (i) the date when no additional shares are available for issuance under the Plan; or (ii) the date when the Board terminates the Plan in accordance with Section 10. The effective date of this Amendment and Restatement is the date hereof and dates set forth herein.

3. Eligibility

Any person who is a Non-Employee Director of the Company shall be eligible to receive an Award under the Plan (each a "Participant"). For purposes of the Plan, Non-Employee Director shall mean a member of the Board who is not at the time also an employee of the Company or any of its direct or indirect majority-owned subsidiaries (regardless of whether such subsidiary is organized as a corporation, partnership or other entity).

4. Administration of the Plan

The Plan shall be administered by the Board of Directors of the Company upon advice of the Board's Governance Committee. Subject to the express provisions of the Plan, the Board shall have full and exclusive power to do all things necessary or desirable in connection with the administration of the Plan, including, without limitation:

(a) to prescribe, amend and rescind rules relating to the Plan and to define terms not otherwise defined herein;

(b) to approve the form of documentation used to evidence any grant awarded hereunder, including providing for such terms as it considers necessary or desirable;

(c) to establish and verify the extent of satisfaction of any conditions to exercisability applicable to stock options and stock appreciation rights ("SARs") or to receipt or vesting of stock grants;

(d) to determine whether, and the extent to which, adjustments are required pursuant to Section 8 hereof, provided that any such adjustment shall not cause any outstanding Award to be treated as the grant of new stock right or a change in the form of payment of the existing stock right for purposes of section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), as set forth in Treasury guidance; and

(e) to interpret and construe the Plan, any rules and regulations under the Plan and the terms and conditions of any stock option or stock grant awarded hereunder, and to make exceptions to any procedural provisions in good faith and for the benefit of the Company.

All determinations, interpretations, and other decisions under or with respect to the Plan shall be final, conclusive and binding upon the Company, all Participants and any holder or beneficiary of any Award, as hereinafter defined, under the Plan. The Board may consider such factors as it deems relevant, in its sole and absolute discretion, in making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

All questions pertaining to the construction, regulation, validity and effect of the Plan shall be determined in accordance with the laws of the state of New York and applicable Federal law and the relevant rules of the New York Stock Exchange, Inc. (“NYSE”).

5. Shares Subject to the Plan

A total number of 1,000,000 shares of Common Stock,[1] par value $1.00, as presently constituted, subject to adjustment as provided in Section 8, of the Company shall become available for issuance under the Plan. Provided, however, that any shares issued in connection with options or SARs shall be counted against this limit as 0.6 shares for each one (1) share issued.

For purposes of the preceding paragraph, the following shall not be counted against shares available for issuance under the Plan: (i) settlement of SARs in cash or any form other than shares and (ii) payment in shares of dividends and dividend equivalents in conjunction with outstanding awards.

In determining shares available for issuance under the Plan, any Awards that are cancelled, forfeited or lapse shall become eligible again for issuance under the Plan. Upon exercise of SARs, only the shares issued shall be counted against the available share limit.

Any shares issued under the plan may consist in whole or in part, of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in settlements of Awards under the Plan.

6. Awards

The Board shall determine the type of award(s) to be made to each Non-Employee Director under the Plan and shall approve the terms and conditions governing such awards through the issuance of an award agreement. Awards may be granted singly, in combination, or in tandem so that the settlement or payment of one automatically reduces or cancels the other. However, under no circumstances may stock option awards be made which provide by their terms for the automatic award of additional stock options upon the exercise of such awards, including, without limitation, “reload options.”

The following is a list of awards that may be granted, either individually or collectively, to Participants pursuant to the provisions of the Plan (“Awards”).

(a) Deferred Stock Unit (“DSU”) is a bookkeeping entry that represents the right to receive one share of Common Stock at a future date. Outright grants may be made as part of the Non-Employee Director’s annual compensation for services rendered or as a result of a voluntary election by the Non-Employee Director to defer cash compensation otherwise payable to him or her, provided that, after December 31, 2004, such deferral election complies with the requirements of section 409A of the Code. DSUs will include the right to receive dividend equivalents which are credited in the form of additional DSUs payable in Common Stock following the Non-Employee Director’s separation from service with the Company, as defined for purposes of section 409A of the Code.

(b) Stock Option is a grant of a right to purchase a specified number of shares of Common Stock during a specified period no longer than seven years. The purchase price of each option shall not be less than 100% of Fair Market Value on the effective date of grant. The price at which shares of Common Stock may be purchased under a Stock Option shall be paid in full at the time of the exercise in cash or shares, including tendering (either actually or by attestation) Common Stock or surrendering a Stock Award valued at Fair Market Value, as defined herein, on the date of surrender. A Stock Option may be

[1] 1,000,000 million reflects the number of shares if all grants were made in ”whole value” shares (e.g., deferred stock units). If all grants were made in the form of options or SARs, the number available is 1,666,667.

exercised in whole or in installments on the earliest of: i) the vesting schedule established by the Board; or ii) the death of the Non-Employee Director.

Notwithstanding any provision of the Plan, a repricing of a Stock Option shall not be allowed by the Board.

Fair Market Value for all purposes under the Plan shall mean the average of the high and low prices of Common Stock as reported in the Wall Street Journal in the New York Stock Exchange Composite Transactions or similar successor consolidated transactions report for the relevant date, or if no sales of Common Stock were made on said exchange on that date, the average of the high and low prices of Common Stock as reported in said composite transaction report for the preceding day on which sales of Common Stock were made on said exchange. Under no circumstance shall Fair Market Value be less than the par value of the Common Stock.

(c) Stock Appreciation Right (SAR) is a right to receive a payment, in cash and/or Common Stock, as determined by the Board, equal to the excess of the Fair Market Value of a specified number of shares of Common Stock on the date the SAR is exercised over the Fair Market Value on the effective date of grant of the SAR as set forth in the applicable award agreement. The maximum term for SARs under the Plan is seven years.

(d) Stock Award is an Award made in stock. All or part of any Stock Award may be subject to conditions established by the Board and set forth in the award agreement which may include, but is not limited to, continuous service with the Company.

7. Dividend and Dividend Equivalents

At the Board’s discretion, Awards denominated in Common Stock may earn dividends or dividend equivalents paid currently in cash or shares of Common Stock or credited to an account established by the Board in the name of the Non-Employee Director and converted into additional DSUs. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Board may establish, including reinvestment in additional shares or share equivalents.

8. Adjustments and Reorganizations

(a) 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 (other than by normal cash dividends), such change shall be made with respect to (i) the aggregate number of shares that may be issued under the Plan; (ii) the number of shares subject to awards of a specified type or to any individual under the Plan; and/or (iii) the price per share for any outstanding stock options, SARs and other awards under the Plan.

(b) Except as otherwise provided in subsection 8(a) above, notwithstanding any other provision of the Plan, and without affecting the number of shares reserved or available hereunder, the Committee shall authorize the issuance, continuation or assumption of outstanding stock options, SARs and other awards under the Plan or provide for other equitable adjustments after changes in the shares resulting from any merger, consolidation, sale of all or substantially all 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 the rights of the holders of awards under the Plan.

(c) In the case of any sale of all or substantially all 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 individual holding an outstanding award under the Plan, including any Optionee who holds an outstanding Option, shall have the right (subject to the provisions of the Plan and any limitation applicable to the award) thereafter, and for Optionees during the term of the Option upon the exercise thereof, to receive the Acquisition Consideration (as defined below) receivable upon the Acquisition by a holder of the number of applicable shares which would have been obtained upon exercise of the Option or portion thereof or obtained pursuant to the terms of the applicable award, 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. Transferabililty and Exercisability

Except as otherwise provided herein, all Awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the Non-Employee Director 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. Notwithstanding the preceding sentence, the Board may provide that any Stock Option Award may be transferable by the Participant to family members or family trusts established by the Participant.

Except as otherwise provided herein, during the life of the Non-Employee Director, Awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Board. In addition, if so permitted by the Board, Non-Employee Directors may designate a beneficiary to exercise the rights of the Non-Employee Director and receive any distributions under the Plan upon the death of the Non-Employee Director.

10. Amendment and Termination of Plan

The Board may periodically amend the Plan as it deems appropriate, without further action by the Company's shareholders, except to the extent required by applicable law. Notwithstanding the foregoing, and subject to adjustment pursuant to Section 8, the Plan may not be amended to materially increase the number of shares of Common Stock authorized for issuance under the Plan, unless any such amendment is approved by the Company's shareholders.

Notwithstanding the foregoing, an amendment that constitutes a "material revision", as defined by the rules of the NYSE, shall be submitted to the Company's shareholders for approval. In addition, any revision that deletes or limits the scope of the provision in Section 6 prohibiting repricing of options will be considered a material revision.

The Plan may be terminated at such time as the Board may determine. Amendments or termination of the Plan will not affect the rights and obligations arising under Stock Options or other Stock Awards theretofore granted and then in effect without the Participant's consent.

11. Term of Award

The term of each Award is determined by the Board; provided, however, that the term of any Stock Option or SAR shall not be greater than seven years from the effective date of grant.

12. Cancellation or Suspension of an Award

The Board shall have the full power and authority to determine under what circumstances any Award shall be canceled or suspended (e.g., activity by Non-Employee Directors which constitutes a conflict of interest with the Company or is in violation of Company policies).

13. Deferred Settlement

The Board may require or permit Participants to elect to defer, in a manner consistent with the requirements of section 409A of the Code, the issuance of shares or the settlement of Awards in cash under such rules and procedures as it may establish under the Plan. It may also provide that deferred settlements include the payment or crediting of interest on the deferral amounts or the payment or crediting of dividend equivalents on deferred settlements denominated in shares.

14. Unfunded Plan

Unless otherwise determined by the Board, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any Participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such right (unless otherwise determined by the Board) shall be no greater than the right of an unsecured general creditor of the Company.

15. General Restriction

Each award shall be subject to the requirement that, if at any time the Board shall determine, in its sole discretion, that the listing, registration or qualification of any Award 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 Award or the exercise settlement thereof, such Award may not be granted, 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 Board.

16. 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.

17. Successors and Assigns

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

18. Rights as a Shareholder

A Participant shall have no rights as a shareholder until he or she becomes the holder of record of Common Stock.

19. Change in Control

Notwithstanding anything to the contrary in the Plan, the following shall apply to all awards granted and outstanding under the Plan:

A. Definitions

The following definitions shall apply to this Section 19:

A "Change in Control", unless otherwise defined by the Board, shall be deemed to have occurred if

(i) 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;

(ii) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (A) individuals who as of the date hereof constitute the Board, and (B) 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 as of the date hereof, or whose appointment, election or nomination for election was previously so approved or recommended;

(iii) 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 (A) 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 (B) 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

(iv) 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (A) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 clause (6) 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.

A "Section 409A-Conforming Change in Control" is 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.

"CIC Price" shall mean the higher of (i) the highest price paid for a share of the Company's Common Stock in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (ii) the highest price paid for a share of the Company's Common Stock 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 report.

B. Acceleration of Vesting and Payment of Stock Options, SARs, DSUs and Dividend Equivalents

Upon the occurrence of an event constituting a Change in Control, all stock options and SARs (to the extent the CIC Price exceeds the exercise price), and dividend equivalents outstanding on such date shall become 100% vested and shall be paid in cash as soon as may be practicable. Upon such payment, such awards and any related stock options shall be cancelled.

Upon the occurrence of an event constituting a Change in Control, all DSU's shall become 100% vested. If such Change in Control is a Section 409A-Conforming Change in Control, the DSUs shall be paid in cash as soon as practicable. If such Change in Control is not a Section 409A-Conforming Change in Control, the DSUs shall be paid in cash as soon as practicable following the earliest to occur of (i) the Non-Employee Director's separation from service with the Company, as defined for purposes of section 409A of the Code, or (ii) the scheduled payment date of the DSU.

The amount of cash to be paid shall be determined (i) in the case of stock options by multiplying the number of stock options by the difference between the exercise price and the CIC Price , (ii) in the case of DSUs by multiplying the number of DSUs by the CIC Price and (iii) in the case of SARs, the difference between the exercise price of the related option per share and the CIC Price.

C. Notwithstanding the foregoing, any stock option and SARs held by a director subject to Section 16 of the Securities Exchange Act of 1934, as amended ("1934 Act"), which have been outstanding less than six months (or such other period as may be required by the 1934 Act) upon the occurrence of an event constituting a Change in Control shall not be paid in cash until the expiration of such period, if any, as shall be required pursuant to such Section, and the amount to be paid shall be determined by multiplying the number of SARs, stock options, or unexercised shares under such stock options, as the case may be, by the CIC Price determined as though the event constituting the Change in Control had occurred on the first day following the end of such period.

Section 409A of the Internal Revenue Code.

Notwithstanding any other provision of the Plan, no election by any participant or beneficiary, and no payment to any individual, shall be permitted under the Plan if such election or payment would cause any amount to be taxable under section 409A of the Internal Revenue Code with respect to any individual.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 5th day of December, 2007, effective as of the date hereof, and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(d)(5)

**AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION**

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the “Company”) has established the following plans (the “Plans”):

Deferred Compensation Plan for Directors, 2007 Amendment and Restatement

2004 Equity Compensation Plan for Non-Employee Directors, 2007 Amendment and Restatement

1996 Non-Employee Director Stock Option Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

“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.”

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 5th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(e)(11)

Annual Performance Incentive Plan for 2007 ("2007 APIP")

Under the 2007 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 2007, 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 2007 APIP. The performance measures and weightings for 2007 were total revenue (30%), earnings per share (40%) and core cash flow from operations (30%).

For 2007, the performance against the 2007 APIP goals was as follows: Total revenue was above threshold and below target, earnings per share exceeded maximum and core cash flow from operations exceeded maximum.

Exhibit 10(e)(15)

XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN

DECEMBER 2007 AMENDMENT AND RESTATEMENT

1. Purpose

The purpose of the Xerox Corporation 2004 Performance Incentive Plan as set forth herein or in any amendments hereto (the "2004 Plan" or the "Plan") is to advance the interests of Xerox Corporation (the "Company") and to increase shareholder value by providing officers and employees of the Company, its subsidiaries and its Affiliates (as hereinafter defined) with a proprietary interest in the growth and performance of the Company and with incentives for current or future service with the Company, its subsidiaries and Affiliates. The Plan is a successor plan to (i) the Xerox Corporation 1991 Long-Term Incentive Plan, (ii) the Xerox Corporation 1998 Employee Stock Option Plan, (iii) the Xerox Executive Performance Incentive Insurance Plan, (iv) the Xerox Mexicana, S.A. de C.V. Executive Rights Plan and (v) the Xerox Canada Inc. Executive Rights Plan, any or all of which may be referred to as a "Predecessor Plan".

2. Effective Date and Term

The Plan shall be effective as of May 20, 2004, subject to the approval of the Company's shareholders at the 2004 annual meeting. No awards or grants can be made after April 30, 2012, unless terminated sooner pursuant to Section 13 by the Company's Board of Directors (the "Board"). Effective May 20, 2004, no further awards shall be made under a Predecessor Plan, but outstanding awards under any Predecessor Plan shall remain outstanding in accordance with their applicable terms and conditions. This Amendment and Restatement shall be effective as of the date hereof and dates set forth herein.

3. Plan Administration

(a) The independent Compensation Committee of the Board, or such other independent committee as the Board shall determine, comprised of not less than three members, shall be responsible for administering the Plan (the "Compensation Committee"). To the extent specified by the Compensation Committee, it may delegate its administrative responsibilities to a subcommittee of the Compensation Committee comprised of not less than three members (the Compensation Committee, such subcommittee, and any individual to whom powers are delegated pursuant to subsection (c), being hereinafter referred to as the "Committee"). The Committee shall be qualified to administer the Plan as contemplated by (i) Rule 16b-3 under the Securities Exchange Act of 1934 (the "1934 Act") or any successor rule, (ii) Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder, and (c) any rules and regulations of a stock exchange on which Common Stock (as defined in Section 5) of the Company is listed.

(b) The Committee shall have full and exclusive power to interpret, construe and implement the Plan and any rules, regulations, guidelines or agreements adopted hereunder and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. These powers shall include, but not be limited to, (i) determination of the type or types of awards to be granted under the Plan; (ii) determination of the terms and conditions of any awards under the Plan; (iii) determination of whether, to what extent and under what circumstances awards may be settled, paid or exercised in cash, shares, other securities, or other awards, or other property, or cancelled, forfeited or suspended; (iv) adoption of such modifications, amendments, procedures, subplans and the like as are necessary to enable participants employed in other countries in which the Company may operate to receive advantages and benefits under the Plan consistent with the laws of such countries, and consistent with the rules of the Plan; (v) subject to the rights of participants, modification, change, amendment or cancellation of any award to correct an administrative error and (vi) taking any other action the Committee deems necessary or desirable for the administration of the Plan. All determinations, interpretations, and other decisions under or with respect to the Plan or any award by the Committee shall be final, conclusive and binding upon the Company, any participant, any holder or beneficiary of any award under the Plan and any employee of the Company.

(c) Except for the power to amend the Plan as provided in Section 13 and except for determinations regarding employees who are subject to Section 16 of the 1934 Act or certain key employees who are, or may become, as determined by the Committee, subject to the Code Section 162(m) compensation deductibility limit (the "Covered Employees"), and except as may otherwise be required under applicable New York Stock Exchange rules, the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Committee may establish to any officer or officers of the Company. The term "Committee" herein shall include any individual exercising powers to the extent delegated pursuant to the preceding sentence.

4. Eligibility

Any employee of the Company shall be eligible to receive an award under the Plan. For purposes of this Section 4, "Company" shall include any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee ("Affiliate"). If a participant who is an employee or former employee of the Company is determined, such determination made prior to a Change in Control, not to have satisfied any of the conditions set forth in the Award Agreement the awards granted shall be cancelled as set forth in the Award Agreement. If a participant who is an employee or former employee of the Company is deemed by the Committee, in the Committee's sole discretion exercised prior to a Change in Control, to have engaged in detrimental activity against the Company, any awards granted to such employee or former employee on or after January 1, 2006, whether or not Nonforfeitable as hereinafter defined, shall be canceled and be of no further force or effect and any payment or delivery of an award within six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the participant 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 Committee.

5. Shares of Stock Subject to the Plan

(a) A total number of 10.0 million (10,000,000) shares of common stock[1], par value $1.00 per share, of the Company ("Common Stock") shall become available for issuance under the Plan, provided that any shares issued in connection with options or SARs shall be counted against this limit as 0.6 shares for each one (1) share issued. Any shares available for grant under any Predecessor Plan on the Effective Date not subject to outstanding awards shall become available for issuance under the Plan. (As of May 20, 2004, approximately 15.7 million shares[2] are expected to be available for issuance under Predecessor Plans.) Thus, the total number available for grant under the 2004 Plan is expected to be 25.7 million (25,700,000)[3]. In addition, any shares underlying awards outstanding on May 20, 2004 under any Predecessor Plan that are cancelled, are forfeited, or lapse shall become available for issuance under the Plan.

(b) For purposes of the preceding paragraph, the following shall not be counted against shares available for issuance under the Plan: (i) payment of stock appreciation rights ("SAR") in cash or any form other than shares and (ii) payment in shares of dividends and dividend equivalents in conjunction with outstanding awards. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company shall not be counted against the shares available for issuance under the Plan.

(c) In determining shares available for issuance under the Plan, any awards granted under the Plan that are cancelled, are forfeited, or lapse shall become eligible again for issuance under the Plan. In

---

[1] 10.0 million reflects the number of shares if all grants were made in "whole value" shares (e.g., restricted stock or performance shares). If all grants were made in the form of options or SARs, the number available is 16.7 million.

[2] 15.7 million reflects the number of shares if all grants were made in "whole value" shares (e.g., restricted stock or performance shares). If all grants were made in the form of options or SARs, the number available is 26.1 million.

[3] 25.7 million reflects the number of shares if all grants were made in "whole value" shares (e.g., restricted stock or performance shares). If all grants were made in the form of options or SARs, the number available is 42.8 million.

addition, shares withheld to pay taxes pursuant to Section 14, and shares tendered to exercise stock options, shall be treated as shares again eligible for issuance under the Plan.

(d) In no event, however, except as subject to adjustment as provided in Section 6, shall more than (i) 10.0 million (10,000,000) shares of Common Stock be available for issuance pursuant to the exercise of incentive stock options ("ISOs") awarded under the Plan; and (ii) 15.0 million (15,000,000) shares of Common Stock be made the subject of awards under any combination of awards under Sections 7(b), 7(c) or 7(d) of the Plan to any single individual, of which no more than 10.0 million (10,000,000) may be shares of restricted stock. SARs whether paid in cash or shares of Common Stock shall be counted against the limit set forth in (ii).

(e) Any shares issued under the Plan may consist in whole or in part, of authorized and unissued shares or of treasury shares, and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in payment of awards under the Plan.

6. Adjustments and Reorganizations

(a) 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 (other than by normal cash dividends), such change shall be made with respect to (i) the aggregate number of shares that may be issued under the Plan; (ii) the number of shares subject to awards of a specified type or to any individual under the Plan; and/or (iii) the price per share for any outstanding stock options, SARs and other awards under the Plan.

(b) Except as otherwise provided in subsection 6(a) above, notwithstanding any other provision of the Plan, and without affecting the number of shares reserved or available hereunder, the Committee shall authorize the issuance, continuation or assumption of outstanding stock options, SARs and other awards under the Plan or provide for other equitable adjustments after changes in the shares resulting from any merger, consolidation, sale of all or substantially all 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 the rights of the holders of awards under the Plan.

(c) In the case of any sale of all or substantially all 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 individual holding an outstanding award under the Plan, including any Optionee who holds an outstanding Option, shall have the right (subject to the provisions of the Plan and any limitation applicable to the award) thereafter, and for Optionees during the term of the Option upon the exercise thereof, to receive the Acquisition Consideration (as defined below) receivable upon the Acquisition by a holder of the number of applicable shares which would have been obtained upon exercise of the Option or portion thereof or obtained pursuant to the terms of the applicable award, 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.

(d) No adjustment or modification to any outstanding award pursuant to this Section 6 shall cause such award to be treated as the grant of a new stock right or a change in the form of payment of the existing stock right for purposes of Code Section 409A, as set forth in Treasury guidance.

7. Awards

(a) The Committee shall determine the type or types of award(s) to be made to each participant under the Plan and shall approve the terms and conditions governing such awards in accordance with Section 12. Awards may include but are not limited to those listed in this Section 7. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. However, under no circumstances may stock option awards be made which provide by their terms for the automatic award of additional stock options upon the exercise of such awards, including, without limitation, "reload options".

(b) A Stock Option is a grant of a right to purchase a specified number of shares of Common Stock during a specified period. The purchase price of each option shall be not less than 100% of Fair Market Value (as defined in Section 10) on the effective date of grant. A Stock Option may be exercised in whole or in installments, which may be cumulative. A Stock Option may be in the form of an ISO which complies with Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder at the time of grant. The price at which shares of Common Stock may be purchased under a Stock Option shall be paid in full at the time of the exercise in cash or such other method as provided by the Committee at the time of grant or as provided in the form of agreement approved in accordance herewith, including tendering (either constructively or by attestation) Common Stock, surrendering a stock award valued at market value at the time of surrender, surrendering a cash award, or any combination thereof. Notwithstanding any provision of the Plan, a repricing of a Stock Option shall be allowed by the Committee only with the approval of the Company's shareholders to the extent required under the rules of the New York Stock Exchange. For this purpose, a "repricing" shall be defined as described in the New York Stock Exchange rules.

(c) A Stock Appreciation Right ("SAR") is a right to receive a payment, in cash and/or Common Stock, as determined by the Committee, equal to the excess of the market value of a specified number of shares of Common Stock at the time the SAR is exercised over the Fair Market Value on the effective date of grant of the SAR as set forth in the applicable award agreement.

(d) Stock Award is an award made in stock or denominated in units of stock. All or part of any Stock Award may be subject to conditions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance. A restricted stock award made pursuant to this Section 7(d) shall be subject to a vesting schedule of no less than three (3) years unless such award is performance based, in which case vesting shall be no less than one (1) year.

(e) Cash Award may be any of the following:

(i) an annual incentive award in connection with which the Committee will establish specific performance periods (not to exceed twelve months) to provide cash awards for the purpose of motivating participants to achieve goals for the performance period. An annual incentive award shall specify the minimum, target and maximum amounts of awards for a performance period for a participant or any groups of participants, and, to the extent applicable to Covered Employees, comply with the requirements of Section 23; or

(ii) a long-term award denominated in cash with the eventual payment amount subject to future service and such other restrictions and conditions as may be established by the Committee, and as set forth in the award agreement, including, but not limited to, continuous service with the Company, achievement of specific business objectives, and other measurement of individual, business unit or Company performance; or

(iii) Cash Awards under this Section 7(e) to any single Covered Employee, including dividend equivalents in cash or shares of Common Stock payable based upon attainment of specific performance goals, may not exceed in the aggregate $10,000,000 in the case of the Chief Executive Officer and $5,000,000 in the case of any other participant, such limits being applicable to each twelve-month performance period established by the Committee under this Section 7(e) or under Section 23.

(f) The Committee shall have the discretion with respect to any award granted under the Plan to establish upon its grant conditions under which (i) the award may be later forfeited, cancelled, rescinded, suspended, withheld or otherwise limited or restricted; or (ii) gains realized by the grantee in connection with an award or an award's exercise may be recovered; provided that such conditions and their consequences are clearly set forth in the grant agreement or other grant document and fully comply with applicable laws. These conditions may include, without limitation, actions by the participant which constitute a conflict of interest with the Company, are prejudicial to the Company's interests, or are in violation of any non-compete agreement or obligation, any confidentiality agreement or obligation, the Company's applicable policies, its Code of Business Conduct and Ethics, or the participant's terms and conditions of employment.

8. Dividends and Dividend Equivalents

The Committee may provide that awards denominated in stock earn dividends or dividend equivalents. Such dividend equivalents may be paid currently in cash or shares of Common Stock or may be credited to an account established by the Committee under the Plan in the name of the participant. In addition, dividends or dividend equivalents paid on outstanding awards or issued shares may be credited to such account rather than paid currently. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents.

9. Deferrals and Settlements

Payment of awards may be in the form of cash, stock, other awards, or in such combinations thereof as the Committee shall determine at the time of grant, and with such restrictions as it may impose. Except as provided in Section 24 herein, the Committee may also require or permit participants to elect to defer the issuance of shares or the payment of awards in cash under such rules and procedures as it may establish under the Plan, provided that such rules and procedures comply with the requirements of Code Section 409A, if applicable. It may also provide that deferred payments include the payment or crediting of interest on the deferral amounts or the payment or crediting of dividend equivalents on deferred payments denominated in shares.

10. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean, effective February 15, 2007, the closing price of Common Stock as reported in The Wall Street Journal in the New York Stock Exchange Composite Transactions or similar successor consolidated transactions reports for the relevant date, or if no sales of Common Stock were made on said exchange on that date, the closing price of Common Stock as reported in said composite transaction report for the preceding day on which sales of Common Stock were made on said exchange. Under no circumstances shall Fair Market Value be less than the par value of the Common Stock.

11. Transferability and Exercisability

Except as otherwise provided in this Section 11, all awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the participant 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. Notwithstanding the preceding sentence, the Committee may provide that any award of non-qualified Stock Options may be transferable by the recipient to family members or family trusts established by the recipient. The Committee may also provide that, in the event that a participant terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, a third party, including but not limited to a "blind" trust, may be authorized by the Committee to act on behalf of and for the benefit of the respective participant with respect to any outstanding awards. Except as otherwise provided in this Section 11, during the life of the participant, awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Committee. In addition, if so permitted by the Committee, a participant may designate a beneficiary or beneficiaries to exercise the rights of the participant and receive any distributions under the Plan upon the death of the participant.

12. Award Agreements; Notification of Award

Awards under the Plan (other than annual incentive awards described in Section 7(e)(i)) shall be evidenced by one or more agreements approved by the Committee that set forth the terms and conditions of and limitations on an award, except that in no event shall the term of any Stock Option exceed a period of ten years from the date of its grant. The Committee need not require the execution of any such agreement by a participant in which case acceptance of the award by the respective participant will constitute agreement to the terms of the award. In the case of an annual incentive cash award, the participant shall receive notification of such award in such form as the Committee may determine.

13. Plan Amendment and Termination

(a) The Compensation Committee may amend the Plan as it deems necessary or appropriate, except that no such amendment which would cause the Plan not to comply with the requirements of (i) Code Section 162(m) with respect to performance-based compensation, (ii) the Code with respect to ISOs or (iii) the New York Business Corporation Law as in effect at the time of such amendment shall be made without the approval of the Company's shareholders. No such amendment shall adversely affect any outstanding awards under the Plan without the consent of all of the holders thereof.

(b) Notwithstanding the foregoing, an amendment that constitutes a "material revision", as defined by the rules of the New York Stock Exchange, shall be submitted to the Company's shareholders for approval. In addition, any revision that deletes or limits the scope of the provision in Section 7 prohibiting repricing of options without shareholder approval will be considered a material revision.

(c) The Board may terminate the Plan at any time. Upon termination of the Plan, no future awards may be granted, but previously-made awards shall remain outstanding in accordance with their applicable terms and conditions, and the terms of the Plan.

14. Tax Withholding

The Company shall have the right to deduct from any payment of an award made under the Plan, including the delivery or vesting of shares, an amount sufficient to cover withholding required by law for any federal, state or local taxes or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the fair market value as of the payment date of the applicable award.

15. Other Company Benefit and Compensation Programs

Unless otherwise determined by the Committee, payments of awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any Company benefit plan, severance program or severance pay law of any country.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or right to be granted an award under the Plan, and no participant shall have any right by reason of the grant of any award under the Plan to continued employment by the Company or any subsidiary of the Company.

18. General Restriction

Each award shall be subject to the requirement that, if at any time the Committee shall determine, in its sole discretion, that the listing, registration or qualification of any award 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 award or the exercise payment thereof, such award may not be granted, exercised or paid 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 Committee.

19. 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.

20. Successors and Assigns

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

21. Rights as a Shareholder

A participant shall have no rights as a shareholder until he or she becomes the holder of record of Common Stock.

22. Change in Control

Notwithstanding anything to the contrary in the Plan, the following shall apply to all awards granted and outstanding under the Plan:

(a) Definitions. Unless otherwise defined by the Compensation Committee and set forth in the award agreement at the time of the grant, the following definitions shall apply to this Section 22:

(i) A "Change in Control" shall be deemed to have occurred if:

(aa) 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;

(bb) the following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (1) individuals who, as of the date hereof, constitute the Board, and (2) 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;

(cc) 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 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 (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% or more of the combined voting power of the Company's then outstanding voting securities; or

(dd) 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (1) of clause (cc) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 (6) 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.

(ii) "CIC Price" (aa) in the case of an award granted before February 15, 2007, shall mean the higher of (1) the highest price paid for a share of the Company's Common Stock in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (2) the highest price paid for a share of the Company's Common Stock 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; and (bb) in the case of an award granted on or after February 15, 2007, shall mean either (1) the highest price paid for a share of the Company's Common Stock in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (2) if the Change in Control occurs without such a transaction or series of transactions, the closing price for a share of the Company's Common Stock on the date 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.

(iii) An award is "Nonforfeitable" in whole or in part to the extent that, under the terms of the Plan or the award agreement or summary under the Plan, (aa) the award is vested in whole or part, or (bb) an entitlement to present or future payment of such award in whole or part has otherwise arisen.

(iv) A "Key Employee" is identified in the following manner: There shall be identified every employee who, at any time during a 12-month period ending December 31, is one of the 50 highest paid officers of the Company (or any member of its controlled group, as defined by Code Section 414(b)) having compensation in excess of the amount specified in Code Section 416(i)(1)(A) as indexed by Treasury guidance. Every individual so identified for any period ending December 31 is a Key Employee for the 12-month period beginning on the first April 1 following such December 31, and ending on the next March 31.

(v) A “Section 409A-Conforming Change in Control” is a Change in Control that conforms to the definition under Code Section 409A 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.

(vi) A “Termination for Good Reason” by a participant shall mean the termination of employment of a participant within two years of the occurrence of any of the following circumstances, provided that (1) such circumstance occurs without the participant’s express written consent after a Change in Control, and (2) the participant gives the Company notice of the occurrence of the offending circumstance(s) within 90 days of the first occurrence of the circumstance(s), and the Company fails to cure the circumstance(s) within 30 days of receipt of this notice (or the Company notifies participant in writing prior to the expiration of such 30-day period that the circumstance(s) will not be cured):

(aa) The material diminution of the participant’s authority, duties, or responsibilities from those in effect immediately prior to a Change in Control of the Company (including, in the case of awards granted before February 15, 2007, without limitation, if the participant is an executive officer of the Company prior to a Change in Control, ceasing to be an executive officer of the surviving company;

(bb) Any of the following: (1) A material reduction in a participant’s annual base salary and/or annual target bonus, (2) a failure by the Company to increase a participant’s annual base salary following a Change in Control at such periodic intervals not materially inconsistent with the Company’s practice prior thereto by at least a percentage equal to the average of the percentage increases in a participant’s base salary for the three merit pay periods immediately preceding such Change in Control, or (3) the failure to increase a participant’s salary as the same may be increased from time to time for similarly situated individuals, except that this clause (bb) shall not apply to across-the-board salary reductions similarly affecting all similarly situated employees of the Company and all similarly situated employees of any person in control of the Company;

(cc) The Company’s requiring a participant to be based anywhere other than in the metropolitan area in which a participant was based immediately before the Change in Control (except for required travel on the Company’s business to an extent substantially consistent with a participant’s present business travel obligations), provided that such required relocation constitutes a material change in the geographic location at which the participant is required to perform the services;

(dd) The failure by the Company to continue in effect any material compensation or benefit plan, vacation policy or any material perquisites in which a participant participates immediately before the Change in Control, (except to the extent such plan terminates in accordance with its terms), unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue a participant’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of a participant’s participation relative to other participants, than existed at the time of the Change in Control;

(ee) The failure of the Company to obtain a satisfactory agreement from any successor to assume responsibility to perform under this Plan; or

(ff) A termination by a participant of employment shall not fail to be a Termination For Good Reason by participant merely because of a participant’s incapacity due to physical or mental illness, or because a participant’s employment continued after the occurrence of any of the events listed in this subsection.

(b) Acceleration of Nonforfeitability of SARs, Stock Awards, Cash Awards, and Dividends and Dividend Equivalents.

(i) In the case of an award granted on or after February 15, 2007, all SARs, stock awards, stock options (to the extent the CIC Price exceeds the exercise price), cash awards, dividends and dividend equivalents outstanding shall become 100% Nonforfeitable with respect to a participant upon a Termination for Good Reason or an involuntary termination of employment (other than a termination For Cause, as defined in the award agreement, according to a determination made before the Change in Control) that occurs after a Change in Control.

(ii) In the case of an award granted before February 15, 2007, upon the occurrence of a Change in Control, all SARs, stock awards, stock options (to the extent the CIC Price exceeds the exercise price), cash awards, dividends and dividend equivalents outstanding on such date shall become 100% Nonforfeitable.

(c) Payment Schedule. In accordance with the uniform payment rule set forth in subsection (c) of Section 24 hereof,

(i) Following a Change In Control that is not a Section 409A-Conforming Change in Control, awards (to the extent Nonforfeitable) shall be paid on the Vesting Date specified in the award summary, and

(ii) Following a Section 409A-Conforming Change in Control, awards to the extent Nonforfeitable) shall be paid on the earlier of (aa) termination of employment (in the case of a Key Employee, to the extent required by Section 409A, the date that is 6 months after termination of employment) or (bb) the Vesting Date specified in the award summary.

(iii) If a participant has made a valid election under Code Section 409A to defer payment beyond the Vesting Date specified in the award summary, such award shall be paid pursuant to clauses (i) and (ii) by substituting the date so elected for the Vesting Date specified in the award summary.

(d) Cancellation. Upon payment under this Section, such awards and any related stock options shall be cancelled.

(e) Discretionary Awards. Upon or in anticipation of the occurrence of a Change in Control, the Committee may grant additional awards (e.g., above-target awards for performance-based Stock Awards) at its sole discretion. Any such discretionary grants shall be paid on the date specified by the terms of such grant.

(f) The amount of cash to be paid shall be determined by multiplying the number of such awards, as the case may be, by: (i) in the case of stock awards, the CIC Price; (ii) in the case of SARs, the difference between the per share strike price of the SAR and the CIC Price; (iii) in the case of cash awards where the award period, if any, has not been completed upon the occurrence of a Change in Control, the pro-rata target value of such awards or such higher amount as determined by the Committee, without regard to the performance criteria, if any, applicable to such award; (iv) in the case of stock options, the difference between the exercise price of the option and the CIC Price; and (v) in the case of cash awards where the award period, if any, has been completed on or prior to the occurrence of a Change in Control: (aa) where the cash award is payable in cash, the value of such award as determined in accordance with the award agreement, and (bb) where the cash award is payable in shares of Common Stock, the CIC Price.

(g) Notwithstanding the foregoing, any SARs and any stock-based award held by an officer or director subject to Section 16 of the 1934 Act which have been outstanding less than six months (or such other period as may be required by the 1934 Act) upon the occurrence of an event constituting a Change in Control shall not be paid in cash until the expiration of such period, if any, as shall be required pursuant to such Section, and the amount to be paid shall be determined by multiplying the number of SARs, stock awards, or unexercised shares under such stock options, as the case may be, by the CIC Price determined as though the event constituting the Change in Control had occurred on the first day following the end of such period.

23. Certain Provisions Applicable to Awards to Covered Employees

Performance-based awards made to Covered Employees shall be made by the Committee within the time period required under Section 162(m) for the establishment of performance goals and shall specify, among other things, the performance period(s) for such award (which shall be not less than one year), the performance criteria and the performance targets. The performance criteria shall be any one or more of the following as determined by the Committee and may differ as to type of award and from one performance period to another: earnings per share, cash flow, document processing profit, cost reduction, days sales outstanding, cash conversion cycle, cash management (including, without limitation, inventory and/or capital expenditures), total shareholder return, return on shareholders' equity, economic value added measures, return on assets, pre-or post-currency revenue, pre-or post-currency performance profit, profit before tax, profit after tax, revenues, stock price and return on sales. Payment or vesting of awards to Covered Employees shall be contingent upon satisfaction of the performance criteria and targets as certified by the Committee by resolution of the Committee. To the extent provided at the time of an award, the Committee may in its sole discretion reduce any award to any Covered Employee to any amount, including zero. Any performance-based awards made pursuant to this Section 23 may include annual incentive awards and long-term awards.

24. Section 409A Compliance

(a) No Taxation Under Code Section 409A. It is intended that no awards under the Plan shall cause any amount to be taxable under Code Section 409A with respect to any individual. All provisions of this Plan and of any agreement, award or award summary thereunder shall be construed in a manner consistent with this intent. Any provision of and amendment to this Plan, or of any agreement, award or award summary thereunder, that would cause any amount to be taxable under Section 409A of the Internal Revenue Code with respect to any individual is void and without effect. Any election by any participant, and any administrative action by the Committee that would cause any amount to be taxable under Section 409A of the Code with respect to any individual is void and without effect under the Plan.

(b) Election Rule. A participant may elect to defer awards under the Plan only if the election is made not later than December 31 of the year preceding the year in which the award is granted, except to the extent otherwise permitted by Section 409A and Treasury guidance thereunder (where such exceptions include but are not limited to initial deferral elections with respect to Nonforfeitable rights, deferral elections in the first year in which an employee becomes eligible to participate, and deferral elections with respect to performance-based compensation).

(c) Uniform Payment Rule

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

(1) is the later of (A) a Section 409A-Conforming Change in Control or (B) termination of employment (in the case of a Key Employee, to the extent required by Section 409A, the date that is 6 months after termination of employment); and

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

(ii) If a participant has made a valid election under Code Section 409A to defer payment beyond the Vesting Date specified in the award summary, such award shall be settled pursuant to clause (i) by substituting the date so elected for the Vesting Date specified in the award summary.

(iii) Payment pursuant to the death or disability of a participant is governed by the award agreement.

(d) Accelerations. In the case of an award that is deferred compensation for purposes of Code Section 409A, acceleration of payment is not permitted, except that, if permitted by the Committee, acceleration of payment is permitted in order to (i) allow the participant to comply with a certificate of divestiture (within the meaning of Code Section 1043); (ii) pay payroll and withholding taxes with respect to amounts deferred, to the extent permitted by Treasury guidance; or (iii) effect any other purpose that is a permitted Code Section 409A acceleration event under Treasury guidance.

(e) Permitted Payment Delays. At the Committee's sole discretion, payment of awards may be delayed beyond the date specified in subsection (c) under the following circumstance. The Committee reserves the right to amend an award granted on or after January 1, 2006 if the Committee determines that the deduction for such payment would be limited by Code Section 162(m), except that such payment will be made on the earliest date on which the Committee determines that such limitation no longer exists.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 4th day of December, 2007, effective as of the date hereof, and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(e)(16)

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 annual incentive opportunities 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 are constant currency revenue growth (30%), earnings per share (40%) and core cash flow from operations (30%).

Individual payments will be subject to the review and approval of the Committee following the completion of the 2008 fiscal year.

2008 Executive Long-Term Incentive Program ("2008 E-LTIP")

Under the 2008 E-LTIP, executive officers of the Company are eligible to receive performance shares based on certain performance measures established by the Compensation Committee of the Board of Directors (the "Committee").

The performance elements and corresponding weights for the 2008 E-LTIP are: (i) (60%) Earnings Per Share: Diluted Earnings Per Share from Continuing Operations as reported in the Company's audited financial statements, as adjusted on an after-tax basis for the following discretely disclosed (in either Management's Discussion and Analysis/MD&A or the footnotes to the financial statements) items (if equal to or greater than $50 million pre-tax on an individual basis, or in the aggregate per item): gains/(losses) from litigation, regulatory matters or any changes in enacted law (including tax law); gains/(losses) from asset sales or business divestitures; restructuring and asset impairment charges; gains/(losses) resulting from acts of war, terrorism or natural disasters; the initial effect of changes in accounting principles that are included within Income from Continuing Operations; impairment of goodwill and other intangibles; gains/(losses) from the settlement of tax audits; gains/(losses) on early extinguishment of debt; non-restructuring related impairments of long-lived assets; acquisition related expenses including, but not limited to, acquired in-process research and development and integration costs; and (ii) (40%) Core Cash Flow from Operations: Net Cash provided by (used for) Operating Activities as reported in the Company's audited financial statements, as adjusted for the following items: exclusion of net changes in finance receivables and on-lease equipment; cash flow impacts (inflows and outflows) resulting from the EPS adjustments as identified above, with the exception of cash payments for restructurings; cash payments for restructurings in excess of the amount reported as current restructuring reserves in the preceding years Annual Report; special discretionary pension fundings in excess of $50 million to prior year shall be excluded. Any other items approved by the Committee for adjustment of EPS or Core Cash Flow from Operations will be considered a modification of the award.

Exhibit 10(e)(18)

Award Summary
Executive Long-Term Incentive
Program Grant (Officers)

«First Name» «Last Name»
Date of Agreement and Award: **«Grant Date»**

Approved Value:	«Approved Value»

Performance Shares

Number of Performance Shares:	«# Performance Shares»

Vesting Date of All Performance Shares Earned:
- on «3 yrs. from grant date»

Performance Shares Earned if Annual Target Performance is Achieved:
- 1/3 of grant on: «one, two and three yrs. from grant date»

Performance Shares Earned if Three-Year Cumulative Performance between Threshold and Maximum is Achieved:
- 25% - 150% of grant (net of shares earned for Annual Achievement) on «3 yrs. from grant date»

Automatic Deferral: If the deduction for delivery of shares would be limited by section 162(m) of the Internal Revenue Code ("Code"), shares will automatically be deferred until the Committee reasonably believes that the deduction will no longer be limited by section 162(m), unless otherwise required or permitted under Code section 409A. Notwithstanding the above, in no event shall shares of Common Stock be delivered prior to the Vesting Date set forth above.

*Notwithstanding the above, at the Company's discretion, Employee may irrevocably elect, on or before June 30, 2008, to defer receipt of Common Stock in connection with Performance Shares in the manner described to the Employee in writing in the Deferral Form.

*Performance measures which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance shall be determined by the Committee in its sole discretion.

XEROX CONFIDENTIAL

Omnibus Agreement – 2008: PIP;ELTIP;PSs

AGREEMENT PURSUANT TO
XEROX CORPORATION
2007 AMENDMENT AND RESTATEMENT OF THE 2004 PERFORMANCE INCENTIVE PLAN

AGREEMENT, by Xerox Corporation, a New York corporation (the “Company”), dated as of the date which appears as the “Date of Agreement and Award” in the Award Summary attached hereto (the “Award Summary”) in favor of the individual whose name appears on the Award Summary, an employee of the Company, one of the Company’s subsidiaries or one of its affiliates (the “Employee”).

In accordance with the provisions of the ”2004 Performance Incentive Plan” and any amendments and/or restatements thereto (the “Plan”), the Compensation Committee of the Board of Directors of the Company (the “Committee”) or the Chief Executive Officer of the Company (the “CEO”) has authorized the execution and delivery of this Agreement.

Terms used herein that are defined in the Plan or in this Agreement shall have the meanings assigned to them in the Plan or this Agreement, respectively.

The Award Summary contains the details of the awards covered by this Agreement and is incorporated herein in its entirety.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the Company agrees as follows:

AWARDS

1. Award of Performance Shares. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the Award Summary the number of Performance Shares (individually, the “PS”) as shown on the Award Summary. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company’s Human Resources Policies) on the effective date of the award as shown on the Award Summary shall be eligible to receive the award.

TERMS OF THE PERFORMANCE SHARES

2. Entitlement to Shares. As soon as practicable on or after the Vesting Date indicated on the Award Summary in connection with the PSs (the "Vesting Date"), the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested PSs (subject to reduction for payment of withholding taxes as described below). The number of shares to be issued to Employee shall be reduced by the amount of withholding taxes which must be paid under U.S. Federal and, where applicable, state and local law at the time of each distribution. No fractional shares shall be issued. Instead, the Company shall apply the equivalent of any fractional share amount to Federal, and where applicable, state and local, withholding taxes.

The award of PSs covered hereby shall be earned based on achieving one hundred percent (100%) of a target on an annual basis based on certain performance measures as shall be determined from time to time by the Committee. To the extent that performance measures are achieved at or between threshold and maximum levels (as shall be determined by the Committee) on a three-year cumulative basis, an additional award of PSs will be earned, net of shares previously earned for annual achievement. The Vesting Date for earned PS awards granted shall be set forth in the Award Summary.

Upon the occurrence of an event constituting a Change in Control, all PSs and dividend equivalents outstanding on such date shall be treated pursuant to the terms set forth in the Plan. Upon payment pursuant to the terms of the Plan, such awards shall be cancelled.

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the Vesting Date or deferral date, a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of PSs covered by this Agreement (relating exclusively to PSs earned if annual target performance is achieved) that are held by the Employee on the close of business on the business day immediately preceding the Vesting Date, or deferral date, if any, would have been entitled to receive as dividends on such Common Stock during the period commencing on the date hereof and ending on the Vesting Date or deferral date, as provided under Paragraph 2. Payments under this Paragraph shall be net of any required U.S. Federal, state or local withholding taxes.

4. Ownership Guidelines. Guidelines pertaining to the Employee’s required ownership of Common Stock shall be determined by the Committee in its sole discretion at or before the making of the Award as communicated to Employee in writing at the time this Agreement is delivered to Employee.

5. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the PSs (net of withholding tax and exercise fees) until ownership guidelines are met under Paragraph 4 hereof. Such shares shall be held in the Employee’s Smith Barney account or at another account acceptable to the Company.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee terminates for any other reason, the holding requirement will be applicable for up to a one year period following termination.

OTHER TERMS

6. Rights of a Shareholder. Employee shall have no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate to him for such shares. Except as otherwise provided herein, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

7. Non-Assignability. This Agreement shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution.

8. Effect of Termination of Employment or Death.

(a) Effect on PSs. In the event the Employee

(i) voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate for any reason other than retirement, and the PSs have not vested in accordance with Paragraph 2, the PSs shall be cancelled on the date of such voluntary termination of employment.

(ii) involuntarily ceases to be an Employee of the Company or any subsidiary or affiliate for any reason (including Disability), other than death or for Cause, or voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate due to a reduction in workforce, contingent upon Employee executing a general release, which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company, shares will vest on a pro-rata basis for annual and three-year cumulative performance if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which termination occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to such involuntary termination of employment and shares earned on a pro-rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three-year cumulative performance, vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator will be 36, and subtract from the sum the number of shares previously earned for annual performance pursuant to this grant. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary.

(iii) ceases to be an Employee of the Company or any subsidiary or affiliate by reason of death, 100% of the PSs pursuant to this grant shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 7 to the personal representatives, heirs or legatees of the deceased Employee.

(iv) ceases to be an Employee of the Company or any subsidiary or affiliate by reason of retirement, contingent upon Employee executing a general release, which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company, shares will vest on a pro-rata basis for annual and three-year cumulative performance, if achieved in accordance with Paragraph 2, based on the Employee's actual months of service. For the year in which retirement occurs, shares earned for that year will be calculated as follows: multiply the total award earned for that year by a fraction, the numerator of which will be the number of months of full service for that year and the denominator will be 12. Any shares earned for annual performance pursuant to this grant for years prior to retirement and shares earned on a pro-rata basis for annual performance as described herein will be paid out as soon as practicable following the Vesting Date noted in the Award Summary. For three-year cumulative performance, vesting will be calculated as follows: multiply the total three-year cumulative award earned by a fraction, the numerator of which will be the number of months of full service during the three years and the denominator will be 36, and subtract from the sum the number of shares previously earned for annual performance pursuant to this grant. Payout shall occur as soon as practicable following the Vesting Date noted in the Award Summary; and

(v) ceases to be an Employee of the Company or any subsidiary or affiliate due to termination for Cause, the PSs shall be cancelled as provided under the Plan.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Company's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 8 and during the continuance of such Xerox-sponsored long-term disability plan benefits the Employee shall be deemed to continue active employment with the Company. If the Employee is terminated because the Employee has received the maximum coverage under the Xerox long-term disability plan, the vesting of PSs shall be provided pursuant to Paragraph 8 (a)(ii) above.

(c) Cause. "Cause" means (i) a violation of any of the rules, policies, procedures or guidelines of the Company, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement (ii) any conduct which qualifies for "immediate discharge" under the Company's Human Resource Policies as in effect from time to time (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Company or represents a conflict of interest with the interests of the Company; (iv) conviction of, or entering a guilty plea with respect to, a crime whether or not connected with the Company; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Company.

9. General Restrictions. If at any time the Committee or CEO, as applicable, shall determine, in its or her discretion, that the listing, registration or qualification of any shares subject to this Agreement 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 awarding of the PSs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of PSs 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 Committee or CEO, as applicable, and any delay caused thereby shall in no way affect the date of termination of the PSs.

10. Amendment of This Agreement. With the consent of the Employee, the Committee or CEO, as applicable, may amend this Agreement in a manner not inconsistent with the Plan.

11. Subsidiary. As used herein the term "subsidiary" shall mean any present or future corporation which would be a "subsidiary corporation" of the Company as the term is defined in Section 425 of the Internal Revenue Code of 1986 on the date of award.

12. Affiliate. As used herein the term "affiliate" shall mean any entity in which the Company has a significant equity interest, as determined by the Committee.

13. Non-engagement in Detrimental Activity Against the Company. If an Employee or former Employee of the Company is deemed by the Committee or its authorized delegate, as applicable, in the Committee's or such delegate's sole reasonable discretion as provided under the Plan, to have engaged in detrimental activity against the Company, any awards granted to such Employee or former Employee shall be canceled and be of no further force or effect and any payment or delivery of an award within six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee 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 Committee or its delegate, as applicable.

14. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at P.O. Box 4505, 45 Glover Avenue, 6th Floor, Norwalk, Connecticut 06856-4505, addressed to the attention of Stock Plan Administrator, and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

15. Interpretation of This Agreement. The Committee or the CEO, as applicable, shall have the authority to interpret the Plan and this Agreement and to take whatever administrative actions, including correction of administrative errors in the awards subject to this Agreement and in this Agreement, as the Committee or the CEO in its or her sole good faith judgment shall be determined to be advisable. All decisions, interpretations and administrative actions made by the Committee or the CEO hereunder or under the Plan shall be binding and conclusive on the Company and the Employee. In the event there is inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

16. Successors and Assigns. This Agreement shall be binding and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 8 to the personal representatives, legatees and heirs of the Employee.

17. Governing Law. The validity, construction and effect of the Agreement and any actions taken under or relating to this Agreement shall be determined in accordance with the laws of the state of New York and applicable Federal law.

18. Separability. In case any provision in the Agreement, or in any other instrument referred to herein, shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions in the Agreement, or in any other instrument referred to herein, shall not in any way be affected or impaired thereby.

19. Integration of Terms. Except as otherwise provided in this Agreement, this Agreement contains the entire agreement between the parties relating to the subject matter hereof and supersedes any and all oral statements and prior writings with respect thereto.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the day and year set forth on the Award Summary.

XEROX CORPORATION

By: ______________________________

Signature

Exhibit 10(e)(20)

AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the "Company") has established the following plans (the "Plans"),

Amended and Restated Severance Letter Agreement Providing Certain Benefits Upon Termination of Employment Following a Change in Control,

Xerox Corporation 2004 Performance Incentive Plan, December 2007 Amendment and Restatement,

Xerox Corporation 1991 Long-Term Incentive Plan, 2007 Amendment and Restatement

Xerox Corporation Unfunded Supplemental Executive Retirement Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

"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."

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 4th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

XEROX CORPORATION
UNFUNDED SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

2007 AMENDMENT AND RESTATEMENT

Section 1. Plan Name

The plan name is the Xerox Corporation Unfunded Supplemental Executive Retirement Plan (referred to herein as the "Plan" or "SERP").

Section 2. Effective Date

The original effective date of the Plan is June 30, 1982. The Plan was restated on six previous occasions, effective February 4, 1985, January 1, 1990, December 6, 1993, December 9, 1996, October 13, 1997, and April 2, 2004. This Amendment and Restatement is effective as of the date hereof and dates set forth herein.

Section 3. Purpose of the Plan

The Plan is designed to address special circumstances involved in the retirement of executives.

Section 4. Covered Employees

The following employees of Xerox Corporation (the "Company") are covered by the Plan:

(A) All employees who were corporate officers of the Company at grade level 25 and above on the original effective date of the Plan (the "Grandfathered Officers").

(B) All employees who were corporate officers at grades 23 or 24 on the original effective date of the Plan or who first become corporate officers of the Company at grade level 23 and above after the original effective date of the Plan and do not fall within categories (D) through (G) below (the "Officers").

(C) Certain employees who received a letter dated September 2, 1982 from David T. Kearns regarding Executive Retirement Guidelines (the "Guideline Employees").

(D) All employees who were corporate officers of the Company on the date of the 1996 Restatement who first commenced employment with the Company on or after attainment of age 40 and whose names appeared on a list presented at the meeting of the Executive Compensation and Benefits Committee held December 9, 1996 and made part of the records of that meeting which list is incorporated herein by reference and made a part of the Plan ("Grandfathered Mid-Career Officers").

(E) All employees who after the date of the 1996 Restatement first commence employment with the Company on or after attainment of age 40 who are elected corporate officers and whose names were added to the list referred to in Section 4(D) above upon selection by the Chief Executive Officer of the Company as maintained with the records of the Executive Compensation Department of the Company which list as so modified from time to time is incorporated herein by reference and made a part hereof ("Mid-Career Officer Hires").

(F) All employees who after the date of the 1996 Restatement are elected officers of the Company and are authorized by the Compensation Committee of the Board of Directors to receive benefits under this Plan.

(G) All employees who were in payroll Band A of the Company on the date of the 1996 Restatement who first commenced employment with the Company on or after attainment of age 40 and whose names are set forth on a list which has been approved by the Vice President responsible for Human Resources and placed with the records of the Executive Compensation Department of the Company which list is incorporated herein by reference and made a part of the Plan ("Grandfathered Mid-Career Band A Employees").

(H) All employees who after the date of the 1996 Restatement first commence employment with the Company on or after attainment of age 40 who are hired into payroll Band A selected by the Vice President of the Company responsible for Human Resources, or his or her designee, such selection to be evidenced by the placement of the employee's name on a list to be maintained from time to time by such Vice President or his or her designee, which list is incorporated herein by reference and made a part of the Plan ("Mid-Career Band A Hires").

(I) Grandfathered Mid-Career Officers, Mid-Career Officer Hires, Grandfathered Mid-Career Band A Employees and Mid-Career Band A Hires are sometimes together referred to as "Mid-Career Executives".

(J) The employees referred to in paragraphs A through H above are together referred to herein as "Participants".

Section 5. Eligibility for Benefits

(A) Participants must have attained the following age and completed the following Years of Service to be eligible for benefits under the Plan:

(1) Grandfathered Officers and Guideline Employees — age 55, Years of Service — 5.

(2) Officers — age 60, Years of Service — 10.

(3) Grandfathered Mid-Career Officers — the age set forth opposite their respective names on Schedule A, Years of Service — 5.

(4) Mid-Career Officer Hires — the age determined by the Chief Executive Officer of the Company as reflected in Schedule A, Years of Service — 5.

(5) Grandfathered Mid-Career Band A Employees — the age set forth opposite their respective names on the Schedule B, Years of Service — 5.

(6) Mid-Career Band A Hires — the age determined by the Vice President responsible for Human Resources or his or her delegate as set forth on Schedule C referred to above, Years of Service 5.

(B) If a Participant who is an employee or former employee of the Company, or a surviving spouse of a Participant, is deemed prior to a Change in Control (as defined in Section 7) by the Plan Administrator, in her sole and absolute discretion, to have engaged in detrimental activity against the Company, such employee, former employee or surviving spouse 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.)

Section 6. Supplemental Retirement Benefit

(A) The benefit payable under the Plan shall be a monthly retirement benefit equal to:

One and two-thirds percent of Average Monthly Compensation of the Participant multiplied by the number of full and fractional Years of Participation up to thirty less

(a) One and two-thirds percent of the Social Security Benefit multiplied by the number of full and fractional Years of Participation up to thirty; and

(b) The monthly retirement benefit payable under the Company's Retirement Income Guarantee Plan ("RIGP") (stated as a Life Annuity)[1] as it is in effect as of and from time to time after January 1, 1990;

subject to the "Adjustments" set forth in subsections (B) through (F) below. Effective January 1, 2005, benefits payable under the plan shall commence six months following separation from service as defined for purposes of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"). The first payment shall include the six months of payments that would otherwise have been made.

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

"Social Security Benefit" shall mean the monthly benefit which a retired Participant or a terminated Participant receives or would be entitled to receive at the age at which unreduced retirement benefits are then paid under the U.S. Social Security Act (or at his sixty-second birthday, in the case of a retired Participant who has at least thirty Years of Service or who, on such Participant's retirement, is the pilot of an airplane operated by the Company), as a primary insurance amount under the U.S. Social Security Act, as amended, whether he or she applies for such benefit or not, and even though he or she may lose part or all of such benefit for any reason.

The amount of such Social Security Benefit to which the retired or terminated Participant is or would be entitled shall be computed by the Administrator for the purposes of the Plan as of the January 1 of the calendar year of retirement or termination. In computing such amount, the Administrator shall use estimated benefit tables developed by the Plan's actuary, the five-year average compensation of the Participant and the assumption that the Participant's compensation prior to the fifth year preceding the year of termination grew in accordance with average national wages.

(B) Grandfathered Officers — Adjustments shall be

(1) The monthly benefit and the Social Security Benefit shall be calculated at the rate of 3 1/3% of Average Monthly Compensation and of the Social Security Benefit, respectively, for each full or fractional Year of Participation up to a maximum of 15 Years of Participation.

(2) There shall be no reduction in the benefit payable upon retirement on or after attainment of age 55 on account of payment commencing prior to attainment of age 65.

(3) Amounts included in the Participant's Executive Expense Allowance shall be included in determining Average Monthly Compensation.

(C) Officers — Adjustments shall be that there shall be no reduction in the benefit payable upon retirement on or after attainment of age 60 on account of payment commencing prior to attainment of age 65 and no part of the Executive Expense Allowance shall be included in determining Average Monthly Compensation.

(D) Guideline Employees — An adjustment shall be that there shall be no reduction in the benefit payable upon retirement on or after attainment of age 55.

(E) Mid-Career Executives — Adjustments shall be

(1) The monthly benefit and the Social Security Benefit shall be calculated at the rate of 2.5% of the Average Monthly Compensation and of the Social Security Benefit, respectively, for each full or fractional Year of Participation up to a maximum of 20 Years of Participation.

(2) There shall be no reduction in the benefit payable upon retirement on or after attainment of age 60 on account of payment commencing prior to attainment of age 65 and no part

[1] Defined terms in RIGP shall have the same meanings in the Plan, except as otherwise noted herein

of the Executive Expense Allowance, if any, shall be included in determining Average Monthly Compensation.

(F) All Participants — Adjustments shall be

(1) Average Monthly Compensation shall be calculated including any compensation deferred by the Participant during the period used in calculating Average Monthly Compensation (except that there shall not be included any increase in Participant's compensation which became payable under the Company's policy of increasing compensation by the amount which cannot be added to the Participant's accounts under the Company's Savings Plan ("Savings Plan") by reason of the limitation contained in Section 415 of the Code .

(2) The following additional amounts shall be deducted from the hypothetical monthly benefit:

(a) The value of the portion of the Participant's Account under the Company's Deferred Compensation Plan For Executives, if any, resulting from the Retirement Account portion of the Profit Sharing Adjustment (as defined in such Deferred Compensation Plan) translated into an annuity (single life or joint and survivor, as appropriate) payable commencing on the date of retirement; and

(b) The benefit payable under the Company's Unfunded Retirement Income Guarantee Plan ("Unfunded RIGP").

(c) Any amount paid to the participant from which FICA taxes are withheld related to nonqualified retirement benefits from a plan sponsored by the Company which have not been previously withheld (or deemed to have been withheld because the maximum tax had already been paid) and are payable upon retirement but cannot be withheld from any single sum payment of compensation or other nonqualified plan benefits translated to an annuity (single or joint and survivor as appropriate) payable commencing on the date of retirement.

(d) The amount of that certain supplement provided to certain high-paid participants in RIGP effective in 1989 when the RIGP benefit was modified payable to the Participant in a lump sum translated to an annuity (single life or joint and survivor as appropriate) payable commencing on the date of retirement.

(e) The amount of any pension, retirement, severance or other post-employment income benefits paid or payable to a Participant under plans or arrangements provided by the Company (other than Salary Continuance provided by the Company), or by any subsidiary of the Company, whether incorporated or organized in the United States or in any other country of the world.

Section 7. Change In Control.

(A) Notwithstanding anything to the contrary in this Plan, in the event of a Change in Control, as hereinafter defined, each Participant, including retired Participants, 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 (including, without limitation, the benefit provided under Section 8 hereof, if applicable). The benefit to which each Participant is entitled under this section shall be equal in amount to the then present value of a benefit expressed in the form provided in Section 10 hereof, commencing on the later of (i) the date of such Change in Control, (ii) the date Guideline Employee or Grandfathered Officer attains age 55, (iii) the date the Officers attain age 60 or (iv) in the case of a Mid-Career Executive, the date such Participant attains the age specified in Schedule A, B or C, and based upon such Participant's Average Monthly Compensation and Years of Participation as of the date of such Change in Control.

In the event the Change in Control is a Section 409A-Conforming Change in Control, as hereinafter defined, such benefit shall be payable commencing on the date specified in subsection (B) of this Section 7. Otherwise, such benefit shall be payable as otherwise provided in this Plan.

A “Change in Control” shall be deemed to have occurred if:

(i) 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;

(ii) The following individuals (referred to herein as the “Incumbent Board”) cease for any reason to constitute a majority of the directors then serving: (1) individuals who, as of the date hereof, constitute the Board, and (2) 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;

(iii) 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 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 (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% or more of the combined voting power of the Company’s then outstanding voting securities; or

(iv) 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub-clause (1) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 (6) 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.

A “Section 409A-Conforming Change in Control” is 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.

(B) If the Change in Control is a Section 409A-Conforming Change in Control, the benefit computed under subsection (A) shall be payable in a lump sum within five days of such change in control. Upon the termination of employment of a Participant following a Section 409A-Conforming Change in Control, such Participant, if he or she has otherwise satisfied the requirements of Section 5 hereof, shall be entitled to a benefit equal to the benefit to which he or she would have been entitled without application of Section 7(B) reduced (but not below zero) to reflect the value of the benefit he or she received pursuant to Section 7(B).

(C) For purposes of Section 7(A) hereof, the present value of a benefit shall be calculated based upon the interest rate which would be used by the Pension Benefit Guaranty Corporation for purposes of determining lump sums for benefits payable as immediate annuities with respect to plans terminating on the date on which the change in control of the Company occurs and the 1983 GAM mortality table, provided, however, that effective upon the date that the applicable interest rate as specified in Section 417(e)(3)(A) of the Code is adopted for use in RIGP, the present value hereunder shall thereafter be determined under the applicable interest rate and mortality table as defined in Section 417(e)(3)(A)(ii)(l) of the Code. For purposes of RIGP, each Participant shall be treated as if he or she terminated employment upon the 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 7(A).

Section 8. Minimum Benefit

In no event shall the monthly retirement benefit payable to any Participant other than Mid-Career Executives under the Plan be less than an amount which, when added to the benefits payable under RIGP, 25% of the amount of the Social Security Benefit and the amounts described in Section 6(F)(2) above, is equal to 25% of such Participant's Average Monthly Compensation as adjusted in Section 6(F)(1) for Participants and Section 6(B)(3) for Grandfathered Officers.

Section 9. Pre-Retirement Spouse's Benefit

For purposes of this Plan, the term "spouse" shall have the same meaning as "Spouse" under Section 1.36 of RIGP.

The benefit determined under (A) or (B) below whichever is applicable:

(A) The spouse of a Participant who dies after completing the appropriate age and number of Years of Service pursuant to Section 5 while still employed by the Company shall be entitled to a survivor benefit, commencing on the death of the Participant, in an amount equal to 100% of the retirement benefit to which the Participant would have been entitled under the Plan if the Participant had retired on the last day of the month coincident with or next following the date of the Participant's death and elected a 100% joint and survivor annuity.

(B) The spouse of a Participant who dies while still employed by the Company, but after completing the number of Years of Service that when added to his age upon his death is greater than or equal to 70 but less than the requisite age and number of Years of Service under Section 9(A) above, shall be entitled to an adjusted survivor benefit. Such adjusted survivor benefit shall be calculated by first reducing the benefit under Section 6(A) before applying the offset for Section 6(A)(b) by 5% per year from the appropriate age pursuant to Section 5, applying the offset in Section 6(A)(b), and then converting the result to an actuarially equivalent 50% joint and survivor annuity. The adjusted survivor benefit is 50% of this annuity amount, commencing on the death of the Participant.

Section 10. Form of Benefit

The forms of benefit available under the Plan shall be for single Participants a 10-year certain and life annuity or life annuity and for married Participants a 50% or 100% joint and survivor annuity option, all as shall have been elected by Participant on forms provided by the Administrator. The benefit payable to single Participant who has failed to make such an election shall be a life annuity and for a married Participant 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 7(B) in no event is the benefit payable in a lump sum. Notwithstanding anything herein to the contrary, any marriages that occur subsequent to a Participant's retirement shall not entitle Participant to the forms of benefit available to married Participants described herein.

Section 11. Participant’s Rights Unsecured

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

Section 12. Section 409A of the Code. Notwithstanding any other provision of the Plan, no election by any participant or beneficiary, and no payment to any individual, shall be permitted under the Plan if such election or payment would cause any amount to be taxable under Section 409A of the Code with respect to any individual.

Section 13. Other Plan Provisions

Other Plan provisions necessary to determine any benefit under the Plan shall be the same as those described in RIGP.

Section 14. Plan Administration

(a) 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. The Administrator shall be the Vice President, Human Resources of the Company.

(b) Authority of the Administrator. The Administrator may

(i) 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;

(ii) 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.

(c) Claims and Appeals. Claims and appeals regarding benefits under the Plan shall be determined pursuant to section 503 of ERISA.

(d) 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 15. 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 16. Amendment and Termination

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

Any amendment, alteration, modification or suspension under subsection (iii) of the preceding paragraph shall be set forth in a written instrument executed by the Vice President of the Company responsible for Human Resources.

Section 17. No Employment Rights

Nothing contained in the Plan shall be construed as a contract of employment between the Company and a Participant, or as a right of any Participant to be continued in the employment of the

Company, or as a limitation of the right of the Company to discharge any of its employees, with or without cause.

Section 18. Assignment

The benefits payable under this Plan may not be assigned or alienated except as may otherwise be required by law or pursuant to the Plan Administrator's absolute discretionary authority to deny benefits pursuant to Section 5(B) or to the terms of a domestic relations order that has been approved by the Plan Administrator.

Section 19. Law Applicable

This Plan shall be governed by the laws of the State of New York.

Section 20. Restriction of Venue. Any action in connection with the Plan by a covered employee or beneficiary may only be brought in Federal District Court in Monroe County, New York.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 4th day of December, 2007, effective as of the date hereof, and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(g)(2)

AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the “Company”) has established the following plans (the “Plans”),

Amended and Restated Severance Letter Agreement Providing Certain Benefits Upon Termination of Employment Following a Change in Control,

Xerox Corporation 2004 Performance Incentive Plan, December 2007 Amendment and Restatement,

Xerox Corporation 1991 Long-Term Incentive Plan, 2007 Amendment and Restatement

Xerox Corporation Unfunded Supplemental Executive Retirement Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

“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.”

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 4th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

XEROX CORPORATION
800 Long Ridge Road
Stamford, CT 06904

Amended and Restated Severance Letter Agreement
Providing Certain Benefits Upon Termination of Employment
Following a Change In Control

[Date]

Dear [Name]:

Xerox Corporation ("the Company") considers it in the best interests of its shareholders to foster the continuous employment of key management personnel. The Board recognizes that, as with many publicly held corporations, the possibility of a Change in Control may arise, and that the uncertainty raised by this possibility may cause the departure or distraction of management personnel, to the detriment of the Company and its shareholders.

The Board has determined that appropriate steps should be taken to reinforce the continued dedication of key management personnel to their duties, without potential distraction arising from a possible Change in Control, although no such change is now contemplated.

In order to induce you to remain in the employ of the Company and in consideration of your agreement set forth in Section 3, the Company accordingly agrees that you shall receive the severance benefits set forth in this Agreement if your employment with the Company is terminated under certain circumstances following a Change in Control.

It is intended that this Agreement comply with Section 409A of the Code and the regulations thereunder and shall be construed and interpreted in a manner consistent with such intention.

1. Definitions.

(a) Agreement shall mean the letter agreement set forth herein.

(b) Board shall mean the Board of Directors of the Company.

(c) Change in Control of the Company shall be deemed to have occurred if:

(i) 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;

(ii) The following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (A) individuals who, on the date hereof constitute the Board, and (B) 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;

(iii) 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 (A) 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 (B) 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

(iv) 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 the definition of Change in Control and Potential 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (A) of clause (iii) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 clause (6) 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.

(d) Code shall mean the Internal Revenue Code of 1986, as amended.

(e) Company shall mean the Company or any successor thereto, including any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law or otherwise.

(f) Date of Termination shall mean:

(i) If your employment is terminated pursuant to a Termination by the Company For Disability, thirty (30) days after Notice of Termination is given (if you do not return to the performance of your duties on a full-time basis during such thirty (30) day period); and

(ii) If your employment is terminated for any other reason, the date specified in the Notice of Termination, subject to clauses (iii), (iv) and (v) of this subsection.

(iii) In the case of a Termination by the Company For Cause, the specified date shall not be less than thirty (30) days from the date the Notice of Termination is given.

(iv) In the case of a Termination by You For Good Reason, the specified date shall not be less than fifteen (15) days nor more than sixty (60) days, from the date the Notice of Termination is given.

(v) The Date of Termination may be extended pursuant to Section 13.

(g) Disability shall mean a physical or mental incapacity incurred after a Potential Change in Control which would allow you to receive benefits under the Company's Long-Term Disability Income Plan (or any substitute plans adopted before a Change in Control).

(h) Exchange Act shall mean the Securities Exchange Act of 1934, as amended.

(i) Notice of Termination shall mean the notice required to be given by you or the Company in accordance with the terms of Section 12.

(j) Potential Change in Control of the Company shall be deemed to have occurred if:

(i) The Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(ii) Any person, including an Excluded Person, publicly announces an intention to take or to consider taking actions which if consummated would constitute a Change in Control;

(iii) Any Person 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 10% or more of the combined voting power of the Company's then outstanding securities; or

(iv) The Board adopts a resolution to the effect that a Potential Change in Control for purposes of this Agreement has occurred.

(k) Termination by the Company For Cause shall mean termination by the Company of your employment upon:

(i) The willful and continued failure by you to substantially perform your duties with the Company (other than any such failure resulting from your incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination by You For Good Reason), after a written demand for substantial performance is delivered to you by the Board which specifically identifies the manner in which the Board believes that you have not substantially performed your duties;

(ii) The willful engaging by you in conduct which is demonstrably and materially injurious to the Company, monetarily or otherwise; or

(iii) The conviction of any crime (whether or not involving the Company) which constitutes a felony.

(iv) For purposes of this subsection, no act or failure to act on your part shall be considered "willful" unless done, or omitted to be done, by you not in good faith and without reasonable belief that your action or omission was in the best interest of the Company.

(v) A termination of your employment is not a Termination by the Company For Cause until there is delivered to you a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board at a meeting of the Board called and held for the purpose (after reasonable notice to you and an opportunity for you, together with your counsel, to be heard before the Board), finding that in the good faith opinion of the Board you were guilty of conduct set forth in this subsection, and specifying the particulars thereof in detail.

(l) Termination by the Company For Disability shall mean a termination by the

Company of your employment following a Change in Control and during the term of this Agreement as follows. If, as a result of your incapacity due to physical or mental illness, you fail to perform your duties and shall have been receiving payments under the Company's Long-Term Disability Income Plan, or any substitute plans adopted before the Change in Control, for a period of twelve (12) consecutive months and, within thirty (30) days after Notice of Termination is given, you shall not have returned to the full-time performance of your duties, the Company may terminate your employment pursuant to a Termination by the Company For Disability. You shall continue to receive your full base salary at the rate then in effect and your bonus and all compensation shall be paid during the period until this Agreement is terminated pursuant to this subsection. Your benefits shall thereafter be determined in accordance with the Company's welfare benefits programs then in effect and the Company's retirement plans then in effect.

(m) Termination by You For Good Reason shall mean the termination by you of your employment within two years of the initial occurrence of any of the following circumstances, provided that (1) such circumstance occurs without your express written consent, after a Change in Control, and during the term of this Agreement, and (2) you properly notify the Company within 90 days of the initial occurrence of such circumstance and the Company does not remedy the circumstance within 30 days of such notice:

(i) The material diminution of your authority, duties, or responsibilities from those in effect immediately prior to a Change in Control (including, without limitation, if you are an executive officer of the Company prior to a Change in Control, ceasing to be an executive officer of the surviving company);

(ii) (A) a reduction in your annual base salary and/or annual target bonus as in effect on the date hereof, or as the same may be increased from time to time, (B) a failure by the Company to increase your annual base salary following a Change in Control at such periodic intervals consistent with the Company's practice prior thereto by at least a percentage equal to the average of the percentage increases in your base salary for the three merit pay periods immediately preceding such Change in Control, or (C) the failure to increase your salary as the same may be increased from time to time for similarly situated senior executives, except that this clause (ii) shall not apply to across-the-board salary reductions similarly affecting all executives of the Company and all executives of any person in control of the Company;

(iii) A material change in the geographic location at which you are required to be based (including, without limitation, the Company requiring you to relocate outside of the metropolitan area in which you were based immediately prior to the Change in Control), except for required travel on the Company's business to an extent substantially consistent with your present business travel obligations;

(iv) The failure by the Company to continue in effect any material compensation or benefit plan, vacation policy or any material perquisites in which you participate immediately before the Change in Control, (except to the extent such plan terminates in accordance with its terms), unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue your participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of your participation relative to other participants, than existed at the time of the Change in Control; or

(v) The failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform this Agreement, as contemplated in Section 11.

(vi) A Termination by You For Good Reason shall be deemed to occur if, after a Change in Control, there occurs any termination or purported termination by the Company of your employment which is not accompanied by any Notice of Termination required by Section 12, and does not comply with the notice requirements (if applicable) of subsection (k) of this section (defining Termination by the Company For Cause).

(vii) A termination by you of your employment shall not fail to be a Termination by You For Good Reason merely because of your incapacity due to physical or mental illness, or because your employment continued after the occurrence of any of the events listed in this subsection.

(n) <u>Termination by You Without Good Reason</u> shall mean a termination by you of your employment that is not a Termination by You For Good Reason.

2. <u>Term of Agreement</u>

(a) This Agreement shall be effective on [date], and shall continue in effect through December 31, [year], or the later date provided by subsection (b) or (c) of this section.

(b) Commencing on January 1, [year], and each January 1 thereafter, the term of this Agreement shall automatically be extended for one additional year unless, (i) not later than the later of November 1 or thirty days following the meeting of the Compensation Committee of the Board held in October of the preceding year, the Company gives notice that it does not wish to extend this Agreement; or (ii) at any time, the Company gives notice that you are no longer in a position considered to be a key role in the event of a CIC. No such notice may be given during the pendency of a Potential Change in Control.

(c) If a Change in Control occurs while this Agreement is in effect, then notwithstanding subsections (a) and (b) of this section, this Agreement shall continue in effect until the last day of the 24th month following the month in which occurs such Change in Control.

(d) This Agreement shall terminate upon your termination of employment (which for this purpose shall include commencement of salary continuance or other severance amounts), other than a termination of employment that occurs after a Change in Control.

3. Your Agreement to Certain Continued Employment. You agree that, subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control, you will remain in the employ of the Company until the earliest of:

(a) The expiration of nine (9) months from the occurrence of such Potential Change in Control,

(b) The termination by you of your employment by reason of Disability;

(c) The date on which you first become entitled under this Agreement to receive the benefits provided in Section 4 (or would be so entitled, except for the application of Section 14 herein, relating to section 409A of the Code.)

4. Benefits Upon Termination.

(a) You shall be entitled to the benefits provided by this section upon termination of your employment, if such termination occurs after a Change in Control and during the term of this Agreement, and is not (i) because of your death, (ii) a Termination by the Company For Cause, (iii) a Termination by the Company For Disability, or (iv) a Termination by You Without Good Reason.

(b) The Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company, at the time such payments are due.

(c) In lieu of any further salary payments to you for periods after the Date of Termination, the Company shall pay a lump sum severance payment equal to [two (2) or 2.99] times the sum of:

(i) the greater of (A) your annual rate of base salary in effect on the date Notice of Termination is given, and (B) your annual rate of base salary in effect immediately before the Change in Control, and

(ii) the greater of (A) the annual target bonus applicable to you for the year in which Notice of Termination is given and (B) the annual target bonus applicable to you for the year in which the Change in Control occurs.

(d) The payment under subsection (c) will be paid immediately upon the fifth day following the Date of Termination, except that it may not be paid before the earliest date permitted under Section 14 herein (relating to section 409A of the Code).

(e) In addition to all other amounts payable to you under this section, you shall be entitled to receive all benefits payable under any other plan or agreement relating to retirement benefits or to compensation previously earned and not yet paid, in accordance with the terms of such plans or agreements.

(f) For the [24 or 36] month period immediately following the Date of Termination, the Company shall arrange to provide you and your dependents life, disability, accident and health insurance benefits substantially similar to those provided to you and your dependents immediately before the Date of Termination or, if more favorable to you, those provided to you and your dependents immediately before the occurrence of a Change in Control, at no greater cost to you than the cost to you immediately before such date or occurrence. Benefits otherwise receivable by you pursuant to this section shall be reduced to the extent benefits of the same type are received by or made available at no greater cost to you by a subsequent employer during the [24 or 36] month period following the Date of Termination (and any such benefits received by or made available to you shall be reported by you to the Company).

(g) Deeming rules for certain terminations of employment before a Change in Control. For purposes of this Agreement:

(i) Termination of your employment shall be deemed to occur after a Change in Control if (A) your employment is terminated by the Company before a Change in Control, (B) such termination was not a Termination by the Company For Cause, and (C) either such termination was at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control, or you reasonably demonstrate that such termination was otherwise in connection with or in anticipation of a Change in Control.

(ii) Termination of your employment shall be deemed to be a Termination by You For Good Reason after a Change in Control if (A) before a Change in Control, you incur a Termination by You For Good Reason (or what would be such but for the fact that it occurs before a Change in Control), and (B) the circumstance or event which constitutes Good Reason occurs at the request or direction of a person who has entered into an agreement with the Company the consummation of which would constitute a Change in Control.

(iii) Clauses (i) and (ii) apply whether or not a Change in Control actually occurs.

5. Benefits upon Termination For Cause or Without Good Reason. If, following a Change in Control, your employment is terminated pursuant to a Termination by the Company For Cause, or a Termination by You Without Good Reason, the Company shall pay you your full base salary through the Date of Termination at the rate in effect at the time Notice of Termination is given, plus all other amounts to which you are entitled under any compensation plan of the Company at the time such payments are due, and the Company shall have no further obligations to you under this Agreement.

6. No Duty to Mitigate. You shall not be required to mitigate the amount of any payment provided for in Sections 4, 5, 9 or 10 herein by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in such sections be reduced by any compensation earned by you as the result of employment by another employer or by retirement benefits after the Date of Termination, or otherwise, other than under subsection (f) of Section 4 (relating to certain continuing welfare benefits) and Section 8.

7. No Waiver. Your continued employment after any event which is or might be an event listed under the definition of Termination by You For Good Reason herein shall not constitute your consent to, or your waiver of rights with respect to, any circumstances surrounding a Termination by You For Good Reason.

8. Offset for Certain Severance Pay. If you become entitled to the lump sum severance benefit under subsection (c) of Section 4 herein, you shall not be entitled to receive severance pay under any severance pay plan, policy or arrangement maintained by the Company or any of its subsidiaries. If the Company is obligated by law or by contract to pay severance pay, a termination indemnity, notice pay, or the like, or if the Company is obligated by law or by contract to provide advance notice of separation, then the lump sum severance benefit under subsection (c) of Section 4 herein shall be reduced, but not below zero, by the amount of any such severance pay, termination indemnity, notice pay or the like, as applicable, and by the amount of any compensation received by you during the period of such advance notice.

9. Payment of Parachute Payment Excise Tax.

(a) For purposes of this Section, the following terms shall have the following meanings:

(i) Total Payments shall mean all of the payments or benefits received or to be received by you in connection with a Change in Control or your termination of employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company, any person whose actions result in a Change in Control or any person affiliated with the Company or such person, excluding the Excise Tax Payment.

(ii) Excise Tax shall mean the excise tax (if any) imposed under section 4999 of the Code on your Total Payments.

(iii) Excise Tax Payment shall mean the additional amount (if any) paid to you by the Company pursuant to this Section 9, which additional amount shall be equal to the Excise Tax as determined in accordance with this section.

(b) The Company shall pay to you the Excise Tax Payment not later than the later of (i) the fifth day following the Date of Termination, or (ii) the tenth day following the date of initial determination of the amount of the Excise Tax Payment (as set forth in subsection (c)), except that the amount may not be paid to you before the earliest date permitted by Section 14 herein (relating to section 409A of the Code).

(c) An initial determination of the amount of the Excise Tax Payment (if any) shall be made by tax counsel not later than ten days following the Date of Termination. For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all of the Total Payments shall be treated as "parachute payments" (within the meaning of section 280G(b)(2) of the Code) unless, in the opinion of tax counsel reasonably acceptable to you and the Company and selected by the accounting firm which was, immediately before the Change in Control, the Company's independent auditor (the "Auditor"), such payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of section 280G(b)(4)(A) of the Code, (ii) all "excess parachute payments" within the meaning of section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of Tax Counsel, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of section 280G(b)(4)(B) of the Code) in excess of the base amount allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax, and (iii) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code.

(d) In the event that the Excise Tax is finally determined by the Internal Revenue Service to be less than the Excise Tax Payment, you shall repay to the Company, within five business days following the time that the amount of such reduction in the Excise Tax is finally determined, the difference between the Excise Tax as finally determined and the Excise Tax Payment, plus interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is finally determined by the Internal Revenue Service to exceed the Excise Tax Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Excise Tax Payment), the

Company shall make an additional payment in respect of such excess (plus any interest, penalties or additions payable by you with respect to such excess) within five business days following the time that the amount of such excess is finally determined. The Company and you shall each cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments. For purposes of the foregoing sentence, cooperation shall include (but not be limited to) providing to the Company and/or tax counsel copies of your Forms W-2 issued by the Company, together with your federal, state and local income tax returns, for the five calendar years immediately preceding the calendar year in which the Change in Control occurs (excluding any such year, if at no point during such year were you employed by the Company).

(e) To the extent required by Section 409A of the Code and guidance thereunder, any payment by the Company under this section shall be made no later than December 31 of the calendar year following the calendar year in which you remit the Excise Tax.

10. Legal Fees.

(a) The Company also shall pay to you all reasonable legal fees and expenses incurred by you with respect to the initial determination by tax counsel of the amount of the Excise Tax Payment (if any), as well as in disputing in good faith any issue hereunder relating to the termination of your employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the Code to any payment or benefit provided hereunder. Such payment shall be made immediately upon the date that is five business days after delivery of your written request for payment accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

(b) To the extent required by Section 409A of the Code and guidance thereunder, any payment by the Company under this section shall be made no later than December 31 of the calendar year following the calendar year in which you incur such fees and expenses. Notwithstanding the foregoing, to the extent required by Section 409A of the Code, in the case of a payment by the Company to reimburse expenses incurred due to a tax audit or litigation, payment shall be made no later than December 31 of the calendar year following the calendar you in which you remit the Excise Tax or, where as a result of such audit or litigation, no taxes are remitted, December 31 of the calendar year following the calendar year in which the audit is completed or there is a final and nonappealable settlement or other resolution of the litigation.

11. Successors; Binding Agreement.

(a) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no succession had taken place.

(b) Failure of the Company to obtain such assumption and agreement before the effectiveness of any such succession shall be a breach of this Agreement and shall entitle you to compensation from the Company in the same amount and on the same terms as you would be entitled hereunder if you terminated your employment for Good Reason following a Change in Control, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination.

(c) This Agreement shall inure to the benefit of and be enforceable by your personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If you should die while any amount would still be payable to you hereunder if you had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to your devisee, legatee or other designee or if no such designee, to your estate.

12. Notice Requirement. Any termination or purported termination of your employment (except by reason of your death) by the Company or by you following a Change in Control and during the term of this Agreement shall be communicated by written Notice of Termination to the other party hereto in accordance with this section. The Notice of Termination shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under the provision so indicated. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth on the first page of this Agreement, provided that all notices to the Company shall be directed to the attention of the Board with a copy to the Secretary of the Company, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

13. Extension of Date of Termination. If, within thirty (30) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date on which the dispute is finally determined, either by mutual written agreement of the parties, by a binding

arbitration award, or by a final judgment, order or decree of court of competent jurisdiction (the time for appeal therefrom having expired and no appeal having been perfected). The Date of Termination shall be extended by a notice of dispute only if such notice is given in good faith and the party giving such notice pursues the resolution of such dispute with reasonable diligence. Notwithstanding the pendency of any such dispute, the Company will continue to pay you your full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, base salary) and continue you as a participant in all compensation, benefit and insurance plans in which you were participating when the notice giving rise to the dispute was given, until the dispute is finally resolved in accordance with this section. Amounts paid under this section are in addition to all other amounts due under this Agreement and shall not be offset against or reduce any other amounts due under this Agreement and shall not be reduced by any compensation earned by you as the result of employment by another employer.

14. No Payment Earlier Than Permitted Under Code Section 409A.

In no event shall any amount be paid to you under this Agreement before the date that is the earliest of:

(a) your death;

(b) the date you become disabled (as defined for purposes of Code section 409A(a)(2));or

(c) the date of your separation from service (as defined for purposes of Code section 409A(a)(2)), plus 6 months after such date if you are a specified employee (as defined for purposes of Code section 409A(a)(2)(B)).

15. Amendment.

(a) Except as provided in subsection (b), no provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by you and such officer as may be specifically designated by the Compensation Committee of the Board.

(b) To the extent deemed necessary or desirable by the Compensation Committee of the Board, the Agreement may be amended by an affirmative vote of the majority of the directors described in section 1(c)(ii) hereof and on the Compensation Committee in order to comply with Code section 409A and to avoid any additional tax or penalty related solely to Code section 409A. Such amendments will be effective if signed by such officer as may be specifically designated by the Compensation Committee of the Board. The provisions of this subsection (b) shall not apply at any time after the occurrence of either a Potential Change in Control or a Change in Control.

16. Miscellaneous. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law. The obligations of the Company under Sections 4, 5, 9 and 10 shall survive the expiration of the term of this Agreement. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between you and the Company, you shall not have any right to be retained in the employ of the Company.

17. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

18. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

19. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and during the term of the Agreement supersedes the provisions of all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto with respect to the subject matter hereof (including, without limitation, the Severance Agreement previously entered into between you and the Company as thereafter amended and/or extended).

20. Effective Date. This Agreement shall become effective as of the date set forth above. If this letter correctly sets forth our agreement on the subject matter hereof, please sign and return to the Company the enclosed copy of this letter which will then constitute our agreement on this subject.

Sincerely,

XEROX CORPORATION

By: ______________________________

Name: Anne M. Mulcahy

Title: Chairman and Chief Executive Officer

Agreed to as of the Date: ____________________

Name: ______________________________

Exhibit 10(i)(2)

AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the “Company”) has established the following plans (the “Plans”),

Amended and Restated Severance Letter Agreement Providing Certain Benefits Upon Termination of Employment Following a Change in Control,

Xerox Corporation 2004 Performance Incentive Plan, December 2007 Amendment and Restatement,

Xerox Corporation 1991 Long-Term Incentive Plan, 2007 Amendment and Restatement

Xerox Corporation Unfunded Supplemental Executive Retirement Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

“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.”

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 4th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

XEROX CORPORATION
DEFERRED COMPENSATION PLAN FOR DIRECTORS
(Formerly 1989 Deferred Compensation Plan For Directors)

2007 AMENDMENT AND RESTATEMENT

Preamble. This Plan is a private unfunded nonqualified deferred compensation arrangement for Directors and all rights shall be governed by and construed in accordance with the laws of New York, except where preempted by federal law. It is intended to provide a vehicle for setting aside funds for retirement.

Section 1. Effective Date. The original effective date of the Plan is January 1, 1989. The effective date of this 2007 Amendment and Restatement is the date hereof and dates set forth herein.

Section 2. Eligibility. Any Director of Xerox Corporation (the "Company") who is not an officer or employee of the Company or a subsidiary of the Company is eligible to participate in the Plan (a Director who has so elected to participate is hereinafter referred to as a "Participant"). A Participant who terminates an election to defer receipt of compensation is not eligible to participate again in the Plan until twelve months after the effective date of such termination.

Section 3. Deferred Compensation Accounts. There shall be established for each Participant one or more deferred compensation Accounts (as hereinafter defined).

Section 4. Amount of Deferral.

(a) A Participant may elect to defer receipt of all or a specified part, expressed as a percentage of the cash compensation otherwise payable to the Participant for serving on the Company's Board of Directors or committees of the Board of Directors. Any amount deferred is credited to the Participant's Accounts on the date such amount is otherwise payable.

(b) In addition to the foregoing, there shall be credited to the deferred compensation accounts of each person who is serving as a Director on May 17, 1996 a sum computed by the Company as the present value of his or her accrued benefit under the Company's Retirement Income Plan For Directors, if any, as of such date and each such Director shall be given notice of such amount. The amount so computed shall be final and binding on the Company and each such Director. Within 30 days of the giving of such notice, each such Director shall make an election on a form provided by the Company as to the hypothetical investment of such amount and the payment methods as permitted under Sections 6 and 8 hereof as in effect on such date under the administrative rules adopted by the Administrator.

Section 5. Time of Election to Defer. The election to defer will be made prior to the individual's commencement of services as a Director for amounts to be earned for the remainder of the calendar year. In the case of an individual currently serving as a Director, the election to defer must be made prior to December 31, of any year for amounts to be earned in a subsequent calendar year or years. An election to totally terminate deferrals may be made at any time prior to the relevant payment date.

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

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

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

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

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

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

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

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

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

Account 4 shall be available with respect to amounts deferred during 1998 and later years. This account is payable beginning on the July 15 of a specified year whether before or after retirement. In addition to this payment date, the Participant must elect the number of payments that are to commence on this date. The payment(s) from this account can be as a single sum or payable in up to four annual installments. Once Account 4 is established (an election is made to defer and the payment date is defined), deferrals to Account 4 shall cease for any calendar year in which a payment is scheduled to be made from this Account. The full account balance shall be distributed by the end of the installment period. Once the final payment is made from this Account, the Participant may elect to create a new Account 4. The initial election or any subsequent election to use this Account must be made by December 31 of the year preceding the calendar year in which deferrals will be allocated to this Account.

The first payment date that can be elected is the July 15 of the calendar year that follows the calendar year of election (calendar year containing the December 31 due date for election) by three years.

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

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

Section 9. Payment of Deferred Compensation.

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

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

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

(d) Upon termination of service on the Board of Directors, other than termination resulting from death, prior to retirement, the Participant's Grandfathered Accumulated Benefits (as defined in Section 10(a)) shall be paid to the Participant as soon as administratively possible after his or her date of termination.

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

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

Section 10. Acceleration of Payment.

(a) For Unforeseeable Emergency/Hardship. Upon written approval from the Board of Directors (with the Participant requesting the withdrawal not participating) a Participant may be permitted to receive all or a part of the amounts deferred to his or her Accounts on or after January 1, 2005 (and earnings thereon) (such amounts, a Participant's "Non-Grandfathered Accumulated Benefits"), if the Participant experiences an Unforeseeable Emergency. Any such distribution of a Participant's Non-Grandfathered

Accumulated Benefits shall be in accordance with, and limited to that permitted under, section 409A(a)(2)(B)(ii) of the Internal Revenue Code and corresponding regulations. For purposes of this Section 10(a), "Unforeseeable Emergency" shall have the meaning set forth in section 409A(a)(2)(B)(ii) of the Internal Revenue Code and corresponding regulations. In the event the Board of Directors determines that a Participant has experienced and Unforeseeable Emergency, the Participant's elective deferrals under the Plan shall be cancelled for the remainder of the calendar year following such determination, to the extent necessary to relieve the hardship caused by such Unforeseeable Emergency. However, the cancellation shall not apply to amounts deferred prior to the cancellation.

All or a part of the amounts credited to a Participant's Accounts other than the Participant's Non-Grandfathered Accumulated Benefits (such amounts, a Participant's "Grandfathered Accumulated Benefits") may be distributed to the Participant pursuant the terms of Section 10(a) of the Plan as in effect as of December 31, 2004.

(b) Upon a Change in Control. Within 5 days following the occurrence of a change in control of the Company (as hereinafter defined), each Participant shall receive a lump sum payment equal to the Participant's Grandfathered Accumulated Benefits. For purposes hereof, a "change in control", 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: (1) individuals who, as of the date hereof constitute the Board, and (2) 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 (1) 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 (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% 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 the definition of Change in Control and Potential 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 (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary 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, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (1) of clause (C) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) 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 (6) 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.

Within 5 days following the occurrence of a change in control of the Company (as defined above) 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, each Participant shall receive a lump sum payment equal to the Participant's Non-Grandfathered Accumulated Benefits.

Section 11. Other Penalized Withdrawals. Notwithstanding the provisions of Sections 9 and 10, a Participant may be permitted to receive all or part of his Grandfathered Accumulated Benefits (as defined in Section 10(a)) at any time provided that (A) the Administrator approves such distribution in his or her sole discretion, and (B) the Participant forfeits a portion of his Grandfathered Accumulated Benefits equal to a percentage of the amount distributed. The percentage reduction shall be the greater of (A) six percent, or (B) a percentage equal to one-half of the prime interest rate, as determined by the Administrator.

Section 12. Time Of Investment. Amounts deferred under the Plan shall begin to be credited with gains, losses and rates of return from Investments commencing on the date credited to the Participant's Accounts.

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

Section 14. Statement of Account. Statements will be sent to each Participant by February and August and more frequently if the Administrator so determines as to the value of their deferred compensation accounts as of the end of December and June, respectively.

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

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

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

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

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

Section 19. Section 409A of the Internal Revenue Code. Notwithstanding any other provision of the Plan, no election by any participant or beneficiary, and no payment to any individual, shall be permitted under the Plan if such election or payment would cause any amount to be taxable under section 409A of the Internal Revenue Code with respect to any individual.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 5th day of December, 2007, effective as of the date hereof, and dates set forth herein.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

Exhibit 10(k)(2)

AMENDMENT TO
CERTAIN DEFERRED COMPENSATION PLANS
MAINTAINED BY
XEROX CORPORATION

W I T N E S S E T H:

WHEREAS, Xerox Corporation (the “Company”) has established the following plans (the “Plans”):

Deferred Compensation Plan for Directors, 2007 Amendment and Restatement

2004 Equity Compensation Plan for Non-Employee Directors, 2007 Amendment and Restatement

1996 Non-Employee Director Stock Option Plan, 2007 Amendment and Restatement, and

WHEREAS, the Company desires to amend the Plans,

NOW, THEREFORE, each Plan is hereby amended by adding immediately after the last section thereof, the following provision:

“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.”

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

IN WITNESS WHEREOF, the Company has caused this Amendment to be signed as of this 5th day of December, 2007.

XEROX CORPORATION

By: /s/ P. M. Nazemetz
Vice President

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.

	Year Ended December 31,				
(in millions)	2007	2006	2005	2004	2003
Fixed charges:					
Interest expense	$ 579	$ 544	$ 557	$ 708	$ 884
Capitalized interest	8	—	—	—	—
Portion of rental expense which represents interest factor	95	90	74	105	77
Total Fixed charges	$ 682	$ 634	$ 631	$ 813	$ 961
Earnings available for fixed charges:					
Earnings	$1,535	$ 922	$ 928	$1,116	$ 494
Adjusted for: Undistributed equity in income of affiliated companies	(60)	(70)	(54)	(89)	(37)
Add: Fixed charges	682	634	631	813	961
Less: Capitalized interest	(8)	—	—	—	—
Total Earnings available for fixed charges	$2,149	$1,486	$1,505	$1,840	$1,418
Ratio of earnings to fixed charges	3.15	2.34	2.39	2.26	1.48

Xerox Corporation

Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends

(in millions)	Year Ended December 31, 2007	2006	2005	2004	2003
Fixed charges:					
Interest expense	$ 579	$ 544	$ 557	$ 708	$ 884
Capitalized interest	8	—	—	—	—
Portion of rental expense which represents interest factor	95	90	74	105	77
Total Fixed charges before preferred stock dividends pre-tax income requirements	682	634	631	813	961
Preferred stock dividends pre-tax income requirements	—	48	94	110	90
Total Combined fixed charges and preferred stock dividends	$ 682	$ 682	$ 725	$ 923	$1,051
Earnings available for fixed charges:					
Earnings	$1,535	$ 922	$ 928	$1,116	$ 494
Adjusted for: Undistributed equity in income of affiliated companies	(60)	(70)	(54)	(89)	(37)
Add: Fixed charges before preferred stock dividends	682	634	631	813	961
Less: Capitalized interest	(8)	—	—	—	—
Total Earnings available for fixed charges and preferred stock dividends	$2,149	$1,486	$1,505	$1,840	$1,418
Ratio of earnings to combined fixed charges and preferred stock dividends	3.15	2.18	2.08	1.99	1.35

INDEX TO ANNUAL REPORT

Management's Discussion and Analysis of Results of Operations and Financial Condition	3
Executive Overview	3
Financial Overview	3
Currency Impacts	4
Summary Results	4
Application of Critical Accounting Policies	6
Operations Review	10
Segment Revenue and Operating Profit	10
Costs, Expenses and Other Income	13
Gross Margin	13
Research, Development and Engineering	13
Selling, Administrative and General Expenses	14
Restructuring and Asset Impairment Charges	14
Worldwide Employment	14
Other Expenses, Net	15
Income Taxes	16
Equity in Net Income of Unconsolidated Affiliates	17
Income from Discontinued Operations	17
Recent Accounting Pronouncements	17
2008 Segment Reporting Change	17
Capital Resources and Liquidity	18
Cash Flow Analysis	18
Financing Activities	20
Liquidity, Financial Flexibility and Other Financing Activity	21
Contractual Cash Obligations and Other Commercial Commitments and Contingencies	22
Off-Balance Sheet Arrangements	24
Financial Risk Management	24
Non-GAAP Financial Measures	25
Forward-Looking Statements	25
Audited Consolidated Financial Statements	26
Consolidated Statements of Income	26
Consolidated Balance Sheets	27
Consolidated Statements of Cash Flows	28
Consolidated Statements of Common Shareholders' Equity	29

Notes to Consolidated Financial Statements

1.	Summary of Significant Accounting Policies	30
2.	Segment Reporting	37
3.	Acquisitions	39
4.	Receivables, Net	41
5.	Inventories and Equipment on Operating Leases, Net	42
6.	Land, Buildings and Equipment, Net	43
7.	Investments in Affiliates, at Equity	43
8.	Goodwill and Intangible Assets, Net	45
9.	Restructuring and Asset Impairment Charges	46
10.	Supplementary Financial Information	47
11.	Debt	48
12.	Liability to Subsidiary Trust Issuing Preferred Securities	51
13.	Financial Instruments	51
14.	Employee Benefit Plans	54
15.	Income and Other Taxes	58
16.	Contingencies	61
17.	Shareholders’ Equity	68
18.	Earnings Per Share	70
19.	Divestitures and Other Sales	71

Reports of Management	73
Report of Independent Registered Public Accounting Firm	74
Quarterly Results of Operations	75
Five Years in Review	76
Certifications Pursuant to Rule 13a - 14 under the Securities Exchange Act of 1934, as amended	77

Management's Discussion and Analysis of Results of Operations and Financial Condition

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. The document industry is transitioning to digital systems, color, and to an increased reliance on electronic documents. 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 $125 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 and our customers demand improved 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. Customers are demanding document services such as assessment consulting, managed services, imaging and hosting and document intensive business process improvements.

We deliver advanced technology through investments in research and development and offset lower prices by focusing on streamlining our cost base. The majority of our revenue is recurring revenue (supplies, service, paper, outsourcing and rentals), which we collectively refer to as post sale revenue. Post sale revenue is driven by the amount of equipment installed at customer locations and the utilization of those devices. 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.

Financial Overview

In 2007, we grew revenue, expanded earnings and generated strong operating cash flow. Our investments in the growing areas of digital production and office systems, particularly with respect to color products, contributed to the majority of our equipment sales being generated from products launched in the last two years. During 2007 we completed the acquisitions of Global Imaging Systems, Inc. ("GIS") and Advectis, Inc. The acquisition of GIS greatly expanded our reach in the small to mid-size business ("SMB") market and together with favorable currency was a key driver of our increase in revenue. Total revenue increased 8% over the prior year reflecting 9% growth in post sale, financing and other revenue and 7% equipment sales growth. Total color revenue was up 14% over the prior year reflecting our investments in this market and document management services (also referred to as "Xerox Global Services") post sale, financing and other revenue of $3.4 billion increased 8% over 2006.

2007 gross margins of 40.3% were slightly below prior year as cost improvements were offset by product mix and pricing. Selling, administrative and general ("SAG") expense as a percent of revenue was 0.2-percentage points lower year over year. SAG expenses grew as the inclusion of GIS and unfavorable currency offset the benefits of prior restructuring. Additionally, we continued to invest in research and development and to prioritize our investments to the faster growing areas of the market.

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 as debt associated with our acquisition of GIS was effectively repaid by year-end. We also continued our strategy to replace debt secured by our finance receivables with new unsecured debt, reducing the percentage of secured debt to total debt to a modest 4%. The successful implementation of this strategy enabled us to significantly strengthen our balance sheet and led to our third investment grade credit rating, thereby completing the transition to a high-grade credit.

We finished the year with a cash and cash equivalents balance of $1.1 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. Our strategy also includes maintaining an appropriate leverage of our financing assets (finance receivables and equipment on operating leases) and an appropriate level of non-financing debt.

During 2007 we declared our first quarterly dividend in six years. A dividend of 4.25 cents per share was paid on January 31, 2008 to shareholders of record on December 31, 2007. The dividend declaration underscores our confidence in our business model and the health of our business, which is the foundation for our strong financial position.

Currency Impacts

To understand the trends in the 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 Operations ("DMO") 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 on a revenue-weighted basis, the U.S. dollar was 9% weaker in 2007 and unchanged in 2006 and 2005. As a result, the foreign currency translation impact on revenue was a 3% benefit in 2007 and negligible in 2006.

Summary Results

Revenues

Revenues for the three years ended December 31, 2007 were as follows:

	Year Ended December 31,			Percent Change	
(in millions)	2007	2006	2005	2007	2006
Equipment sales	$ 4,753	$ 4,457	$ 4,519	7%	(1)%
Post sale and other revenue [1]	11,653	10,598	10,307	10%	3%
Finance income	822	840	875	(2)%	(4)%
Total Revenue	$17,228	$15,895	$15,701	8%	1%

Reconciliation to Consolidated Statements of Income

Sales	$ 8,192	$ 7,464	$ 7,400
Less: Supplies, paper and other sales	(3,439)	(3,007)	(2,881)
Equipment sales	$ 4,753	$ 4,457	$ 4,519
Service, outsourcing and rentals	$ 8,214	$ 7,591	$ 7,426
Add: Supplies, paper and other sales	3,439	3,007	2,881
Post sale and other revenue	$11,653	$10,598	$10,307
Memo: Color [2]	$ 6,356	$ 5,578	$ 4,928

Total 2007 revenue increased 8% compared to the prior year and includes the results of GIS since May 9, 2007, the effective date of the acquisition. When including GIS in our 2006 results[3], 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, financing and other revenue, or 6% including GIS in our 2006 results[3]. This included a 3-percentage point benefit from currency. Growth in GIS, color products, DMO and document management services more than offset the decline in black-and-white digital office revenue and light lens products:

- 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 DMO.
- 7% increase in equipment sales revenue, or a decrease of 1% when including GIS in our 2006 results[3]. 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.
- 14% growth in color revenue[2]. Color revenue of $6,356 million comprised 39% of total revenue, compared to 35% in 2006 reflecting:
  - 18% growth in color post sale, financing and other revenue. Color represented 35% and 31% of post sale, financing and other revenue, in 2007 and 2006, respectively[4].
  - 7% growth in color equipment sales revenue. Color 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].

Total 2006 revenue increased 1% from the prior year. There was a negligible impact from currency. Total revenue included the following:

- 1% decline in equipment sales, including a benefit from currency of 1-percentage point, primarily reflecting revenue declines in Office and high-end production black-and-white products, partially offset by revenue growth from color products and growth in DMO. Strong install activity in color products and office black-and-white products including, entry production color, iGen3 and office multifunction color products, partially offset by overall price declines. Approximately two-thirds of 2006 equipment sales were generated from products launched in the past 24 months.
- 3% growth in post sale and other revenue, including a benefit from currency of 1-percentage point, primarily reflecting growth in digital Office and Production products, DMO, and value-added services offset by declines in light lens and licensing revenue. Analog revenues of $302 million represented 3% of 2006 post sale revenue compared to $494 million or 5% of 2005 post sale revenue.
- 4% decline in Finance income, including a benefit from currency of 1-percentage point, reflecting lower average finance receivables.
- 13% growth in color revenue. Color revenue of $5,578 million comprised 35% of total revenue in 2006 compared to 31% in 2005.
  - 16% growth in color post sale and other revenue. Color sales represented 31% of post sale and other revenue in 2006 compared to 28% in 2005. In 2006, approximately 9% of our pages were printed on color devices, which was up from 7% in 2005.
  - 9% growth in color equipment sales revenue. The pace of color equipment sales growth was impacted by lower OEM color printer sales. Color sales represented approximately 45% of total equipment sales in 2006 compared to 41% in 2005.

---

(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, as well as associated services.

(2) Color revenues represent a subset of total revenues and excludes the impact of GIS.

(3) The percentage point impacts from GIS reflect the revenue growth year-over-year after including GIS' results from 2006 on a proforma basis. See page 25 for an explanation of this non-GAAP measure.

(4) As of December 31, 2007, total color, color post sale, financing and other, and color equipment sales revenues comprised 37%, 34% and 46%, respectively, if calculated on total, total post sale, financing and other, and total equipment sales revenues, including GIS. GIS is excluded from the color information presented, as the breakout of the information required to make this computation for all periods is not available.

2008 Projected Revenues

Excluding currency impacts, we expect 2008 revenue to grow moderately driven by continued increases in annuity revenue. We anticipate that new launches combined with products and applications launched during the prior two years, and the businesses acquired in 2007, will enable us to further strengthen our market position.

Growth in post sale and other revenue will be driven by our success in increasing the volume of equipment installed at customer locations, volume of pages and mix of color pages generated on that equipment, as well as growth in document management services.

Net Income

Net income and diluted earnings per share for the three years ended December 31, 2007 were as follows:

(in millions, except per share amounts)	2007	2006	2005
Net income	$1,135	$1,210	$ 978
Diluted earnings per share	$ 1.19	$ 1.22	$0.94

2007 Net income of $1,135 million, or $1.19 per diluted share, decreased $75 million or $0.03 per diluted share from 2006 primarily reflecting:

- Gross profit increase of $492 million due to increased revenue of $1,333 million, including the addition of GIS.
- Increase in selling, administrative and general expenses of $304 million due primarily to the inclusion of GIS.
- Decrease in restructuring and asset impairment charges of $391 million. 2006 restructuring charges were $385 million ($257 million after-tax).
- Decrease in Other expenses, net of $41 million due to 2006 charges of $68 million (pre and post tax) related to probable losses for Brazilian labor-related contingencies and a $13 million ($9 million after-tax) charge resulting from the termination of a previous credit facility.
- Increase in income tax expense of $688 million due to higher pre-tax income as well as the absence of the following 2006 income tax benefits:
  - $472 million related to the favorable resolution of certain tax matters from the 1999-2003 IRS audit.
  - $46 million tax benefit resulting from the resolution of certain tax matters associated with foreign tax audits.
- Decrease in equity income of $17 million primarily attributable to charges of $30 million for our share of Fuji Xerox restructuring.

2006 Net income of $1,210 million, or $1.22 per diluted share, increased $232 million or $0.28 per diluted share from 2005 primarily reflecting:

- $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 litigation matters related to probable losses on Brazilian labor-related contingencies.
- $46 million tax benefit resulting from the resolution of certain tax matters associated with foreign tax audits.
- $13 million ($9 million after-tax) charge from the write-off of the unamortized deferred debt issuance costs as a result of the termination of a previous credit facility.
- $385 million ($257 million after-tax) restructuring and asset impairment charges.

2005 Net income of $978 million, or $0.94 per diluted share, included the following:

- $343 million after-tax benefit related to the finalization of the 1996-1998 IRS audit.
- $115 million ($84 million after-tax) charge for litigation matters relating to the MPI arbitration panel decision and probable losses for other legal matters.
- $93 million ($58 million after-tax) gain related to the sale of our total equity interest in Integic Corporation (“Integic”).
- $366 million ($247 million after-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.

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 that accrue to our benefit, 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 are 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.

Residual Values for Equipment under Lease: Residual values represent the recorded estimated fair value of equipment as of the end of the lease. Residual values associated with equipment under sales-type leases are included as a component of our net finance receivables balance and amounted to $69 million and $90 million at December 31, 2007 and 2006. Residual values associated with equipment under operating leases represent the recorded estimated salvage value at the end of the lease term and are included as a component of equipment on operating leases, net and amounted to $36 million and $41 million at December 31, 2007 and 2006. Equipment under operating leases and similar arrangements are depreciated to estimated salvage value over their estimated useful lives.

We review residual values regularly and, when appropriate, adjust them based on estimates of expected market conditions at the end of the lease, including the impacts of future product launches, changes in remanufacturing strategies and the expected lessee behavior at the end of the lease term. Impairments to residual values occur when available information indicates that the decline in recorded value is other than temporary and we would therefore not be able to fully recover the recorded values. Impairments on residual values are recognized as losses in the period in which the estimate is changed or as a revision in depreciation estimates for sales-type leases and operating leases, respectively. We recorded $1 million and $4 million in residual value impairment charges for the years ended December 31, 2007 and 2005. We did not record any residual value impairment charges for the year ended December 31, 2006.

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 $134 million, $87 million, and $72 million in SAG expenses in our Consolidated Statements of Income for the years ended December 31, 2007, 2006 and 2005, respectively.

As discussed above, in preparing our Consolidated Financial Statements for the three year period ended December 31, 2007, 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, 2007, our allowance for doubtful accounts ranged from 3.0% to 4.6% of gross receivables. Holding all other assumptions constant, a 1-percentage point increase or decrease in the allowance from the December 31, 2007 rate of 3.1% would change the 2007 provision by approximately $110 million.

Historically, about half of the provision for doubtful accounts 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 the life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the provision for doubtful accounts.

Pension and Post-retirement Benefit Plan Assumptions: We sponsor 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. 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 and is subject to amortization to net periodic pension cost over the average remaining service lives of the employees participating in the pension plan.

Total actuarial losses for our pension plans as of December 31, 2007 were $1 billion, as compared to $1.6 billion at December 31, 2006. The change from December 31, 2006 relates primarily to 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 2007, 7.8% for 2006 and 8.0% for 2005, 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. The weighted average expected rate of return on plan assets we will utilize for 2008 will be 7.6%.

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 indexes, 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, 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. The weighted average rate we utilized to measure our pension obligation as of December 31, 2007 and calculate our 2008 expense was 5.9%, which is an increase from 5.3% used in determining 2007 expense. Assuming settlement losses in 2008 are consistent with 2007, our 2008 net periodic pension cost is expected to be approximately $40 million lower than 2007, primarily as a result of the increase in the discount rate.

On a consolidated basis, we recognized net periodic pension cost of $315 million, $425 million, and $414 million for the years ended December 31, 2007, 2006 and 2005, respectively. The costs associated with our defined contribution plans, which are included in net periodic pension cost, were $80 million, $70 million and $71 million for the years ended December 31, 2007, 2006 and 2005, 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 change the 2008 projected net periodic pension cost by $26 million. Likewise, a 0.25% increase or decrease in the expected return on plan assets would change the 2008 projected net periodic pension cost by $19 million.

Refer to Note 1-"New Accounting Standards and Accounting Changes" in the Consolidated Financial Statements for additional information regarding our 2006 adoption of 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)."

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 necessary 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/(credits) to income tax expense, were $14 million, $12 million, and $(38) million for the years ended December 31, 2007, 2006 and 2005, respectively. There were other increases/(decreases) to our valuation allowance, including the effects of currency, of $86 million, $45 million, and $61 million for the years ended December 31, 2007, 2006 and 2005, 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 $3.6 billion and $3.9 billion had valuation allowances of $747 million and $647 million at December 31, 2007 and 2006, respectively.

We adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109," on January 1, 2007. The adoption of this interpretation changed the way we evaluated recognition and measurement of uncertain tax positions. Refer to Note 1-"New Accounting Standards and Accounting Changes" and Note 15-"Income and Other Taxes" in the Consolidated Financial Statements for further information regarding the adoption and application of this interpretation.

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 2006. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities 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 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 result of our current year acquisition of GIS, as well as 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, and relevant market data. Refer to Note 8 - Goodwill and Intangible Assets, Net in the Consolidated Financial Statements for further information regarding goodwill by operating segment.

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, DMO and Other. See Note 2 – Segment Reporting in the Consolidated Financial Statements for further discussion on our segment operating revenues and segment operating profit.

Revenue by segment for the years ended 2007, 2006 and 2005 were as follows:

	Year Ended December 31,				
(in millions)	**Production**	**Office**	**DMO**	**Other**	**Total**
2007					
Equipment sales	$ 1,297	$2,590	$ 658	$ 208	$ 4,753
Post sale and other revenue	3,163	5,223	1,492	1,775	11,653
Finance income	311	491	5	15	822
Total Revenues	**$ 4,771**	**$8,304**	**$2,155**	**$1,998**	**$17,228**
Segment Profit	**$ 448**	**$ 973**	**$ 134**	**$ 33**	**$ 1,588**
Operating Margin	**9.4%**	**11.7%**	**6.2%**	**1.7%**	**9.2%**
2006					
Equipment sales	$ 1,343	$2,368	$ 605	$ 141	$ 4,457
Post sale and other revenue	2,913	4,760	1,327	1,598	10,598
Finance income	323	497	6	14	840
Total Revenues	**$ 4,579**	**$7,625**	**$1,938**	**$1,753**	**$15,895**
Segment Profit	**$ 403**	**$ 832**	**$ 124**	**$ 31**	**$ 1,390**
Operating Margin	**8.8%**	**10.9%**	**6.4%**	**1.8%**	**8.7%**
2005					
Equipment sales	$ 1,368	$2,436	$ 558	$ 157	$ 4,519
Post sale and other revenue	2,830	4,670	1,245	1,562	10,307
Finance income	342	512	9	12	875
Total Revenues	**$ 4,540**	**$7,618**	**$1,812**	**$1,731**	**$15,701**
Segment Profit	**$ 427**	**$ 819**	**$ 64**	**$ 151**	**$ 1,461**
Operating Margin	**9.4%**	**10.8%**	**3.5%**	**8.7%**	**9.3%**

Production

Revenue

2007 Production revenue of $4,771 million increased 4%, including a 4-percentage point benefit from currency, reflecting:

- 9% increase in post sale and other revenue, including a 5-percentage point benefit from currency, as growth from digital products more than offset declines in revenue from older light lens technology.
- 3% decrease in equipment sales revenue, including a 5-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 a decline in installs of high-volume and light production systems.

2006 Production revenue of $4,579 million increased 1%, including a 1-percentage point benefit from currency, reflecting:

- 3% increase in post sale and other revenue reflecting growth in color products which was partially offset by declines in revenue from high-end black-and-white digital products and older light lens technology.
- 2% decrease in equipment sales revenue, including a 1-percentage point benefit from currency, as price declines of less than 5% was partially offset by strong color install activity.
- 74% growth in installs of production color products largely driven by strong activity in the DocuColor 240/250, DocuColor 5000 and DocuColor 7000/8000, as well as an increase in iGen3 installs.
- Installs of production black-and-white systems were flat year-over-year. This included 16% growth in installs of black-and-white light production systems, reflecting continued success of the 4110 light production system, which was more than offset by 21% declines in installs of high-end black-and-white systems.

Operating Profit

2007 Operating profit of $448 million increased $45 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.

2006 Operating profit of $403 million declined $24 million from 2005. This decrease is a result of reduced gross margins impacted by product mix, price declines and an increase in bad debt expense, partially offset by a decrease in R,D&E spending and selling expenses.

Office

Revenue

2007 Office revenue of $8,304 million increased 9%, including a 3-percentage point benefit from currency, reflecting:

- 10% increase in post sale and other revenue, reflecting the inclusion of GIS as well as growth from color multifunction devices and color printers.
- 9% increase in equipment sales revenue, reflecting the inclusion of GIS 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.

2006 Office revenue of $7,625 million was relatively flat year over year, including a negligible currency effect.

- 2% increase in post sale and other revenue, including a benefit from currency of 1-percentage point. Growth in revenue from color multifunction products, black-and-white and color printers, were partially offset by declines in black-and-white multifunction and older light lens technology.
- 3% decrease in equipment sales revenue, including a benefit from currency of 1-percentage point. Price declines of less than 10% more than offset the growth in office color multifunction and black-and-white products. In addition,

an increased proportion of office equipment installed under operating lease contracts were recognized in post sale revenue.
- 35% increase in installs of office color multifunction systems.
- 8% increase in installs of black-and-white digital copiers and multifunction devices. Install growth was driven by 15% growth in Segments 3-5 devices (31-90 ppm) and 7% growth in Segments 1&2 devices (11-30 ppm).
- 5% decline in color printers as compared to 111% growth in the comparable 2005 periods. The decline reflects lower 2006 OEM sales.

Operating Profit

2007 Operating profit of $973 million increased $141 million from 2006. The increase was primarily due to the inclusion of GIS and higher gross profits partially offset by higher SAG expenses.

2006 Operating profit of $832 million increased $13 million from 2005, reflecting the reduction in SAG expenses partially offset by lower gross profit.

DMO

Revenue

2007 DMO revenue of $2,155 million increased 11% from 2006, reflecting:
- Strong performance in Eurasia, Central and Eastern Europe and the Middle East.
- 12% increase in post sale and other revenue, driven primarily by increased supplies, document management services and paper revenue.
- 9% increase in equipment sales revenue, reflecting install growth in office multifunction devices, light production black-and-white and production color systems. DMO equipment sales consist of Office and Production products, including a large proportion of sales in Segment 1&2 office products.

2006 DMO revenue of $1,938 million increased 7% from 2005, reflecting:
- 7% increase in post sale and other revenue, driven primarily by growth in revenue from supplies, color products and services.
- 8% increase in equipment sales revenue, reflecting strong sales of Segments 1&2 devices, as well as install growth in light production black-and-white and production color systems.

Operating Profit

2007 Operating profit of $134 million increased $10 million from 2006 reflecting higher gross profit primarily from increased revenue, partially offset by an increase in SAG expenses.

2006 Operating profit of $124 million increased $60 million from 2005, reflecting higher gross profit and reduction in SAG expenses.

Other

Revenue

2007 Other revenue of $1,998 million increased 14%, including a 3-percentage point benefit from currency, primarily reflecting the inclusion of GIS as well as increased paper and value-added services revenues. Paper comprised approximately 40% of Other segment revenue.

2006 Other revenue of $1,753 million increased 1% from 2005 reflecting:
- 11% decrease in equipment revenue driven by lower equipment component sales included in value-added services.
- 3% increase in post sale and other revenue from 2005, including a benefit from currency of 1-percentage point, due primarily to increased paper sales and value-added services. Paper comprised approximately two-thirds of the 2006 Other segment post sale and other revenue.

Operating Profit

2007 Operating profit of $33 million increased $2 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.

2006 Operating profit of $31 million decreased $120 million from 2005, reflecting:

- The absence of the following items that occurred in 2005: $93 million gain related to the sale of Integic and the $57 million interest benefit from the finalization of the 1996-1998 Internal Revenue Service tax audit.
- $13 million pre-tax write-off resulting from the termination of a previous credit facility.
- Lower interest income of $12 million and increased non-financing interest expense of $8 million.

The above were partially offset by the following:
- Increased paper profit due to increased sales and reduced SAG expenses resulting from organizational streamlining.
- $44 million in gains on sale of assets.

Costs, Expenses and Other Income

Gross Margin

Gross margins by revenue classification were as follows:

(in millions)	Year Ended December 31, 2007	2006	2005
Total Gross margin	40.3%	40.6%	41.2%
Sales	35.9%	35.7%	36.6%
Service, outsourcing and rentals	42.7%	43.0%	43.3%
Finance income	61.6%	63.7%	62.7%

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. Equipment financing interest is determined based on an estimated cost of funds, applied against an estimated level of debt required to fund our net finance receivables on a 7 to 1 debt to equity leverage ratio (refer to Note 11-Debt in the Consolidated Financial Statements for further information).

2006 Total Gross margin decreased by 0.6-percentage points from 2005 due to product mix. Price declines of 1.4-percentage points were offset by productivity improvements and other variances of 1.4-percentage points.
- Sales gross margin decreased 0.9-percentage points from 2005 as price declines of 2.1-percentage points exceeded the combined impacts of productivity improvements, product mix and other variances of 1.2-percentage points.
- Service, outsourcing and rentals margin decreased 0.3-percentage points from 2005 as product mix decline of 1.3-percentage points exceeded the impact of productivity improvements, price and other variances of 1.0-percentage points.
- Financing income margin increased 1.0-percentage points due to changes in interest costs specific to equipment financing.

Research, Development and Engineering Expenses (“R,D&E”)

(in millions)	Year Ended December 31, 2007	2006	2005	Change 2007	2006
Total R,D&E expenses	$912	$922	$ 943	$ 10	$ (21)
R,D&E % Revenue	5.3%	5.8%	6.0%	(0.5)pts	(0.2)pts

2007 R,D&E of $912 million decreased $10 million from 2006. We expect our 2008 R,D&E spending to approximate 5% to 5.5% of total revenue.
- R&D of $764 million increased $3 million from 2006. We invest in technological development, particularly in color, and believe our R&D spending is sufficient to remain technologically competitive. 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 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.

2006 R,D&E of $922 million decreased $21 million from 2005 reflecting lower environmental compliance spending.

- R&D of $761 million increased $6 million from 2005 reflecting higher expenditures in the Production and Office segments primarily related to expected 2007 product launches.
- Sustaining engineering costs of $161 million decreased $27 million from 2005, reflecting lower spending related to environmental compliance activities and maturing product platforms.

Selling, Administrative and General Expenses (“SAG”)

	Year Ended December 31,			Amount Change	
	2007	2006	2005	2007	2006
Total SAG expenses	$4,312	$4,008	$4,110	$304	$(102)
SAG as a % of revenue	25.0%	25.2%	26.2%	(0.2)pts	(1.0)pts

2007 SAG expenses of $4,312 million were 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 general and administrative (“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.

2006 SAG expenses of $4,008 million decreased from 2005 as a result of the following:

- $58 million reduction in selling expenses, including lower marketing spending and headcount reductions.
- $59 million reduction in G&A expenses as a result of continued expense management initiatives, including benefits from restructuring.
- The above reductions were partially offset by a $15 million increase in bad debt expense.

Bad debt expense included in SAG was $134 million, $87 million and $72 million in 2007, 2006 and 2005, respectively. Both 2005 and, to a lesser extent, 2006 reflect the benefits associated with recoveries and adjustments to the reserves as the result of improvements in write-offs and aging. This favorable trend in write-offs, receivables aging and collections continues to be reflected in our current year bad debt expense. Bad debt expense as a percent of total revenue was 0.8%, 0.5% and 0.5% for 2007, 2006 and 2005, respectively. At December 31, 2007, bad debt reserves, as a percentage of receivables, were comparable to year end 2006.

Restructuring and Asset Impairment Charges

For the three years ended December 31, 2007, 2006 and 2005 we recorded restructuring and asset impairment (credits)/charges of $(6) million, $385 million and $366 million, respectively. Restructuring activity was minimal in 2007 and the related credit of $6 million primarily reflects changes in estimates for prior years’ severance costs. 2006 net charges of $318 million related to headcount reductions of approximately 3,400 employees in North America and Europe. Lease termination and asset impairment net charges of $67 million primarily reflected the relocation of certain manufacturing operations and the exit from certain leased and owned facilities. 2005 net charges of $350 million related to the elimination of 3,900 employees worldwide and the remaining $16 million of net charges related to asset impairments and lease cancellations. The remaining restructuring reserve balance as of December 31, 2007, for all programs was $109 million. 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 57,400 as of December 31, 2007 increased approximately 3,700 from December 31, 2006, primarily reflecting the addition of GIS personnel and the hiring of former contract employees in certain Latin American subsidiaries, partially offset by reductions from the 2006 restructuring programs. Worldwide employment was approximately 53,700 and 55,200 at December 31, 2006 and 2005, respectively.

Other Expenses, Net

Other expenses, net for the three years ended December 31, 2007 consisted of the following:

(in millions)	Year Ended December 31, 2007	2006	2005
Non-financing interest expense	$ 263	$ 239	$ 231
Interest income	(55)	(69)	(138)
Gain on sales of businesses and assets	(7)	(44)	(97)
Currency losses, net	8	39	5
Amortization of intangible assets	42	41	38
Legal matters	(6)	89	115
Minorities' interests in earnings of subsidiaries	30	22	15
Loss on extinguishment of debt	—	15	—
All other expenses, net	20	4	55
Total Other expenses, net	$ 295	$ 336	$ 224

Non-financing interest expense: In 2007 non-financing interest expense increased primarily due to higher average debt balances as well as higher rates. In 2006 non-financing interest expense increased due to higher interest rates partially offset by lower average debt balances.

Interest income: Interest income is derived primarily from our invested cash and cash equivalent balances. The decline in interest income in 2007 was primarily due to lower average cash balances partially offset by higher rates. The decline in 2006 was primarily because 2005 included $57 million of interest income associated with the 2005 settlement of the 1996-1998 IRS audit as well as lower average cash balances partially offset by higher rates of return.

Gain on sales of businesses and assets: 2006 gain on sales of businesses and assets primarily consisted of the following:

- $15 million on the sale of our Corporate headquarters.
- $11 million on the sale of a manufacturing facility.
- $10 million receipt from escrow of additional proceeds related to our 2005 sale of Integic.

In 2005, gain on sales of businesses and assets primarily consist of the $93 million gain on the sale of Integic.

Currency (gains) losses net: Currency gains and 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 any 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 we do not apply cash flow hedge accounting treatment.

In 2007, 2006 and 2005 currency losses totaled $8 million, $39 million and $5 million, respectively. The 2006 increase in 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 Japanese Yen, as compared to the weakening Euro in 2005.

Amortization of intangible assets: 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 2006 legal matters expenses consisted of the following:

- $68 million for probable losses on Brazilian labor-related contingencies – see Note 16 – Contingencies in the Consolidated Financial Statements for additional details.
- $33 million associated with probable losses from various legal matters partially offset by $12 million of proceeds from the Palm litigation matter. The $11 million remaining proceeds from the Palm litigation is associated with a license and recorded in sales as licensing revenue.

In 2005, legal matters expenses consisted of the following:

- $102 million, including $13 million for interest expense, related to the MPI arbitration panel ruling.
- $13 million related to all other legal matters, primarily reflecting charges for probable losses on cases that had not yet been resolved.

Refer to Note 16 – Contingencies in the Consolidated Financial Statements for additional information regarding litigation against the Company.

Loss on extinguishment of debt: 2006 loss of $15 million includes the $13 million write-off of unamortized deferred debt issuance costs associated with the termination of a previous credit facility and a $2 million loss associated with the repayment of the mortgage in connection with the sale of our Corporate headquarters in Stamford, Connecticut.

All other expenses, net: In 2006 all other expenses, net decreased due to the absence of the following 2005 items:

- $15 million for property damage and impaired receivables losses sustained from Hurricane Katrina.
- $26 million charge related to the European Union Waste Directive.

Income Taxes

	Year Ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Pre-tax income	$ 1,438	$ 808	$ 830
Income tax expenses (benefits)	400	(288)	(5)
Effective tax rate	27.8%	(35.6)%	(0.6)%

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 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:

- 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.
- $11 million from the reversal of a valuation allowance on deferred tax assets associated with foreign net operating loss carryforwards.
- The geographical mix of income 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.

The 2005 effective tax rate of (0.6)% was lower than the U.S. statutory tax rate primarily due to:

- Tax benefits of $253 million, associated with the finalization of the 1996-1998 IRS audit.
- Tax benefits of $42 million primarily from the realization of foreign tax credits offset by the geographical mix of income and the related tax rates in those jurisdictions.
- Tax benefits of $31 million from the reversal of a valuation allowance on deferred tax assets associated with foreign net operating loss carryforwards. This reversal followed a re-evaluation of their future realization resulting from a refinancing of a foreign operation.
- These impacts 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 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 2008 will approximate 30%, excluding the effect of any discrete items.

Equity in Net Income of Unconsolidated Affiliates

2007 equity in net income of unconsolidated affiliates of $97 million is principally related to our 25% share of Fuji Xerox ("FX") income. The $17 million reduction from 2006 is primarily due to $30 million in our after-tax share of FX restructuring charges.

Income from Discontinued Operations

As disclosed in Note 15 – Income and Other Taxes in the Consolidated Financial Statements, in June 2005 the 1996-1998 Internal Revenue Service ("IRS") audit was finalized. Of the total tax benefits realized, $53 million was attributed to our discontinued operations.

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.

2008 Segment Reporting Change

In the first quarter of 2008, we will be revising our segment reporting to integrate DMO into the Production, Office and Other segments. DMO is a geography which has matured to a level where we will begin to manage it consistent with our North American and European geographies, which is on the basis of products sold. However, we will continue to provide DMO's revenue and profit as a supplemental disclosure through 2008.

Segment Revenue and Profit, as presented below, were reclassified for the above change, as well as for certain other miscellaneous revenue and expense reallocations. The following table reflects the restatement of selected financial information for our operating segments for each of the years ended December 31, 2007, 2006 and 2005, respectively, on the new basis (in millions):

	Production	Office	Other	Total
2007				
Equipment sales	$ 1,471	$3,030	$ 252	$ 4,753
Post sale and other revenue	3,530	5,950	2,173	11,653
Finance income	314	493	15	822
Total Segment revenues	**$ 5,315**	**$9,473**	**$2,440**	**$17,228**
Segment profit	**$ 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 and other revenue	3,244	5,421	1,933	10,598
Finance income	320	505	15	840
Total Segment revenues	**$ 5,055**	**$8,712**	**$2,128**	**$15,895**
Segment profit	**$ 504**	**$1,010**	**$ (124)**	**$ 1,390**
Operating Margin	**10.0%**	**11.6%**	**(5.8)%**	**8.7%**
2005				
Equipment sales	$ 1,492	$2,830	$ 197	$ 4,519
Post sale and other revenue	3,126	5,300	1,881	10,307
Finance income	346	516	13	875
Total Segment revenues	**$ 4,964**	**$8,646**	**$2,091**	**$15,701**
Segment profit	**$ 517**	**$ 931**	**$ 13**	**$ 1,461**
Operating Margin	**10.4%**	**10.8%**	**0.6%**	**9.3%**

The following table provides segment revenue and operating profit for the 2007 quarterly periods (in millions):

	Three Months Ended				
	Mar. 31	Jun. 30	Sep. 30	Dec. 31	Total
Segment Revenue:					
Production	$1,194	$1,281	$1,286	$1,554	$ 5,315
Office	2,105	2,327	2,384	2,657	9,473
Other	537	600	632	671	2,440
Total	**$3,836**	**$4,208**	**$4,302**	**$4,882**	**$17,228**
Segment Profit / (Loss):					
Production	$ 119	$ 111	$ 126	$ 206	$ 562
Office	259	267	259	330	1,115
Other	(16)	(31)	(25)	(17)	(89)
Total	**$ 362**	**$ 347**	**$ 360**	**$ 519**	**$ 1,588**

Capital Resources and Liquidity

Cash Flow Analysis

The following summarizes our cash flows for each of the three years ended December 31, 2007, as reported in our Consolidated Statements of Cash Flows in the accompanying Consolidated Financial Statements:

				Amount Change	
(in millions)	2007	2006	2005	2007	2006
Net cash provided by operating activities	$ 1,871	$ 1,617	$ 1,420	$ 254	$ 197
Net cash used in investing activities	(1,612)	(143)	(295)	(1,469)	152
Net cash used in financing activities	(619)	(1,428)	(2,962)	809	1,534
Effect of exchange rate changes on cash and cash equivalents	60	31	(59)	29	90
(Decrease) increase in cash and cash equivalents	(300)	77	(1,896)	(377)	1,973
Cash and cash equivalents at beginning of period	1,399	1,322	3,218	77	(1,896)
Cash and cash equivalents at end of period	**$ 1,099**	**$ 1,399**	**$ 1,322**	**$ (300)**	**$ 77**

Cash, cash equivalents and Short-term investments reported in our Consolidated Financial Statements were as follows (in millions):

	2007	2006
Cash and cash equivalents	$1,099	$1,399
Short-term investments	—	137
Total Cash, cash equivalents and Short-term investments	**$1,099**	**$1,536**

For the year ended December 31, 2007, **net cash provided by operating activities**, increased $254 million from 2006 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.

- $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.

For the year ended December 31, 2006, **net cash provided by operating activities**, increased $197 million from 2005 primarily as a result of the increased net income of $232 million, as well as the following additional items:

- $173 million increase due to lower inventories.
- $87 million increase due to lower net tax payments including a $34 million refund associated with the settlement of the 1999 to 2003 IRS tax audit.
- $62 million decrease due to a lower net run-off of finance receivables.
- $51 million decrease due to higher restructuring payments related to previously reported actions.
- $96 million decrease due to a lower year-over-year reduction in other current and long-term assets.
- $77 million decrease due to a reduction in other current and long-term liabilities, primarily reflecting a $106 million payment relating to the previously disclosed MPI legal matter.

For the year ended December 31, 2007, **net cash used in investing activities**, increased $1,469 million from 2006 primarily due to the following:

- $1,386 million increase 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.
- $153 million increase reflecting the absence of the 2006 $122 million distribution related to the sale of investments held by Ridge Re* and the $21 million distribution from the liquidation of our investment in Xerox Capital LLC.
- $57 million increase 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.
- $65 million increase due to higher capital and internal use software investments in 2007.
- $162 million decrease due to a reduction in escrow and other restricted investments in 2007, as we continue to run-off our secured borrowing programs.

For the year ended December 31, 2006, **net cash from investing activities** increased $152 million from 2005 primarily as a result of the following:

- $354 million increase due to proceeds from the net sale of short-term investments in 2006 of $107 million, as compared to the net purchases of $247 million in 2005, as 2005 represented the initial year we purchased short-term investments to supplement our investment income.
- $77 million increase due to proceeds from the sale of our Corporate headquarters and other excess land and buildings.
- $48 million increase due to proceeds from divestitures and investments, reflecting:
  - $122 million related to the sale of investments held by Ridge Re* in 2006.
  - $21 million distribution from the liquidation of our investment in a subsidiary trust in 2006.
  - $96 million of proceeds from the sale of Integic in 2005.

Partially offsetting these items were the following:

- $229 million due to payments related to the acquisition of Amici, LLC and XMPie, Inc.
- $57 million increase in capital expenditures and internal use software.
- Lower cash generation of $42 million due to a lower net reduction of escrow and other restricted investments.

* In March 2006 Ridge Re, a wholly owned subsidiary included in discontinued operations, executed an agreement to complete its exit from the insurance business. As a result of this agreement and pursuant to a liquidation plan, excess cash held by Ridge Re was distributed back to the Company (Refer to Note 19-Divestitures and Other Sales in the Consolidated Financial Statements for further information).

For the year ended December 31, 2007, **net cash used in financing activities**, decreased $809 million from 2006 primarily due to the following:

- $538 million decrease 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 decrease due to lower purchases under our share repurchase program as cash was invested in acquisitions.
- $100 million decrease relating to the 2006 payment of our liability to Xerox Capital LLC in connection with their redemption of Canadian deferred preferred shares.
- $278 million increase due to higher net repayments of secured financing. (refer to Note 4-Receivables, net in the consolidated financial statements for further information).

For the year ended December 31, 2006, **net cash used in financing activities** decreased $1.5 billion from 2005 primarily as a result of the following:
- $2,463 million lower usage primarily resulting from the 2005 net repayments on term and other unsecured debt, of $1,187 million, as contrast to the 2006 net borrowings of term and other unsecured debt of $1,276 million. The 2006 net borrowings primarily reflect the 2016 Senior Notes borrowing of $700 million in March 2006, 2017 Senior Notes borrowing of $500 million in August 2006 and the 2009 Senior Notes borrowing of $150 million in August 2006.
- $42 million due to higher proceeds from the issuance of common stock, resulting from increases in exercised stock options.
- Partially offsetting these items were the following:
  - $636 million higher cash usage for the acquisition of common stock under the authorized share repurchase programs.
  - $269 million higher net repayments on secured borrowings.
  - $100 million payment of liability to Xerox Capital LLC in connection with their redemption of Canadian deferred preferred shares in February 2006.

Financing Activities

Customer Financing Activities and Secured Debt: We provide equipment financing to the majority of our customers. Because the 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 have arrangements in certain international countries and domestically through the acquisition of GIS, in which 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, 2007 and 2006, respectively (in millions):

	2007	2006
Total Finance receivables, net [(1)]	$8,048	$7,844
Equipment on operating leases, net	587	481
Total Finance Assets, net	**$8,635**	**$8,325**

(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, 2007 and 2006.

Refer to Note 4 – Receivables, Net in the Consolidated Financial Statements for further information regarding our third party secured funding arrangements and a comparison of finance receivables to our financing-related debt as of December 31, 2007 and 2006. As of December 31, 2007, approximately 5% of total finance receivables were encumbered as compared to 31% at December 31, 2006.

The following table summarizes our debt as of December 31,

(in millions)	2007	2006
Debt secured by finance receivables	$ 275	$2,059
Capital leases	19	28
Total Secured Debt	294	2,087
Senior Notes	5,781	4,224
Subordinated debt	19	19
2007 Credit Facility	600	—
Other Debt	770	815
Total Unsecured Debt	7,170	5,058
Total Debt	**$7,464**	**$7,145**

At December 31, 2007, approximately 4% of total debt was secured by finance receivables and other assets compared to 29% at December 31, 2006.

Credit Facility: In April 2007, we amended and restated our $1.25 billion unsecured revolving credit facility that was originally entered into in April 2006. The amended and restated 2007 Credit Facility ("2007 Credit Facility") increased the maximum amount available for borrowing to $2 billion and includes a $300 million letter of credit subfacility. As of December 31, 2007, we had borrowings of $600 million and no outstanding letters of credit under the 2007 Credit Facility.

Refer to Note 11-Debt in the Consolidated Financial Statements for further information regarding our 2007 Credit Facility.

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.

As of December 31, 2007, we had $1.1 billion of cash and cash equivalents and borrowing capacity under our 2007 Credit Facility of $1.4 billion. Our ability to maintain positive liquidity going forward depends on our ability to continue to generate cash from operations and access the financial markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

Share Repurchase Programs: The Board of Directors has authorized programs for the repurchase of the Company's common stock totaling $2.5 billion as of December 31, 2007. Since launching this program in October 2005, we have repurchased 137 million shares, totaling approximately $2.1 billion of the $2.5 billion authorized through December 31, 2007. In January 2008, the Board of Directors authorized an additional $1 billion for share repurchase.

Refer to Note 17 – Shareholders' Equity – "Treasury Stock" in the Consolidated Financial Statements for further information regarding our share repurchase programs.

Dividends: 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.

Loan Covenants and Compliance: At December 31, 2007, we were in full compliance with the covenants and other provisions of the 2007 Credit Facility, the senior notes and the Loan Agreement. 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. We have the right to prepay any outstanding loans or to terminate the 2007 Credit Facility without penalty.

Refer to Note 11 – Debt and Note 4 – Receivables, Net in the Consolidated Financial Statements for additional information regarding the senior notes and Loan agreement, respectively.

Financial Instruments: Refer to Note 13-Financial Instruments in the Consolidated Financial Statements for additional information regarding our derivative financial instruments.

Capital Markets Offerings and Other: In 2007, we raised net proceeds of $1.5 billion through the issuance of Senior Notes due in 2012 and zero coupon bond transactions. Refer to Note 11-Debt in the Consolidated Financial Statements for additional information regarding these transactions.

Credit Ratings: Our credit ratings, which are periodically reviewed by major rating agencies, have substantially improved and we are currently rated investment grade by all major rating agencies. As of January 31, 2008 the ratings were as follows:

	Senior Unsecured Debt	Outlook	Comments
Moody's [1]	Baa2	Positive	The Moody's rating was upgraded from Baa3 in November 2007, with a positive outlook.
Standard & Poors ("S&P") [2]	BBB-	Stable	The S&P rating was upgraded from BB+ to investment grade, BBB-, in May 2007. Outlook is stable.
Fitch [3]	BBB	Stable	The Fitch rating was upgraded from BBB- and a stable outlook was affirmed in December 2007.

(1) On November 15, 2007, Moody's raised its long term rating of Xerox to Baa2 from Baa3, with a positive outlook. The following ratings were impacted: Senior Unsecured Debt to Baa2 from Baa3; Trust Preferred Securities to Baa3 from Ba1; Xerox Credit Corp Senior Unsecured Debt to Baa2 from Baa3.

(2) In May 2007, S&P upgraded the Senior Unsecured and Corporate Credit ratings from BB+ to BBB-, investment grade, with a stable outlook. At the same time, S&P upgraded the ratings on Subordinated Debt from BB- to BB+ and Preferred Stock from B+ to BB. The ratings upgrade followed our announcement that we completed our tender offer for GIS.

(3) On December 10, 2007, Fitch upgraded Xerox's Issuer Default Rating to BBB from BBB-, with a stable outlook. The following ratings were also impacted: Senior Unsecured Debt to BBB from BBB-; Senior Unsecured Credit Facility to BBB from BBB- and Trust Preferred Securities to BBB- from BB.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies:

At December 31, 2007, we had the following contractual cash obligations and other commercial commitments and contingencies (in millions):

	2008	2009	2010	2011	2012	Thereafter
Long-term debt, including capital lease obligations [1]	$ 525	$1,552	$ 707	$ 808	$1,721	$ 2,151
Minimum operating lease commitments [2]	266	212	169	129	90	158
Liability to subsidiary trust issuing preferred securities [3]	—	—	—	—	—	632
Retiree Health Payments	105	114	119	123	127	635
Purchase Commitments						
Flextronics [4]	716	—	—	—	—	—
EDS Contracts [5]	290	150	17	16	16	15
Other [6]	4	3	1	—	—	—
Total contractual cash obligations	**$1,906**	**$2,031**	**$1,013**	**$1,076**	**$1,954**	**$ 3,591**

(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 first year of the 2007 master supply agreement. This agreement is for three years with two additional one year extension periods at our option.

(5) EDS Contract: We have an information management contract with Electronic Data Systems Corp. ("EDS") to provide services to us for global mainframe system processing, application maintenance and support, desktop services and helpdesk support, voice and data network management and server management. On July 1, 2004, we extended the

contract through June 30, 2009. There are no minimum payments required under the contract. We can terminate the current 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. On January 1, 2008, the portion of the contract for global mainframe processing was extended to December 31, 2013.

(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.

Pension and Other Post-retirement Benefit Plans: We sponsor pension and other post-retirement benefit plans that may require periodic cash contributions. Our 2007 cash fundings for these plans were $298 million for pensions and $102 million for other post-retirement plans. Our anticipated cash fundings for 2008 are approximately $130 million for pensions and approximately $100 million for other post-retirement 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 2008 pension contributions do not include contributions to the domestic tax-qualified plans because these plans currently exceed the ERISA minimum funding requirements for the plans' 2007 plan year. However, once the January 1, 2008 actuarial valuations and projected results as of the end of the 2008 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 $158 million and $228 million in 2007 and 2006, 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 other post-retirement 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 from Fuji Xerox totaling $1.9 billion, $1.7 billion, and $1.5 billion in 2007, 2006 and 2005, respectively. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. We anticipate that we will purchase approximately $2.2 billion of products from Fuji Xerox in 2008. 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: At December 31, 2007, our Brazilian operations were 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. As of December 31, 2007, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1.1 billion, with the increase from the December 31, 2006 balance of $960 million primarily related to indexation, interest and currency. 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, 2007 we had $200 million of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $64 million and additional letters of credit of approximately $84 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 ("ERISA"). 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 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, 2007, we had $303 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 generally do not 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 in accordance with applicable accounting standards. 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, 2007, 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, 2007. A 10% appreciation or depreciation of the U.S. dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2007 would have a $709 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 $7.1 billion at December 31, 2007.

Interest Rate Risk Management: The consolidated weighted-average interest rates related to our debt and liabilities to subsidiary trust issuing preferred securities for 2007, 2006 and 2005 approximated 7.1%, 6.8%, and 6.0%, 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, 2007, approximately $2.1 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, 2007, a 10% change in market interest rates would change the fair values of such financial instruments by approximately $221 million.

Non-GAAP Financial Measures

We reported our financial results in accordance with generally accepted accounting principles ("GAAP"). In addition, we discussed our revenue growth for the year ended December 31, 2007 using non-GAAP financial measures. Management believes these measures give investors an additional perspective of revenue trends, as well as the impact to the company of the acquisition of GIS in May 2007. To understand these trends in the business, we believe that it is helpful to adjust revenue to illustrate the impact on revenue growth rates of our acquisition of GIS. We have done this by including GIS' revenue for the comparable 2006 period. We refer to this adjusted revenue as "adjusted revenue" in the following reconciliation table. Management believes that these non-GAAP financial measures can provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, all of 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. A reconciliation of these non-GAAP financial measures and the most directly comparable financial measures calculated and presented in accordance with GAAP is as follows:

(in millions)	Year Ended December 31, 2007	Year Ended December 31, 2006	% Change
Equipment Sales Revenue:			
As Reported	$ 4,753	$ 4,457	7%
As Adjusted	$ 4,753	$ 4,821	(1)%
Post Sale, Financing & Other Revenue:			
As Reported	$ 12,475	$ 11,438	9%
As Adjusted	$ 12,475	$ 11,812	6%
Total Revenues:			
As Reported	$ 17,228	$ 15,895	8%
As Adjusted	$ 17,228	$ 16,633	4%

Revenue "As Adjusted" adds GIS's results for the period from May 9, 2006, through December 31, 2006 to our 2006 reported revenue.

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 2007 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, 2007	2006	2005
Revenues			
Sales	$ 8,192	$ 7,464	$ 7,400
Service, outsourcing and rentals	8,214	7,591	7,426
Finance income	822	840	875
Total Revenues	**17,228**	**15,895**	**15,701**
Costs and Expenses			
Cost of sales	5,254	4,803	4,695
Cost of service, outsourcing and rentals	4,707	4,328	4,207
Equipment financing interest	316	305	326
Research, development and engineering expenses	912	922	943
Selling, administrative and general expenses	4,312	4,008	4,110
Restructuring and asset impairment charges	(6)	385	366
Other expenses, net	295	336	224
Total Costs and Expenses	**15,790**	**15,087**	**14,871**
Income from Continuing Operations before Income Taxes, Equity Income, Discontinued Operations and Cumulative Effect of Change in Accounting Principle	**1,438**	**808**	**830**
Income tax expenses (benefits)	400	(288)	(5)
Equity in net income of unconsolidated affiliates	97	114	98
Income from Continuing Operations before Discontinued Operations and Cumulative Effect of Change in Accounting Principle	**1,135**	**1,210**	**933**
Income from Discontinued Operations, net of tax	—	—	53
Cumulative Effect of Change in Accounting Principle, net of tax	—	—	(8)
Net Income	**$ 1,135**	**$ 1,210**	**$ 978**
Basic Earnings per Share			
Income from Continuing Operations	$ 1.21	$ 1.25	$ 0.91
Basic Earnings per Share	$ 1.21	$ 1.25	$ 0.96
Diluted Earnings per Share			
Income from Continuing Operations	$ 1.19	$ 1.22	$ 0.90
Diluted Earnings per Share	$ 1.19	$ 1.22	$ 0.94

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, 2007	December 31, 2006
Assets		
Cash and cash equivalents	$ 1,099	$ 1,399
Short-term investments	—	137
Total cash, cash equivalents and short-term investments	1,099	1,536
Accounts receivable, net	2,457	2,199
Billed portion of finance receivables, net	304	273
Finance receivables, net	2,693	2,649
Inventories	1,305	1,163
Other current assets	682	934
Total current assets	8,540	8,754
Finance receivables due after one year, net	5,051	4,922
Equipment on operating leases, net	587	481
Land, buildings and equipment, net	1,587	1,527
Investments in affiliates, at equity	932	874
Intangible assets, net	621	286
Goodwill	3,448	2,024
Deferred tax assets, long-term	1,349	1,790
Other long-term assets	1,428	1,051
Total Assets	**$ 23,543**	**$ 21,709**
Liabilities and Shareholders' Equity		
Short-term debt and current portion of long-term debt	$ 525	$ 1,485
Accounts payable	1,367	1,133
Accrued compensation and benefits costs	673	663
Other current liabilities	1,512	1,417
Total current liabilities	4,077	4,698
Long-term debt	6,939	5,660
Liability to subsidiary trust issuing preferred securities	632	624
Pension and other benefit liabilities	1,115	1,336
Post-retirement medical benefits	1,396	1,490
Other long-term liabilities	796	821
Total Liabilities	14,955	14,629
Common stock, including additional paid-in-capital	4,096	4,666
Treasury stock, at cost	(31)	(141)
Retained earnings	5,288	4,202
Accumulated other comprehensive loss	(765)	(1,647)
Total Shareholders' Equity	8,588	7,080
Total Liabilities and Shareholders' Equity	**$ 23,543**	**$ 21,709**
Shares of common stock issued	919,013	954,568
Treasury stock	(1,836)	(8,363)
Shares of common stock outstanding	917,177	946,205

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, 2007	2006	2005
Cash Flows from Operating Activities:			
Net income	$ 1,135	$ 1,210	$ 978
Adjustments required to reconcile net income to cash flows from operating activities:			
Depreciation and amortization	656	636	641
Provisions for receivables and inventory	197	145	107
Deferred tax expense (benefit)	224	99	(15)
Net gain on sales of businesses and assets	(7)	(44)	(97)
Undistributed equity in net income of unconsolidated affiliates	(60)	(70)	(54)
Stock-based compensation	89	64	40
Restructuring and asset impairment charges	(6)	385	366
Cash payments for restructurings	(235)	(265)	(214)
Contributions to pension benefit plans	(298)	(355)	(388)
(Increase) decrease in inventories	(43)	11	(162)
Increase in equipment on operating leases	(331)	(271)	(248)
Decrease in finance receivables	119	192	254
Increase in accounts receivable and billed portion of finance receivables	(79)	(30)	(34)
Decrease in other current and long-term assets	130	64	160
Increase in accounts payable and accrued compensation	285	330	313
Net change in income tax assets and liabilities	73	(459)	(211)
Net change in derivative assets and liabilities	(10)	9	38
Increase (decrease) in other current and long-term liabilities	38	(70)	7
Other, net	(6)	36	(61)
Net cash provided by operating activities	1,871	1,617	1,420
Cash Flows from Investing Activities:			
Purchases of short-term investments	(18)	(162)	(386)
Proceeds from sales of short-term investments	155	269	139
Cost of additions to land, buildings and equipment	(236)	(215)	(181)
Proceeds from sales of land, buildings and equipment	25	82	5
Cost of additions to internal use software	(123)	(79)	(56)
Proceeds from divestitures and investments, net	—	153	105
Acquisitions, net of cash acquired	(1,615)	(229)	(1)
Net change in escrow and other restricted investments	200	38	80
Net cash used in investing activities	(1,612)	(143)	(295)
Cash Flows from Financing Activities:			
Cash proceeds from new secured financings	62	121	557
Debt payments on secured financings	(1,931)	(1,712)	(1,879)
Net cash proceeds (payments) on other debt	1,814	1,276	(1,187)
Payment of liability to subsidiary trust issuing preferred securities	—	(100)	—
Preferred stock dividends	—	(43)	(58)
Proceeds from issuances of common stock	65	82	40
Excess tax benefits from stock-based compensation	22	25	—
Payments to acquire treasury stock, including fees	(632)	(1,069)	(433)
Other	(19)	(8)	(2)
Net cash used in financing activities	(619)	(1,428)	(2,962)
Effect of exchange rate changes on cash and cash equivalents	60	31	(59)
(Decrease) increase in cash and cash equivalents	(300)	77	(1,896)
Cash and cash equivalents at beginning of year	1,399	1,322	3,218
Cash and cash equivalents at end of year	**$ 1,099**	**$ 1,399**	**$ 1,322**

The accompanying notes are an integral part of these Consolidated Financial Statements.

XEROX CORPORATION

CONSOLIDATED STATEMENTS OF COMMON 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	Accumulated Other Comprehensive Loss (1)	Total
Balance at January 1, 2005	**955,997**	**$ 956**	**$ 3,925**	**—**	**$ —**	**$ 2,101**	**$ (738)**	**$ 6,244**
Net income	—	—	—	—	—	978	—	978
Translation adjustments	—	—	—	—	—	—	(493)	(493)
Minimum pension liability	—	—	—	—	—	—	(6)	(6)
Other unrealized losses	—	—	—	—	—	—	(3)	(3)
Comprehensive income								**$ 476**
Stock option and incentive plans, net	5,548	6	84	—	—	—	—	90
Series C mandatory convertible preferred stock dividends ($6.25 per share)	—	—	—	—	—	(58)	—	(58)
Payments to acquire treasury stock	—	—	—	(30,502)	(433)	—	—	(433)
Cancellation of treasury stock	(16,585)	(17)	(213)	16,585	230	—	—	—
Other	146	—	—	—	—	—	—	—
Balance at December 31, 2005	**945,106**	**$ 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 No. 158, net (Refer to Note 1)	—	—	—	—	—	—	(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 (Refer to Note 1)	—	—	—	—	—	(9)	—	(9)
Changes in defined benefit plans (Refer to Note 14) (2)	—	—	—	—	—	—	382	382
Other unrealized losses	—	—	—	—	—	—	(1)	(1)
Comprehensive income								**$ 2,008**
Cash dividends declared								
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**

(1) Refer to Note 1 "Accumulated Other Comprehensive Loss (AOCL)" for components of AOCL.
(2) Includes charge of $(5) for Fuji Xerox's initial adoption of FAS No. 158 (Refer to Note 1).

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, 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 “Income from Continuing Operations before Income Taxes, Equity Income, Discontinued Operations and Cumulative Effect of Change in Accounting Principle” as “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.

The following table summarizes certain significant charges that require management estimates:

	Year Ended December 31,		
(in millions)	**2007**	**2006**	**2005**
Restructuring provisions and asset impairments	$ (6)	$ 385	$ 366
Amortization of intangible assets	46	45	42
Provisions for receivables	131	76	51
Provisions for obsolete and excess inventory	66	69	56
Provisions for litigation and regulatory matters	(6)	89	115
Depreciation and obsolescence of equipment on operating leases	269	230	205
Depreciation of buildings and equipment	262	277	280
Amortization of internal use and product software	79	84	114
Pension benefits – net periodic benefit cost	235	355	343
Other post-retirement benefits – net periodic benefit cost	102	117	117
Deferred tax asset valuation allowance provisions	14	12	(38)

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:

Business Combinations and Noncontrolling Interests: In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("FAS 141(R)"), and SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" ("FAS 160").

FAS 141(R) significantly changes the accounting for business combinations. Under FAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date at fair value with limited exceptions. FAS 141(R) further changes the accounting treatment for certain specific items, including:

- Acquisition costs will be generally expensed as incurred;
- Noncontrolling interests (formerly known as "minority interests" – see FAS 160 discussion below) will be valued at fair value at the acquisition date;
- Acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies;
- In-process research and development (IPRD) will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date;
- Restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and
- Changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense.

FAS 141(R) includes a substantial number of new disclosure requirements. FAS 141(R) applies prospectively to our business combinations for which the acquisition date is on or after January 1, 2009.

FAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of noncontrolling interests (minority interests) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to noncontrolling interests will be included in consolidated net income on the face of the income statement. FAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that does not result in deconsolidation are treated as equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. FAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest.

FAS 160 is effective for our fiscal year, and interim periods within such year, beginning January 1, 2009. Early adoption of both FAS 141(R) and FAS 160 is prohibited. The adoption of FAS 160 will result in the reclassification of minority interests from long term liabilities to shareholders' equity. The balance at December 31, 2007 was $103. We are currently evaluating further impacts, if any, of these standards on our financial statements.

Income Tax Accounting: 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. Refer to Note 15-Income and Other Taxes for additional information regarding unrecognized tax benefits.

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 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 will 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, with early adoption permitted. Since several of our international plans currently have a September 30th measurement date, this standard will require us to change, in 2008, that measurement date to December 31st. The adoption of this requirement by our international plans will 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.

Fair Value Accounting: In 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“FAS 157”). 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. The requirements of FAS 157 are first effective for our fiscal year beginning January 1, 2008. However, 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 the subsequent year. Accordingly, our adoption of this standard on January 1, 2008 is limited to financial assets and liabilities, which primarily affects the valuation of our derivative contracts. We do not believe the initial adoption of FAS 157 will have a material effect on our financial condition or results of operations. However, we are still in the process of evaluating this standard with respect to its effect on nonfinancial assets and liabilities and therefore have not yet determined the impact that it will have on our financial statements upon full adoption.

In February 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 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. The requirements of FAS 159 are effective for our fiscal year beginning January 1, 2008. We do not believe that the adoption of this statement will have a material effect on our financial condition or results of operations as election of this option for our financial instruments is expected to be limited.

Stock-Based Compensation: In 2004, the FASB issued SFAS No. 123(R), “Share-Based Payment” (“FAS 123(R)”), which requires companies to recognize compensation expense using a fair value based method for costs related to all share-based payments, including stock options. On January 1, 2006, we adopted FAS 123(R) using the modified prospective transition method and therefore we did not restate the results of prior periods. Prior to the adoption of FAS 123(R), under previous accounting guidance, we did not expense stock options, as there was no intrinsic value associated with the options granted because the exercise price was set equal to the market price at the date of grant. The adoption of FAS 123(R) was immaterial to our results of operations primarily as a result of changes made in our stock-based compensation programs in 2005, including the accelerated vesting of substantially all outstanding unvested stock options prior to the adoption of FAS 123(R).

In 2005, we implemented changes in our stock-based compensation programs that included expanded use of restricted stock grants with time and performance-based restrictions in lieu of stock options. Prior to this change, our stock-based compensation programs primarily consisted of stock option grants. These new restricted stock awards are reflected as compensation expense in our results of operations for all years presented and the adoption of FAS 123(R) did not materially affect the expense recognized for these awards.

In 2005, we accelerated the vesting of approximately 3.6 million stock options granted in 2004 that would have been scheduled to vest on January 1, 2007, to December 31, 2005. The accelerated vesting resulted in substantially all outstanding stock options being vested at the date of the adoption of FAS 123(R). The primary purpose of this accelerated vesting was to reduce our pre-tax compensation expense in 2006 by approximately $31 or $0.02 per diluted share.

Stock-based compensation expense for the three years ended December 31, 2007 was as follows (in millions):

	2007	2006	2005
Stock-based compensation expense, pre-tax	$89	$64	$40
Stock-based compensation expense, net of tax	55	39	25

Prior to 2006, in accordance with previous accounting guidance we did not recognize compensation expense relating to employee stock options because the exercise price was equal to the market price at the date of grant. If we had elected to recognize compensation expense using a FAS 123(R) methodology our 2005 net income and earnings per share would have been reduced by $88 and $0.09 per diluted share, respectively.

Refer to Note 17 – Shareholders' Equity – "Stock-Based Compensation" for additional disclosures regarding our stock compensation programs.

Other Accounting Changes: In March 2005, the FASB issued Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations – an interpretation of FASB Statement No. 143" ("FIN 47"). FIN 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. A conditional asset retirement obligation is a legal obligation to perform an asset retirement activity in which the timing or method of settlement are conditional upon a future event that may or may not be within control of the entity. The adoption of FIN 47 in 2005 resulted in an after-tax charge of $8 ($12 pre-tax) and was recorded as a cumulative effect of change in accounting principle. This charge represented conditional asset retirement obligations associated with leased facilities where we are required to remove certain leasehold improvements and restore the facility to its original condition at lease termination.

In June 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. 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 recognized as revenue when products are sold to such distributors and resellers, as long as all requirements for revenue recognition have been met. 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 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 SFAS No. 13, which often involve complex provisions and significant judgments. The two primary criteria of SFAS No. 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.

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, 2007 and 2006, such restricted cash amounts were as follows (in millions):

	December 31, 2007	December 31, 2006
Escrow and cash collections related to secured borrowing arrangements	$ 41	$214
Tax and other litigation deposits in Brazil	200	154
Other restricted cash	23	58
Total	**$264**	**$426**

Of these amounts, $45 and $236 were included in Other current assets and $219 and $190 were included in Other long-term assets, as of December 31, 2007 and 2006, 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 $128 and $116, as of December 31, 2007 and 2006, respectively. Allowances for doubtful accounts on finance receivables were $203 and $198 at December 31, 2007 and 2006, 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.

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 residual 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, including applicable impairment charges, was $76, $73, and $92 for the years ended December 31, 2007, 2006 and 2005, respectively. Capitalized costs were $270 and $217 as of December 31, 2007 and 2006, 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.

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 carry 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.

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 $912, $922 and $943, for the three years ended December 31, 2007, respectively. Research and development ("R&D") costs were $764 in 2007, $761 in 2006 and $755 in 2005. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Our sustaining engineering costs were $148, $161, and $188, for the three years ended December 31, 2007, 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 primarily U.S. employees for retirement medical costs. As permitted by existing accounting rules, 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.

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

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.

Each year, the difference between the actual return on plan assets and the expected return on plan assets is added to, or subtracted from, any cumulative actuarial gain or loss that arose in prior years. Subsequent to the adoption of FAS 158, this amount is a component of 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.

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.

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 $8, $39 and $5 in 2007, 2006 and 2005, 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 as of December 31, 2007, 2006 and 2005, respectively:

	December 31, 2007	2006	2005
Income (loss):			
Cumulative translation adjustments	$ (31)	$ (532)	$(1,017)
Benefit plans net actuarial losses and prior service credits (includes our share of Fuji Xerox)	(735)	(1,097)	—
Minimum pension liabilities	—	(20)	(224)
Other unrealized gains	1	2	1
Total Accumulated Other Comprehensive Loss	**$ (765)**	**$(1,647)**	**$(1,240)**

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, Developing Markets Operations ("DMO") 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.

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

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 and 60 ppm products with an embedded controller. Products include the Xerox iGen3 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 in North America and Europe 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 devices up to 40 ppm as well as 50 and 60 ppm products with an embedded controller. Products include the suite of CopyCentre, WorkCentre, and WorkCentre Pro 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, facsimile products and non-Xerox branded products with similar specifications. These products are sold through direct and indirect sales channels in North America and Europe to global, national and mid-size commercial customers as well as government, education and other public sector customers. Approximately 75% of GIS' revenue is included in our Office segment representing those sales and services that align to our Office segment.

The DMO segment includes our operations in Latin America, Brazil, the Middle East, India, Eurasia, Central and Eastern Europe and Africa. This segment's sales consist of office and production including a large proportion of office devices and printers which operate at speeds of 11-40 ppm. Management serves and evaluates these markets on an aggregate geographic basis, rather than on a product basis.

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. Value-added services includes the results of our acquisitions of Amici LLC (now Xerox Litigation Services) and Advectis, Inc. (now Xerox Mortgage Services). Other segment profit 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, Office and DMO segments, including non-financing interest as well as other items included in Other expenses, net.

Operating segment revenues and profitability for each of the years ended December 31, 2007, 2006 and 2005, respectively, was as follows (in millions):

	Production	Office	DMO	Other	Total
2007(1)					
Information about profit or loss:					
Revenues	$ 4,460	$7,813	$2,150	$1,983	$16,406
Finance income	311	491	5	15	822
Total Segment revenues	**$ 4,771**	**$8,304**	**$2,155**	**$1,998**	**$17,228**
Interest expense	$ 122	$ 186	$ 5	$ 266	$ 579
Segment profit (2)	448	973	134	33	1,588
Equity in net income of unconsolidated affiliates	$ —	$ —	$ 7	$ 90	$ 97
2006(1)					
Information about profit or loss:					
Revenues	$ 4,256	$7,128	$1,932	$1,739	$15,055
Finance income	323	497	6	14	840
Total Segment revenues	**$ 4,579**	**$7,625**	**$1,938**	**$1,753**	**$15,895**
Interest expense	$ 120	$ 179	$ 7	$ 238	$ 544
Segment profit (2)	403	832	124	31	1,390
Equity in net income of unconsolidated affiliates	$ —	$ —	$ 5	$ 109	$ 114
2005(1)					
Information about profit or loss:					
Revenues	$ 4,198	$7,106	$1,803	$1,719	$14,826
Finance income	342	512	9	12	875
Total Segment revenues	**$ 4,540**	**$7,618**	**$1,812**	**$1,731**	**$15,701**
Interest expense	$ 121	$ 179	$ 8	$ 249	$ 557
Segment profit (2)	427	819	64	151	1,461
Equity in net income of unconsolidated affiliates	$ —	$ —	$ 4	$ 94	$ 98

(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.

The following is a reconciliation of segment profit to pre-tax income (in millions):

	Years Ended December 31,		
	2007	2006	2005
Total Segment profit	**$1,588**	**$1,390**	**$1,461**
Reconciling items:			
Restructuring and asset impairment charges	6	(385)	(366)
Provisions for litigation matters (1)	—	(68)	(114)
Initial provision for WEEE Directive	—	—	(26)
Restructuring charges of Fuji Xerox	(30)	—	—
Hurricane Katrina adjustments (losses)	—	8	(15)
Other expenses, net	(29)	(23)	(12)
Equity in net income of unconsolidated affiliates	(97)	(114)	(98)
Pre-tax income	**$1,438**	**$ 808**	**$ 830**

(1) 2006 provision for litigation represents $68 related to probable losses on Brazilian labor-related contingencies. 2005 provision for litigation primarily includes $102 related to MPI arbitration panel ruling. Refer to Note 16 – Contingencies for further discussion relating to the 2006 and 2005 annual periods.

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)		
	2007	2006	2005	2007	2006	2005
United States	$ 9,078	$ 8,406	$ 8,388	$1,375	$1,309	$1,386
Europe	5,888	5,378	5,226	746	572	500
Other Areas	2,262	2,111	2,087	341	356	386
Total	**$17,228**	**$15,895**	**$15,701**	**$2,462**	**$2,237**	**$2,272**

(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

Global Imaging Systems, Inc: In May 2007, we acquired GIS, a provider of office technology for small and mid-size businesses in the United States for cash consideration of $29 per common share. 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, consisting of cash paid for outstanding stock, vested employee stock options and restricted stock and direct transaction costs. In addition, in connection with the closing, we also repaid $200 of GIS' outstanding bank debt. The results of operations for GIS are included in our Consolidated Statements of Income as of May 9, 2007, the effective date of acquisition. Refer to Note 2-Segment Reporting for a discussion of the segment classification of GIS.

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

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 and other intangibles recorded in connection with the acquisition totaled $1.7 billion based on third-party valuations and management's estimates for those acquired intangible assets. Aggregate amortization expense associated with the intangibles acquired as part of the acquisition was $16 for 2007. 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.

The fair values of assets acquired and liabilities assumed at the acquisition date as reflected in the financial statements are as follows:

	As of May 9, 2007	Weighted-Average Useful Life
Current assets (includes cash of $2)	$ 291	
Other long-term assets	41	
Goodwill	1,323	n/a
Intangible assets:		
Customer relationships	189	12 years
Tradenames	174	20 years
Total assets acquired	2,018	
Current liabilities	(162)	
Long-term liabilities	(325)	
Net assets acquired	$1,531	

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 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.

	Year Ended December 31, 2007	Year Ended December 31, 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

Advectis, Inc: In October 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 purchase agreement requires us to pay the sellers an additional $11 if certain performance conditions are achieved over the next three years. 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 is expected to be primarily allocated to intangible assets and goodwill and will be based on management's estimates which have not yet been finalized.

GIS Acquisitions: In the latter half of 2007, GIS acquired four businesses that provide office-imaging solutions and related services for $39 in cash. The operating results of these entities are not material to our financial statements, and are included within our Office segment from the date of acquisition as part of GIS. The purchase prices are expected to be primarily allocated to intangible assets and goodwill and will be based on management's estimates which have not yet been finalized.

De Lage Landen Joint Venture: In July 2007, we purchased De Lage Landen's ("DLL") 51% ownership interest in our lease financing joint venture in the Netherlands. Refer to Note 4-Receivables, Net for more information regarding this purchase.

XMPie, Inc: In November 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 allocated to Goodwill $48, Intangible assets, net $9 and Deferred tax liabilities $(3). The primary element that generated the Goodwill is the value of synergies between the entities, which do not qualify as an amortizable intangible asset. The allocations were based on third-party valuations and management's estimates.

Amici LLC: In July 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 purchase agreement requires us to pay the sellers an additional $20 if certain performance targets are achieved in 2008, which would be an addition to the acquired cost of the entity. 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, 2007 and 2006 were as follows (in millions):

	2007	2006
Gross receivables	$ 9,643	$ 9,389
Unearned income	(1,461)	(1,437)
Unguaranteed residual values	69	90
Allowance for doubtful accounts	(203)	(198)
Finance receivables, net	8,048	7,844
Less: Billed portion of finance receivables, net	(304)	(273)
Current portion of finance receivables not billed, net	(2,693)	(2,649)
Amounts due after one year, net	$ 5,051	$ 4,922

Contractual maturities of our gross finance receivables as of December 31, 2007 were as follows (including those already billed of $304 (in millions):

2008	2009	2010	2011	2012	Thereafter	Total
$3,652	$2,665	$1,863	$1,054	$371	$ 38	$9,643

Secured Funding Arrangements

GE 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, new lease originations funded by GE, were 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.

We also had similar secured funding arrangements with GE in the U.K. and Canada. In July 2007 and December 2007, we repaid the outstanding loans under those arrangements of £293 million (U.S. $593) and Cdn. $41 million (U.S. $41) in the U.K. and Canada, respectively.

France Secured Borrowings: In October 2007, our secured warehouse financing facility in France matured and we repaid the outstanding borrowings of €331 million (U.S. $469) under this program with proceeds from an unsecured bank bridge loan due March 31, 2008.

DLL Secured Borrowings: In July 2007, we purchased De Lage Landen's ("DLL") 51% ownership interest in our lease financing joint venture in the Netherlands for $25 including accumulated dividends of $9. In connection with the purchase, the secured borrowings to DLL of $153 were repaid and the related finance receivables are no longer encumbered. To fund the purchase and repayment we borrowed $161 of unsecured bank debt due July 1, 2008.

The following table shows finance receivables and related secured debt as of December 31, 2007 and 2006. Although the finance receivables are consolidated assets they are generally not available to satisfy our other obligations:

(in millions)	December 31, 2007 Finance Receivables, Net	December 31, 2007 Secured Debt	December 31, 2006 Finance Receivables, Net	December 31, 2006 Secured Debt
GE – U.S.	$ 377	$ 275	$ 941	$ 782
GE – U.K.	—	—	669	609
GE – Canada	—	—	115	88
Merrill Lynch – France	—	—	501	419
DLL – Netherlands	—	—	197	161
Total encumbered finance receivables, net	**$ 377**	**$ 275**	**$ 2,423**	**$2,059**
Unencumbered finance receivables, net	7,671		5,421	
Total finance receivables, net (1)	**$ 8,048**		**$ 7,844**	

(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, 2007 and 2006.

Accounts Receivable Sales Arrangement: 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 2007 and 2006, we sold approximately $326 and $23, respectively, of accounts receivables under this facility. Fees associated with the 2007 sales were $2. Of the amounts sold, $170 remained uncollected by the third-party as of December 31, 2007.

Note 5 – Inventories and Equipment on Operating Leases, Net

Inventories at December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Finished goods	$1,099	$ 967
Work-in-process	70	67
Raw materials	136	129
Total Inventories	**$1,305**	**$1,163**

Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated residual value at the end of the lease term. 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. We recorded $66, $69 and $56 in inventory write-down charges for the years ended December 31, 2007, 2006 and 2005, respectively. Equipment on operating leases and the related accumulated depreciation at December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Equipment on operating leases	$1,435	$1,246
Less: Accumulated depreciation	(848)	(765)
Equipment on operating leases, net	**$ 587**	**$ 481**

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 $269,

$230 and $205 for the years ended December 31, 2007, 2006 and 2005, 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):

2008	2009	2010	2011	2012	Thereafter
$ 361	$ 252	$ 170	$ 81	$ 38	$ 10

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2007, 2006 and 2005 amounted to $117, $112 and $136, respectively.

Note 6 – Land, Buildings and Equipment, Net

Land, buildings and equipment, net at December 31, 2007 and 2006 were as follows (in millions):

	Estimated Useful Lives (Years)	2007	2006
Land		$ 48	$ 46
Buildings and building equipment	25 to 50	1,208	1,120
Leasehold improvements	Varies	371	338
Plant machinery	5 to 12	1,710	1,613
Office furniture and equipment	3 to 15	998	949
Other	4 to 20	86	73
Construction in progress		88	125
Subtotal		4,509	4,264
Less: Accumulated depreciation		(2,922)	(2,737)
Land, buildings and equipment, net		**$ 1,587**	**$ 1,527**

Depreciation expense was $262, $277 and $280 for the years ended December 31, 2007, 2006 and 2005, respectively. We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Total rent expense under operating leases for the years ended December 31, 2007, 2006 and 2005 amounted to $286, $269 and $267, respectively. Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2007 were as follows:

2008	2009	2010	2011	2012	Thereafter
$ 266	$ 212	$ 169	$ 129	$ 90	$ 158

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 of global mainframe system processing, application maintenance, desktop and helpdesk support, voice and data network management and server management. There are no minimum payments due EDS under the contract. In January 2008, the portion of the contract for global mainframe processing was extended through December 2013. Payments to EDS, which are primarily recorded in selling, administrative and general expenses, were $294, $288 and $305 for the years ended December 31, 2007, 2006 and 2005, respectively.

In December 2006, we sold our Corporate headquarters facility for $55 and recognized a gain of $15. In connection with the sale, the secured mortgage on the facility of $34 was defeased through the purchase of treasury securities totaling $36. The difference of $2 was recorded as a loss on extinguishment of debt. The gain on the sale as well as the loss on extinguishment are included in Other expenses, net within the Consolidated Statements of Income. In October 2007, we relocated our Corporate headquarters to a leased facility in Norwalk, Connecticut.

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, 2007 and 2006 were as follows (in millions):

	2007	2006
Fuji Xerox	$887	$834
All other equity investments	45	40
Investments in affiliates, at equity	**$932**	**$874**

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 $887 at December 31, 2007, differs from our implied 25% interest in the underlying net assets, or $972, 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, 2007 was as follows:

	2007	2006	2005
Fuji Xerox	$89	$107	$90
Other investments	8	7	8
Total	**$97**	**$114**	**$98**

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 2007 includes after-tax restructuring charges of $30 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, 2007 was as follows (in millions):

	2007	2006	2005
Summary of Operations:			
Revenues	$10,218	$9,859	$10,009
Costs and expenses	9,565	9,119	9,406
Income before income taxes	653	740	603
Income taxes	252	281	215
Minorities' interests	6	5	8
Net income	**$ 395**	**$ 454**	**$ 380**
Balance Sheet Data:			
Assets:			
Current assets	$ 4,242	$3,731	$ 3,454
Long-term assets	4,639	4,184	4,168
Total Assets	**$ 8,881**	**$7,915**	**$ 7,622**
Liabilities and Shareholders' Equity:			
Current liabilities	$ 3,322	$2,954	$ 2,991
Long-term debt	900	685	434
Other long-term liabilities	746	590	936
Minorities' interests in equity of subsidiaries	25	21	17
Shareholders' equity	3,888	3,665	3,244
Total Liabilities and Shareholders' Equity	**$ 8,881**	**$7,915**	**$ 7,622**

In 2007, 2006 and 2005, we received dividends of $37, $41 and $38, 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 2006, we renewed our technology agreement with Fuji Xerox (the "2006 Technology Agreement"). The 2006 Technology Agreement provides that Fuji Xerox pays us royalties based on Fuji Xerox's revenue. The 2006 Technology Agreement did not result in a material change to the royalty revenues we receive from Fuji Xerox. In general, all other existing agreements with respect to intellectual property between the parties will remain in full force and effect. Therefore, all technology licenses previously granted between the parties will not be subject to the 2006 Technology Agreement but will generally remain subject to the terms of any such prior arrangements. The only exception is that the licenses previously granted under the 1999 Technology Agreement were converted into fully paid-up and royalty free licenses.

In 2007, 2006 and 2005, we earned royalty revenues under this agreement of $108, $117 and $123, 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, 2007 were as follows (in millions):

	2007	2006	2005
Sales	$ 186	$ 168	$ 163
Purchases	$1,946	$1,677	$1,517

In addition to the amounts described above, in 2007, 2006 and 2005, we paid Fuji Xerox $26, $28 and $28, respectively, and Fuji Xerox paid us $2, $3 and $9, in 2007, 2006 and 2005, respectively, for unique research and development. As of December 31, 2007 and 2006, amounts due to Fuji Xerox were $205 and $169, respectively.

Note 8 – Goodwill and Intangible Assets, Net

Goodwill:

The following table presents the changes in the carrying amount of goodwill, by operating segment, for the three years ended December 31, 2007 (in millions):

	Production	Office	DMO	Other	Total
Balance at January 1, 2005	**$ 848**	**$ 881**	**$ —**	**$ 119**	**$1,848**
Foreign currency translation adjustment	(103)	(74)	—	—	(177)
Balance at December 31, 2005	**$ 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**

Intangible Assets, Net:

Intangible assets primarily relate to the Office operating segment. Intangible assets were comprised of the following as of December 31, 2007 and 2006 (in millions):

	Weighted Average Amortization Period	December 31, 2007			December 31, 2006		
		Gross Carrying Amount	Accumulated Amortization	Net Amount	Gross Carrying Amount	Accumulated Amortization	Net Amount
Customer base	14 years	$ 462	$ 118	$ 344	$ 258	$ 89	$ 169
Distribution network	25 years	123	39	84	123	35	88
GIS Trademarks	20 years	174	6	168	—	—	—
Technology, trademarks and non-compete	6 years	40	15	25	165	136	29
		$ 799	**$ 178**	**$ 621**	**$ 546**	**$ 260**	**$ 286**

Amortization expense related to intangible assets was $46, $45, and $42 for the years ended December 31, 2007, 2006 and 2005, respectively, and is expected to approximate $46 in 2008 and approximate $45 annually from 2009 through 2012. 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

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. Management continues to evaluate our business and, therefore, there may be supplemental 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.

The net restructuring and asset impairment charges in the Consolidated Statements of Income totaled $(6), $385 and $366 in 2007, 2006 and 2005, respectively. Detailed information related to restructuring program activity during the three years ended December 31, 2007 is outlined below (in millions):

Restructuring Activity	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments(1)	Legacy Programs (2)	Total
Ending Balance December 31, 2004	**$ 70**	**$ 23**	**$ —**	**$ 24**	**$ 117**
Restructuring Provision	371	12	15	1	399
Reversals of prior accruals	(21)	(6)	—	(6)	(33)
Net current year charges(3)	350	6	15	(5)	366
Charges against reserve and currency	(203)	(10)	(15)	(19)	(247)
Ending Balance December 31, 2005	**$ 217**	**$ 19**	**$ —**	**$ —**	**$ 236**
Restructuring Provision	351	39	30	—	420
Reversals of prior accruals	(33)	(2)	—	—	(35)
Net current year charges(3)	318	37	30	—	385
Charges against reserve and currency	(242)	(12)	(30)	—	(284)
Ending Balance December 31, 2006	**$ 293**	**$ 44**	**$ —**	**$ —**	**$ 337**
Restructuring Provision	27	7	1	—	35
Reversals of prior accruals	(38)	(3)	—	—	(41)
Net current year charges(3)	(11)	4	1	—	(6)
Charges against reserve and currency	(211)	(10)	(1)	—	(222)
Ending Balance December 31, 2007 (4)	**$ 71**	**$ 38**	**$ —**	**$ —**	**$ 109**

(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) Legacy Programs, includes the runoff activity of several predecessor restructuring programs which were initiated between 2000 and 2001.
(3) Represents amount recognized within the Consolidated Statements of Income for the years shown.
(4) We expect to utilize the majority of the December 31, 2007 restructuring balance in 2008.

Additional details about our restructuring programs are as follows:

Reconciliation to Consolidated Statements of Cash Flows

	Years Ended December 31, 2007	2006	2005
Charges to reserve	$(222)	$(284)	$(247)
Asset impairments	1	30	15
Effects of foreign currency and other non-cash	(14)	(11)	18
Cash payments for restructurings	**$(235)**	**$(265)**	**$(214)**

Restructuring: In recent years we have initiated a series of ongoing restructuring initiatives designed to leverage cost savings resulting from realized productivity improvements, realign and lower our overall cost structure and outsource certain internal functions. These initiatives primarily include severance actions and impact all major geographies and segments. Recent initiatives include:

- Restructuring activity was minimal in 2007 and the related charges primarily reflected changes in estimates in severance costs from previously recorded actions.
- The 2006 charges primarily relate to the elimination of approximately 3,400 positions primarily in North America and Europe. The 2006 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.
- The 2005 charges primarily related to initiatives to eliminate approximately 3,900 positions worldwide. The initiatives in 2005 were focused on cost reductions in service, manufacturing and back office support operations primarily within the Office and Production segments. These charges were offset by reversals of $27 primarily related to changes in estimates in severance costs from previously recorded actions.

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, 2007 (in millions):

	2007	2006	2005
Production	$ (7)	$142	$150
Office	3	127	175
DMO	1	21	22
Other	(3)	95	19
Total Provisions	**$ (6)**	**$385**	**$366**

Note 10 – Supplementary Financial Information

The components of other current assets and other current liabilities at December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Other current assets		
Deferred taxes	$ 200	$ 271
Restricted cash	45	236
Prepaid expenses	120	119
Financial derivative instruments	27	9
Other	290	299
Total Other current assets	**$ 682**	**$ 934**
Other current liabilities		
Income taxes payable	$ 84	$ 63
Other taxes payable	179	157
Interest payable	137	128
Restructuring reserves	81	291
Unearned income	242	194
Financial derivative instruments	30	17
Product warranties	25	21
Dividends payable	40	—
Other	694	546
Total Other current liabilities	**$1,512**	**$1,417**

The components of other long-term assets and other long-term liabilities at December 31, 2007 and 2006 were as follows (in millions):

	2007	2006
Other long-term assets		
Prepaid pension costs	$ 322	$ 19
Net investment in discontinued operations (1)	277	295
Internal use software, net	270	217
Restricted cash	219	190
Debt issuance costs, net	47	48
Other	293	282
Total Other long-term assets	**$1,428**	**$1,051**
Other long-term liabilities		
Deferred and other tax liabilities	$ 250	$ 223
Minorities' interests in equity of subsidiaries	103	108
Financial derivative instruments	14	42
Other	429	448
Total Other long-term liabilities	**$ 796**	**$ 821**

(1) At December 31, 2007, our net investment in discontinued operations primarily consists of a $305 performance-based instrument relating to the 1997 sale of The Resolution Group ("TRG") net of remaining net liabilities associated with our discontinued operations of $28. 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, 2007 and 2006 were as follows (in millions):

	2007	2006
Current maturities of long-term debt	$426	$1,465
Notes payable	18	20
France Bridge Facility due 2008	81	—
Total	**$525**	**$1,485**

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.

Long-term debt, including debt secured by finance receivables at December 31, 2007 and 2006 was as follows (in millions):

	Weighted Average Interest Rates at December 31, 2007	2007	2006
U.S. Operations			
Xerox Corporation			
Notes due 2008	5.88%	$ 2	$ 3
Senior Notes due 2009 (1)	10.75%	606	613
Euro Senior Notes due 2009 (1)	10.60%	328	290
Floating Senior Notes due 2009	5.72%	150	150
Senior Notes due 2010 (1)	7.13%	699	687
Notes due 2011	7.01%	50	50
Senior Notes due 2011 (1)	6.62%	757	750
2007 Credit Facility due 2012	5.33%	600	—
Senior Notes due 2012	5.59%	1,096	—
Senior Notes due 2013 (1)	7.63%	542	541
Convertible Notes due 2014	9.00%	19	19
Notes due 2016 (1)	7.20%	257	248
Senior Notes due 2016 (1)	6.48%	697	696
Senior Notes due 2017 (1)	6.83%	497	497
Zero Coupon Notes due 2022	5.77%	409	—
Subtotal		$6,709	$ 4,544
Xerox Credit Corporation			
Yen Notes due 2007	—	—	252
Notes due 2012	7.20%	25	75
Notes due 2013	6.49%	60	60
Notes due 2014	6.06%	50	50
Notes due 2018	7.00%	25	25
Subtotal		$ 160	$ 462
Other U.S. Operations			
Borrowings secured by finance receivables (2)	5.24%	275	782
Borrowings secured by other assets	9.98%	8	10
Subtotal		$ 283	$ 792
Total U.S. Operations		$7,152	$ 5,798
International Operations			
Euro Bank Facility due 2008	5.04%	177	—
Pound Sterling secured borrowings (2)	—	—	609
Euro secured borrowings (2)	—	—	580
Canadian dollars secured borrowings (2)	—	—	88
Other debt due 2008-2010	5.78%	36	50
Total International Operations		213	1,327
Subtotal		7,365	7,125
Less current maturities		(426)	(1,465)
Total Long-term debt		**$6,939**	**$ 5,660**

(1) The principal amounts of these debt instruments have been adjusted for the effects of fair value hedge accounting, as described in Note 13 – Financial Instruments, as well as premiums and discounts.

The following summarizes the original principal amounts of those instruments as of December 31, 2007:

Senior Notes due 2009	$ 600
Euro Senior Notes due 2009	331
Senior Notes due 2010	700
Senior Notes due 2011	750
Senior Notes due 2012	1,100
Senior Notes due 2013	550
Notes due 2016	250
Senior Notes due 2016	700
Senior Notes due 2017	500

(2) Refer to Note 4 – Receivables, Net for further discussion of borrowings secured by finance receivables, net.

Scheduled payments due on long-term debt for the next five years and thereafter are as follows (in millions):

2008	2009	2010	2011	2012	Thereafter	Total
$426 (1)	$1,552	$707	$808	$1,721	$ 2,151	$7,365

(1) Quarterly total debt maturities for 2008 are $106, $60, $223 and $37 for the first, second, third and fourth quarters, respectively.

2007 Credit Facility

In 2007, we amended and restated our $1.25 billion unsecured 2006 credit facility. The amended and restated facility (the “2007 Credit Facility”) increased the maximum amount available for borrowing to $2 billion and includes a $300 letter of credit subfacility. The 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 Facility up to an aggregate amount of $2.5 billion. It matures in 2012, although we have the right to request a one year extension on each of the first and second anniversaries of the Facility. Our obligations under the Facility are unsecured and are not currently guaranteed by any of our subsidiaries. In the event that any of our subsidiaries borrows under the Facility, its borrowings thereunder would be guaranteed by us.

Borrowings under the 2007 Credit Facility bear interest at LIBOR plus a spread that will vary between 0.18% and 0.75% depending on our then current credit ratings. The spread as of December 31, 2007 was 0.35%. In addition, we are required to pay a facility fee on the aggregate amount of the revolving credit facility. As of December 31, 2007, we had borrowings of $600 and no outstanding letters of credit under the 2007 Credit Facility and the facility fee rate was 0.10%.

The 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 (a quarterly test that is calculated as debt for borrowed money divided by consolidated EBITDA) ranging from 4.00 to 3.25 over the life of the facility.

(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 2007 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 Facility. These events of default include, without limitation:

(i) payment defaults, (ii) breaches of covenants under the 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.

Senior Notes Offerings

In May 2007, we issued $1,100 of Senior Notes due 2012 (the “2012 Senior Notes”) at 99.613 percent of par, resulting in net proceeds of $1,088. The 2012 Senior Notes accrue interest at the rate of 5.50% per annum, payable semiannually, and as a result of the discount, have a weighted average effective interest rate of 5.59%. In conjunction with the issuance of the 2012 Senior Notes, debt issuance costs of $7 were deferred. The 2012 Senior Notes are subordinated to our secured indebtedness and rank equally with our other existing senior unsecured indebtedness.

Zero Coupon Bonds

In July and August 2007, we issued $300 and $100, respectively, of zero coupon bonds in private placement transactions. The bonds mature in 2022 and the final amounts due at maturity are $706 and $233, respectively. The bonds are putable annually at the option of the bond holder after two years.

Other Debt Activity

Bank Credit Facilities: In July 2007, our subsidiary in the Netherlands entered into an unsecured €120 million (U.S. $161) bank loan due July 1, 2008. The proceeds were used to repay secured borrowings to DLL in connection with our purchase of DLL’s interest in our lease financing joint venture (Refer to Note 4-Receivables, Net for further information). As of December 31, 2007, approximately €120 million (U.S. $177) was outstanding under this loan.

In October 2007, we entered into a €330 million (U.S. $466) bridge facility due March 31, 2008, in order to repay maturing secured debt in France with Merrill Lynch. As of December 31, 2007, approximately €55 million (U.S. $81) was outstanding under this facility.

Guarantees: At December 31, 2007, we have guaranteed $37 of indebtedness of our foreign subsidiaries. This debt is included in our Consolidated Balance Sheet as of such date. In addition, as of December 31, 2007, $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 $552, $512 and $555 for the years ended December 31, 2007, 2006 and 2005, respectively.

Interest expense and interest income for the three years ended December 31, 2007 was as follows (in millions):

	2007	2006	2005
Interest expense [(1)]	$579	$544	$ 557
Interest income [(2)]	877	909	1,013

(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 payments on other debt as shown on the Consolidated Statements of Cash Flows for the three years ended December 31, 2007 was as follows (in millions):

	2007	2006	2005
Cash (payments) proceeds on notes payable, net	$ (143)	$ (19)	$ 4
Net cash proceeds from issuance of long-term debt[(1)]	2,254	1,502	50
Cash payments on long-term debt	(297)	(207)	(1,241)
Net cash proceeds (payments) on other debt	**$1,814**	**$1,276**	**$(1,187)**

(1) Includes payment of debt issuance costs.

Note 12 – Liability to Subsidiary Trust Issuing Preferred Securities

The Liability to Subsidiary Trust Issuing Preferred Securities included in our Consolidated Balance Sheets of $632 and $624 as of December 31, 2007 and 2006, respectively, reflect 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 2007, 2006 and 2005. We have guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities. The guarantee and our obligations under the Debentures and in 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. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment under SFAS No. 133. Certain of our derivatives do not qualify for hedge accounting but are effective as economic hedges of our inventory purchases and currency exposure. These derivative contracts are accounted for using the mark-to-market accounting method and accordingly are exposed to 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.

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

We enter into limited types of derivative contracts, including interest rate and cross currency interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro, and British 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.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk not recognized in our financial statements. 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. At December 31, 2007 and 2006, we had outstanding single currency interest rate swap agreements with aggregate notional amounts of $1.1 billion and $1.7 billion, respectively. The net liability fair values at December 31, 2007 and 2006 were $6 and $41, respectively.

Fair Value Hedges: As of December 31, 2007 and 2006, pay variable/receive fixed interest rate swaps with notional amounts of $1.1 billion and $1.4 billion 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 2007, 2006, or 2005. The following is a summary of our fair value hedges at December 31, 2007:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Notes due 2010	2003/2005	$ 250	$ (3)	8.02%	7.13%	Libor	2010
Notes due 2016	2004	250	(4)	7.28%	7.20%	Libor	2016
Senior Notes due 2011	2004	125	(1)	7.63%	6.88%	Libor	2011
Liability to Capital Trust I	2005	450	14	7.79%	8.00%	Libor	2027
Total		**$1,075**	**$ 6**				

Cash Flow Hedges: During 2006, pay fixed/receive variable interest rate swaps with notional amounts of £200 million ($392) and a net asset fair value of $1, associated with the U.K. GE secured borrowing were designated and accounted for as cash flow hedges. The swaps were structured to hedge the LIBOR interest rate of the debt by converting it from a variable rate instrument to a fixed rate instrument. The swaps were terminated in connection with the repayment of this borrowing in July 2007. No ineffective portion was recorded to earnings during 2007 and 2006. Refer to Note 4-Receivables, Net for additional information.

Terminated Swaps: During the period from 2004 to 2007, we terminated 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 $2.6 billion. 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 2007, 2006 and 2005, the amortization of these fair value adjustments reduced interest expense by $9, $9 and $11, respectively, and we expect to record a net increase to interest expense of $19 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.

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

Issuance of foreign currency denominated debt

- We enter into cross-currency interest rate swap agreements to swap the proceeds and related interest payments with a counterparty. In return, we receive and effectively denominate the debt in local functional currencies.
- We utilize forward exchange contracts to hedge the currency exposure for interest payments on foreign currency denominated debt.
- These derivatives may be designated as fair value hedges or cash flow hedges depending on the nature of the risk being hedged.

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.

Purchases of foreign-sourced inventory

- 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.
- Although these contracts are intended to economically hedge foreign currency risks to the extent possible, the differences between the contract terms of our derivatives and the underlying forecasted exposures have limited our ability to obtain hedge accounting for all such derivatives. Accordingly, changes in value for a majority of these derivatives were recorded directly through earnings. However, during 2007 we started to designate certain contracts hedging our foreign currency denominated inventory purchases as cash-flow hedges – see "*Cash Flow Hedges*" below for additional information.

During 2007, 2006, and 2005, we recorded net currency losses of $8, $39 and $5, respectively. Net currency losses primarily result from the mark-to-market of foreign exchange contracts utilized to hedge foreign currency denominated assets and liabilities, the cost of hedging foreign currency-denominated assets and liabilities, the re-measurement of foreign currency-denominated assets and liabilities and the mark-to-market impact of economic hedges of anticipated transactions for which we do not apply cash flow hedge accounting treatment.

At December 31, 2007, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,085. The following is a summary of the primary hedging positions and corresponding fair values held as of December 31, 2007:

Currency Hedged (Buy/Sell) (in millions)	Gross Notional Value	Fair Value Asset (Liability)
U.K. Pound Sterling/Euro	$ 534	$ (12)
Euro/U.S. Dollar	439	24
U.S. Dollar/Euro	222	(7)
Swedish Kronor/Euro	180	(5)
Swiss Franc/Euro	156	1
Japanese Yen/U.S. Dollar	132	(1)
Japanese Yen/Euro	126	(2)
Euro/U.K. Pound Sterling	39	1
U.S. Dollar/Canadian Dollar	15	—
Canadian Dollar/Euro	3	—
All Other	239	(2)
Total	**$2,085**	**$ (3)**

At December 31, 2006, we had outstanding Japanese Yen/USD cross-currency interest rate swap agreements with aggregate notional amounts of $126 and a net liability fair value of $9. These contracts matured during 2007 together with the scheduled repayment of the related debt. No such contracts were outstanding at December 31, 2007.

Cash Flow Hedges:

Debt related: As of December 31, 2006, our cross currency interest rate swaps were used to hedge the currency exposure for interest payments and principal on half of our Japanese Yen denominated debt of ¥30 billion (U.S. $252). In addition, certain forward currency contracts were used to hedge the currency exposure for interest payments on the remaining Yen debt. These combined strategies converted the hedged cash flows on our Japanese Yen denominated debt to U.S. dollars and qualified for cash flow hedge accounting. The derivatives matured during 2007 together with the scheduled repayment of the related debt.

No amount of ineffectiveness was recorded in the Consolidated Statements of Income for the three years ended December 31, 2007 for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness.

Inventory purchases: During 2007 we began to designate some of our foreign currency derivative contracts as cash flow hedges for a portion of our foreign currency denominated inventory purchases. The changes in fair value for these contracts were reported in AOCL and reclassified to Cost of Sales in the period or periods during which the related inventory was sold. 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, 2007, there were no contracts outstanding.

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, 2007:

	Years ended December 31,		
	2007	2006	2005
Net Gain/(Loss):			
Beginning balance, net of tax	$ 1	$ 1	$ 3
Changes in fair value	4	(1)	(32)
Reclass to earnings	(5)	1	30
Ending balance, net of tax	**$ —**	**$ 1**	**$ 1**

Fair Value of Financial Instruments: The estimated fair values of our financial instruments at December 31, 2007 and 2006 were as follows:

	2007		2006	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,099	$1,099	$ 1,399	$1,399
Short-term investments	—	—	137	137
Accounts receivable, net	2,457	2,457	2,199	2,199
Short-term debt	525	525	1,485	1,487
Long-term debt	6,939	7,176	5,660	5,917
Liability to subsidiary trust issuing preferred securities	632	632	624	640

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.

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. September 30 is the measurement date for most of our European plans and 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	
	2007	2006	2007	2006
Change in Benefit Obligation				
Benefit obligation, January 1	$10,467	$10,302	$ 1,592	$ 1,653
Service cost	237	244	17	19
Interest cost	578	732	87	92
Plan participants' contributions	12	13	20	19
Plan amendments	11	(234)	—	31
Actuarial gain	(508)	(85)	(114)	(105)
Currency exchange rate changes	331	564	21	—
Curtailments	(1)	(2)	—	—
Benefits paid/settlements	(669)	(1,067)	(122)	(117)
Benefit obligation, December 31	**$10,458**	**$10,467**	**$ 1,501**	**$ 1,592**
Change in Plan Assets				
Fair value of plan assets, January 1	$ 9,217	$ 8,444	$ —	$ —
Actual return on plan assets	667	959	—	—
Employer contribution	298	355	102	98
Plan participants' contributions	12	13	20	19
Currency exchange rate changes	280	513	—	—
Benefits paid/settlements	(669)	(1,067)	(122)	(117)
Fair value of plan assets, December 31	**$ 9,805**	**$ 9,217**	**$ —**	**$ —**
Net funded status (including under-funded and non-funded plans) at December 31	**$ (653)**	**$ (1,250)**	**$(1,501)**	**$(1,592)**
Amounts recognized in the Consolidated Balance Sheets:				
Other long-term assets	$ 322	$ 19	$ —	$ —
Accrued compensation and benefit costs	(48)	(79)	(105)	(102)
Pension and other benefit liabilities	(927)	(1,190)	—	—
Post-retirement medical benefits	—	—	(1,396)	(1,490)
Net amounts recognized	**$ (653)**	**$ (1,250)**	**$(1,501)**	**$(1,592)**

The pre-tax amounts recognized in accumulated other comprehensive loss consist of:

	Pension Benefits		Retiree Health	
	2007	2006	2007	2006
Net actuarial loss	$ 1,032	$ 1,595	$ 169	$ 286
Prior service (credit) cost	(213)	(246)	11	(1)
Transition obligation	1	1	—	—
Total	**$ 820**	**$ 1,350**	**$ 180**	**$ 285**

The accumulated benefit obligation for all defined benefit pension plans was $9,748 and $9,589 at December 31, 2007 and 2006, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented below (in millions):

	2007	2006
Aggregate projected benefit obligation	$ 1,193	$ 5,316
Aggregate accumulated benefit obligation	1,109	4,856
Aggregate fair value of plan assets	399	4,133

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).

	Pension Benefits			Retiree Health		
(in millions)	2007	2006	2005	2007	2006	2005
Components of Net Periodic Benefit Cost						
Defined benefit plans						
Service cost	$ 237	$ 244	$ 234	$ 17	$ 19	$ 20
Interest cost [1]	578	732	581	87	92	90
Expected return on plan assets [2]	(668)	(802)	(622)	—	—	—
Recognized net actuarial loss	75	104	98	10	19	31
Amortization of prior service credit	(20)	(18)	(3)	(12)	(13)	(24)
Recognized net transition obligation (asset)	—	2	1	—	—	—
Recognized curtailment/settlement loss	33	93	54	—	—	—
Net periodic benefit cost	235	355	343	102	117	117
Defined contribution plans	80	70	71	—	—	—
Total	**$ 315**	**$ 425**	**$ 414**	**$ 102**	**$ 117**	**$ 117**
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain)	(499)			(114)		
Prior service cost (credit)	5			—		
Amortization of net actuarial (loss) gain	(108)			(10)		
Amortization of prior service (cost) credit	20			12		
Total recognized in other comprehensive income [3]	(582)			(112)		
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	**$(267)**			**$ (10)**		

(1) Interest cost includes interest expense on non-TRA obligations of $374, $340, and $328 and interest expense directly allocated to TRA participant accounts of $204, $392, and $253 for the years ended December 31, 2007, 2006 and 2005, respectively.

(2) Expected return on plan assets includes expected investment income on non-TRA assets of $464, $410, and $369 and actual investment income on TRA assets of $204, $392, and $253 for the years ended December 31, 2007, 2006 and 2005, respectively.

(3) Amount represents the pre-tax effect included within other comprehensive income. The net of tax amount and effect of translation adjustments are included within the Consolidated Statements of Common Shareholders' Equity.

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 $38 and $(21), respectively. The net actuarial loss and prior service credit for the other defined benefit postretirement plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $2 and $(12) respectively.

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

During 2006 we amended one of our domestic defined benefit pension plans. The amendment changed the process of calculating benefits for certain employees who retire from or leave the Company after 2012. The new process ensures that certain benefit enhancements are only provided to plan participants who qualify to receive them based on age and years of service at termination. The prior process for years after 2012 provided some plan participants with these benefit enhancements regardless of qualification. The amendment resulted in a net decrease of $173 in the Projected Benefit

Obligation and a net decrease of $20 in the Accumulated Benefit Obligation. The amendment also decreased net periodic pension benefit cost by $31 for the full year 2006.

Plan Assets

Current Allocation and Investment Targets: As of the 2007 and 2006 measurement dates, the global pension plan assets were $9.8 billion and $9.2 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, 2007 and 2006 is shown below:

	Asset Value		Percentage of Total Assets	
(in millions)	2007	2006	2007	2006
Asset Category				
Equity securities	$5,060	$4,971	52%	54%
Debt securities	3,973	3,319	40	36
Real estate	720	728	7	8
Other	52	199	1	2
Total	**$9,805**	**$9,217**	**100%**	**100%**

Investment Strategy: 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. The target asset allocations for our worldwide plans for 2006 were 53% invested in equities, 39% invested in fixed income, 7% invested in real estate and 1% invested in Other. The pension assets outside of the U.S. as of the 2007 and 2006 measurement dates were $5.7 billion and $5.1 billion, respectively.

The target asset allocations for the U.S. pension plan include 60% invested in equities, 35% in fixed income and 5% in real estate. Cash investments are sufficient to handle expected cash requirements for benefit payments and will vary throughout the year. The expected long-term rate of return on the U.S. pension assets is 8.75%.

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 $130 to our worldwide defined benefit pension plans and approximately $100 to our other post retirement benefit plans in 2008. The 2008 expected pension plan contributions do not include any planned contribution for our domestic tax-qualified defined benefit plans because there are no required contributions to these plans for the 2008 fiscal year. However, once the January 1, 2008 actuarial valuations and projected results as of the end of the 2008 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, even though no contribution is required. In 2007 and 2006, after making this assessment, we contributed $158 and $228, respectively, to our domestic tax qualified plans to make them 100% funded on a current liability basis under the ERISA funding rules.

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
2008	$ 732	$ 105
2009	645	114
2010	675	119
2011	690	123
2012	758	127
Years 2013-2017	3,977	635

Assumptions

	Pension Benefits			Retiree Health		
	2007	2006	2005	2007	2006	2005
Weighted-average assumptions used to determine benefit obligations at the plan measurement dates						
Discount rate	5.9%	5.3%	5.2%	6.2%	5.8%	5.6%
Rate of compensation increase	4.1	4.1	3.9	— (1)	— (1)	— (1)

(1) Rate of compensation increase is not applicable to the retiree health benefits as compensation levels do not impact earned benefits.

	Pension Benefits				Retiree Health			
	2008	2007	2006	2005	2008	2007	2006	2005
Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31								
Discount rate	5.9%	5.3%	5.2%	5.6%	6.2%	5.8%	5.6%	5.8%
Expected return on plan assets	7.6	7.6	7.8	8.0	— (1)	— (1)	— (1)	— (1)
Rate of compensation increase	4.1	4.1	3.9	4.0	— (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:

	2007	2006
Health care cost trend rate assumed for next year	10.4%	9.9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.2%
Year that the rate reaches the ultimate trend rate	2013	2011

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	$ 7	$ (5)
Effect on post-retirement benefit obligation	86	(73)

Note 15 – Income and Other Taxes

Income before income taxes for the three years ended December 31, 2007 were as follows (in millions):

	2007	2006	2005
Domestic income	$ 667	$429	$386
Foreign income	771	379	444
Income before income taxes	**$1,438**	**$808**	**$830**

Provisions (benefits) for income taxes for the three years ended December 31, 2007 were as follows (in millions):

	2007	2006	2005
Federal income taxes			
Current	$ 30	$(448)	$(94)
Deferred	92	94	(59)
Foreign income taxes			
Current	144	50	95
Deferred	120	(9)	37
State income taxes			
Current	2	11	9
Deferred	12	14	7
Total	**$400**	**$(288)**	**$ (5)**

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, 2007 was as follows:

	2007	2006	2005
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
Nondeductible expenses	0.9	1.4	3.4
Effect of tax law changes	1.1	(1.8)	0.3
Change in valuation allowance for deferred tax assets	1.0	1.4	(4.6)
State taxes, net of federal benefit	1.3	1.8	1.6
Audit and other tax return adjustments	(4.2)	(62.5)	(25.5)
Tax-exempt income	(0.6)	(0.9)	(0.7)
Other foreign, including earnings taxed at different rates	(7.4)	(10.5)	(10.3)
Other	0.7	0.5	0.2
Effective income tax rate	**27.8%**	**(35.6)%**	**(0.6)%**

On a consolidated basis, we paid a total of $104, $76, and $186 in income taxes to federal, foreign and state jurisdictions in 2007, 2006 and 2005, respectively.

Total income tax expense (benefit) for the three years ended December 31, 2007 was allocated as follows (in millions):

	2007	2006	2005
Pre-tax income	$400	$(288)	$ (5)
Common shareholders' equity:			
Defined benefit plans/minimum pension liability(1)	222	(432)	(18)
Stock option and incentive plans, net	(22)	(25)	(12)
Translation adjustments and other	24	(9)	(12)
Total	**$624**	**$(754)**	**$(47)**

(1) 2006 includes the effects of the adoption of FAS 158-see Note 1 for further information.

Unrecognized Tax Benefits and Audit Resolutions

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, 2007, 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):

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

Balance at January 1, 2007	$287
Additions from acquisitions	4
Additions related to current year	33
Additions related to prior years positions	78
Reductions related to prior years positions	(33)
Settlements with taxing authorities [(1)]	(66)
Reductions related to lapse of statute of limitations	(14)
Currency	14
Balance at December 31, 2007	$303

(1) Majority of settlements resulted in utilization of deferred tax assets.

Included in the balance at January 1, 2007 and as of December 31, 2007 are $93 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 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.

Upon the adoption of FIN 48, we recognize interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable settlements within income tax expense. In 2007, net interest and penalties were less than $1. We had $28 and $23 accrued for the payment of interest and penalties associated with unrecognized tax benefits at January 1, 2007 and December 31, 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 2006. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities before 2000.

2006 Audit Resolution: In the first quarter 2006, we recognized an income tax benefit of $24 from the favorable resolution of certain tax issues associated with our 1999-2003 Internal Revenue Service ("IRS") audit which at the time had not yet been finalized. In the second quarter 2006, we recognized an income tax benefit of $46 related to the favorable resolution of certain tax matters associated with the finalization of foreign tax audits. In the third quarter 2006, we received notice that the U.S. Joint Committee on Taxation had completed its review of our 1999-2003 IRS audit and as a result of that review our audit for those years had been finalized. Accordingly, we recorded an aggregate income tax benefit of $448 associated with the favorable resolution of certain tax matters from this audit. The recorded benefit did not result in a significant cash refund, but it did increase tax credit carryforwards and reduce taxes otherwise potentially due.

2005 Audit Resolution: In the second quarter of 2005, the 1996-1998 IRS audit was finalized. As a result, we recorded an aggregate second quarter 2005 net income benefit of $343. $260 of this benefit, which includes an after-tax benefit of $33 for interest ($54 pre-tax benefit), is the result of a change in tax law that allowed us to recognize a benefit for $1.2 billion of capital losses associated with the disposition of our insurance group operations in those years. The claim of additional losses and related tax benefits required review by the U.S. Joint Committee on Taxation, which was completed in June 2005. The benefit did not result in a significant cash refund, but increased 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, 2007 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, 2007 and 2006 were as follows (in millions):

	2007	2006
Tax effect of future tax deductions		
Research and development	$ 895	$ 1,133
Post-retirement medical benefits	577	602
Depreciation	292	261
Net operating losses	576	553
Other operating reserves	216	185
Tax credit carryforwards	434	354
Deferred compensation	249	232
Allowance for doubtful accounts	100	108
Restructuring reserves	15	70
Pension	58	274
Other	181	138
	3,593	3,910
Valuation allowance	(747)	(647)
Total deferred tax assets	**$ 2,846**	**$ 3,263**
Tax effect of future taxable income		
Unearned income and installment sales	$(1,283)	$(1,277)
Intangibles and goodwill	(142)	—
Other	(40)	(28)
Total deferred tax liabilities	(1,465)	(1,305)
Total deferred taxes, net	**$ 1,381**	**$ 1,958**

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, 2007 and 2006 amounted to $200 and $271, 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, 2007 and 2006 was an increase of $100 and an increase of $57, 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.

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, 2007, we had tax credit carryforwards of $434 available to offset future income taxes, of which $240 are available to carryforward indefinitely while the remaining $194 will begin to expire, if not utilized, in 2008. We also had net operating loss carryforwards for income tax purposes of $255 that will expire in 2008 through 2024, if not utilized, and $2.7 billion available to offset future taxable income indefinitely.

Note 16 – Contingencies

Brazil Tax and Labor Contingencies

Our Brazilian operations were 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. As of December 31, 2007, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $1,130, with the increase from December 31, 2006 balance of $960 primarily related to indexation, interest and currency. 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, 2007 we had $200 of escrow cash deposits for matters we are disputing and there are liens on certain Brazilian assets with a net book value of $64 and additional letters of credit of approximately $84. 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

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.

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 purports to be a class action on behalf of the named plaintiffs and all other purchasers of common stock of the Company during the period between October 22, 1998 through October 7, 1999 ("Class Period"). The amended consolidated complaint in the action 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 amended 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 amended consolidated 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. On September 28, 2001, the Court denied the defendants' motion for dismissal of the complaint. On November 5, 2001, the defendants answered the complaint. On or about January 7, 2003, the plaintiffs filed a motion for class certification. Xerox and the individual defendants filed their opposition to that motion on June 28, 2005. On or about November 8, 2004, the International Brotherhood of Electrical Workers Welfare Fund of Local Union No. 164 ("IBEW") filed a motion to intervene as a named plaintiff and class representative. Separately, on June 8, 2005, IBEW and Robert W. Roten ("Roten") moved to substitute as lead plaintiffs and proposed class representatives. On May 12, 2006, the Court denied, without prejudice to refiling, plaintiffs' motion for class certification, IBEW's motion to intervene and serve as named plaintiff and class representative, and IBEW and Roten's joint motion to substitute as lead plaintiffs and proposed class representatives. The Court also ordered the parties to submit to it a notice to certain putative class members to inform them of the circumstances surrounding the withdrawal of several lead plaintiffs, and to advise them of the opportunity to express their desire to serve as a representative of the putative class. On

July 25, 2006, the Court so-ordered a form of notice, and plaintiffs thereafter distributed the notice. Thereafter, Roten, Robert Agius ("Agius") and Georgia Stanley ("Stanley") filed applications to be considered lead plaintiffs. On November 13, 2006, IBEW, Roten, Agius and Stanley filed a motion for appointment as additional lead plaintiffs. Defendants filed their response on November 28, 2006. On February 2, 2007, the Court granted the motion of IBEW, Roten, Agius and Stanley and appointed them as additional lead plaintiffs. On February 15, 2007, lead plaintiffs IBEW, Roten, Agius, Stanley and Thomas Dalberth filed their renewed motion for class certification. On July 18, 2007, the Court entered an order denying 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. On December 12, 2007, the Court held a pre-filing conference and granted, absent objection, the motion of Agius to withdraw as lead plaintiff and proposed class representative. On February 5, 2008 plaintiffs filed a second renewed motion for class certification. The parties are currently engaged in discovery. 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 the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or be settled for significant amounts, 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 litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from this matter.

Carlson v. Xerox Corporation, et al.: A consolidated securities law action (consisting of 21 cases) is 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. On September 11, 2002, the Court entered an endorsement order granting plaintiffs' motion to file a third consolidated amended complaint. According to the third consolidated amended complaint, plaintiffs purport 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"). The third consolidated amended complaint sets forth two claims: 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 claim 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 allege 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, and prompted a SEC investigation that led to the April 11, 2002 settlement which, among other things, required the Company to pay a $10 penalty and restate its financials for the years 1997-2000 (including restatement of financials previously corrected in an earlier restatement which plaintiffs contend was improper). The third consolidated amended complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other Class members against all defendants, jointly and severally, including interest thereon, together with reasonable costs and expenses, including counsel fees and expert fees. On December 2, 2002, the Company and the individual defendants filed a motion to dismiss the complaint. On July 13, 2005, the Court denied the motion. On October 31, 2005, the defendants answered the complaint. On January 19, 2006, plaintiffs filed a motion for class certification. On July 18, 2007, the Court entered an order denying plaintiffs' 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. Plaintiffs have filed notices of withdrawal of proposed class representatives Sol Sachs, Leonard Nelson and Fernan Cepero. The Court has approved plaintiffs' notice of withdrawal of proposed class representative Fernan Cepero. The parties are engaged in discovery. 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 the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or be settled for significant amounts, 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 litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from this matter.

Florida State Board of Administration, et al. v. Xerox Corporation, et al.: A securities law action brought by four institutional investors, namely the Florida State Board of Administration, the Teachers' Retirement System of Louisiana, Franklin Mutual Advisers and PPM America, Inc., is pending in the United States District Court for the District of Connecticut against the Company, Paul Allaire, G. Richard Thoman, Barry Romeril, Anne Mulcahy, Philip Fishbach, Gregory Tayler and KPMG. The plaintiffs bring this action individually on their own behalves. In an amended complaint filed on October 3, 2002, one or more of the plaintiffs allege that each of the Company, the individual defendants and KPMG violated Sections 10(b) and 18 of the 1934 Act, SEC Rule 10b-5 thereunder, the Florida Securities Investors Protection Act, Fl. Stat. ss. 517.301, and the Louisiana Securities Act, R.S. 51:712(A). The plaintiffs further claim that the individual defendants are each liable as "controlling persons" of the Company pursuant to Section 20 of the 1934 Act and that each of the defendants is liable for common law fraud and negligent misrepresentation. The complaint generally alleges that the defendants participated in a scheme and course of conduct that deceived the investing public by disseminating materially false and misleading statements and/or concealing material adverse facts relating to the Company's financial condition and accounting and reporting practices. The plaintiffs contend that in relying on false and misleading statements allegedly made by the defendants, at various times from 1997 through 2000 they bought shares of the Company's common stock at artificially inflated prices. As a result, they allegedly suffered aggregated cash losses in excess of $200. The plaintiffs further contend that the alleged fraudulent scheme prompted a SEC investigation that led to the April 11, 2002 settlement which, among other things, required the Company to pay a $10 penalty and restate its financials for the years 1997-2000 including restatement of financials previously corrected in an earlier restatement which plaintiffs contend was false and misleading. The plaintiffs seek, among other things, unspecified compensatory damages against the Company, the individual defendants and KPMG, jointly and severally, including prejudgment interest thereon, together with the costs and disbursements of the action, including their actual attorneys' and experts' fees. On December 2, 2002, the Company and the individual defendants filed a motion to dismiss all claims in the complaint that are in common with the claims in the Carlson action. On July 13, 2005, the Court denied the motion. On December 9, 2005, the defendants moved to dismiss claims based on issues uniquely related to plaintiffs. On September 28, 2007, the Court entered an order proposed by the parties to resolve motions to dismiss, pursuant to which plaintiffs voluntarily dismissed certain claims, the Xerox defendants withdrew as moot their partial motion to dismiss the amended complaint and KPMG withdrew without prejudice its motion to dismiss the amended complaint. Defendants served their answer with respect to claims unique to this case on November 9, 2007. The parties are engaged in discovery. 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 the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or be settled for significant amounts, 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 litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from this matter.

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. Three additional class actions (Hopkins, Uebele and Saba) were subsequently filed in the same court making substantially similar claims. On October 16, 2002, the four actions were consolidated as *In Re Xerox Corporation ERISA Litigation*. On November 15, 2002, a consolidated amended complaint was filed. A fifth class action (Wright) was filed in the District of Columbia. It has been transferred to Connecticut and consolidated with the other actions. 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 claimed 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 claim 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. Defendants filed a motion to dismiss the complaint for failure to state claim. On April 17, 2007, the Court ruled on the motion to dismiss, granting it in part and denying it in part, and giving the plaintiffs an opportunity to replead. The plaintiffs subsequently 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. However, it asks 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 July 18, 2007, Defendants answered the new complaint and also filed a partial motion to dismiss. On August 9, 2007, the plaintiffs filed their motion for class certification and on August 31, 2007 filed their opposition to defendants' partial motion to dismiss. Discovery is ongoing. The Company and the other defendants deny any wrongdoing and will continue to vigorously defend the action. In the course of litigation, we periodically engage in discussions with plaintiffs' counsel for possible resolution of the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or be settled for significant amounts, 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. At this stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from this matter.

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 First Amended Complaint on the Company was deemed effective as of December 6, 2002. On March 19, 2003, Plaintiffs filed a Second Amended Complaint that eliminated a number of corporate defendants but was otherwise identical in all material respects to the First Amended Complaint. The defendants include the Company and a number of other corporate defendants who are 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 claim violations of the Alien Tort Claims Act, the Torture Victims Protection Act and RICO. They also assert human rights violations and crimes against humanity. Plaintiffs seek compensatory damages in excess of $200 billion and punitive damages in excess of $200 billion. The foregoing damages are being sought from all defendants, jointly and severally. Xerox filed a motion to dismiss the Second Amended Complaint. Oral argument of the motion was heard on November 6, 2003. By Memorandum Opinion and Order filed November 29, 2004, the Court granted the motion to dismiss. A clerk's judgment of dismissal was filed on November 30, 2004. On December 27, 2004, the Company received a notice of appeal dated December 24, 2004. On February 16, 2005, the parties filed a stipulation withdrawing the December 24, 2004 appeal on the ground that the November 30, 2004 judgment of dismissal was not appealable. On March 28, 2005, plaintiffs submitted a letter requesting permission to file a motion for leave to file an amended and consolidated complaint. By Summary Order filed April 6, 2005, the Court denied the request. In a second Summary Order filed the same day, the Court amended its November 29, 2004, Opinion and Order, which dismissed the action, so as to render the Opinion and Order appealable and plaintiffs filed a new appeal on May 3, 2005. On August 19, 2005, plaintiffs-appellants filed their brief in the Second Circuit Court of Appeals. On October 4, 2005, defendants-appellees filed their brief in the Second Circuit Court of Appeals. On October 12, 2007, the United States Court of Appeals affirmed the dismissal of the claims asserted under the Torture Victim Protection Act, vacated the dismissal of the claims asserted under the Alien Tort Claims Act and remanded those claims to the district court for further proceedings. On January 10, 2008, defendants-appellees filed a petition for a writ of certiorari in the Supreme Court of the United States, seeking review of the Second Circuit's October 12, 2007 opinion. Xerox denies any wrongdoing and is vigorously defending the action. Based upon the present stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from this matter.

Arbitration between MPI Technologies, Inc. and Xerox Canada Ltd. and Xerox Corporation: In an arbitration proceeding the hearing of which commenced on January 18, 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 made as of March 15, 1994 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. On September 9, 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. On December 12, 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 June 2006, Xerox's application for judicial review of the award, seeking to have the award set aside in its entirety, was heard by the Ontario Superior Court in Toronto. The Ontario Superior Court issued a decision on November 30, 2006 dismissing Xerox's appeal. In December 2006, Xerox released all monies and software it had placed in escrow prior to its application for review in satisfaction of the arbitration panel's final award. On January 30, 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. On March 27, 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. Xerox delivered a reply and answer to MPI's defense and counterclaim on May 29, 2007 and MPI delivered a reply to that pleading on July 5, 2007. A panel of three arbitrators has been appointed to hear the dispute. The panel has established a schedule for hearing preliminary dispositive motions with oral argument to be held in May, 2008. In the course of litigation, we periodically engage in discussions with MPI's counsel for possible resolution of the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or be settled for significant amounts, 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.

National Union Fire Insurance Company v. Xerox Corporation, et al.: On October 24, 2003, a declaratory judgment action was filed in the Supreme Court of the State of New York, County of New York against the Company and several current and former officers and/or members of the Board of Directors. Plaintiff claims that it issued an Excess Directors & Officers Liability and Corporate Reimbursement Policy to the Company in reliance on information from the Company that allegedly misrepresented the Company's financial condition and outlook. The policy at issue provides for $25 of coverage as a component of the company reimbursement portion of an insurance program that provides for up to $135 coverage (after deductibles and coinsurance and subject to other policy limitations and requirements) over a three-year period. However, $10 of the entire amount may be unavailable due to the liquidation of one of the other insurers. Plaintiff seeks judgment (i) that it is entitled to rescind the policy as void from the outset; (ii) in the alternative, limiting coverage under the policy and awarding plaintiff damages in an unspecified amount representing that portion of any required payment under the policy that is attributable to the Company's and the individual defendants' own misconduct; and (iii) for the costs and disbursement of the action and such other relief as the court deems just and proper. On December 19, 2003, the Company and individual defendants moved to dismiss the complaint. On November 10, 2004, the Court issued an opinion partially granting and partially denying the motions. Among other things, the Court granted the motions to dismiss all of the claims for rescission and denied plaintiff's request to replead. The Court denied the Company's and some of the individual defendants' motions to dismiss certain claims that seek to limit coverage based on particular provisions in the policy and that at least in part related to settlement with the SEC. Plaintiff filed notices of appeal on January 10, 2005 and February 11, 2005. By order entered on January 3, 2006, the Appellate Division affirmed the portions of the Court's November 10, 2004 decision which dismissed several of plaintiff's claims and denied leave to replead. On February 2, 2006, plaintiff moved for reargument or for leave to appeal to the Court of Appeals. On May 30, 2006, the Appellate Division denied plaintiff's motion. Separately, on February 22, 2005, the defendants filed a motion seeking dismissal of any remaining claims in light of Xerox's representation that it will not seek coverage from plaintiff for settlement payments to the SEC. By order dated July 12, 2005, the Court denied the motion. On August 23, 2005, defendants moved for leave to reargue the February 22 motion and separately moved for leave to renew the December 19, 2003 motions. On April 10, 2006, the Court issued an order granting those motions, dismissing one cause of action and partially dismissing the two other causes of action that were the subject of those motions. Subsequently, at a status conference on May 4, 2006, the parties appeared before the Court and discussed inconsistencies between the Court's April 10, 2006 order and its November 10, 2004 decision. As a result, on May 5, 2006 the Court executed an order, which was later rendered on July 27, 2006, withdrawing the April 10, 2006 order and substituting a new order which clarified and confirmed the dismissal of all claims asserted in the original complaint. On August 31, 2006, plaintiff filed with the Appellate Division a notice of appeal of the May 5, 2006 order and subsequently filed a withdrawal of such notice of appeal, without prejudice, dated May 11, 2007. On September 5, 2006, plaintiff served a motion to the Court of Appeals seeking leave to appeal directly to that court from the May 5, 2006 order, and seeking review of the Appellate Division's January 3, 2006 order. On November 20, 2006, the Court of Appeals denied plaintiff's motion. Plaintiff had earlier filed an amended complaint on February 27, 2006, naming all defendants named in the original complaint and adding four causes of action against Xerox only, as well as a demand for unspecified monetary relief. On May 11, 2006, Xerox served its motion to dismiss the amended complaint and for sanctions. On August 2, 2006, the Court granted Xerox's motion to dismiss and for sanctions. All claims asserted by National Union now have been dismissed. In accordance with the Court's instructions during the August 2, 2006 oral argument, Xerox submitted an affidavit, sworn to on August 16, 2006, specifying the precise amount of fees and sanctions requested by Xerox. On September 11, 2006, National Union submitted an opposition to Xerox's specific request for fees and sanctions and requested a hearing before the Court. The Court has not scheduled a hearing on the fees issues, nor has it issued a decision.

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 allege that Xerox has 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 does not specify the amount of damages sought, plaintiffs do seek, on behalf of themselves and the classes they seek to represent, front and back pay, compensatory and punitive damages, and attorneys' fees. We deny any wrongdoing. Fact discovery has concluded and expert reports have been exchanged. Following three days of mediation with a private mediator, a tentative settlement agreement was reached, the terms of which are not material to Xerox. On March 16, 2007, the parties submitted the settlement agreement to the Court for preliminary approval. At a status conference held on June 6, 2007, the judge indicated that he would not approve the current version of the settlement agreement. He was concerned that the named plaintiffs may be receiving a disproportionate amount of damages as compared to the other class members. He has directed the parties to revise this aspect of the agreement and bring it back to him. If preliminary approval is obtained, the agreement will then be subject to a fairness hearing at which any objections to the agreement shall be heard. If the Court still finds the agreement to be acceptable, it will give its final approval and administration of the settlement shall commence.

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 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 and to the SEC. The private Indian investigator engaged by the Indian Ministry of Company Affairs has completed an investigation of these matters. In February 2005, the Indian Ministry of Company Affairs provided our Indian subsidiary with the investigator's report which addresses the previously disclosed misappropriation of funds and improper payments and requested comments. The report included allegations that Xerox India Ltd.'s senior officials and the Company were aware of such activities. The report also asserted 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 U.S. Department of Justice and the SEC.

On November 17, 2005, Xerox filed its reply with the DCA (now called the "Ministry of Company Affairs" or "MCA"). Xerox sent copies of the Xerox Reply to the SEC and DOJ in the United States. In our reply, we argue 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, we 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 has 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. has 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 DCA investigator's Report. Following a hearing on August 29, 2006, the MRTP Commission ordered a process with deadlines between Xerox India Ltd. and the investigating officer for provision of relevant documents to Xerox India Ltd., after which Xerox India Ltd. will have four weeks to file its reply. The MRTP Commission scheduled a hearing for framing of the issues on January 9, 2007, but this hearing was delayed. A new hearing was scheduled for January 29, 2007 for consideration of Xerox India Ltd.'s motion for the MRTP Commission to direct the investigating officer to supply us the relevant documents. At the hearing on January 29th, no additional documents were supplied to us. The MRTP Commission directed us to file our reply to the original Notice of Enquiry within four weeks. At a hearing on April 2, 2007, the investigating officer requested another copy of our reply for the purpose of filing a response. An additional period of four weeks to file this response was granted, and the next hearing date was set for May 15, 2007 for further consideration and framing of issues. The matter was heard on May 15, 2007, but the investigating officer sought additional time to file his response, which in fact was filed on June 27, 2007. The Commission rescheduled the matter for August 17, 2007 for further proceedings. At the hearing on August 17, 2007, counsel for Xerox India Ltd. argued that the Enquiry is not properly maintainable under the Commission's jurisdiction. The issue of maintainability of the Notice of Enquiry has been framed as the preliminary issue and the Commission will decide this at the next hearing date, which has been rescheduled for March 2008. Our Indian subsidiary plans to contest the Notice of Enquiry and has been fully cooperating with the authorities.

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, 2007, 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 the three years ended of December 31, 2007 were $40, $43 and $45, respectively. Total product warranty liabilities as of December 31, 2007 and 2006 were $26 and $22, respectively.

Note 17 – Shareholders' Equity

Preferred Stock

As of December 31, 2007, 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.

Series C Mandatory Convertible Preferred Stock Automatic Conversion: In 2006, all 9.2 million shares of 6.25% Series C Mandatory Convertible Preferred Stock were converted at a rate of 8.1301 shares of our common stock, or 74.8 million common stock shares. The recorded value of outstanding shares at the time of conversion was $889. The conversion occurred pursuant to the mandatory automatic conversion provisions set at original issuance of the Series C Preferred Stock. As a result of the automatic conversion, there are no remaining outstanding shares of our Series C Mandatory Convertible Preferred Stock.

Common Stock

We have 1.75 billion authorized shares of common stock, $1 par value. At December 31, 2007, 97 million shares were reserved for issuance under our incentive compensation plans, 48 million shares were reserved for debt to equity exchanges, 15 million shares were reserved for the conversion of the Series C Mandatory Convertible Preferred Stock and 2 million shares were reserved for the conversion of convertible debt. The 15 million shares reserved for the conversion of the Series C Mandatory Convertible Preferred Stock were released in January 2008.

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.

In 2005, we implemented changes in our stock-based compensation programs designed to help us continue to attract and retain employees and to better align employee interests with those of our shareholders. With these changes, in lieu of stock options we began granting PSs and expanded the use of RSUs. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2007 and 2006, 19 million and 25 million shares, respectively, were available for grant of awards.

Total compensation related to these programs was $89, $64 and $40 for the years ended December 31, 2007, 2006 and 2005, respectively. The related income tax benefit recognized was $34, $25 and $16 for 2007, 2006 and 2005, respectively. A description of each of our stock-based compensation programs follows:

Restricted Stock Units: Prior to 2005, the RSUs were generally subject to a three-year ratable vesting period from the date of grant and entitled the holder to one share of common stock. In 2005, the terms of newly-issued RSUs were changed such that the entire award vests three years from the date of grant. Compensation expense is based upon the grant date market price and is recorded over the vesting period. A summary of the activity for RSUs as of December 31, 2007, 2006 and 2005, and changes during the years then ended, is presented below (shares in thousands):

	2007		2006		2005	
Nonvested Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	8,635	$ 15.71	5,491	$ 15.69	2,804	$ 13.86
Granted	4,444	18.17	4,256	15.18	3,750	16.89
Vested	(935)	13.65	(686)	13.70	(977)	15.01
Cancelled	(448)	16.42	(426)	13.45	(86)	16.21
Outstanding at December 31	**11,696**	**16.78**	**8,635**	**15.71**	**5,491**	**15.69**

At December 31, 2007, the aggregate intrinsic value of RSUs outstanding was $189. The total intrinsic value of RSUs vested during 2007, 2006 and 2005 was $16, $10 and $13, respectively. The actual tax benefit realized for the tax deductions for vested RSUs totaled $3, $3 and $4 for the years ended December 31, 2007, 2006 and 2005, respectively.

At December 31, 2007, there was $89 of total unrecognized compensation cost related to nonvested RSUs, which is expected to be recognized ratably over a remaining weighted-average contractual term of 1.9 years.

Performance Shares: We grant officers and selected executives PSs whose vesting is contingent upon meeting pre-determined Diluted Earnings per Share ("EPS") and 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.

A summary of the activity for PSs as of December 31, 2007, 2006 and 2005, and changes during the years then ended, is presented below (shares in thousands):

	2007		2006		2005	
Nonvested Performance Shares	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding at January 1	4,571	$ 15.04	2,052	$ 14.87	—	$ —
Granted	2,160	18.48	2,588	15.17	2,070	14.87
Vested	—	—	—	—	—	—
Cancelled	(146)	15.41	(69)	14.95	(18)	14.87
Outstanding at December 31	**6,585**	**16.16**	**4,571**	**15.04**	**2,052**	**14.87**

At December 31, 2007, the aggregate intrinsic value of PSs outstanding was $107.

Prior to 2006, the PSs were accounted for as variable awards requiring that the shares be adjusted to market value at each reporting period. Effective January 1, 2006, upon the adoption of FAS 123(R), PSs were recorded prospectively 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, 2007, there was $63 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 1.8 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. The following table provides information relating to the status of, and changes in, stock options granted for each of the three years ended December 31, 2007 (stock options in thousands):

	2007		2006		2005	
Employee Stock Options	Stock Options	Average Option Price	Stock Options	Average Option Price	Stock Options	Average Option Price
Outstanding at January 1	60,480	$18.56	76,307	$19.40	91,833	$20.98
Granted	—	—	—	—	—	—
Cancelled/Expired	(922)	24.18	(5,478)	49.44	(10,291)	39.41
Exercised	(7,134)	9.22	(10,349)	8.46	(5,235)	7.74
Outstanding at December 31	**52,424**	**19.73**	**60,480**	**18.56**	**76,307**	**19.40**
Exercisable at December 31	*52,424*		*60,180*		*66,928*	

Options outstanding and exercisable at December 31, 2007 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	2,656	3.01	$ 4.97
7.13 to 10.69	19,374	4.37	9.24
10.72 to 15.27	8,164	3.99	13.68
16.91 to 22.88	11,414	2.00	21.77
25.38 to 31.94	3,627	1.93	26.29
42.83 to 60.95	7,189	1.21	53.75
	52,424		

At December 31, 2007, the aggregate intrinsic value of stock options outstanding and stock options exercisable was $185.

The following table provides information relating to stock option exercises for the three years ended December 31, 2007:

(in millions)	2007	2006	2005
Total intrinsic value	$61	$72	$36
Cash received	65	82	40
Tax benefit realized for tax deductions	22	25	12

Treasury Stock: The Board of Directors has authorized programs for the repurchase of the Company's common stock totaling $2.5 billion as of December 31, 2007. In January 2008, the Board of Directors authorized an additional $1 billion for share repurchases.

Through December 31, 2007, we have repurchased a cumulative total of 137,251,165 shares at a cost of $2,133 (including associated fees of $3) under these stock repurchase programs. Subsequent to December 31, 2007 and through February 14, 2008, 19,677,005 shares were repurchased at an aggregate cost of $301, (including associated fees of less than $1). Additionally, in February 2008, 3,605,610 repurchased shares were cancelled upon the approval of the Board of Directors and were recorded as a reduction to both Common stock of $4 and Additional paid-in-capital of $53.

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 (in millions, except shares in thousands):

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

	2007	2006	2005
Basic Earnings per Share:			
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	$ 1,135	$ 1,210	$ 933
Accrued dividends on Series C Mandatory Convertible Preferred Stock	—	(29)	(58)
Adjusted income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	1,135	1,181	875
Income from discontinued operations, net	—	—	53
Cumulative effect of change in accounting principle, net	—	—	(8)
Adjusted net income available to common shareholders	$ 1,135	$ 1,181	$ 920
Weighted Average Common Shares Outstanding	934,903	943,852	957,149
Basic Earnings per Share:			
Earnings from continuing operations	$ 1.21	$ 1.25	$ 0.91
Earnings from discontinued operations	—	—	0.06
Loss from cumulative effect of change in accounting principle	—	—	(0.01)
Basic Earnings per Share	**$ 1.21**	**$ 1.25**	**$ 0.96**
Diluted Earnings per Share:			
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	$ 1,135	$ 1,210	$ 933
Interest on Convertible securities, net	1	1	1
Adjusted income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	1,136	1,211	934
Income from discontinued operations, net	—	—	53
Cumulative effect of change in accounting principle, net	—	—	(8)
Adjusted net income available to common shareholders	$ 1,136	$ 1,211	$ 979
Weighted Average Common Shares Outstanding	934,903	943,852	957,149
Common shares issuable with respect to:			
Stock options	8,650	9,300	10,470
Restricted stock and performance shares	7,396	3,980	945
Series C Mandatory Convertible Preferred Stock	—	37,398	74,797
Convertible securities	1,992	1,992	1,992
Adjusted Weighted Average Shares Outstanding	952,941	996,522	1,045,353
Diluted Earnings per Share:			
Earnings from continuing operations	$ 1.19	$ 1.22	$ 0.90
Earnings from discontinued operations	—	—	0.05
Loss from cumulative effect of change in accounting principle	—	—	(0.01)
Diluted Earnings per Share	**$ 1.19**	**$ 1.22**	**$ 0.94**

The 2007, 2006 and 2005 computation of diluted earnings per share did not include the effects of 23 million, 27 million and 36 million stock options, respectively, because their respective exercise prices were greater than the corresponding market value per share of our common stock.

Note 19 – Divestitures and Other Sales

During the three years ended December 31, 2007, the following significant divestitures occurred:

Ridge Re: In March 2006, Ridge Re, a wholly owned subsidiary included in our net investment in discontinued operations (within Other long-term assets), completed an agreement to transfer its obligations under its remaining reinsurance agreement, together with related investments held in trust, to another insurance company as part of a complete exit from this business. As a result of this transaction, the remaining investments held by Ridge Re were sold and the excess cash held by Ridge Re of $119, after the payment of its remaining liabilities, was distributed back to the Company as part of a plan of liquidation. This amount is presented within investing activities in the Consolidated Statements of Cash Flows.

Integic: In March 2005, we completed the sale of our entire equity interest in Integic Corporation ("Integic") for $96 in cash, net of transaction costs. The sale resulted in a pre-tax gain of $93. Prior to this transaction, our investment in Integic was accounted for using the equity method and was included in Investments in affiliates, at equity within our Consolidated Balance Sheets. The pre-tax gain is classified within Other (income) expenses, net in the accompanying Consolidated Statements of Income. In May 2006, we recognized an additional pre-tax gain of $10 on this sale from the receipt of additional proceeds from escrow. The proceeds were placed in escrow upon the sale of Integic pending completion of an indemnification period.

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, 2007.

/s/ ANNE M. MULCAHY	/s/ LAWRENCE A. ZIMMERMAN	/s/ GARY R. KABURECK
Chief Executive Officer	**Chief Financial Officer**	**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 common shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 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, 2007, 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 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, 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 15, 2008

QUARTERLY RESULTS OF OPERATIONS (Unaudited) (in millions, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
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 from Continuing Operations before Income Taxes, Equity Income, Discontinued Operations and Cumulative Effect of Change in Accounting Principle	329	315	324	470	1,438
Income tax expenses	102	76	97	125	400
Equity in net income of unconsolidated affiliates (1)	6	27	27	37	97
Net Income	$ 233	$ 266	$ 254	$ 382	$ 1,135
Basic Earnings per Share (2)	$ 0.25	$ 0.28	$ 0.27	$ 0.41	$ 1.21
Diluted Earnings per Share (2)	$ 0.24	$ 0.28	$ 0.27	$ 0.41	$ 1.19
2006					
Revenues	$3,695	$3,977	$3,844	$4,379	$15,895
Costs and Expenses (3)	3,487	3,712	3,753	4,135	15,087
Income from Continuing Operations before Income Taxes, Equity Income, Discontinued Operations and Cumulative Effect of Change in Accounting Principle	208	265	91	244	808
Income tax expenses (benefits) (4)	47	22	(416)	59	(288)
Equity in net income of unconsolidated affiliates	39	17	29	29	114
Net Income	$ 200	$ 260	$ 536	$ 214	$ 1,210
Basic Earnings per Share (2)	$ 0.20	$ 0.27	$ 0.55	$ 0.22	$ 1.25
Diluted Earnings per Share (2)	$ 0.20	$ 0.26	$ 0.54	$ 0.22	$ 1.22

(1) The first, third and fourth quarters of 2007 include $23, $5, and $2 of charges, respectively, for our share of Fuji-Xerox restructuring charges.

(2) 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

(3) Costs and expenses include restructuring and asset impairment charges of $36, $110 and $239 for the second, third and fourth quarters of 2006, respectively. In addition, the third quarter 2006 includes $68 for litigation matters related to probable losses on Brazilian labor-related contingencies (See Note 16).

(4) The first and third quarters of 2006 include $24 and $448 of income tax benefits, respectively, related to the favorable resolution of certain tax matters from the 1999-2003 IRS audit. The second quarter of 2006 included $46 of income tax benefits from the resolution of certain tax issues associated with foreign tax audits.

FIVE YEARS IN REVIEW

(in millions, except per-share data)	2007[3]	2006	2005	2004	2003
Per-Share Data					
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle					
Basic	$ 1.21	$ 1.25	$ 0.91	$ 0.84	$ 0.38
Diluted	1.19	1.22	0.90	0.78	0.36
Earnings					
Basic	$ 1.21	$ 1.25	$ 0.96	$ 0.94	$ 0.38
Diluted	1.19	1.22	0.94	0.86	0.36
Common stock dividends	$0.0425	—	—	—	—
Operations					
Revenues	$17,228	$15,895	$15,701	$15,722	$15,701
Sales	8,192	7,464	7,400	7,259	6,970
Service, outsourcing and rentals	8,214	7,591	7,426	7,529	7,734
Finance income	822	840	875	934	997
Research, development and engineering expenses	912	922	943	914	962
Selling, administrative and general expenses	4,312	4,008	4,110	4,203	4,249
Income from continuing operations before discontinued operations and cumulative effect of change in accounting principle	1,135	1,210	933	776	360
Net income	1,135	1,210	978	859	360
Financial Position					
Cash, cash equivalents and short-term investments	$ 1,099	$ 1,536	$ 1,566	$ 3,218	$ 2,477
Accounts and finance receivables, net	10,505	10,043	9,886	10,573	10,972
Inventories	1,305	1,163	1,201	1,143	1,152
Equipment on operating leases, net	587	481	431	398	364
Land, buildings and equipment, net	1,587	1,527	1,627	1,759	1,827
Total Assets [1]	23,543	21,709	21,953	24,884	24,591
Consolidated Capitalization					
Short-term debt and current portion of long-term debt	525	1,485	1,139	3,074	4,236
Long-term debt	6,939	5,660	6,139	7,050	6,930
Total Debt	7,464	7,145	7,278	10,124	11,166
Minorities' interests in equity of subsidiaries	103	108	90	80	102
Liabilities to subsidiary trusts issuing preferred securities [2]	632	624	724	717	1,809
Series B convertible preferred stock	—	—	—	—	499
Series C mandatory convertible preferred stock	—	—	889	889	889
Common shareholders' equity [1]	8,588	7,080	6,319	6,244	3,291
Total Consolidated Capitalization	**$16,787**	**$14,957**	**$15,300**	**$18,054**	**$17,756**
Selected Data and Ratios					
Common shareholders of record at year-end	48,261	40,372	53,017	55,152	56,326
Book value per common share	$ 9.36	$ 7.48	$ 6.79	$ 6.53	$ 4.15
Year-end common stock market price	$ 16.19	$ 16.95	$ 14.65	$ 17.01	$ 13.80
Employees at year-end	57,400	53,700	55,220	58,100	61,100
Gross margin	40.3%	40.6%	41.2%	41.6%	42.6%
Sales gross margin	35.9%	35.7%	36.6%	37.4%	37.6%
Service, outsourcing and rentals gross margin	42.7%	43.0%	43.3%	43.0%	44.3%
Finance gross margin	61.6%	63.7%	62.7%	63.1%	63.7%
Working capital	$ 4,463	$ 4,056	$ 4,390	$ 4,628	$ 2,666
Current ratio	2.1	1.9	2.0	1.7	1.4
Cost of additions to land, buildings and equipment	$ 236	$ 215	$ 181	$ 204	$ 197
Depreciation on buildings and equipment	$ 262	$ 277	$ 280	$ 305	$ 299

(1) Refer to Note 1 – "New Accounting Standards and Accounting Changes" for further information representing the effect of adopting FAS 158.
(2) In 2005, includes $98 reported in other current liabilities.
(3) 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:

New York Stock Exchange composite prices *	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2007				
High	$18.09	$19.40	$19.90	$17.68
Low	16.53	17.08	15.79	15.82
2006				
High	$15.34	$15.10	$15.71	$17.22
Low	13.98	13.28	13.31	15.37

* Prices as of close of business

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 a dividend on common stock in fiscal year 2006.

Certifications

We have filed with the SEC the certification required by Section 302 of the Sarbanes-Oxley Act as an exhibit to our 2007 Annual Report on Form 10-K, and have submitted to the NYSE in 2007 the CEO certification required by the NYSE corporate governance rules.

Exhibit 21

Subsidiaries of Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of December 31, 2007. 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:

Name of Subsidiary	Incorporated In
AMTX, Inc.	Delaware
Carmel Valley, Inc.	Delaware
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
Global Operations Texas, L.P. d/b/a Dahill	Texas
Distinctive Business Products, Inc.	Illinois (35)
Global Imaging Operations, LLC	Delaware
Duplicating Specialties, Inc.	Oregon
Electronic Systems, Inc.	Virginia
Acme Business Machines, Inc.	Virginia
Copy Service and Supply, Inc.	North Carolina
Carolina Office Systems, Inc.	South Carolina
TML Enterprises, Inc.	Virginia
Image Quest, Inc.	Kansas
Image Technology Specialists, Inc.	Massachusetts
Imagine Technology Group, Inc.	Delaware
Inland Business Machines, Inc.	California
Lucas Business Systems, Inc.	Delaware
Astro Business Technologies, Inc.	California
Lewan & Associates, Inc.	Colorado
Imaging Concepts of New Mexico, Inc.	New Mexico
Louis E. Marino, Sr. Incorporated	California
Michigan Office Solutions, Inc.	Michigan
Xerographic Solutions, Inc.	Michigan
MWB Copy Products, Inc.	California
Quality Business Systems, Inc.	Washington
Boise Office Equipment, Inc.	Idaho
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
Copy Dynamics, Inc.	New Jersey
GroupFire, Inc.	California
Gyricon, LLC	Delaware
Infotonics Technology Center Inc.	New York (15)
Institute for Research on Learning	Delaware

Name of Subsidiary	Incorporated In
NewPARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Palo Alto Research Center Incorporated	Delaware
Proyectos Inverdoco, C.A.	Venezuela
SCC Burton Corporation	Delaware
Securities Information Center, Inc.	Delaware
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
Xerox de Colombia S.A.	Colombia (29)
Xerox Color Printing, Inc.	Delaware
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 Malaysia	Malaysia
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)
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox Limited	United Kingdom (6)
City Paper Limited	United Kingdom
Continua Limited	United Kingdom
Continua Sanctum Limited	United Kingdom
Limited Liability Company Xerox (C.I.S.)	Russia
NV Xerox Credit S.A.	Belgium
Xerox Financial Services Belux NV	Belgium
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 Office Supplies S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Finance AG	Switzerland
Xerox Finance (Nederland) BV	Netherlands
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 (Nederland) BV	Netherlands
“Veco” Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Financial Services B.V.	Netherlands
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

Name of Subsidiary	Incorporated In
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
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 de Nicaragua, S.A.	Nicaragua
Xerox Overseas, Inc.	Delaware
XC Asia LLC	Delaware
Xerox Serviços e Participacoes Ltda.	Brazil
Xerox Comercio e Industria Ltda	Brazil
Xerox del Peru, S.A.	Peru (30)
Xerox Realty Corporation	Delaware
Lansdowne Residential LLC	Virginia
Xerox Trade Receivables LLC	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
XGUA Servicios, Ltda.	Guatemala

Name of Subsidiary	Incorporated In
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 86.75% 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.
(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.
(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 NV Xerox Credit SA.
(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.
(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) Owned 26.28% by Global Imaging Systems, Inc. and 73.72% by 21 subsidiaries of Global Imaging Systems, Inc.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 33-32215 and 333-02187) 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 15, 2008 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 15, 2008 relating to the financial statement schedule, which appears in this Form 10-K.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP
Stamford, CT
February 15, 2008

Exhibit 31(a)

CEO CERTIFICATIONS

I, Anne M. Mulcahy, Chairman of the Board and Chief Executive Officer, 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 15, 2008

/s/ ANNE M. MULCAHY

Anne M. Mulcahy
Principal Executive Officer

Exhibit 31(b)

CFO CERTIFICATIONS

I, Lawrence A. Zimmerman, Executive Vice President and Chief Financial Officer, 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 15, 2008

/s/ LAWRENCE A. ZIMMERMAN

Lawrence A. Zimmerman
Principal Financial Officer

Exhibit 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

In connection with the Form 10-K of Xerox Corporation, a New York corporation (the "Company"), for the year ending December 31, 2007, 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 15, 2008

/s/ LAWRENCE A. ZIMMERMAN

Lawrence A. Zimmerman
Chief Financial Officer
February 15, 2008

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.