SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

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

Date of Report (date of earliest event reported):
April 19, 2001

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

New York	1-4471	16-0468020
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

800 Long Ridge Road
P. O. Box 1600
Stamford, Connecticut 06904-1600
(Address of principal executive offices)(Zip Code)

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

Item 5. Other Events

This Current Report on Form 8-K consists of the following two exhibits:

Exhibit 99.1 Registrant's First Quarter 2001 Earnings Release made on April 19, 2001.

Exhibit 99.2 Registrant's 2000 Basic Financial Statements and Summary Information.

Forward-Looking Statements

From time to time Xerox Corporation (the Registrant or the Company) and its representatives may provide information, whether orally or in writing, including certain statements in this Current Report on Form 8-K, which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Litigation Reform Act"). These forward-looking statements and other information relating to the Company are based on the beliefs of management as well as assumptions made by and information currently available to management.

The words "anticipate", "believe", "estimate", "expect", "intend", "will", and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Registrant with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Registrant does not intend to update these forward-looking statements.

In accordance with the provisions of the Litigation Reform Act we are making investors aware that such "forward-looking" statements, because they relate to future events, are by their very nature subject to many important factors which could cause actual results to differ materially from those contained in the "forward-looking" statements. Such factors include but are not limited to the following:

Competition - the Registrant operates in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. There are a number of companies worldwide with significant financial resources which compete with the Registrant to provide document processing products and services in each of the markets served by the

Registrant, some of whom operate on a global basis. The Registrant's success in its future performance is largely dependent upon its ability to compete successfully in its currently-served markets and to expand into additional market segments.

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

Expansion of Color - color printing and copying represents an important and growing segment of the market. Printing from computers has both facilitated and increased the demand for color. A significant part of the Registrant's strategy and ultimate success in this changing market is its ability to develop and market machines that produce color copies quickly and at reduced cost. The Registrant's continuing success in this strategy depends on its ability to make the investments and commit the necessary resources in this highly competitive market.

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

Customer Financing Activities - On average, 75 - 80 percent of the Registrant's equipment sales are financed through the Registrant. To fund these arrangements, the Registrant must access the credit markets and the long-term viability and profitability of its customer financing activities is dependent on its ability to borrow and its cost of borrowing in these markets. This ability and cost, in turn, is dependent on the Registrant's credit ratings. Currently the Registrant's credit ratings are such as to effectively preclude its ready access to capital markets and the Registrant is currently funding its customer financing activity from cash on hand. There is no assurance that the Registrant will be able to continue to fund its customer financing activity at present levels. The Registrant is actively seeking third parties to provide financing to its customers. In the near-term the Registrant's ability to continue to offer customer financing and be successful in the placement of its equipment with customers is largely dependent upon obtaining such third party financing.

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

International Operations - the Registrant derives approximately half its revenue from operations outside of the United States. In addition, the Registrant manufactures many of its products and/or their components outside the United States. The Registrant's future revenue, cost and profit results could be affected by a number of factors, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements and local tax issues. Our ability to enter into new foreign exchange contracts to manage foreign exchange risk is currently severely limited, and we anticipate increased volatility in our results of operations due to changes in foreign exchange rates.

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

Revenue Growth - the Registrant's ability to attain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of its equipment sales worldwide and usage growth (i.e., an increase in the number of hard copy images produced by customers). The ability to achieve equipment sales growth is subject to the successful implementation of our initiatives to provide industry-oriented global solutions for major customers and expansion of our distribution channels in the face of global competition and pricing pressures. The ability to grow usage may be adversely impacted by the movement towards distributed printing and electronic substitutes. Our inability

to attain a consistent trend of revenue growth could materially affect the trend of our actual results.

Turnaround Plan - In October 2000, the Registrant announced a turnaround program which includes a wide-ranging plan to generate cash, return to profitability and pay down debt. The success of the turnaround program is dependent upon successful and timely sales of assets, restructuring the cost base, placement of greater operational focus on the core business and the transfer of the financing of customer equipment purchases to third parties. Cost base restructuring is dependent upon effective and timely elimination of employees, closing and consolidation of facilities, outsourcing of certain manufacturing and logistics operations, reductions in operational expenses and the successful implementation of process and systems changes.

The Registrant's liquidity is dependent on the timely implementation and execution of the various turnaround program initiatives as well as its ability to generate positive cash flow from operations and various financing strategies including securitizations. Should the Registrant not be able to successfully complete the turnaround program, including positive cash generation on a timely or satisfactory basis, the Registrant will need to obtain additional sources of funds through other operating improvements, financing from third parties, or a combination thereof.

SIGNATURES

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

XEROX CORPORATION

/s/ MARTIN S. WAGNER

By: MARTIN S. WAGNER
Assistant Secretary

Date: April 19, 2001

Exhibit 99.1

XEROX ANNOUNCES FIRST QUARTER EARNINGS;
OPERATIONAL IMPROVEMENTS EXCEED EXPECTATIONS
"Our first quarter results provide a solid foundation for Xerox's turnaround."

STAMFORD, Conn., April 19, 2001 -- Xerox Corporation (NYSE:XRX) today announced a first quarter operations loss of 12 cents per share, better than expectations. Including gains from asset sales and net restructuring charges, the company reported earnings of 19 cents per share.

"Xerox's performance in the first quarter is evidence of significant cash and operational improvements as well as the effectiveness of our turnaround strategy," said Paul A. Allaire, Xerox chairman and chief executive officer. "Xerox people delivered on a commitment to improve results by winning customers' confidence and aggressively reducing costs. We are executing a successful turnaround that we expect will return Xerox to profitability this year."

"Several of the issues negatively affecting performance in 2000 improved in the first quarter, including a strengthened North American sales force that captured significant customer wins and delivered profitable results," said Anne M. Mulcahy, president and chief operating officer. "Driven by revenue growth in North America and a stabilization in Europe, our first quarter results provide a solid foundation for Xerox's turnaround."

First quarter revenue was $4.2 billion, 8 percent lower than the first quarter of 2000. Pre-currency revenue declined 6 percent, significantly improving from a double- digit decline in the fourth quarter. Modest North American revenue growth was offset by a slight decline in Europe and a 20 percent decline in developing markets as the company reconfigures its operations in Latin America to prioritize cash and profitability. Gross margins in the first quarter stabilized from fourth quarter 2000 despite adverse performance in developing markets.

Black-and-white production revenues improved from recent trends. Color revenue in the first quarter grew 16 percent led by continued strong placements of the DocuColor 12 and 2000 families and Phaser color printers.

Recurring document outsourcing revenues were up 18 percent in the first quarter, reflecting continued growth and solidifying the company's leadership position in the document services market.

Xerox also reported progress in reducing its overall cost base.

"With selling, general and administrative expenses down 5 percent and an unprecedented first quarter reduction in excess of $100 million in inventory, we are clearly benefiting from the aggressive attack on our cost base and focus on operational improvements," said Mulcahy. "We are ahead of schedule in implementing our cost-reduction plans and have taken actions that account for substantially more than half of our $1 billion year-end target, including the reduction of 4,300 jobs worldwide in the first quarter."

Research and development spending remained stable from the first quarter of 2000 as Xerox continued to invest in advanced product technologies and innovative document solutions. The company also recorded unhedged currency gains of 5 cents per share.

Xerox noted progress on all elements of its turnaround program, citing the recent $1.3 billion cash sale of half its stake in Fuji Xerox to Fuji Photo Film and the agreement with Resonia Leasing AB to provide equipment financing for Xerox's Nordic customers. Xerox is also selling its Nordic lease receivables to Resonia for approximately $370 million. As reported, after receiving $285 million from Resonia, the company's worldwide cash balance was $3.1 billion, up from $1.7 billion from year-end 2000. Xerox today also filed a form 8-K with the Securities and Exchange Commission containing unaudited 2000 basic financial statements and other company information.

Looking forward, Allaire commented that the company expects an operations loss in the second quarter in line with first-quarter results. "Our expectation is to return Xerox to profitability in the second half and for the full year," said Allaire.

- -XXX-

For additional information about The Document Company Xerox, please visit our Worldwide Web site at www.xerox.com/investor.

Note to Editors: This release contains forward-looking statements and information relating to Xerox that are based on our beliefs as well as assumptions made by and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intend," "will" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in the company's 8-K filed with the SEC on April 4, 2001.

XEROX(r), The Document Company(r) and the digital X(r) are trademarks of XEROX CORPORATION.

Xerox Corporation

Financial Summary

(in millions, except per-share data)	Three Months Ended March 31, 2001	2000	% Growth
Revenues	$ 4,156	$ 4,504	(8%)
Net Income (Loss)			
Income (Loss) before special items, extraordinary item & cumulative effect of change in accounting principle	$ (86)	$ 220	*
Restructuring & Tektronix IPRD charges	(71)	(463)	*
Gain on sale of half of interest in Fuji Xerox	300	-	*
Income before extraordinary gain & cumulative effect of change in accounting principle	143	(243)	*
Extraordinary gain, net	17	-	*
Cumulative effect of change in accounting principle	(2)	-	*
Net Income (Loss)	$ 158	$ (243)	*
Diluted Earnings (Loss) per Share			
Income (Loss) before special items, extraordinary item & cumulative effect of change in accounting principle	$ (.12)	$ .30	*
Restructuring & Tektronix IPRD charges	(.09)	(.68)	*
Gain on sale of half of interest in Fuji Xerox	.38	-	*
Diluted Earnings (Loss) per share before extraordinary gain & cumulative effect of change in accounting principle	.17	(.38)	*
Extraordinary gain, net	.02	-	*
Cumulative effect of change in accounting principle	-	-	*
Diluted Earnings (Loss) per share	$ .19	$ (.38)	*

*Calculation not meaningful

Xerox Statements of Income
Three Months Ended March 31,

(in millions, except per-share data)	2001	2000	% Growth
Revenues1			
Sales	$ 2,027	$ 2,341	(13%)
Service, outsourcing, financing and rentals	2,129	2,163	(2%)
Total Revenues	4,156	4,504	(8%)
Costs and Expenses1			
Cost of sales	1,409	1,319	7%
Cost of service, outsourcing, financing and rentals	1,355	1,324	2%
Inventory charges	-	119	*
Research and development expenses	246	249	(1%)
Selling, administrative and general expenses	1,150	1,231	(7%)

Restructuring charge and asset impairments	105	506	(79%)
Gain on sale of half of interest in Fuji Xerox	(769)	-	*
Gain on affiliate's sale of stock	-	(21)	*
Tektronix in-process research and development costs	-	27	*
Other, net	136	99	37%
Total Costs and Expenses	3,632	4,853	(25%)
Income (Loss) before Income Taxes (Benefits), Equity Income and Minorities' Interests	524	(349)	*
Income taxes (benefits)	376	(113)	*
Equity in net income of unconsolidated affiliates	2	4	(50%)
Minorities' interests in earnings of subsidiaries	7	11	(36%)
Net Income (Loss) before extraordinary gain and cumulative effect of change in accounting principle	143	(243)	*
Extraordinary gain on early extinguishment of debt (less income taxes of $11)	17	-	*
Cumulative effect of change in accounting principle (less income tax benefit of $1)	(2)	-	*
Net Income (Loss)	$ 158	$ (243)	*
Calculation of Earnings (Loss) Per Share			
Net Income (Loss)	$ 158	(243)	*
Basic Earnings (Loss) per Share			
Preferred dividends, net of tax and other	(12)	(11)	9%
Income (Loss) available for common	$ 146	$ (254)	*
Adjusted average shares outstanding	679.4	666.7	
Basic Earnings (Loss) per Share	$ 0.21	$ (0.38)	*
Diluted Earnings (Loss) per Share			
ESOP expense adjustment, net of tax	$ (7)	$ -	*
Preferred dividends, net of tax and other	-	(11)	*
Interest on convertible debt, net of tax	-	-	*
Income (Loss) available for common	$ 151	$ (254)	*
Adjusted average shares outstanding	781.2	666.7	
Diluted Earnings (Loss) per Share	$ 0.19	$ (0.38)	*

*Calculation not meaningful

1 Revenues and costs and expenses have been restated as required by FASB EITF 2000-10 for 2000 to include shipping and handling charges billed to customers as revenues. These amounts were historically reported as a reduction of cost of goods sold.

Financial Review

Summary

Total first quarter 2001 revenues of $4.2 billion declined 8 percent (6 percent pre-currency) from $4.5 billion in the 2000 first quarter reflecting a significant improvement from the fourth quarter decline. U.S. direct sales force stability resulted in modest year over year revenue growth in North America for the first time in 6 quarters. Pre-currency revenues declined modestly in Europe. Pre-currency revenues in Developing Markets declined 20 percent as we reconfigure our Latin American operations to a new business approach prioritizing cash and profitable revenue.

First quarter 2001 net income was $158 million including a $300 million after tax gain related to the company's March 30, 2001 sale of half its stake in Fuji Xerox to Fuji Photo Film, an additional net after tax restructuring provision of $71 million associated with the company's previously announced Turnaround Program and a $17 million after tax gain on early retirement of debt. The first quarter 2000 net loss was $243 million including a $444 million after tax restructuring provision and a $19 million after tax in-process research and development charge associated with the January 1, 2000 acquisition of the Tektronix, Inc. Color Printing and Imaging Division (CPID). Excluding all special items, the first quarter 2001 loss was $86 million compared with net income of $220 million in the 2000 first quarter. The 2001 first quarter loss reflected the revenue decline as well as a significant gross margin decline partially offset by lower SAG expenses reflecting the initial benefits from our Turnaround Program.

Earnings per share was $0.19 in the 2001 first quarter including the $0.38 earnings per share gain from the Fuji Xerox sale, the $0.09 restructuring provision and the $0.02 gain from the early retirement of debt. The first quarter 2000 loss per share was $0.38 including charges of $0.68 for restructuring and acquired CPID in-process R&D. Excluding all special items,

the first quarter 2001 loss per share was $0.12 compared with $0.30 earnings per share in the 2000 first quarter.

Liquidity

The company's worldwide cash balance at March 31, 2001 was $2.8 billion versus $1.7 billion at December 31, 2000. Total debt, net of cash on hand at March 31, 2001, was $14.8 billion, reflecting decreases of approximately $1.6 billion from December 31, 2000 and approximately $2.2 billion from September 30, 2000. The decreases largely reflect completed asset sales, plus a modest reduction due to foreign currency exchange rate changes and $122 million of debt exchanged for shares of common stock.

Inventory at March 31, 2001 declined approximately $800 million from the March 31, 2000 level and approximately $150 million from December 31, 2000. These declines largely reflect continued management actions to improve inventory turns. The management actions have been successful in breaking the historical pattern of inventory levels increasing in the first quarter of the year. First quarter 2001 days sales outstanding improved by approximately 10 days from the 2000 first quarter and represented a slight improvement versus the 2000 fourth quarter.

At March 31, 2001 the company had approximately $2.6 billion of debt obligations expected to be repaid during the remainder of 2001. Of this amount, approximately $1.3 billion, $0.3 billion, and $1.0 billion are expected to be due in the second, third and fourth quarters, respectively.

The company is implementing global initiatives to reduce costs, improve operations and sell certain assets that should positively affect our capital resources and liquidity position when completed. The company's objective is to fund the debt maturities in 2001 with cash on hand, operating cash flows, proceeds from asset sales and other liquidity and financing initiatives.

In January 2001 the company received $435 million in financing from GE Capital secured by the Xerox portfolio of lease receivables in the U.K. In March 2001 the company completed the sale of one half of its interest in Fuji Xerox Co., Ltd. to Fuji Photo Film Co., Ltd. for approximately $1.3 billion. In April 2001 the company announced the sale of its lease portfolios in four European countries to Resonia Leasing AB for approximately $370 million as part of an agreement under which Resonia will provide on-going, exclusive equipment financing to Xerox customers in those countries. These transactions are part of our plan to transition customer equipment financing to third-party vendors.

A fuller discussion of the company's liquidity is included in the Form 8-K being filed today with the Securities and Exchange Commission.

Pre-Currency Growth

To understand the trends in the business, we believe that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of changes in the translation of European and Canadian currencies into U.S. dollars. We refer to this adjusted growth as "pre-currency growth."

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency. When compared with the average of the major European and Canadian currencies on a revenue-weighted basis, the U.S. dollar was approximately 7 percent stronger in the 2001 first quarter than in the 2000 first quarter. As a result, currency translation had an unfavorable impact of approximately two percentage points on revenue growth.

Revenues

Total revenues declined 8 percent (6 percent pre-currency) in the 2001 first quarter from the 2000 first quarter significantly improving from the 15 percent (11 percent pre-currency) decline in the 2000 fourth quarter (excluding the beneficial impact of the 2000 CPID acquisition). Excluding our China operations which we sold to Fuji Xerox in December 2000, first quarter 2001 pre-currency revenues declined 5 percent.

Beginning this quarter we have changed our revenue reporting to the following segments: Production, Office, Small Office/Home Office and we will continue to separately disclose revenues in Developing Markets Operations.

Revenue By Segment

Revenues and year-over-year revenue growth rates by segment are as follows:

1Q 2001

	Memo: 2000 Pre-Currency Revenue Growth					2000 Full Year	Post-Currency		Pre-Currency
	Q1	Q2	Q3	Q4	FY	Revenues	Revenues	Growth	Growth
Total Revenues	6%	(1)%	(1)%	(9)%	(2)%	$18.6	$4.2	(8)%	(6)%
Production	1	(3)	(7)	(13)	(6)	6.3	1.4	(5)	(3)
Office	4	5	5	(3)	2	6.8	1.7	-	2
Small Office / Home Office	35	(3)	(2)	1	6	0.6	0.1	(25)	(24)
Developing Markets	15	(2)	2	(15)	(2)	2.6	0.5	(22)	(20)
Other Businesses	7	(9)	(1)	(4)	(2)	2.3	0.5	(19)	(16)
Memo: Color	64	60	74	54	62	2.8	0.7	14	16

Dollars are in billions. 2000 pre-currency revenue growth includes the beneficial impact of the January 1, 2000 acquisition of the Tektronix, Inc. Color Printing and Imaging Division.

Production revenues include DocuTech, Production Printing, color products for the production and graphic arts markets and light-lens copiers over 90 pages per minute for North America and Europe. First quarter 2001 revenues declined 5 percent (3 percent pre-currency), an improvement from recent trends. Strong growth in production color revenues, including the successful DocuColor 2000 series which began shipments in June, 2000 and the DocuColor 12, are not yet sufficient to offset monochrome revenue declines, particularly in light lens products. Pre-currency equipment sales declined 6 percent and post equipment install revenues declined one percent. The improved sales force productivity resulting from filled sales territories and the increasing average tenure of the sales force was somewhat offset by a weaker economic environment, increased competition and continued movement to distributed printing and electronic substitutes. Post equipment install revenues were also adversely affected by reduced equipment placements in earlier quarters. Production revenues represented 34 percent of first quarter 2001 revenues compared with 33 percent in the 2000 first quarter.

Office revenues include our family of Document Centre digital multi-function products; light-lens copiers under 90 pages per minute; and our color laser, solid ink and monochrome laser desktop printers, digital copiers and facsimile products sold through indirect sales channels for North America and Europe. First quarter 2001 revenues were essentially unchanged from the first quarter 2000 (grew 2 percent pre-currency). First quarter 2001 pre-currency black and white office revenues were essentially unchanged from the first quarter 2000. Black and white copying revenues grew in North America reflecting strong Document Centre departmental equipment sales growth including the Document Centre 480 which prints and copies at 75 pages per minute. European monochrome copying revenue declined reflecting our decision to reduce our participation in very aggressively priced competitive customer bids and tenders as we reorient our focus from marketshare to profitable revenue. Monochrome laser printing revenues had excellent growth in the 2001 first quarter reflecting good equipment sales growth and excellent supplies revenue growth. Excellent office color revenue growth reflected continued excellent placements of the Document Centre ColorSeries 50, the industry's first color-enabled digital multi-function product and good revenue growth from our Phaser line of laser and solid ink networked printers. Office revenues represented 41 percent of first quarter 2001 revenues compared with 38 percent in the 2000 first quarter.

Small Office/Home Office (SOHO) revenues include inkjet printers and personal copiers sold through indirect channels in North America and Europe. SOHO revenues declined 25 percent (24 percent pre-currency). Modest inkjet revenue growth reflected modest shipment growth due to weak market conditions and very aggressive competitive equipment pricing only partially offset by strong supplies growth. Monochrome revenues in this segment declined reflecting customers' strong preference for color. SOHO revenues represented 3 percent of first quarter 2001 revenues compared with 4 percent in the 2000 first quarter.

Developing Markets Operations (DMO) includes operations in Latin America, Russia, India, the Middle East and Africa. (2000 revenues included China prior to the December, 2000 sale of that operation to Fuji Xerox) First quarter 2001 revenue declined significantly in Brazil from the 2000 first quarter reflecting reduced equipment placements, an increased competitive environment and lower prices as the company focused on reducing inventory. Revenue declined throughout Latin America due to some weaker economies and our decision to focus on cash and profitable revenue generation rather than market share. Revenue in Mexico declined as it continues to implement its own turnaround plan. The Middle East and Africa had strong revenue growth in the first quarter and Russia had excellent revenue growth.

Revenue By Type

The pre-currency growth rates by type of revenue are as follows:

	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000 FY	2001 Q1
Equipment Sales	5%	(5)%	(9)%	(19)%	(9)%	(15)%
All Other Revenues	6	2	4	-	3	(1)
Total Revenues	6%	(1)%	(1)%	(9)%	(2)%	(6)%

2000 pre-currency revenue growth includes the beneficial impact of the January 1, 2000 acquisition of the Tektronix, Inc. Color Printing and Imaging Division

First quarter 2001 equipment sales declined 15 percent from the first quarter 2000 reflecting a reduced rate of decline from the much higher fourth quarter decline (fourth quarter 2000 decline was 21 percent excluding the beneficial impact of the CPID acquisition).

All other revenues, including revenues from service, document outsourcing, rentals, standalone software, supplies, paper and finance income, represent the revenue stream that follows equipment placement. All other revenues in the 2001 first quarter declined one percent, an improvement compared to the 4 percent decline in the 2000 fourth quarter (excluding the beneficial impact of the CPID acquisition in 2000). All other revenues benefited from 18 percent growth in document outsourcing. Revenues were adversely impacted by lower year-over-year service revenues reflecting the recent trend of lower equipment sales and more aggressive pricing and continue to be adversely affected by the page volume impact of distributed printing and pages diverted from copiers to printers. First quarter 2000 revenues included approximately $40 million of licensing and standalone software revenues.

Document Outsourcing revenues are split between Equipment Sales and all other revenues. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included in Equipment Sales, and all other document outsourcing revenues, including service, equipment rental, supplies, paper, and labor, are included in all other revenues. Document Outsourcing, excluding equipment sales revenue, grew 18 percent in the 2001 first quarter. The backlog of future estimated document outsourcing revenue grew to $9.3 billion in the 2001 first quarter, an increase of 13 percent from the 2000 first quarter.

Key Ratios and Expenses

The trend in key ratios was as follows:

	2000 Q1	2000 Q2	2000 Q3	2000 Q4	2000 FY	2001 Q1
Gross Margin	41.3%	40.2%	36.1%	33.7%	37.8%	33.5%
SAG % Revenue	27.3	28.1	30.4	33.1	29.8	27.7%

The gross margin declined by 7.8 percentage points in the 2001 first quarter from the 2000 first quarter and 0.2 percentage points from the 2000 fourth quarter. Approximately 2 percentage points of the year over year gross margin decline reflected weak Production results. An additional 2 percentage points of the decline was due to weak performance in Developing Markets. In addition, lower manufacturing productivity as we reduced inventory, competitive pricing pressures and unfavorable transaction currency adversely impacted results. The 2000 first quarter gross margin benefited by approximately 0.5 percentage points from increased licensing and stand-alone software revenues associated with the licensing of a number of patents from our intellectual property portfolio.

Selling, administrative and general expenses (SAG) declined 7 percent (5 percent pre-currency) in the 2001 first quarter reflecting initial benefits from our Turnaround Program cost reduction efforts partially offset by higher bad debt provisions. SAG includes $92 million in bad debt provisions in the 2001 first quarter which is $15 million higher than the 2000 first quarter, equally split between North America and Europe. In the 2001 first quarter SAG represented 27.7 percent of revenue compared with 27.3 percent in the 2000 first quarter and 33.1 percent in the 2000 fourth quarter.

Research and development (R&D) expense was essentially unchanged in the 2001 first quarter from the 2000 first quarter as we continue to invest in technological development, particularly color, to maintain our position in the rapidly changing document processing market. Xerox R&D remains technologically competitive and is strategically coordinated with Fuji Xerox.

Worldwide employment declined by 4,300 in the 2001 first quarter to 88,200

primarily as a result of employees leaving the company under our restructuring programs.

Other, net was $136 million versus $99 million in 2000. Increases in net non-financing interest expense of $57 million and individually insignificant increases in various other expense items of approximately $40 million were offset by $41 million of net currency gains resulting from the remeasurement of unhedged foreign currency-denominated assets and liabilities and $22 million of mark-to-market gains recorded as a result of the new accounting required under FAS 133. Due to the inherent volatility in the foreign currency markets, the company is unable to predict the amount of any such mark-to-market gains or losses in future periods.

On March 30, 2001 the company completed the sale of half of its stake in Fuji Xerox Co., Ltd. to Fuji Photo Film Co., Ltd. for approximately $1.3 billion, resulting in a pre-tax gain of approximately $769 million. The company's ownership interest in Fuji Xerox decreased to 25 percent while Fujifilm's ownership interest increased to 75 percent. The company will retain significant rights as a minority shareholder and all product and technology agreements between Xerox and Fuji Xerox will continue, ensuring that the two companies retain uninterrupted access to each other's portfolio of patents.

During the fourth quarter of 2000 we announced a Turnaround Program in which we outlined a wide-ranging plan to sell assets, cut costs and strengthen our strategic core. We announced plans that were designed to reduce costs by at least $1.0 billion annually, the majority of which will affect 2001. As part of the cost cutting program, we continue to take additional charges for finalized initiatives under the Turnaround Program. At the same time we adjusted our balances for reserves recorded for the original March, 2000 reserve program based on actual results. As a result of these actions, in the first quarter of 2001 we provided an incremental $105 million pre-tax of reserves necessary to complete our open initiatives under both of these plans. We expect additional provisions will be required in 2001 as additional plans are finalized. The restructuring reserve balance for both these programs at March 31, 2001 amounted to $244 million.

Income Taxes, Equity in Net Income of Unconsolidated Affiliates and Minorities' Interests in Earnings of Subsidiaries

Income (Loss) before income taxes was $524 million in the 2001 first quarter including gains from the Fuji Xerox sale and the restructuring provision. Excluding these items, the loss before income taxes was $140 million in the 2001 first quarter. The 2000 first quarter loss of $349 million included a $625 million restructuring provision and $27 million CPID of in-process research and development charges. Excluding these items, the first quarter 2000 income before taxes was $303 million.

The effective tax rate, including the tax provision on the Fuji Xerox sale and the tax benefit related to the additional net restructuring provision, was 71.8 percent in the 2001 first quarter. Excluding these items, the 2001 first quarter tax rate was 42.0 percent compared to 31.0 percent in the 2000 first quarter. For the full year 2000, the underlying effective tax rate was 38.0 percent due to higher than anticipated losses in a low-tax rate jurisdiction, partially offset by favorable resolution of tax audits. The increase in the underlying effective tax rate from 38.0 percent to 42.0 percent in 2001 is due primarily to continued losses in a low-tax rate jurisdiction.

Equity in net income of unconsolidated affiliates is principally our 50 percent share of Fuji Xerox income. Total equity in net income declined by $2 million in the 2001 first quarter from the first quarter 2000. Our share of total Fuji Xerox net income of $3 million in the 2001 first quarter decreased by $3 million from the 2000 first quarter.

In March 2001, we retired $122 million of long-term debt through the exchange of 15.5 million shares of common stock valued at $94 million. The retirements resulted in an after tax extraordinary gain of $17 million or 2 cents per share ($28 million pre-tax) and a net equity increase of approximately $111 million.

In January 2001 certain put options were net cash settled for $28 million. Funds for this net cash settlement were obtained by selling 5.9 million unregistered shares of our common stock for proceeds of $28 million. No other put options are currently outstanding.

First quarter 2001 Adjusted Average Shares Outstanding for our diluted EPS calculation increased by approximately 115 million shares from the 2000 first quarter. Approximately 11 million of the average share increase reflects the issuance of shares during the first quarter for the cash settlement of equity put options and the retirement of debt. The remainder of the increase reflects share dilution resulting from the application of the "if converted" methodology in the calculation of our diluted EPS for the Preferred Shares held by our 1989 Employee Stock Ownership Plan. This methodology requires us to assume

conversion of the preferred shares into common stock when computing our diluted EPS. Normally, the conversion assumes that each preferred share is converted into six common shares as long as our common stock price is above the $13 per share floor price. The increase of approximately 96 million shares in this quarter also reflects the conversion of the 8 million ESOP Preferred Shares at the quarterly average share price of approximately $7 per share. The increase in the number of shares diluted EPS by approximately $0.02 per share during the quarter.

We adopted Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities", and SFAS No. 138, as of January 1, 2001. Upon adoption of SFAS 133 we recorded a net cumulative after-tax loss of $2 million in the first quarter Income Statement and a net cumulative after-tax loss of $19 million in Accumulated Other Comprehensive Income. The adoption of SFAS 133 is expected to increase the future volatility of reported earnings and other comprehensive income. In general, the amount of volatility will vary with the level of derivative and hedging activities and the market volatility during any period.

During the first quarter, the net effect from the mark-to-market valuation of our interest rate derivatives recorded in earnings was not material. With respect to our currency derivatives, the majority of the mark-to-market valuations partially offset the remeasurement gains and losses of the underlying foreign currency assets and liabilities and are included in Other, net. However, the accounting required under SFAS 133 for certain cross currency interest rate derivatives did result in a net gain of $22 million and is also included in Other, net.

The $21 million gain on affiliate's sale of stock in 2000 reflected our proportionate share of the increase in equity of Scansoft Inc. (NASDAQ:SSFT) resulting from Scansoft's issuance of stock in connection with an acquisition. This gain was partially offset by a $5 million charge reflecting our share of Scansoft's write-off of in-process research and development associated with this acquisition, which is included in Equity in net income of unconsolidated affiliates.

Financial Information Unaudited

The SEC is continuing its investigation into Mexican accounting issues and other accounting matters. The company is continuing to fully cooperate with the investigation. The company cannot predict when the SEC will conclude its investigation or its outcome.

On April 2, 2001, Xerox announced that the filing of its year 2000 10-K report would be delayed in connection with an internal review commenced during the last week of March 2001 by the company's Audit Committee in cooperation with the company's auditors, KPMG. Xerox and its Audit Committee have concluded that the fuller review was appropriate in light of the previously disclosed investigation by the Securities and Exchange Commission. KPMG has advised the company that it believes that such fuller review is needed for it to satisfy its auditing responsibilities, and that it will work with the Audit Committee to complete the review as quickly as possible although no fixed time frame has been established.

This earnings release and financial review of Xerox Corporation ("Xerox") includes consolidated financial data and information for Xerox for the quarter ending March 31, 2001 ("Financial Information") which has been prepared by the management of Xerox on a basis consistent with prior practice. The Financial Information has not been audited or passed upon by Xerox's outside auditors. The Financial Information is subject to the outcome of this internal review and completion of the 2000 audit.

Forward-Looking Statements

This earnings release and financial review contain forward-looking statements and information relating to Xerox that are based on our beliefs as well as assumptions made by and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intend," "will" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in the company's Form 8-K being filed today with the SEC. We do not intend to update these forward-looking statements.

For additional Information contact:

Leslie F. Varon
Director, Investor Relations
203-968-3110
Leslie.Varon@usa.xerox.com

Timothy J. Fogal
Manager, Investor Relations
203-968-3489
Timothy.J.Fogal@usa.xerox.com

800 Long Ridge Road
Stamford, Connecticut 06904
Fax (203) 968-3944
www.xerox.com/investor

Exhibit 99.2

Xerox Corporation 2000 Basic Financial Statements and Summary Information
(Unaudited)

On April 2, 2001, Xerox announced that the filing of its year 2000 10-K report would be delayed in connection with an internal review commenced during the last week of March 2001 by the Company's Audit Committee in cooperation with the Company's auditors, KPMG.

KPMG has advised the Company that it believes that such fuller review is needed for it to satisfy its auditing responsibilities, and that it will work with the Audit Committee to complete the review as quickly as possible. The review has been designed to ensure that the company has not improperly used any accounting adjustments, processes or procedures in connection with its financial reporting. Xerox and its Audit Committee have concluded that the fuller review was appropriate in light of the previously disclosed investigation by the Securities and Exchange Commission.

On April 3, 2001, Xerox and its subsidiary, Xerox Credit Corporation, filed reports on Form 12b-25 with the Securities and Exchange Commission in which it was reported that the 2000 10-K report would be delayed because audited financial statements for 2000 were not presently available pending completion of the internal review. Earlier, on January 29, 2001, Xerox publicly disclosed in a press release unaudited 2000 results of operations, including net income (loss) of $(384) million for 2000 compared to $1,424 million for 1999. This information remains subject to the outcome of the internal review by the Audit Committee and completion of the 2000 audit by KPMG.

Pending completion of these activities, Xerox has filed on its April 19, 2001 Form 8-K with the Securities and Exchange Commission unaudited 2000 Basic Financial Statements and Summary Information consisting of Consolidated Statements of Operations, Consolidated Balance Sheets, Consolidated Statements of Cash Flows, Supplemental Information Regarding Capital Resources, Liquidity and other Summary Information. Additionally, the Company has attached as Exhibit 1 to the April 19, 2001 Form 8-K, Xerox's first quarter 2001 earnings press release also dated April 19, 2001.

In the earnings release, Xerox reported a first quarter operating loss of 12 cents per share, a smaller loss than the Company's expectations. Including the gains from asset sales, net restructuring charges and extraordinary gains, Xerox reported earnings of 19 cents per share. Xerox also provided summary financial review information and referenced in the press release the further information that was incorporated into the April 19, 2001 Form 8-K filed with the Securities and Exchange Commission.

The summary consolidated financial information included in the April 19, 2001 Form 8-K as of and for the year ended December 31, 2000 and for the first quarter of 2001 has been prepared by the management of Xerox on a basis consistent with prior practice. This summary information has not been audited by Xerox's outside auditors or passed upon by the Audit Committee and does not include all of the information that year-end financial statements and related notes or quarterly reports would contain. There can be no assurance that as a result of the internal review underway and completion of the 2000 audit there will not be changes in or modifications to this financial information.
Consolidated Statements of Operations (Unaudited)

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

	2000	1999	1998
Revenues			
Sales	$10,069	$10,557	$10,887
Service, outsourcing, and rentals	7,666	7,965	7,787
Finance income	897	1,026	1,073
Total Revenues	18,632	19,548	19,747
Costs and Expenses			
Cost of sales	6,198	5,956	5,853
Cost of service, outsourcing, and rentals	4,791	4,589	4,314
Inventory charges	119	-	113
Equipment financing interest	605	547	570
Research and development expenses	1,045	979	1,040
Selling, administrative and general expenses	5,547	5,144	5,321
Restructuring charge and asset impairments	540	-	1,531

Mexico provision	170	-	-
Gain on affiliates sale of stock	(21)	-	-
Purchased in-process research and development	27	-	-
Gain on sale of China operations	(200)	-	-
Other, net	367	297	242
Total Costs and Expenses	19,188	17,512	18,984
Income (Loss) before Income Taxes (Benefits), Equity Income and Minorities' Interests	(556)	2,036	763
Income taxes (benefits)	(154)	631	207
Equity in net income of unconsolidated affiliates	61	68	74
Minorities' interests in earnings of subsidiaries	43	49	45
Income (Loss) from Continuing Operations	(384)	1,424	585
Discontinued operations	-	-	(190)
Net Income (Loss)	$ (384)	$ 1,424	$ 395
Basic Earnings (Loss) per Share			
Continuing operations	$ (0.63)	$ 2.09	$ 0.82
Discontinued operations	-	-	(0.29)
Basic Earnings (Loss) per Share	$ (0.63)	$ 2.09	$ 0.53
Diluted Earnings (Loss) per Share			
Continuing operations	$ (0.63)	$ 1.96	$ 0.80
Discontinued operations	-	-	(0.28)
Diluted Earnings (Loss) per Share	$ (0.63)	$ 1.96	$ 0.52

Consolidated Balance Sheets (Unaudited)

December 31 (in millions)	2000	1999
Assets		
Cash and cash equivalents	$ 1,741	$ 126
Accounts receivable, net	2,281	2,622
Finance receivables, net	5,141	5,115
Inventories	1,930	2,285
Equipment on operating leases, net	717	676
Deferred taxes and other current assets	1,284	1,230
Total Current Assets	13,094	12,054
Finance receivables due after one year, net	8,035	8,203
Land, buildings and equipment, net	2,495	2,456
Investments in affiliates, at equity	1,362	1,615
Intangible and other assets	3,062	2,831
Goodwill, net	1,639	1,724
Total Assets	$29,687	$28,883
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 2,693	$ 3,957
Accounts payable	1,033	1,016
Accrued compensation and benefits costs	662	715
Unearned income	250	186
Other current liabilities	1,648	2,163
Total Current Liabilities	6,286	8,037
Long-term debt	15,404	11,044
Postretirement medical benefits	1,197	1,133
Deferred taxes and other liabilities	1,933	2,623
Deferred ESOP benefits	(221)	(299)
Minorities' interests in equity of subsidiaries	141	127
Obligation for equity put options	32	-
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	638	638
Preferred stock	647	669
Common shareholders' equity	3,630	4,911
Total Liabilities and Equity	$29,687	$28,883

- --

Shares of common stock issued and outstanding at December 31, 2000 were (in thousands) 668,576. Shares of common stock issued and outstanding at December 31, 1999 were (in thousands) 665,156.

Consolidated Statements of Cash Flows (Unaudited)

Year ended December 31 (in millions)	2000	1999	1998
Cash Flows from Operating Activities			
Income (loss) from continuing operations	$ (384)	$ 1,424	$ 585
Adjustments required to reconcile income (loss) from continuing operations to cash flows from operating activities:			
Depreciation and amortization	1,127	935	821
Provision for doubtful accounts	546	359	301
Restructuring and other charges	856	-	1,644
Gains on sales of businesses and assets	(295)	-	-
Cash payments for restructurings	(372)	(437)	(332)
Minorities' interests in earnings of subsidiaries	43	49	45
Undistributed equity in income of affiliated companies	(20)	(68)	(27)
Decrease (increase) in inventories	247	66	(558)
Increase in on-lease equipment	(704)	(401)	(473)
Increase in finance receivables	(947)	(1,788)	(2,169)
Proceeds from securitization of finance receivables	-	1,495	-
Increase in accounts receivable	(270)	(400)	(596)
Proceeds from securitization of accounts receivable	328	288	56
(Decrease) increase in accounts payable and accrued compensation and benefit costs	(3)	(94)	127
Net change in current and deferred income taxes	(579)	277	(192)
Change in other current and non-current liabilities	29	13	100
Other, net	(265)	(359)	(288)
Total	(663)	1,359	(956)
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(452)	(594)	(566)
Proceeds from sales of land, buildings and equipment	44	99	74
Proceeds from sale of China operations	550	-	-
Proceeds from sales of other businesses	90	-	-
Acquisitions, net of cash acquired	(856)	(107)	(380)
Other, net	(20)	(25)	5
Total	(644)	(627)	(867)
Cash Flows from Financing Activities			
Net change in debt	3,573	(183)	2,437
Dividends on common and preferred stock	(587)	(586)	(531)
Proceeds from sales of common stock	-	128	126
Settlements of equity put options, net	(68)	(5)	-
Repurchase of preferred and common stock	-	-	(172)
Dividends to minority shareholders	(7)	(30)	(4)
Total	2,911	(676)	1,856
Effect of exchange rate changes on cash and cash equivalents	11	(9)	(29)
Increase in cash and cash equivalents	1,615	47	4
Cash and cash equivalents at beginning of year	126	79	75
Cash and cash equivalents at end of year	$1,741	$ 126	$ 79

Supplemental Information Regarding Capital Resources and Liquidity

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

At December 31, 2000, 1999 and 1998, total debt, including ESOP debt, was $18,097 million, $15,001 million and $15,107 million, respectively, and cash on hand was $1,741 million, $126 million and $79 million, respectively. Total debt, net of cash on hand, increased by $1,481 million in 2000, decreased by $153 million in 1999, and increased by $2,200 million in 1998.

(in millions)	2000	1999	1998
Total net debt* as of January 1	$14,875	$15,028	$12,828
Non-Financing operations:			
Non-Financing operations operating cash usage (generation)	557	(353)	(99)
Mexico finance receivable writeoff	146	-	-
Brazil dollar debt reallocation	55	505	-
Acquisitions, net of cash acquired	856	107	380
Sale of China Operations	(550)	-	-
Proceeds from other divestitures	(90)	-	-
Discontinued businesses	22	(114)	(381)
Change in ESOP debt	(78)	(71)	(64)
Non-Financing operations	918	74	(164)
Financing operations	7	(847)	1,764
Shareholder dividends	587	586	531
All other changes	(31)	34	69
Total net debt* as of December 31	$16,356	$14,875	$15,028

* Net of cash on hand of $1,741 million at December 31, 2000, $126 million at December 31, 1999, $79 million at December 31, 1998 and $75 million at January 1, 1998.

The consolidated ratio of total debt to common and preferred equity was 4.2:1, 2.7:1 and 2.7:1 as of December 31, 2000, 1999 and 1998, respectively. The increase in this ratio is attributable to the 2000 operating loss and the impact of currency devaluation on the net equity of our foreign operations. This ratio also reflects the full draw-down on our $7.0 billion Revolving Credit Agreement (the "Revolver") during 2000 to maintain financial flexibility, as discussed below, which resulted in cash on hand of $1.7 billion at December 31, 2000. Had the Company's cash balance at December 31, 2000 been consistent with historical levels, the debt to equity ratio would have been approximately 3.8:1.

The Company believes that an analytical review of debt and equity provides a more meaningful understanding of our operations. For this purpose, debt is defined as total debt less cash on hand, and equity is defined as common equity, ESOP preferred stock, one-half of the mandatorily redeemable preferred securities, and minorities' interests. Furthermore, the analytical review of debt and equity divides the Company's operations into customer financing and non-financing operations.

Total analytical equity decreased by $1,289 million in 2000, increased by $39 million in 1999, and decreased by $148 million in 1998. The following is a summary of analytical equity, as defined, as of December 31, 2000, 1999, and 1998:

(in millions)	2000	1999	1998
Minorities' interests	$ 141	$ 127	$ 124
Mandatorily redeemable securities	638	638	638
Preferred stock	647	669	687
Common equity	3,630	4,911	4,857
Subtotal	5,056	6,345	6,306

Less one-half mandatorily redeemable securities *	(319)	(319)	(319)
Total Analytical Equity	4,737	6,026	5,987
Less Financing Equity	1,397	1,396	1,602
Non-Financing Equity	$3,340	$4,630	$4,385

* Analytically assigned to debt.

Debt, net of cash on hand, related to non-financing operations grew by $1,474 million, $694 million and $436 million in 2000, 1999 and 1998, respectively. The analytical non-financing debt-to-capital ratio increased to 62.2 percent at year-end 2000 compared to 46.5 percent and 43.2 percent as of year-end 1999 and 1998, respectively. The increase in the ratio in 2000 reflects the impact on debt from the January 2000 acquisition of CPID and the impact on debt and equity from the 2000 full year operating loss, shareholder dividends and currency effects, partially offset by the sale of our China business to Fuji Xerox in December 2000, which reduced debt and increased equity. The increase in the ratio in 1999 reflects the adverse impact on equity due to the significant devaluation of the Brazilian Real, partially offset by net cash from operations and income net of shareholder dividends.

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

(in millions)	2000	1999	1998
Non-Financing			
Debt/1/	$ 7,244	$ 4,155	$ 3,414
Equity/1/	3,340	4,630	4,385
Total Capital	$10,584	$ 8,785	$ 7,799
Debt-to-Capital	68.4%	47.3%	43.8%
Debt, net of cash/1,3/	$ 5,503	$ 4,029	$ 3,335
Equity/1/	3,340	4,630	4,385
Total Capital	$ 8,843	$ 8,659	$ 7,720
Debt-to-Capital, net of cash/3/	62.2%	46.5%	43.2%
Ratio of earnings to interest expense, before special items/2/	0.6x	5.9x	7.1x
Ratio of earnings to interest expense, after special items/2/	-	5.9x	2.0x
Ratio of earnings to fixed charges, before special items/2,4/	0.7x	4.4x	5.0x
Ratio of earnings to fixed charges, after special items/2,4/	-	4.4x	1.7x
Financing:			
Debt	$11,172	$11,165	$12,012
Equity	1,397	1,396	1,602
Total Capital	$12,569	$12,561	$13,614
Debt-to-Equity	8.0x	8.0x	7.5x
Ratio of earnings to interest expense	1.5x	1.9x	1.8x

/1/ Includes $319 (one-half) share of mandatorily redeemable preferred securities.
/2/ Includes one-half share of dividends on mandatorily redeemable preferred securities of $27 million in 2000, 1999 and 1998.
/3/ Net of cash on hand of $1,741 million at December 31, 2000, $126 million at December 31, 1999 and $79 million at December 31, 1998.
/4/ Before special charges, the 2000 operating loss resulted in a coverage deficiency of $182 million. After special charges, the coverage deficiency was $838 million.

Non-Financing Operations

The following table summarizes cash usage and generation from non-financing operations for 2000, 1999 and 1998:

(in millions)	2000	1999	1998
Income (loss)	$ (600)	$1,114	$ 274
Add back special items:			
Restructuring charges, net	484	-	1,107
Tektronix IPRD charge, net	16	-	-
Gain on sale of China operations, net	(119)	-	-
Mexico charge, net	120	-	-
Income (loss) before special items	(99)	1,114	1,381
Depreciation* and amortization	1,127	935	821
Cash from Operations	1,028	2,049	2,202
Additions to land, buildings and equipment	(452)	(594)	(566)
Decrease (increase) in inventories	247	66	(558)
Increase in on-lease equipment	(704)	(401)	(473)
Increase in accounts receivable	(270)	(400)	(596)
Proceeds from accounts receivable securitizations	328	288	56
All other changes, net	(362)	(218)	366
Sub-total	(185)	790	431
Cash payments for restructurings	(372)	(437)	(332)
Net Cash (Usage) Generation	$ (557)	$ 353	$ 99

* Includes on-lease equipment depreciation of $630, $463 and $411 in 2000, 1999 and 1998, respectively.

Cash from operations was $1,028 million in 2000 versus $2,049 million in 1999 and $2,202 million in 1998, as lower net income was only partially offset by higher non-cash depreciation and amortization expenses. Additions to land, buildings and equipment primarily include office furniture and fixtures, production tooling and our investments in Ireland, where we are consolidating European customer support centers and investing in inkjet supplies manufacturing. The significant decline in 2000 spending versus 1999 is primarily due to substantial completion of the Ireland projects as well as significant spending constraints. We expect capital spending in 2001 to be approximately 25 percent below 2000 levels. The inventory reduction of $247 million in 2000 reflects management actions to improve inventory turns, including price reductions on slower-moving products in the latter part of 2000 and changes in the supply/demand and logistics processes. The inventory reduction of $66 million in 1999 followed growth of $558 million in 1998, reflecting an accelerated transition of our business to new digital products. We expect to further reduce inventory levels in 2001. On-lease equipment investments of $704 million in 2000, $401 million in 1999 and $473 million in 1998 reflect the growth in our document outsourcing business, and we expect further growth in 2001. Accounts receivable cash usage of $270 million in 2000 largely reflects the unwinding of 1999 short-term securitizations of $288 million. We began to show some progress reducing receivables in 2000, which has been hampered by the persistent effects of changes we made in 1998 to the U.S. customer administration centers. These changes were primarily responsible for the $400 million and $596 million increases in 1999 and 1998, respectively, due to higher days sales outstanding (DSO). We expect to continue making progress improving DSO in 2001. The increases in All Other Changes, net in 2000 and 1999 largely reflect higher cash tax payments and lower deferred tax accruals. Cash generated by our exit from discontinued businesses has decreased significantly over the last two years as we approach completion of these activities.

Cash restructuring payments were $372 million, $437 million and $332 million in 2000, 1999 and 1998, respectively. The 2000 spending includes $217 million related to the 1998 program, reflecting the overall wind-down of the 1998 program. The remaining $155 million reflects new 2000 initiatives.

Financing Operations

Customer financing-related debt increased by $7 million in 2000, decreased by $847 million in 1999, and increased by $1,764 million in 1998. The small increase in 2000 reflects the reductions in our finance receivables portfolio from the sale of our China operations and the Mexico finance receivables

writeoff, offset by increases in the portfolio due to new originations. New originations in 2000 were funded with normal portfolio runoff, financing income and higher deferred taxes. The 1999 change reflects the impact of securitizations, which were treated as asset sales, as well as a re-allocation of $505 million of debt to non-financing operations. This re-allocation, based on our 8:1 debt-to-equity guideline in the financing operations, was necessary because of the impact on our Brazilian finance receivables of the significant devaluation of the Brazilian Real in early 1999. The increase in 1998 largely reflects improved sales growth over 1997 as well as currency translation effects.

Liquidity and Funding Plans for 2001

Historically, the Company's primary sources of funding have been cash flows from operations, borrowings under our commercial paper and term funding programs, and securitizations of finance and trade receivables. The Company's overall funding requirements have been to finance customers' purchases of Xerox equipment, to fund working capital requirements and to finance acquisitions.

During 2000, the agencies that assign ratings to the Company's debt downgraded the Company's senior debt and short-term debt several times. As of March 7, 2001, debt ratings by Moody's are Ba1 and Not Prime, respectively, and the ratings outlook is negative; debt ratings by Fitch are BB and B, respectively, and the ratings outlook is stable; and debt ratings by Standard and Poors are BBB- and A-3, respectively, and the ratings outlook is negative. Since October 2000, the capital markets and uncommitted bank lines of credit have been, and are expected to continue to be, largely unavailable to us. We expect this to result in higher borrowing costs going forward.

Consequently, in the fourth quarter 2000, we drew down the entire $7.0 billion available to us under the Revolver, primarily to maintain financial flexibility and pay down debt obligations as they came due. At December 31, 2000, $5.6 billion of the proceeds under the Revolver was used, with the balance of $1.4 billion invested in short-term securities and included in Cash and cash equivalents in our consolidated balance sheets. We are presently in compliance with the covenants, terms and conditions in the Revolver, which matures on October 22, 2002. The only financial covenant in the Revolver requires the Company to maintain a minimum of $3.2 billion of Consolidated Tangible Net Worth, as defined (CTNW). At December 31, 2000, our CTNW was $676 million in excess of the minimum requirement. Further operating losses, restructuring costs and adverse currency translation adjustments would erode this cushion, while gains on asset sales, operating profits and favorable currency translation would improve the cushion.

The above referenced downgrades and the resulting withdrawal by certain banks of uncommitted lines of credit eliminated a primary source of liquidity for many of our Latin American affiliates. As a result, Xerox Corporation has increased its level of intercompany lending to those affiliates to fund their operational requirements.

As of December 31, 2000, the Company had approximately $2.7 billion and $9.0 billion of commercial paper, medium term notes and bank obligations maturing in 2001 and 2002, respectively, as summarized below:

(in billions)	2001	2002
First Quarter	$ 0.6	$ 0.3
Second Quarter	0.9	0.9
Third Quarter	0.2	0.0
Fourth Quarter	1.0	7.8*
Full Year	$ 2.7	$ 9.0

* Includes $7.0 billion maturity under the Revolver.

In April 2001, $660 million of letters of credit expire which support $660 million of Ridge Reinsurance ceded reinsurance obligations. The Company intends to replace the letters of credit with new letters of credit which will be collateralized by the approximately $400 million Ridge Reinsurance investment portfolio, which is included in Intangible and Other Assets in our consolidated balance sheets, plus approximately $260 million in cash. The Company does not have any other material short-term obligations in 2001 unless the Company's debt ratings are further downgraded as discussed below.

The Company is implementing a global turnaround plan which includes initiatives to reduce costs, improve operations, and sell certain assets that should positively affect the Company's capital resources and liquidity position when completed. In connection with these initiatives, the Company announced and completed the sale of its China operations to Fuji Xerox in the fourth quarter of 2000, which generated $550 million of cash and transferred debt of $118 million to Fuji Xerox. In January 2001 the Company received $435 million in financing from GE Capital secured by the Xerox portfolio of lease receivables in the U.K. In March 2001 the Company completed the sale of one half of its interest in Fuji Xerox Co., Ltd. to Fuji Photo Film Co., Ltd. for approximately $1.3 billion. In April 2001 the Company announced the sale of its lease portfolios in four European countries to Resonia Leasing AB for approximately $370 million as part of an agreement under which Resonia will provide on-going, exclusive equipment financing to Xerox customers in those countries. The Resonia transactions are part of our plan to transition customer equipment financing to third-party vendors.

The Company has also initiated a worldwide cost reduction program which should result in annualized expense savings of at least $1 billion by the end of 2001. In addition, the Company has initiated discussions to implement third-party vendor financing programs, which would significantly reduce the Company's debt levels going forward. The Company is also in discussions to consider selling portions of the existing finance receivables portfolio, and is continuing to actively pursue alternative forms of financing including securitizations and secured borrowings.

The availability of worldwide cash, cash equivalents and liquidity resources for Xerox and its material subsidiaries and affiliates is managed by the companies through cash management systems and internal policies and procedures of the companies. The management of such worldwide cash, cash equivalents and liquidity resources is also subject to statutes, regulations and practices of local jurisdictions in which the companies operate and legal agreements to which the companies are parties. In that regard, on April 18, 2001, Xerox Finance (Nederland) B.V., a wholly-owned European subsidiary of Xerox Corporation, announced by press release that it is convening a meeting of holders of its GBP 125 million 8 3/4% Guaranteed Bonds issued in 1993 in order to consider a proposal to repay the bonds early at par plus accrued interest. The Bond, which is guaranteed by Xerox Limited, is due to mature in 2003. Xerox also confirmed that repaying the bonds early will reduce outstanding indebtedness and interest costs as it continues to make progress on its turnaround strategy announced in October 2000. Completion of the transaction and elimination of certain restrictive covenants in the Bond and related documents will also provide additional flexibility to Xerox and its subsidiaries and affiliates in connection with their cash management systems and practices.

The Company believes its liquidity is presently sufficient to meet current and anticipated needs going forward, subject to timely implementation and execution of the various global initiatives discussed above. Should the Company not be able to successfully complete these initiatives on a timely or satisfactory basis, the Company will need to obtain additional sources of funds through other operating improvements, financing from third parties, or a combination thereof. The adequacy of the Company's continuing liquidity depends on its ability to successfully generate positive cash flow from an appropriate combination of these sources.

On December 1, 2000, Moody's reduced its rating of the Company's debt below investment grade, effectively eliminating the Company's ability to enter into new foreign-currency and interest rate derivative agreements and requiring the Company to immediately repurchase certain of its then-outstanding derivative agreements in the aggregate amount of $108 million, including $16 million of accrued interest. In addition, the Company negotiated with certain counterparties to maintain certain other outstanding derivative agreements, for which the Company posted collateral totaling approximately $5 million. To minimize its resulting exposures, the Company also voluntarily terminated other derivative agreements, which required gross payments to counterparties of $42 million and resulted in gross receipts from counterparties of $50 million. At December 31, 2000, the remaining derivative portfolio has a current net positive value to the Company of $70 million. Should the Company be downgraded by Standard and Poors to below investment grade, the Company may be required to repurchase certain of the out-of-the-money derivative agreements currently in place, in the approximate aggregate amount as of December 31, 2000 of $100 million, including accrued interest of $5 million. However, it is also possible that some counterparties may require, or agree to, the repurchase of certain of the in-the-money derivatives currently in place, which could reduce or eliminate this cash requirement.

On April 3, 2001, Standard & Poor's disclosed by press release that it was affirming Xerox's "BBB-" long-term and "A-3" short-term ratings, its lowest investment grades, and that the Company's April 2, 2001 announcement that it would delay filing its annual report pending a more thorough audit should not

have an "immediate impact" on its ratings, absent any "material adverse change" to Xerox's previously reported full-year results. The ratings agency also said that any additional unexpected material disclosures or lack of a prompt resolution of the audit review will "result in a rating review and/or downgrade". There is no assurance that the Company's credit ratings will be maintained, or that the various counterparties to derivative and securitization agreements would not require the obligations to be repurchased in cases where the agreements permit such termination.

As discussed above, the company's 2000 financial statements have not yet been audited and the company has delayed the filing of its Annual Report on Form 10-K with the SEC. As a result, the company is at present unable to deliver its 2000 audited financial statements to lenders as required under certain debt instruments, including indentures. Should the company continue to be unable to meet these requirements in a timely manner, the company could be declared to be in default and the debt thereunder could be accelerated and become immediately due and payable. In addition, the occurrence of such an acceleration could entitle the holders of other debt of the company to demand immediate repayment by the company as well. The earliest date that an acceleration from a failure to deliver audited financial statements could occur is May 31, 2001 for approximately $220 million of debt. The company is presently seeking a waiver with respect to such default in the event the audit of its 2000 financial statements has not been completed by May 31st. In the event a waiver is not obtained, the company would be required to repay the $220 million at such time. The earliest that any additional such defaults and possible accelerations can occur would be beginning in July. There can be no assurance that such waiver or any waiver in respect of any such subsequent defaults will be obtained or that the occurrence of any such acceleration will not have a material adverse effect on the company or its liquidity.

In the fourth quarter 2000, we recorded mark-to-market gains of $69 million on foreign currency-denominated assets and liabilities which were not hedged following the repurchase of the derivative contracts described above. Due to the inherent volatility in the foreign currency and interest rate markets, the Company is unable to predict the amount of any such mark-to-market gains or losses in future periods.

In the third quarter 2000, Xerox Credit Corporation (XCC) securitized certain finance receivables in the United States, generating gross proceeds of $411 million. This revolving facility was accounted for as a secured borrowing.

In the fourth quarter 2000, Xerox Canada Limited securitized certain accounts receivable in Canada, generating gross proceeds of $38 million. In the third quarter 2000, Xerox Corporation securitized certain accounts receivable in the United States, generating gross proceeds of $315 million. Both of these revolving facilities were accounted for as sales of receivables, and the related amounts were removed from the respective balance sheets.

As a result of the debt downgrade in December 2000, Xerox Corporation renegotiated the $315 million accounts receivable securitization facility, which might otherwise have been required to be runoff, reducing the facility size by $25 million to $290 million. The facility size will remain at $290 million so long as the Company's debt is not downgraded to or below BB by Standard and Poors and Ba2 by Moody's. In such event the Company would seek to renegotiate the terms of the facility. In connection with the foregoing, the Company also renegotiated the XCC 2000 finance receivables securitization transaction with one of the same counterparties, resulting in a one-time payment of approximately $40 million, and bringing the outstanding balance on that amortizing facility to $325 million at December 31, 2000.

In 1999, XCC and Xerox Canada Limited securitized certain finance receivables in the United States and Canada, generating gross proceeds of $1,150 million and $345 million, respectively. These amortizing facilities were accounted for as sales of receivables, and the related amounts were removed from the respective balance sheets.

In December 1999, primarily to provide additional liquidity in advance of Y2K, Xerox Corporation and certain of its subsidiaries securitized accounts receivable, generating aggregate gross proceeds of $288 million. These short-term transactions were accounted for as sales of receivables, and the related amounts were removed from the respective balance sheets.

In 1998, Xerox Canada Limited and Xerox France securitized accounts receivable, generating aggregate gross proceeds of $20 million and $36 million, respectively. These short-term transactions were accounted for as sales of receivables, and the related amounts were removed from the respective balance sheets.

During 2000, 1999, and 1998, we sold 7.5 million, 0.8 million and 1.0 million equity put options, respectively, for proceeds of $24 million, $0.4

million, and $5.8 million, respectively. Equity put options give the counterparty the right to sell our common shares back to us at a specified strike price. In the fourth quarter 2000, we were required to pay $92 million to settle the put options that we issued in 2000. In 1999, we paid $5 million to settle the put options that we issued in 1998. As of December 31, 2000, the put options we issued in 1999 remained outstanding, at a strike price of approximately $41 per share. In January 2001, we paid $28 million to settle these put options, which we funded by issuing 5.9 million unregistered common shares.

The March 2001 sale of half of our ownership interest in Fuji Xerox to Fujifilm for approximately $1.3 billion in cash improved our CTNW by approximately $300 million. In March 2001, we also negotiated the conversion of $122 million of outstanding debt into 15.5 million shares of common stock of the Company, which increased our CTNW by approximately $111 million.

Risk Management

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

We have historically entered into certain derivative contracts to manage interest rate and foreign currency exposures. These instruments are held solely for hedging purposes. As described above, our ability to currently enter into new derivative contracts is severely constrained. Therefore, while the following paragraphs describe our overall risk management strategy, our ability to employ that strategy effectively has been severely limited. Any future downgrades of our debt could further limit our ability to execute this risk management strategy effectively.

The derivative instruments we utilize include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading purposes, and we employ long-standing policies prescribing that derivative instruments are only to be used to achieve a set of very limited objectives.

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

As of December 31, 2000, 1999 and 1998, our primary foreign currency market exposures include the Japanese yen, Euro, Brazilian real, British pound sterling and Canadian dollar. In order to manage the risk of foreign currency exchange rate fluctuations, we hedge a significant portion of all cross-border cash transactions denominated in a currency other than the functional currency applicable to each of our legal entities. From time to time (when cost-effective) foreign currency debt and currency derivatives are used to hedge international equity investments. Consistent with the nature of economic hedges of such foreign currency exchange contracts, associated unrealized gains or losses would be offset by corresponding changes in the value of the underlying asset or liability being hedged.

Assuming a 10 percent appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2000, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would aggregate approximately $43 million, and a 10 percent appreciation or depreciation of the U.S. Dollar against all currencies from the quoted foreign currency exchange rates at December 31, 2000, would have a $664 million impact on our Cumulative Translation Adjustment portion of equity. The amount permanently invested in foreign subsidiaries and affiliates - primarily Xerox Limited, Fuji Xerox and Xerox do Brasil - and translated into dollars using the year-end exchange rate, was $6.6 billion at December 31, 2000, net of foreign currency-denominated liabilities designated as a hedge of our net investment.

With regard to interest rate hedging, virtually all customer-financing assets earn fixed rates of interest. Therefore, within industrialized economies, we have historically "locked in" an interest rate spread by arranging fixed-rate liabilities with similar maturities as the underlying assets, and we have funded the assets with liabilities in the same currency. We refer to the effect of these conservative practices as "match funding" customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins during a period of rising interest rates. Conversely, this practice effectively eliminates the opportunity to materially increase margins when interest rates are declining.

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

On a consolidated basis, including the impact of our hedging activities, weighted-average interest rates for 2000, 1999 and 1998 approximated 6.2 percent, 5.6 percent and 6.1 percent, respectively.

Many of the financial instruments we use are sensitive to changes in interest rates. Hypothetically, interest rate changes result in gains or losses related to the market value of our term debt and interest rate swaps due to differences between current market interest rates and the stated interest rates within the instrument. Applying an assumed 10 percent reduction or increase in the yield curves at December 31, 2000, the fair value of our interest rate swaps would increase or decrease by approximately $16 million. Because the fair value of our debt instruments has been severely impacted by our current debt ratings, normal changes in interest rates will not materially affect the fair value of our debt instruments.

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

As described above, the downgrades of our debt during 2000 significantly reduced our access to capital markets. Furthermore, the specific downgrade of our debt on December 1, 2000 triggered the repurchase of a number of derivative contracts which were in place at that time, and further downgrades could require the Company to repurchase additional outstanding contracts. Therefore, the Company's ability to continue to effectively manage the risks associated with interest rate and foreign currency fluctuations, including our ability to continue effectively employing our match funding strategy, is severely constrained, and we anticipate increased volatility in our results of operations due to market changes in interest rates and foreign currency rates.

Note For Supplemental Information:
Dollars are in Millions unless otherwise indicated.

Supplemental Information Regarding Receivables, Net

Finance Receivables. Finance receivables result from installment sales and sales-type leases arising from the marketing of our business equipment products. These receivables generally mature over two to five years and are typically collateralized by a security interest in the underlying assets.

The components of finance receivables, net at December 31, 2000, 1999 and 1998 follow:

	2000	1999	1998
Gross receivables	$ 14,623	$ 14,666	$ 16,139
Unearned income	(1,708)	(1,677)	(2,084)
Unguaranteed residual values	711	752	699
Allowance for doubtful accounts	(450)	(423)	(441)
Finance receivables, net	13,176	13,318	14,313
Less current portion	5,141	5,115	5,220
Amounts due after one year, net	$ 8,035	$ 8,203	$ 9,093

Contractual maturities of our gross finance receivables subsequent to December 31, 2000 follow:

2001	2002	2003	2004	2005	Thereafter

$ 5,680	$ 3,998	$ 2,719	$ 1,587	$ 543	$ 96

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

Unguaranteed residual values are assigned primarily to our high volume copying, printing and production publishing products. The assigned values are generally established in order to result in a normal profit margin in the subsequent transaction.

In September 2000, we transferred $457 of finance receivables to a special purpose entity for cash proceeds of $411 and a retained interest of $46. The transfer agreement includes a repurchase option; accordingly the proceeds were accounted for as a secured borrowing. At December 31, 2000 the balance of receivables transferred was $411 and is included in Finance receivables, net in the consolidated balance sheets. The remaining secured borrowing balance of $325 is included in Debt.

In 1999, we sold $1,495 of finance receivables and recorded a net increase in finance income of approximately $17 which includes the unfavorable flow-through impacts. The retained interests remaining from these sales were not material at December 31, 2000.

Accounts Receivable. In 2000, we entered into agreements to sell, on an ongoing basis, a defined pool of accounts receivable to wholly-owned special purpose entities. At December 31, 2000, the total pool of accounts receivable transferred was approximately $900. The special purpose entities, in turn, sell participating interests in such accounts receivable to investors up to a maximum amount of $330. Under the terms of the agreement, new receivables are added to the pool as collections reduce previously sold accounts receivable. Investors have a priority collection interest in the entire pool of receivables, and as a result, we have retained credit risk to the extent the pool exceeds the amount sold to investors. We continue to service the receivables on behalf of the special purpose entities and receive a servicing fee adequate to compensate for our responsibilities.

At December 31, 2000, $328 in net proceeds were received from sales of participating interests to investors and were recorded as a reduction in Accounts receivable, net in the consolidated balance sheets. The earnings impact related to the receivables sold under these agreements was not material.

Our retained interests, which are included in Accounts receivable, net, are recorded at fair value using estimates of dilution based on historical experience. These estimates are adjusted regularly based on actual experience with the pool, including defaults and credit deterioration.

If historical dilution percentages were to increase one percentage point, the value of the Company's retained interest would be reduced by approximately $9.

Allowances for doubtful accounts on our accounts receivable balances at December 31, 2000, 1999 and 1998 amounted to $282, $137 and $102, respectively.

Supplemental Information Regarding Debt

Short-Term Debt. Short-term borrowings data at December 31, 2000 and 1999 follow:

	Weighted Average Interest Rates at 12/31/00	2000	1999
Notes payable	10.20%	$ 169	$ -
Commercial paper	7.01	141	-
Total short-term debt		310	-
Current maturities of long-term debt		2,383	3,957
Total		$2,693	$3,957

Debt classification. Prior to the year 2000 we had employed a match funding policy for customer financing assets and related liabilities. Under this policy, the interest and currency characteristics of the indebtedness were, in most cases, matched to the interest and currency characteristics of the finance receivables. At December 31, 1999, our debt was classified based on the expected date of repayment of such indebtedness in accordance with our match funding policy. Further, at December 31, 1999, certain other short-term obligations were classified as long-term based on management's intent to refinance certain of these obligations on a long-term basis and the ability to do so with credit available under the Revolving Credit Agreement (Revolver).

The full utilization of our Revolver and our recent credit downgrades significantly changed the nature of our indebtedness and impacted our ability to continue with our historical match funding policy. We no longer match fund our indebtedness with cash collections expected to be generated from finance receivables. We expect to pay down our outstanding obligations as they mature. Accordingly, at December 31, 2000, our debt has been classified in the consolidated balance sheets, based on the contractual maturity dates of the underlying debt instruments.

The Company believes its liquidity is presently sufficient to meet current and anticipated needs going forward, subject to the timely implementation and execution of various business initiatives.

Long-Term Debt. A summary of long-term debt by final maturity date at December 31, 2000 and 1999 follows:

	Weighted Average Interest Rates at 12/31/00	2000	1999
U.S. Operations			
Xerox Corporation (parent company)			
Guaranteed ESOP notes due 2000-2003	7.53%	$ 221	$ 299
Notes due 2000	-	-	2,041
Notes due 2001	6.50	737	721
Notes due 2002	7.59	330	230
Notes due 2003	5.61	1,313	1,398
Notes due 2004	5.01	483	502
Notes due 2006	7.25	25	-
Notes due 2007	7.38	25	-
Notes due 2011	7.01	50	-
Notes due 2016	7.20	250	250
Convertible notes due 2018	3.63	617	601
Notes due 2038	5.96	25	25
Revolving credit agreement, maturing in 2002	6.93	4,400	-
Capital leases and other debt due 2000-2018	8.17	91	120
Subtotal		8,567	6,187
Xerox Credit Corporation			
Notes due 2000	-	-	2,026
Notes due 2001	6.66	326	401
Notes due 2002	2.80/1/	666	668
Notes due 2003	6.61	460	200
Notes due 2005	1.50/1/	904	-
Notes due 2007	2.00/1/	270	-
Notes due 2008	6.30	25	-
Notes due 2012	7.09	125	-
Notes due 2013	6.50	60	-
Notes due 2014	6.06	50	-
Notes due 2018	7.00	25	-
Secured borrowings due 2001-2003	6.70	325	-
Revolving credit agreement, maturing in 2002	6.94	1,020	-
Floating rate notes due 2048	6.44	60	60
Subtotal		4,316	3,355

Total U.S. operations	$12,883	$9,542

/1/ Weighted average interest rates include Japanese yen bonds of $1,174 and $488 issued by Xerox Credit Corporation in 2000 and 1999, respectively, with interest rates ranging from 1.50-2.00% and 0.80%, respectively.

	Weighted Average Interest Rates at 12/31/00	2000	1999
International Operations			
Xerox Capital (Europe) plc			
Various obligations, payable in:			
Euros			
due 2000-2008	5.50%	$ 698	$ 755
Japanese yen			
due 2001-2005	0.53	950	-
U.S. dollars			
due 2000-2008	6.10	1,025	1,991
Revolving credit agreement, maturing in 2002			
(U.S. Dollars)	6.96	1,080	-
Subtotal		3,753	2,746
Other International Operations			
Various obligations, payable in:			
Canadian dollars			
due 2000-2007	11.74	55	88
Pounds sterling			
due 2000-2003	9.00	187	202
Italian lire			
due 2000-2001	4.72	117	133
Euros			
due 2000-2008	7.90	159	194
U.S. dollars			
due 2000-2008	7.67	128	249
Revolving credit agreement, maturing in 2002			
(U.S. dollars)	6.83	500	-
Capital leases and other debt			
due 2000-2004	6.23	5	20
Subtotal		1,151	886
Total international operations		4,904	3,632
Other borrowings deemed long-term		-	1,827
Subtotal		17,787	15,001
Less current maturities		2,383	3,957
Total long-term debt		$15,404	$11,044

Consolidated Long-Term Debt Maturities.

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

2001	2002	2003	2004	2005	Thereafter

$2,383	$8,994	$2,630	$1,718	$1,010	$1,052

Certain of our debt agreements allow us to redeem outstanding debt prior to scheduled maturity. Outstanding debt issues with call features are classified in the preceding five-year maturity table in accordance with management's current expectations. The actual decision as to early

redemption will be made at the time the early redemption option becomes exercisable and will be based on liquidity, prevailing economic and business conditions, and the relative costs of new borrowing.

Convertible Debt. In 1998, we issued convertible subordinated debentures for net proceeds of $575. The amount due upon maturity in April 2018 is $1,012, resulting in an effective interest rate of 3.625 percent per annum, including 1.003 percent payable in cash semiannually beginning in October 1998. These debentures are convertible at any time at the option of the holder into 7.808 shares of our stock per $1,000 principal amount at maturity of debentures. This debt contains a put option which requires us to purchase any debenture, at the option of the holder, on April 21, 2003, for a price of $649 per $1,000 principal. We may elect to settle the obligation in cash, shares of common stock, or any combination thereof.

Lines of Credit. We have a $7 billion revolving credit agreement with a group of banks, which matures in October 2002. This revolver is also accessible by the following wholly owned subsidiaries: Xerox Credit Corporation (up to a $7 billion limit) and Xerox Canada Capital Ltd. and Xerox Capital (Europe) plc (up to a $4 billion limit) with our guarantee. Amounts borrowed under this facility are at rates based, at the borrower's option, on spreads above certain reference rates such as LIBOR. This agreement contains certain covenants the most restrictive of which require that we maintain a minimum level of tangible net worth and limit the amounts of outstanding secured borrowings, as defined in the agreement. We are in compliance with these covenants at December 31, 2000. The balance outstanding under this line of credit was $7 billion at December 31, 2000. In addition, our foreign subsidiaries had unused committed long-term lines of credit used to back short-term indebtedness that aggregate $43 in various currencies at prevailing interest rates.

Guarantees. At December 31, 2000, we have guaranteed the borrowings of our ESOP and $4,710 of indebtedness of our foreign subsidiaries.

Interest. Interest paid by us on our short- and long-term debt, amounted to $1,024, $787 and $859 for the years ended December 31, 2000, 1999 and 1998, respectively.

A summary of the cash related changes in consolidated indebtedness for the three years ended December 31, 2000 follows:

	2000	1999	1998
Cash proceeds from (payments of) short-term debt, net	$(1,234)	$(4,140)	$ 553
Cash proceeds from long-term debt	10,520	5,446	3,464
Principal payments on long-term debt	(5,713)	(1,489)	(1,580)
Total net cash changes in debt	$ 3,573/1/	$(183)/2/	$ 2,437

/1/ Excludes debt of $118, which was assumed by Fuji Xerox in connection with the divestiture of our China operations, and accretion of $16 on convertible debt.

/2/ Excludes debt of $51 assumed with the increased ownership in our India joint venture and accretion of $26 on convertible debt.