SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

(X) Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2001

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: to

1-4471 (Commission File Number)

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

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

P.O. Box 1600, Stamford, Connecticut
(Address of principal executive offices)

06904
(Zip Code)

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: (X) No: ( )

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

The aggregate market value of the voting stock of the registrant held by non-affiliates as of May 31, 2002 was: $6,525,261,445

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

Class	Outstanding at May 31, 2002
Common Stock, $1 par value.....	727,048,629 Shares

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference:

Document	Part of 10-K in Which Incorporated
Xerox Corporation 2001 Annual Report to Shareholders	I & II

Forward Looking Statements

From time to time we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K, which are forward-looking. These forward-looking statements and other information are based on our beliefs as well as assumptions made by us based on information currently available.

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

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--We operate 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 us to provide document processing products and services in each of the markets we serve, some of whom operate on a global basis. Our success in future performance is largely dependent upon our ability to compete successfully in the markets we currently serve and to expand into additional market segments.

Transition to Digital--Presently, black and white light-lens copiers represent between 15%-20% of our revenues. This segment of the market is mature with anticipated declining industry revenues as the market transitions to digital technology. Some of our new digital products replace or compete with our 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 our strategy and ultimate success in this changing market is our ability to develop and market technology that produces color prints and copies quickly, easily and at reduced cost. Our continuing success in this strategy depends on our ability to make the investments and commit the necessary resources in this highly competitive market as well as the pace of color adoption by our prospective customers.

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

Customer Financing Activities--On average, we have historically financed approximately 80 percent of our equipment sales. To fund these arrangements, we have accessed the credit markets and used cash generated from operations. The long-term viability and profitability of our customer financing activities is dependent on our ability to borrow and the cost of borrowing in these markets. This ability and cost, in turn, is dependent on our credit ratings. We are currently funding our customer financing activity from cash generated from operations as well as from cash on hand, unregistered capital markets offerings and securitizations. There is no assurance that we will be able to continue to fund our customer financing activity at present levels. We continue to negotiate and implement third-party vendor financing programs and possible monetizations of portions of our existing finance receivable portfolios, and we continue to actively pursue alternative forms of financing including securitizations and secured borrowings. These initiatives are expected to significantly improve our liquidity going forward. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent upon successful implementation of our third party financing initiatives.

Productivity--Our ability to sustain and improve profit margins is largely dependent on our ability to maintain an efficient, cost-effective operation. Productivity improvements through process re-engineering,

design efficiency and supplier and manufacturing cost improvements are required to offset labor cost inflation, potential materials cost increases and competitive price pressures.

International Operations--We derive approximately 40 percent of our revenue from operations outside the United States. In addition, we manufacture or acquire many of our products and/or their components outside the United States. Our future revenue, cost and results from operations 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 given our below investment grade credit ratings, 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. We 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 Trends--Our ability to return to and maintain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of our worldwide equipment placements as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of color and multifunction devices. Revenue growth will be further enhanced through our consulting services in the areas of document content and knowledge management. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improved direct sales productivity and expansion of our indirect distribution channels in the face of global competition and pricing pressures. The ability to grow our customers' usage of our products may continue to be adversely impacted by the movement towards distributed printing and electronic substitutes. Our inability to return to and maintain a consistent trend of revenue growth could have a material adverse affect on the trend of our operating results.

Liquidity--The adequacy of our continuing liquidity depends on our ability to successfully generate positive cash flow from an appropriate combination of operating improvements, financing from third parties, access to capital markets and additional asset sales including sales or securitizations of our receivables portfolios. We believe our liquidity is sufficient to meet current and anticipated needs, including all scheduled debt maturities; however, our ability to maintain positive liquidity is highly dependent on achieving our expected operating results, including capturing the benefits from restructuring activities, and completing several vendor financing and other initiatives that are discussed below. There is no assurance that these initiatives will be successful. Failure to successfully complete these initiatives could have a material adverse effect on our liquidity and our operations, and could require us to consider further measures, including deferring planned capital expenditures, modifying current restructuring plans, reducing discretionary spending and selling additional assets.

We have successfully completed the renegotiation of our $7 billion Revolving Credit Agreement (the "Old Revolver"). Of the original $7 billion in loans outstanding under the Old Revolver, $2.8 billion has been repaid and the remaining $4.2 billion has been refinanced under the terms of a new Amended and Restated Credit Agreement (the "New Credit Facility"), which is more fully discussed elsewhere in this Annual Report on Form 10-K. The New Credit Facility requires certain principal amortizations as well as prepayments in the case of certain events. A full discussion of all of these terms and the final maturity dates of the various loans is included in the Capital Resources and Liquidity section of this Annual Report on Form 10K. The New Credit Facility contains affirmative and negative covenants including limitations on issuance of debt and preferred stock; certain fundamental changes; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends; inter-company loans and certain restricted payments; and a requirement to transfer excess foreign cash, as defined, and excess cash of Xerox Credit Corporation to Xerox Corporation in certain circumstances. It also contains additional financial covenants, including minimum EBITDA, maximum leverage (total adjusted debt divided by EBIDTA, as defined) and, maximum capital expenditures limits.

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

PART I

Item 1. Business

Overview

Xerox Corporation (Xerox or the Company) is The Document Company and a leader in the global document market, selling equipment and providing document solutions including hardware, services and software that enhance our customers' work processes and business results. References herein to "we," "us" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically states or implies otherwise. Xerox and its affiliates operate in over 130 countries worldwide. We distribute our products in the Western Hemisphere through divisions and wholly-owned subsidiaries. In Europe, Africa, the Middle East, India and parts of Asia, we distribute through Xerox Limited and related companies (collectively Xerox Limited). Xerox had approximately 78,900 employees at December 31, 2001.

Our activities encompass developing, manufacturing, marketing, servicing and financing a complete range of document processing products, solutions and services designed to make organizations around the world more productive. We believe that the document is a tool for productivity, and that documents--both electronic and paper--are at the heart of most business processes. Documents are the means for storing, managing and sharing business knowledge. Document technology is key to improving productivity through information sharing and knowledge management and we believe no one knows the document--paper to electronic and electronic to paper-- better than we do.

Fuji Xerox Co., Limited is an unconsolidated entity in which Xerox Limited currently owns 25 percent and which Fuji Photo Film Co., Ltd. (FujiFilm) owns 75 percent. These ownership interests reflect the March 2001 sale of half our original ownership interest in Fuji Xerox to FujiFilm for $1,283 million in cash. Fuji Xerox develops, manufactures and distributes document processing products in Japan, China, Hong Kong and other areas of the Pacific Rim, Australia and New Zealand. Approximately 80 percent of these sales are in Japan, 13 percent in the rest of the region and approximately 7 percent are sales directly to us. We retain significant rights as a minority shareholder. All product and technology agreements between us continue, ensuring that the two companies retain uninterrupted access to each other's portfolio of patents, technology and products.

Core Strategy

Our goal is to develop document technologies, systems, solutions and services that improve our customers' work processes and business results. The success of our strategy rests on our ability to understand our customers' needs, provide document management services and outsourcing capabilities and deliver synergistic value propositions among our core businesses.

In our Production and Office businesses we provide advanced document systems that seamlessly link into enterprise electronic workflow, enhancing business performance. We created the production print-on-demand industry in 1990 with our DocuTech Production Publisher. As our customers increasingly utilize color documents, we continue to lead the transition to color which began with the DocuColor 40 in 1996, expanded in 2000 with our DocuColor 2000 series of digital color presses, and continues with initial customer engagement and the ongoing development of the DocuColor iGen3, for which we have in excess of 100 reservation orders and expect to launch in the second half of 2002. In the Office, we were the first to introduce digital copiers and networked multi-function devices for the office with the 1997 launch of our Document Centre family. With this product family, we have established a leadership position in the connected multifunction market. We expect to launch the next generation Document Centre family of products in June 2002 which is expected to deliver improved functionality and quality at reduced cost. Our January 2000 acquisition of the Color Printing and Imaging Division of Tektronix, Inc. (CPID), with its line of Phaser solid ink and laser color printers, has moved us to a strong number two market share position in the fast-growing networked office color printing market. This acquisition has also increased our reseller and dealer distribution network and provided us with scalable solid ink technology.

We further add value to our systems by developing specific solutions to improve our customers' business processes. We work with our customers to build tailor-made solutions that harness our technology to improve their critical business processes. In the Production segment, these solutions include printing books, pamphlets, parts catalogues and other mission-critical documents "just-in-time." We customize document production to enable "one-to-one" marketing by providing variable print solutions that enable the printing of personalized documents in both color and black and white. In the Office, we offer innovative services such as office document assessments (ODA), which

help customers identify cost savings and workflow improvements through more efficient document processes and improved equipment utilization. We have recently extended document access for mobile workers through partnerships with Research in Motion (RIM) and Electronics For Imaging (EFI) to deliver solutions that combine Xerox mDoc 3.0 software with BlackBerry TM wireless e-mail and the Printme solution. These solutions allow workers to send documents through mobile devices directly to public or networked office printers, without drivers, cables or complex setups.

In both our Production and Office businesses we offer services consisting of consulting, implementation and ongoing management services that build on our success in document outsourcing by applying advances in imaging technology, document, content and knowledge management to improve enterprise work practices. Examples of these offerings include the re-design of document intensive work processes and the management of in-house document technology in our hosted sites. In 2001, we opened our online "interactive digital repository" and imaging facility, which is capable of converting and managing massive amounts of business critical information and providing online access to data previously available only in paper and various electronic formats.

Building on our core businesses, our strategy has three overlapping phases. The first phase involves our Turnaround Program, which is intended to help ensure liquidity and stabilize the business. The second phase is to return to sustainable profitability and the third phase is to leverage growth opportunities predominantly in our core businesses.

Turnaround

During 2000, the significant business challenges that we began to experience in the second half of 1999 continued to adversely affect our financial performance. To counter these challenges, we implemented actions beginning in mid-2000 to stabilize our sales force and minimize further disruption to our operations. In October 2000, we announced a Turnaround Program designed to help ensure adequate liquidity, re-establish profitability and build a solid foundation for future growth. The Turnaround Program encompassed four major components: (i) asset sales of $2-$4 billion; (ii) accelerated cost reductions designed to reduce costs by at least $1 billion annually; (iii) the transition of equipment financing to third party vendors and (iv) a focus on our core business of providing document processing systems, solutions and services to our customers. By the end of 2001, we had made significant progress executing this program and achieving these goals.

By year-end 2001, we had completed asset sales of $2.3 billion, comprised of the March 2001 sale of half our ownership interest in Fuji Xerox Co., Ltd. (Fuji Xerox) to Fuji Photo Film Co., Ltd. (FujiFilm) for $1,283 million, the December 2000 sale of our China Operations to Fuji Xerox for $550 million, the April 2001 sale of our Nordic leasing businesses to Resonia AB for approximately $370 million, and in the fourth quarter 2001 the first in a series of asset sales to transfer our office product manufacturing operations to Flextronics for approximately $118 million. We believe the asset sale component of our Turnaround Program has been largely completed.

We also intensified cost reductions to improve our competitiveness. During 2001, we implemented work force resizing and cost reduction actions that we believe will result in approximately $1.1 billion in annualized savings. These savings are expected to result from reducing layers of management, consolidating operations where prudent, reducing administrative and general spending, capturing service productivity savings from our digital products and tightly managing discretionary spending. We are reducing costs in our Office segment by moving to lower cost indirect sales and service channels and by outsourcing our office products manufacturing. Our worldwide employment declined by approximately 13,600 to 78,900 at December 31, 2001. In our ongoing efforts to reduce our cost base, we will continue to implement restructuring actions and incur substantial restructuring charges throughout 2002; although less than the amounts recorded in 2001.

Our transition to third party financing will significantly improve our liquidity while ensuring equipment financing is still provided to our customers. In 2001, we entered into framework agreements with General Electric Capital, Corporation (GE Capital) for them to manage our customer administrative functions and become the primary equipment financing provider for Xerox customers in the U.S., Canada, France and Germany. On May 1, 2002, Xerox Capital Services, LLC (XCS), our U.S. venture with GE Capital Vendor Financial Services, became operational. XCS manages our customer administration and leasing activities in the U.S., including various financing programs, credit approval, order processing, billing and collections. We are currently in the process of completing the negotiation of definitive agreements with GE Capital for the implementation of the Canadian joint venture which is expected in the second half of 2002. These agreements are subject to the completion of due diligence on GE's part as well as the fulfillment of various regulatory requirements.

Ongoing funding for new leases by GE Capital and its affiliates in both the U.S. and Canada is expected to be in place later this year upon development and completion of systems and process modifications. In Europe, a number of initiatives are under way and have been implemented. In Germany, we received a $77 million loan in May 2002 secured by certain finance receivables, as we continue to complete our vendor financing transition this year. In France we are completing due diligence, fulfilling regulatory requirements, consulting with local works councils and expect to complete the agreement with GE Capital in the third quarter 2002. We have fully transitioned our leasing businesses in the Nordic countries, the Netherlands and Italy. Our Nordic leasing business was sold to Resonia AB in April 2001. In the first quarter 2002, we formed a joint venture with De Lage Landen International BV (DLL) in which they provide funding and manage equipment financing for our customers in the Netherlands. In May 2002, we sold our equipment financing operations in Italy for approximately $207 million in cash plus the assumption of $20 million of debt. We have made significant progress in our Developing Markets Operations (DMO), beginning in April 2002, with Banco Itau S.A. in Brazil and collectively with the Capita Corporation de Mexico S.A. de C.V., Organizacion Auxiliar Del Credito and Arrendadora Capita Corporation, S.A. de C.V. in Mexico becoming the primary equipment financing providers in their respective countries. By the end of 2002, we expect that approximately two-thirds of all new financed lease originations will be funded by third parties, through a combination of structures including direct financing, finance receivable securitizations and ongoing secured borrowings.

In addition to the vendor financing agreements, in 2001 and through the first half of 2002, we borrowed approximately $3.1 billion in the U.S., Canada and U.K. from GE Capital through the securitization of certain existing lease contracts. We and GE Capital are parties to a loan agreement dated November 2001 which provides for a series of secured loans in the U.S. up to an aggregate of $2.6 billion. Through June 2002, approximately $1.9 billion of loans have been funded under this GE Capital agreement including a $499 million loan which closed on May 12.

In line with our strategy to focus on our core business, we announced the disengagement from our worldwide SOHO business in June 2001. By the end of the year, we had sold the remaining equipment inventory and in the fourth quarter achieved profitability in this business through the sale of supplies to our current base of SOHO customers. We expect this profitable supplies revenue stream to decline over time as the equipment is eventually replaced.

Return to Sustainable Profitability

In 2002, we expect to return to sustainable profitability, reflecting continued cost based improvements and the initial benefits of new product platform launches in the second half of the year. During 2002, we expect to further improve our cost base by leveraging more cost-effective distribution channels which include the expansion of our low cost, higher efficiency teleweb channel and increased use of remote diagnostics to service equipment. As we enter 2003, we expect to realize additional benefits both from our office products manufacturing agreement with Flextronics and our U.S. venture with GE Capital. In addition we expect improved R&D efficiencies from our relationship with Fuji Xerox. We have product and technology agreements with Fuji Xerox which, ensures that the two companies retain uninterrupted access to each other's portfolio of patents, technology and products. DMO restructuring actions impacting profitability are expected to take place in 2002 and as such, overall profitability in the segment is not expected until 2003.

Leverage Future Growth Opportunities

We continue to be a leader in providing world-class document technology to our customers. We are also taking significant steps to satisfy our customers' increasing demand for more advanced systems and services with solutions such as internet driven distributed digital printing and custom publishing, and on demand printing and publishing. We believe our products are geared to match the needs of the rapidly growing document related markets. The primary drivers of this growth are increased competitiveness of our offerings in the core businesses coupled with an aggressive leadership position in key high growth market segments. Key among these growth segments are: 1) color in all areas from networked printers and multifunction devices for the office to our

production color product line that we expect will increasingly transition pages from traditional offset devices; 2) office multifunction devices where we are the leader in connected devices which result in higher page volumes, and 3) value added services which enable us to build on our existing customer relationships in outsourcing to capture market growth opportunities. Our technology and experience with documents and process management provide us with a solid foundation to offer document, content and knowledge management services.

Business Segments

Our financial results by business segment for 2001, 2000 and 1999, presented in Note 10 to the consolidated financial statements of the Company's 2001 Annual Report to Shareholders, are hereby incorporated by reference.

Market Overview

The document industry is undergoing a fundamental transformation, with the continued transition from analog and offset to digital technology, the management of publishing and printing jobs over the Internet, the use of variable data to create customized documents, an increasing reliance on outsourcing, the transition to color and the increase in mobile workers utilizing hand-held devices. Documents are increasingly created and stored in digital electronic form while the Internet is increasing the amount of information that can be accessed in the form of electronic documents. We believe that all of these trends play to the strengths of our products, technology and services, and that such trends represent opportunities for future growth.

We estimate the global document related markets that we serve, excluding Japan and the Pacific Rim countries served by Fuji Xerox, were approximately $103 billion in 2000 and will grow to about $134 billion in 2004 reflecting a compound annual growth rate of approximately 7 percent.

Revenues for our major segments for the three years ended December 31, 2001, after giving affect to the restatement discussed elsewhere in this Annual Report on Form 10-K, were as follows:

Year ended December 31 ($ in millions)	2001	2000*	1999*
Production	$ 5,899	$ 6,332	$ 6,933
Office	6,926	7,060	6,853
Developing Markets	2,027	2,619	2,450
SOHO	407	599	575
Other	1,749	2,141	2,184
Total	$17,008	$18,751	$18,995
Memo: Color	$2,762	$2,612	$1,619

* As Restated

Production Market

Through our direct sales and service organizations around the world, we provide systems and services to Fortune 1,000, graphic arts, government, education and public sector customers. Our products in this market include monochrome production publishing (DocuTech family), production printing (DocuPrint family), production light-lens devices at speeds over 90 pages per minute and color publishing and printing devices at speeds over 30 pages per minute. Our products are also focused on the graphic arts market.

We estimate that production market was approximately $36 billion in 2000 and is expected to grow to about $41 billion in 2004, reflecting a compound annual growth rate of 3 percent. Within this segment, we are the strong market leader in the monochrome production market, which is growing at about one percent per year. The total color market is expected to grow at a 9 percent compound annual rate; digital color, which represents our offerings and where we are the market leader, is expected to grow much faster at about 30 percent per year reflecting the transition from offset to digital offerings. Our strategy is to drive the "New Business of Printing" by introducing innovative production systems and solutions to expand our leadership position and focus on the higher growth digital color opportunities. The "New Business of Printing" is characterized by fast turnaround times, precise quantities, personalization and customization and is built on the solid foundation of the digital production print on demand market, which we created in 1990 with the introduction of our first DocuTech Production Publisher. We provide content creation and management, production and fulfillment solutions and services to improve our customers' work processes and business results. As examples, we believe utilizing our digital technology to personalize marketing communications can improve response rates from 2 to 30 percent and printing on demand can eliminate inventory and warehousing costs. We believe our new DocuColor iGen3, the next generation of color technology, which will begin installations in the second half of 2002, will expand the digital color print on demand market due to its speed, image quality, personalization and cost advantages.

To capture the growth opportunities in the production market, we have identified color and services as two corporate strategic growth platforms. During 2001 we stabilized our share as the market leader in the monochrome production market, even gaining share in the second half of the year in the high end production segment with continued success from our advanced family of DocuTech systems and solutions. We conceded some share in the low end "light" production segment (91-120 pages per minute) as competitors introduced digital offerings. While we maintained our leadership position in color, there was some market share erosion in the second half 2001 following the introduction of a competitive product.

Black and White Production Publishing (DocuTech)

Since we launched the era of production publishing with the introduction of our DocuTech Production Publishing family in 1990, we have installed more than 30,000 DocuTech systems worldwide.

Digital production publishing technology continues to replace traditional short-run offset printing as customers seek

improved productivity and cost savings, faster turnaround of document preparation, and the ability to print and customize documents "on demand." We offer the widest range of hardware and solutions available in the marketplace, from dial-up lines through the Internet to state-of-the-art networks, and we are committed to expanding these print on demand solutions as new technology and applications are developed.

The DocuTech family of digital production publishers scans hard copy and converts it into digital documents, or accepts digital documents directly from networked personal computers or workstations. DocuTech prints high-resolution (600 dots per inch) pages at speeds ranging from 65 to 180 impressions per minute and is supported by a full line of accessory products and options. We are the only manufacturer in the market who offers a complete family of production publishing systems from 65 to 180 impressions per minute.

In 2001, we introduced a new streamlined version of DigiPath Production Software to offer an easy, low-cost way for print providers to enter the market. DigiPath is a major productivity tool, which allows a printer's customers to use the Internet to streamline print job submission combined with industry leading scan and document preparation technology for subsequent archiving, preparation, proofing, and reprinting. In 2002, we launched the new common "DocuSP" controller technology which, for the first time, provides a consistent way to prepare and process print jobs in color and black-and-white from DocuTech to DocuColor high-end systems.

Black and White Production Printing (DocuPrint)

We pioneered and continue to be a worldwide leader in computer laser printing, which combines computer, laser, communications and xerographic technologies. We market a broad line of robust printers with speeds from 75 pages per minute up to the industry's fastest cut-sheet printer at 180 pages per minute, and continuous-feed production printers at speeds up to 1,000 images per minute. Many of these printers have simultaneous interfaces that can be connected to multiple host computers as well as local area networks. Our goal is to integrate office, production and data-center computer printing into a single, seamless, user-friendly family of production class printers.

In 2001, we extended the functionality of our DocuPrint products with the EPS family. EPS brings a common controller to both the production publishing and the transaction printing worlds. This enables our customers to use the benchmark workflows we have created for each of these markets on one device, significantly reducing the costs for new installations as well as protecting previously purchased Xerox investments.

Also in 2001, we expanded our continuous feed offerings with new continuous feed high-end printing systems and additional solutions and services. The introduction of the DocuPrint 350 CF, 500 CF, 700 CFD, and 1000 CFD products will provide additional opportunities for us in the continuous feed printing market and protect our transaction printing family of products. Breakthrough technology in our highlight color printers including the DocuPrint 4850 and DocuPrint 92C allows printing in an industry exclusive single pass of black-and-white plus one customer-changeable color (as well as shades, tints, textures and mixtures of each) at production speeds up to 90 pages per minute.

Production Color Printing

Digital color is one of the fastest growing segments of the Production market with an expected estimated compound annual growth rate of about 30 percent. In June 2000, we launched the DocuColor 2000 Series developed to provide high-volume on-demand printing, personalized printing, printing and publishing for e-commerce and Internet delivery. Both the DocuColor 2045, which prints at 45 pages per minute, and the DocuColor 2060, which prints at 60 pages per minute, establish an industry standard by producing near-offset quality, full-color prints at an unprecedented operating cost of less than 10 cents per page, depending on monthly volumes. More than 5,000 DocuColor 2000 series units have been installed since launch, which has exceeded our expectations, although placements beginning in the second half of 2001 reflected the adverse impact of the weaker economic environment and introduction of competitive devices.

In September 2001 at Print 01, a major industry trade show, we demonstrated the DocuColor iGen3, an advanced next-generation digital printing press designed to expand the digital color print on demand market. The DocuColor iGen3 consists of modular components, which work together as a sophisticated print shop. Utilizing patented imaging technology which produces photographic quality output indistinguishable from offset, this breakthrough technology will produce over 100 pages per minute at an operating cost of about 5 cents per page. Customer acceptance testing began at the end of 2001 and we began reservation orders in April 2002. By the end of May we

had received in excess of 100 reservation orders for the DocuColor iGen3, which has a base list price of over $500,000. We expect to install a modest number of units beginning in the second half of 2002 with 300-400 installs expected in 2003.

Production Light-Lens Copying

Revenues from black and white light-lens production copiers (over 90 pages per minute) continued to decline as expected, due to increasing price pressures and as customers transitioned to new digital products.

Office Market

We estimate that the office market was approximately $53 billion in 2000 and is expected to remain essentially flat through 2004. The Office market includes global, national and mid-size commercial customers as well as government, education and other public sector customers. Office systems and services encompass monochrome devices at speeds up to 90 pages per minute, including our family of Document Centre digital multi-function products, color laser, solid ink and monochrome laser desktop printers, digital copiers, light-lens copiers and facsimile products. Page volume in the office market is expected to decline slightly as high growth in color pages (from a very small base) is offset by modest black and white page volume declines. We are targeting the fast-growing color segment of the office market driving the market to color printing and copying by making color as easy, fast and affordable as black and white. In addition, we are driving the migration from single function machines to multi-function devices that copy, print, scan and fax by ensuring that multi-function is more cost-effective, while still continuing to offer single function devices as well.

Our strategy in the office is to be the primary choice for workgroups, providing the best connected and stand-alone solutions and making color as easy to use as black and white. We have established a leadership position in color and connected multi-function markets, which are the highest growth segments in the office market, with each growing at a compound rate of approximately 15 percent. To extend document access for mobile workers, we have partnered with RIM and EFI to deliver solutions that combine Xerox mDoc 3.0 software with BlackBerryTM wireless e-mail and the Printme solution. These solutions include the ability to personalize e-mail attachments such as forms and contracts and also allow users to e-mail, fax or print these documents on the go. The broad portfolio of service offerings also includes the Office Document Assessment (ODA), asset management and support. An ODA is used to analyze a business' workflow and document needs and then identify the most efficient, productive mix of office equipment and software for that business, therefore helping to reduce the customer's document related costs. To improve our cost structure, as part of our Turnaround Program, we have outsourced office product manufacturing to Flextronics and are moving more of our sales and service from direct to lower cost indirect channels, thus improving efficiency and reducing costs. We distribute our office products through a variety of direct sales and indirect channels of distribution which include sales agents and concessionaires, resellers, internet sales and telebusiness offerings.

Black and White Digital Multifunction Products

Our Document Centre family of modular black and white digital multi-function products at speeds ranging from 20 to 90 pages per minute offer copy, print, scan and fax capabilities in one device. This product family was first introduced in 1997 and has been continually upgraded including two new models in the Document Centre 400 series in 2001. We believe the network and fax options have compelling economics versus the alternative of purchasing comparable printers and faxes since the print engine, output mechanics and most of the software required are part of the base digital copier. Independent laboratory studies have indicated that our product line far exceeds the competition in effective network print speed, regardless of the advertised speed. In addition, all of our Document Centre products have IP (Internet Protocol) addresses, which permit them to be accessed via the Internet from anywhere in the world. The success of the Document Centre 480 (75 pages per minute) and 490 (85 pages per minute) was evidenced by significant market share gains in the 70 to 90 pages per minute segment in 2001. The Document Centre 490, launched in North America in September 2001, also began to effectively counteract the impact of competitive product entries in the light production market discussed above. The Document Centre 490 was launched in Europe in February 2002. We expect to launch the next generation Document Centre family of products in June 2002 which will deliver improved functionality and quality at reduced cost.

The proportion of Document Centre devices installed with network connectivity remained at over 50 percent during

2001. We believe that further enabling network connectivity and training our customers to optimize the power of these products could ultimately lead to as much as 25 percent incremental page growth on our equipment, which would likely have beneficial impacts on our sales of services and supplies.

A second family of products, the WorkCentre Pro is aimed at lower volume cost conscious customers. The line is anchored with the successful WorkCentre Pro 412 product introduced in September 2001.

Color Copying and Printing

The use of color originals in the office is increasing and pages are expected to grow by about 20 percent through 2004. Color is expected to represent about 4 percent of total office pages and approximately 15 percent of office revenue by 2004.

Our strong number two market share position in the networked office-color printer market reflects the January 2000 acquisition of CPID. This division manufactures and markets Phaser workgroup color printers, that use either color laser or solid ink printing technology, and a complete line of ink and related supplies. In 2001, we introduced the Phaser 860 solid ink color printer and the Phaser 2135 and 7700 laser color printers, all of which use single pass color technology and are the fastest in their class. In May 2002 we introduced the Phaser 6200 color laser and 8200 solid ink printers, which are designed to fuel the migration to color in the office by offering cost and print quality advantages that make it practical to replace black-and-white printers. The Phaser products have continued to win awards including the Excellence in Imaging Award at the 2002 Digital Focus Media event, which is among the industry's most prestigious awards in the field of digital imaging. The CPID acquisition also increased our reseller and dealer distribution network and provided us with scalable solid ink technology, which is up to four times less expensive to manufacture.

In 1999 we introduced the Document Color Centre Series 50, the first color-enabled Document Centre that produces 12.5 full-color pages and 50 black-and-white pages per minute and includes a Xerox network controller built into every machine. Sales of this product have been successful as the Document Centre Color Series 50 combines the advantages of a relatively low equipment price and the production of color pages at operating costs significantly lower than other color copier/printers in this class. In addition, it is unlike other color products in that the operating cost of producing black and white prints is similar to that of monochrome digital products.

We expect to launch a new office color product platform in the second half of 2002.

Light-lens Copying

Light-lens copier revenues continue to decline reflecting customer transition to new digital black-and-white products and increasing price pressures. We believe that the trend over the past few years will continue and that light-lens product revenues will represent a declining share of total revenues.

Black and White Laser Printers

Our DocuPrint family of monochrome network laser printers was originally launched in 1997 and currently includes models at speeds ranging from 8 to 45 pages per minute. These laser printers complete our product line and are faster, more advanced and less expensive than competitive models, offering "copier-like" features such as multiple-set printing, stapling and collating. The CPID acquisition accelerated our objective of increasing the number of resellers who also market our black and white laser printers.

Developing Markets Organization (DMO)

DMO includes operations in Latin America, the Middle East, India, Eurasia, Russia, and Africa. Over 120 countries are included in DMO, with Brazil representing almost half the DMO revenue. The DMO operations are managed separately as a segment due to the political and economic volatility and unique nature of their markets. In 2002, we expect to continue to significantly restructure our Latin American operations and expect to substantially reduce losses. We expect DMO to return to profitability in 2003.

Small Office/Home Office SOHO Market

In line with our strategy to focus on our core business, we announced the disengagement from our worldwide SOHO business in June 2001. By the end of the year, we had sold the remaining equipment inventory and achieved profitability in this business through the sale of supplies to our current base of SOHO customers. We expect this profitable supplies revenue stream to decline over time as the equipment is eventually replaced.

Other Products

We also sell cut-sheet paper to our customers for use in their document processing products. The market for cut-sheet paper is highly competitive and revenues are significantly affected by pricing. Our strategy is to charge a premium over mill wholesale prices which is adequate to cover our costs and value added as a distributor. In June 2000, we entered into an agreement to sell our US and Canadian commodity paper operations, including their customer list, for $40 million. We also entered into an exclusive license agreement for the Xerox brand name. In accordance with the agreement, we are entitled to earn commissions on any Xerox originated sales of commodity paper as an agent for Georgia Pacific.

We also offer other document processing products, including devices designed to reproduce large engineering and architectural drawings up to 3 feet by 4 feet in size, which are developed and sold through Xerox Engineering Systems (XES).

Our consulting services revenue is included in the Other segment.

Competitive Advantages

Research and Development

Investment in research and development (R&D) is critical to drive future growth, and we have directed our investments to the fast growing color, services and solutions segments of the market. Our goal is to continue to create innovative technologies that will expand current and future markets. Our research scientists regularly meet with customers and have dialogues with our business divisions to ensure they understand customer requirements and are focused on products and solutions that can be commercialized.

In 2001, R&D expense was $997 million compared with $1,064 million in 2000 and $1,020 million in 1999. 2001 R&D spending was focused primarily on those programs related to the development of high-end business applications, as well as those that may extend our color capabilities. The decline in spending from 2000 primarily reflects our June 2001 decision to exit the SOHO business. DocuColor iGen3, an advanced next-generation digital printing press which was marketed to customers beginning in late 2001 and produces photographic quality indistinguishable from offset, is an example of the type of breakthrough technologies developed by Xerox that we expect will drive our future growth. Xerox R&D is strategically coordinated with Fuji Xerox, which invested $548 million in R&D in 2001 for a combined total for the two companies of $1,545 million. Xerox focuses its expenditures on the Production segment with Fuji Xerox focusing on the Office segment. As we continue to optimize synergies in R&D, we expect to realize further productivity benefits. During 2001, we were awarded over 900 patents including digital color imaging, intelligent machine control and document management software.

To drive future growth, we have maintained our R&D spending at 5-6 percent of revenue. We continue to invest in technological development to maintain our premier position in the rapidly changing document processing market with a heightened focus on efficiency and time to market.

Marketing and Distribution

Our document processing products are principally sold directly to customers by our worldwide sales force totaling approximately 11,000 employees, and through a network of independent agents, dealers, value-added resellers and systems integrators. We are expanding our use of cost-effective indirect distribution channels for basic offerings, and utilizing our direct sales force for our customers' more advanced technology, solutions and services requirements.

We market our Phaser line of color and monochrome laser-class and solid ink printers through office information technology industry resellers, who access our products through distributors such as Ingram Micro, Tech Data, CHS and Computer 2000. These distributors supply our products to a broad range of information technology and information systems-oriented resellers such as dealers, direct marketers, VARs, systems integrators, government resellers, corporate resellers, and e-commerce business-oriented resellers, such as CDW. This group of resellers in turn, markets, sells, installs, and in some cases helps support our products to end-user customers. We also sell directly to some of these resellers, rather than through distributors. As a result of the acquisition of CPID we have significantly increased the number of active resellers and nearly doubled the channel activity on Xerox-branded network printers. In addition, new initiatives are being implemented to add channel capacity through direct-to-customer e-commerce and direct-to-customer selling using our direct sales force in select large accounts.

We are increasing our use of partners to improve our market coverage. In 2001 we announced an alliance with Imation to market our DocuColor 2000 series to commercial printers. In 2001, we extended our information technology contract with Electronic Data Systems Corp. (EDS) to develop a formal alliance program designed to create and market integrated offerings combining our next-generation digital products and services with EDS' corporate IT infrastructure services.

In 2001, spending on advertising was modest as we focused on stabilizing the business. In 2002, we are investing heavily in marketing, led by a new advertising campaign launched at the 2002 Winter Olympics. Our brand is a valuable resource and continues to be valued in the top 10 percent of all brands worldwide.

Service

As of year-end 2001, we had a worldwide service force of approximately 19,000 employees and a network of independent service agents. We are expanding our use of cost-effective remote service technology for basic offerings, while continuing to focus our own direct service force on production products and serving customers in need of more advanced value added services. We believe that our service force represents a significant competitive advantage in that the service force is continually trained on our new products and their diagnostic equipment is state-of-the-art. Twenty-four-hours-a-day, seven-days-a-week service is available in major metropolitan areas around the world. As a result, we are able to guarantee a consistent and superior level of service worldwide.

Customer Satisfaction

Our most important priority is customer satisfaction. Our research shows that the cost of selling a replacement product to a satisfied customer is far less than selling to a "new" customer. We regularly survey customers on their satisfaction, measure the results, analyze the root causes of dissatisfaction, and take steps to correct any problems. Our products, technology, services and solutions are designed with one goal in mind, which is to make our customers' businesses more productive.

International Operations

Our international operations represent approximately 40 percent of total revenues in 2001. Our largest interest outside the United States is Xerox Limited which operates predominately in Europe. Latin American operations are conducted through subsidiaries or distributors in over 35 countries. Fuji Xerox develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia, New Zealand and China.

Our financial results by geographical area for 2001, 2000 and 1999, which are included in Note 10 of the Company's 2001 Annual Report to Shareholders are hereby incorporated by reference.

Item 2. Properties

We own a total of ten principal manufacturing and engineering facilities and lease two additional facilities. The domestic facilities are located in California, New York, Oklahoma, and Oregon and the international facilities are located in Brazil, Canada, UK, Ireland, the Netherlands, and India. We also have four principal research facilities; two are owned facilities in New York and Canada, and two are leased facilities in California and France.

In 2001 and the first half of 2002 as part of our outsourcing initiatives, we sold and subleased to Flextronics certain of our manufacturing locations in Mexico, Malaysia, Canada, Venray, the Netherlands and Brazil. Also, as we implemented our Turnaround Program, several properties have become surplus and appropriate reserves have been established. The majority of the surplus properties are leases that we are obligated to maintain through required contract periods. We have disposed or subleased certain of these properties and are aggressively pursuing the successful disposition and subleasing of all remaining surplus properties.

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

Our Connecticut based corporate headquarters facility is leased; however, we own the related land. We also lease a portion of a training facility, located in Virginia, which we previously owned.

It is our opinion, that our properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform our functions.

Item 3. Legal Proceedings

The information set forth under Note 16 "Litigation and Regulatory Matters" of the Company's 2001 Annual Report to Shareholders is hereby incorporated by reference.

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

None.

PART II

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

Market Information, Holders and Dividends

The information set forth under the following captions of the Company's 2001 Annual Report to Shareholders is hereby incorporated by reference:

Caption

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

Recent Sales of Unregistered Securities

During the quarter ended December 31, 2001, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

1. Xerox Common Stock

(a) Securities Sold: On October 1, 2001, Registrant issued 11,442 shares of Common Stock, par value $1 per share.

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

(c) The shares were issued at a deemed purchase price of $7.75 per share (aggregate price $88,625), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan for Directors.

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

2. 7 1/2 % Convertible Trust Preferred Securities

(a) Securities Sold: On November 27, 2001, Xerox Capital Trust II a wholly-owned subsidiary of the Registrant, issued and sold 20,700,000 7 1/2 % Convertible Trust Preferred Securities (liquidation amount $50 per trust preferred security). The trust preferred securities are convertible into shares of Xerox Common Stock, par value $1 per share.

(b) The trust preferred securities were sold to Deutsche Banc Alex. Brown; Merrill Lynch & Co. and Salomon Smith Barney, as initial purchasers.

(c) An aggregate of 20,700,000 trust preferred securities were issued and sold at a price of $50 cash per trust preferred security. The aggregate offering price was $1,035,000,000. The aggregate fees and expenses paid were $31,050,000.

(d) Exemption from registration under the Act was claimed based upon Rule 144A.

(e) Each trust preferred security is convertible into 5.4795 shares of Xerox Common Stock, par value $1 per share, subject to adjustment.

Item 6. Selected Financial Data

The following selected financial data for the five years ended December 31, 2001, as set forth and included under the caption "Five Years in Review," of the Xerox Corporation 2001 Annual Report to Shareholders, is incorporated by reference in this Form 10-K Annual Report.

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

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

The information set forth under the caption "Management's Discussion and Analysis of Results of Operations and Financial Condition" of the Company's 2001 Annual Report to Shareholders is hereby incorporated by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information set forth under the caption "Risk Management," of the Xerox Corporation 2001 Annual Report to Shareholders is hereby incorporated by reference.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements, together with the reports thereon of PricewaterhouseCoopers LLP, dated June 26, 2002, included in the Xerox Corporation 2001 Annual Report to Shareholders, are incorporated by reference in this Form 10-K Annual Report. With the exception of the aforementioned information and the information incorporated in Items 5, 6, 7, 7A and 8, the Xerox Corporation 2001 Annual Report to Shareholders is not to be deemed filed as part of this Form 10-K Annual Report.

The quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" of the Xerox Corporation 2001 Annual Report to Shareholders is incorporated by reference in this Form 10-K Annual Report.

The financial statement schedule required herein is filed as referenced in Item 14 of this Form 10-K Annual Report.

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

On October 4, 2001, we ended the engagement of KPMG LLP and retained PricewaterhouseCoopers LLP as our independent auditors. At that time, we filed a Current Report on Form 8-K dated September 28, 2001. The text of the Form 8-K Report that we filed is as follows:

"On October 4, 2001, Xerox Corporation ("Company") determined to change the Company's independent accountants, and, accordingly, ended the engagement of KPMG LLP ("KPMG") in that role and retained PricewaterhouseCoopers LLP as its independent accountants for the fiscal year ending December 31, 2001. The Audit Committee of the Board of Directors (the "Audit Committee") and the Board of Directors of the Company approved the decision to change independent accountants.

The reports of KPMG on the financial statements of the Company for each of the fiscal years ended December 31, 2000 and December 31, 1999 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles. Except to the extent discussed below, for the fiscal years ended December 31, 2000 and December 31, 1999 and through the date of this report, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedure which, if not resolved to the satisfaction of KPMG, would have caused it to make reference to the subject matter of such disagreement in its reports on the financial statements for such fiscal years. Nor, except to the extent discussed below, were there any reportable events within the meaning of Item 304(a)(1)(v) of Regulation S-K for the fiscal years ended December 31, 2000 and December 31, 1999 and through the date of this report. With respect to the matters discussed below, the Audit Committee discussed them with KPMG and authorized KPMG to respond fully to inquiries of PricewaterhouseCoopers LLP concerning them.

In March 2001, KPMG informed management and the Audit Committee that it wished to expand significantly the scope of its audit work in connection with the audit of the Company's 2000 financial statements. KPMG proposed that certain additional procedures be performed, including that the Audit Committee appoint Special Counsel to conduct an inquiry into certain issues, which procedures were performed in March, April and May 2001.

While the expanded procedures were being performed, KPMG informed the Audit Committee and management that KPMG was unwilling to rely on representations by two employees in one of the Company's geographic operating units. Management removed those employees from responsibility in connection with the Company's system of financial reporting.

As a result of observations during its 2000 audit, and other information discussed with the Audit Committee, KPMG reported certain material weaknesses in the Company's internal control systems and made recommendations concerning certain components of the Company's business:

- KPMG emphasized the importance for internal control of the tone set by the Company's top management. KPMG noted that, as a result of its audit and information reported by Special Counsel, it believed there was evidence that management was not successful in setting the appropriate tone with respect to financial reporting. It recommended that the Company take steps to remediate appropriately those issues. Certain personnel changes have been made based in part on KPMG views offered to the Audit Committee and management.

- Customer Business Operations (CBO) in the Company's North American Solutions Group. KPMG noted issues with regard to CBO's ability to bill customers accurately for services, and noted that difficulties in that area had resulted in unfavorable billing adjustments during 2000. Although KPMG recognized that the Company had initiated several steps to address this issue, it concluded that it remained unclear when those changes would result in sustained improvement in reducing non-cash resolution adjustments of billing differences. It acknowledged that this weakness did not suggest that the net trade receivable account balance is unreasonably stated at December 31, 2000, but that proper reporting required extensive evaluation of billing adjustments during the fourth quarter. KPMG suggested various business and operational changes to address this issue.

- Communication of Accounting and Control Policies. KPMG noted that policy documents need to be updated, among other things to address issues identified by the Company's worldwide audit function. Special Counsel and KPMG, recommended that the Company also provide increased formal training to ensure that its personnel understand the accounting and control guidance in its policies.

- Consolidation and Corporate-Level Entries. KPMG observed that the Company's quarterly consolidation process is manually intensive, requiring numerous adjustments at corporate financial reporting levels. It recommended that the Company's Consolidated Financial Information System be augmented to enhance the monitoring and review of corporate-level and manual entries, and further that the Company ensure adequate segregation of duties in the preparation and approval of such entries.

- Appropriateness of the Concessionaire Business Model in Latin American Countries. KPMG noted that during 2000, analysis by the Company's worldwide audit function indicated that certain issues existed with respect to this business model, including that certain concessionaires may lack economic substance independent of the Company, and that certain business practices involving concessionaires resulted in allowances with respect to receivables in 2000. KPMG suggested periodic assessment of the financial position of prospective and existing concessionaires, and that the Company monitor its business relationship with them to ensure that they are substantive independent distributors of the Company's products.

In addition to those items, KPMG noted that organizational changes, including the Company's turnaround program and associated reductions in headcount, had and would continue to stress the Company's internal control structure. KPMG recommended that the Company take steps to ensure that issues likely to impact the control environment receive appropriate management attention. KPMG also recommended improved balance sheet account reconciliation and analysis on a global basis, in particular with respect to intercompany balances.

The foregoing matters were considered by KPMG in connection with their 2000 audit and did not result in any adverse opinion or disclaimer of opinion or any qualification or modification as to uncertainty, audit scope or accounting principles. KPMG's auditor's report dated May 30, 2001 contained a separate paragraph stating that the Company's 1999 and 1998 consolidated financial statements had been restated.

The Company commenced actions in fiscal 2000 and expanded actions in fiscal 2001 which, collectively, it believes have addressed the above-discussed matters.

The Company has provided KPMG a copy of this Report and requested KPMG to furnish it with a letter addressed to the Securities and Exchange Commission stating whether it agrees with the statements made herein. A copy of such letter, dated October 4, 2001, is filed as an Exhibit to the Company's Form 8-K."

PART III

The information contained in Exhibit 99.2 to this Annual Report on Form 10-K is hereby incorporated herein in response to this part.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. Anne M. Mulcahy, Chairman of the Board and CEO and Thomas J. Dolan, Senior Vice President, are sister and brother. There are no other family relationships between any of the executive officers named.

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

Name	Age	Present Postion	Year Appointed to Present Position	Officer Since
Anne M. Mulcahy*	49	Chairman of the Board and Chief Executive Officer	2002	1992
Carlos Pascual	56	Executive Vice President President, Developing Markets Operations	2000	1994
Lawrence A. Zimmerman	59	Senior Vice President and Chief Financial Officer	2002	2002
Ursula M. Burns	43	Senior Vice President President Document Systems and Solutions Group	2001	1997
Thomas J. Dolan	57	Senior Vice President President, Xerox Global Services	2001	1997
James A. Firestone	47	Senior Vice President President, Corporate Operations Group	2001	1998
Herve J. Gallaire	57	Senior Vice President President, Xerox Innovation Group and Chief Technology Officer	2001	1997
Gilbert J. Hatch	52	Senior Vice President President, Office Systems Group	1999	1997
Michael C. MacDonald	47	Senior Vice President President, North American Solutions Group	2000	1997

* Member of Xerox Board of Directors.

Name	Age	Present Position	Year Appointed to Present Position	Officer Since
Hector J. Motroni	58	Senior Vice President and Chief Staff Officer	1999	1994
Christina E. Clayton	54	Vice President and General Counsel	2000	2000
Jean-Noel Machon	49	Vice President President, European Solutions Group	2000	2000
James J. Miller	50	Vice President President, Office Printing Business	2001	2000
Gregory B. Tayler	44	Vice President and Treasurer	2001	2000
Leslie F. Varon	45	Vice President and Secretary	2001	2001
Gary R. Kabureck	48	Assistant Controller and Chief Accounting Officer	2001	2000

Each officer named above, with the exception of Lawrence A. Zimmerman and James A. Firestone, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 2002, Mr. Zimmerman had been with System Software Associates, Inc. where he was Executive Vice President and Chief Financial Officer from 1998 - 1999. Prior to that he retired from International Business Machines Corporation (IBM) where he was Senior Finance Executive for IBM's Server Division from 1996 - 1998, Vice President of Finance for Europe, Middle East and Africa Operations from 1994 - 1996 and IBM Corporate Controller from 1991 - 1994. He held various other positions at IBM from 1967 - 1991.

Prior to joining Xerox in 1998, Mr. Firestone had been with IBM where he was General Manager, Consumer Division from 1995 to 1998. He was President, Consumer Services at Ameritech Corporation from 1993 to 1995. Prior to this he was with American Express Company where he was President, Travelers Cheques in 1993, Executive Vice President, Small Business and Corporate Services from 1989 to 1993, President, Travel Related Services-Japan from 1984 to 1989, Vice President, Finance and Planning, Travel Related Services-Japan from 1982 to 1984 and he held various other positions at American Express in Japan and at their headquarters from 1978 to 1982.

PART IV

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

(a) (1) Index to Financial Statements and financial statement schedules, filed as part of this report:

Report of Independent Accountants

Consolidated Statements of Operations for each of the years in the three-year period ended December 31, 2001

Consolidated Balance Sheets as of December 31, 2001 and 2000

Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2001

Consolidated Statements of Common Shareholders' Equity for each of the years in the three-year period ended December 31, 2001

Notes to Consolidated Financial Statements

Financial Statement Schedule

II--Valuation and qualifying accounts

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

(2) Supplementary Data:

Quarterly Results of Operations

Five Years in Review

Commercial and Industrial (Article 5) Schedule

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

(b) Current Reports on Form 8-K dated October 2, 2001, October 3, 2001, October 12, 2001, November 16, 2001, November 19, 2001, November 20, 2001, November 27, 2001, December 20, 2001 and December 27, 2001 reporting Item 5 "Other Events" and a Current Report on Form 8-K dated September 28, 2001 (filed October 5, 2001) reporting Item 4 "Changes in Registrant's Certifying Accountant" and Item 5 "Other Events" were filed during the last quarter of the period covered by this Report.

(c) The management contracts or compensatory plans or arrangements listed in the Index of Exhibits that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2002 Proxy Statement are preceded by an asterisk (*).

(d) Financial statements required by Regulation S-X which are excluded from the annual report to shareholders by Rule 14a-3(b), including (1) separate financial statements of subsidiaries not consolidated and fifty-percent-or-less-owned persons, (2) separate financial statements of affiliates whose securities are pledged as collateral; and (3) schedules.

SIGNATURES

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

XEROX CORPORATION

By: /S/ Anne M. Mulcahy
Chairman of the Board and
Chief Executive Officer

June 28, 2002

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

June 28, 2002

Signature	Title
Principal Executive Officer:	
/S/ Anne M. Mulcahy Anne M. Mulcahy	Chairman of the Board, Chief Executive Officer and Director
Principal Financial Officer:	
/S/ Lawrence A. Zimmerman Lawrence A. Zimmerman	Senior Vice President and Chief Financial Officer
Principal Accounting Officer:	
/S/ Gary R. Kabureck Gary R. Kabureck	Assistant Controller and Chief Accounting Officer

/S/ Antonia Ax:son Johnson Director
- ---
Antonia Ax:son Johnson

/S/ Vernon E. Jordan, Jr. Director
- ---
Vernon E. Jordan, Jr.

/S/ Yotaro Kobayashi Director
- ---
Yotaro Kobayashi

/S/ Hilmar Kopper Director
- ---
Hilmar Kopper

/S/ Ralph S. Larsen Director
- ---
Ralph S. Larsen

/S/ George J. Mitchell Director
- ---
George J. Mitchell

/S/ N. J. Nicholas, Jr. Director
- ---
N. J. Nicholas, Jr.

/S/ John E. Pepper Director
- ---
John E. Pepper

/S/ Martha R. Seger Director
- ---
Martha R. Seger

/S/ Thomas C. Theobald Director
- ---
Thomas C. Theobald

Report of Independent Accountants on Financial Statement Schedule

To the Board of Directors of Xerox Corporation

Our audit of the consolidated financial statements referred to in our report dated June 26, 2002, appearing in the 2001 Annual Report to Shareholders of Xerox Corporation (which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

As discussed in Note 2, the Company has restated its consolidated financial statements for the years ended December 31, 2000 and 1999, previously audited by other independent accountants.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Stamford, Connecticut
June 26, 2002

SCHEDULE II

Valuation and Qualifying Accounts
Year ended December 31, 2001, 2000 and 1999

(in millions)	Balance at beginning of period	Additions charged to bad debt provision (1)	Additions charged to other income statement accounts(1)	Deductions and other, net of recoveries (2)	Balance at end of period
2001					
Allowance for Losses on:					
Accounts Receivable	$289	$154	$30	$167	$306
Finance Receivables	345	284	38	299	368
	$634	$438	$68	$466	$674
2000*					
Allowance for Losses on:					
Accounts Receivable	$148	$299	$58	$216	$289
Finance Receivables	331	174	82	242	345
	$479	$473	$140	$458	$634
1999*					
Allowance for Losses on:					
Accounts Receivable	$105	$202	$16	$175	$148
Finance Receivables	328	184	48	229	331
	$433	$386	$64	$404	$479

* As Restated

(1) Bad debt provisions relate to estimated losses due to credit and similar uncollectibility issues. Other provisions relate to reserves necessary to reflect other customer events of non payments such as customer accommodations and contract terminations due to certain contractual clauses for governmental customers.

(2) Primarily write-offs, but also includes reclassifications from other balance sheet accounts and the impact of foreign currency translation adjustment.

INDEX OF EXHIBITS

Document and Location

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

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

(b) By-Laws of Registrant, as amended through January 1, 2002.

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

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

(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the December 1991 Indenture.

Incorporated by reference to Exhibit 4 (a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(b)(1) Indenture dated as of September 20, 1996, between Registrant and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the "September 1996 Indenture").

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

(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the September 1996 Indenture.

Incorporated by reference to Exhibit 4 (b)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(c)(1) Indenture dated as of January 29, 1997, between Registrant and Bank One, National Association (as successor by merger with The First National Bank of Chicago) ("Bank One"), as trustee (the "January 1997 Indenture"), relating to Registrant's Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debentures").

Incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-24193.

(2) Form of Certificate of Exchange relating to Junior Subordinated Debentures.

Incorporated by reference to Exhibit A to Exhibit 4.1 to Registration Statement No. 333-24193.

(3) Certificate of Trust of Xerox Capital Trust I executed as of January 23, 1997.

Incorporated by reference to Exhibit 4.3 to Registration Statement No. 333-24193.

(4) Amended and Restated Declaration of Trust of Xerox Capital Trust I dated as of January 29, 1997.

Incorporated by reference to Exhibit 4.4 to Registration Statement No. 333-24193.

(5) Form of Exchange Capital Security Certificate for Xerox Capital Trust I.

Incorporated by reference to Exhibit A-1 to Exhibit 4.4 to Registration Statement No. 333-24193.

(6) Series A Capital Securities Guarantee Agreement of Registrant dated as of January 29, 1997, relating to Series A Capital Securities of Xerox Capital Trust I.

Incorporated by reference to Exhibit 4.6 to Registration Statement No. 333-24193.

(7) Registration Rights Agreement dated January 29, 1997, among Registrant, Xerox Capital Trust I and the initial purchasers named therein.

Incorporated by reference to Exhibit 4.7 to Registration Statement No. 333-24193.

(8) Instrument of Resignation, Appointment and Acceptance dated as of November 30, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo Bank Minnesota, National Association ("Wells Fargo"), as successor Trustee, relating to the January 1997 Indenture.

(d) (1) Indenture dated as of October 1, 1997, among Registrant, Xerox Overseas Holding Limited (formerly Xerox Overseas Holding PLC), Xerox Capital (Europe) plc (formerly Rank Xerox Capital (Europe) plc) and Citibank, N.A., as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant and unlimited amounts of guaranteed debt securities which may be issued from time to time by the other issuers when and as authorized by or pursuant to a resolution or resolutions of the Board of Directors of Registrant or the other issuers, as applicable (the "October 1997 Indenture").

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

(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among Registrant, the other issuers under the October 1997 Indenture, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the October 1997 Indenture.

Incorporated by reference to Exhibit 4 (d)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

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

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

(2) Instrument of Resignation, Appointment and Acceptance dated as of July 26, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture (the "April 1998 Indenture Trustee Assignment").

(3) Amendment to Instrument of Resignation, Appointment and Acceptance dated as of October 22, 2001, among Registrant, Bank One as resigning trustee, and Wells Fargo, as successor Trustee, relating to the April 1998 Indenture Trustee Assignment.

(f) Indenture, dated as of July 1, 2001, between Xerox Equipment Lease Owner Trust 2001-1 ("Trust") and U.S. Bank National Association, as trustee, relating to $513,000,000 Floating Rate Asset Backed Notes issued by the Trust .

(g) (1) Indenture, dated as of November 27, 2001, between Registrant and Wells Fargo, as trustee, relating to Registrant's 7-1/2% Convertible Junior Subordinated Debentures Due 2021.

(2) Indenture, dated as of November 27, 2001, between Xerox Funding LLC II and Wells Fargo, as trustee, relating to Xerox Funding LLC II's 7-1/2% Convertible Junior Subordinated Debentures Due 2021.

(3) Amended and Restated Declaration of Trust of Xerox Capital Trust II, dated as of November 27, 2001, by Registrant, as sponsor, Wells Fargo, as property trustee, Wilmington Trust Company, as Delaware trustee, and the administrative trustees named therein, relating to Xerox Capital Trust II's 7-1/2% Convertible Trust Preferred Securities and 7-1/2% Convertible Common Securities.

(4) Pledge Agreement, made as of November 27, 2001, by Xerox Funding LLC II in favor of Wells Fargo, as trustee and for

the holders of Xerox Funding LLC II's 7-1/2% Convertible Junior Subordinated Debentures Due 2021.

(h) (1) Indenture, dated as of January 17, 2002, between Registrant and Wells Fargo, as trustee, relating to Registrant's 9-3/4% Senior Notes due 2009 (Denominated in U.S. Dollars) (the "January 17, 2002 U.S. Dollar Indenture").

(2) Indenture, dated as of January 17, 2002, between Registrant and Wells Fargo, as trustee, relating to Registrant's 9-3/4% Senior Notes due 2009 (Denominated in Euros) (the "January 17, 2002 Euro Indenture").

(3) Registration Rights Agreement, dated as of January 17, 2002, among Registrant and the initial purchasers named therein, relating to Registrant's $600,000,000 9-3/4% Senior Notes due 2009.

(4) Registration Rights Agreement, dated as of January 17, 2002, among Registrant and the initial purchasers named therein, relating to Registrant's (euro)225,000,000 9-3/4% Senior Notes due 2009.

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

Incorporated by reference to Exhibit (4)(h)(5) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit (4)(h)(6) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

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

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

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

(2) Instrument of Resignation, Appointment and Acceptance dated as of February 1, 2001, among XCC, Citibank, N.A., as resigning trustee, and Wilmington Trust Company, as successor trustee, relating to the April 1999 XCC Indenture.

Incorporated by reference to Exhibit 4 (h)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(k) $7,000,000,000 Revolving Credit Agreement, dated October 22, 1997, among Registrant, XCC and certain Overseas Borrowers, as Borrowers, various lenders and Morgan Guaranty Trust Company of New York, The Chase Manhattan Bank, Citibank, N.A. and Bank One, as Agents.

Incorporated by reference to Exhibit 4(h) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.

(l) (1) Amended and Restated Revolving Credit Agreement, dated as of June 21, 2002, among Registrant and Overseas Borrowers, as Borrowers, various Lenders and Bank One, N.A., JPMorgan Chase Bank, and Citibank, N.A. as Agents (the "Amended Credit Agreement").

Incorporated by reference to Exhibit 4(l)(1) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit 4 (l) (2) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit 4 (l) (3) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit 4 (l) (4) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit 4 (l) (5) to Registrant's Current Report on Form 8-K dated June 21, 2002.

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

Incorporated by reference to Exhibit 4 (l) (6) to Registrant's Current Report on Form 8-K dated June 21, 2002.

(m) Master Demand Note dated November 20, 2001 between Registrant and Xerox Credit Corporation.

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

(10) The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2002 Proxy Statement are preceded by an asterisk (*).

*(a) Registrant's Form of Salary Continuance Agreement.

*(b) Registrant's 1991 Long-Term Incentive Plan, as amended through October 9, 2000.

Incorporated by reference to Exhibit 10 (b) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

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

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

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

*(e) 1997 Restatement of Registrant's Unfunded Retirement Income Guarantee Plan, as amended through October 9, 2000.

Incorporated by reference to Exhibit 10 (e) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

*(f) 1997 Restatement of Registrant's Unfunded Supplemental Retirement Plan, as amended through October 9, 2000

Incorporated by reference to Exhibit 10 (f) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(g) Executive Performance Incentive Plan.

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

*(i) Form of severance agreement entered into with various executive officers, effective October 15, 2000

Incorporated by reference to Exhibit 10 (i)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

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

Incorporated by reference to Exhibit 10(j) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1999.

(k) Registrant's Deferred Compensation Plan for Directors, 1997 Amendment and Restatement, as amended through October 9, 2000.

Incorporated by reference to Exhibit 10 (k) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

*(l) Registrant's Deferred Compensation Plan for Executives, 1997 Amendment and Restatement, as amended through October 9, 2000.

Incorporated by reference to Exhibit 10 (l) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

*(m) letter Agreement dated June 4, 1997 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.

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

*(n) Registrant's 1998 Employee Stock Option Plan, as amended through October 9, 2000.

Incorporated by reference to Exhibit 10 (n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

*(o) Registrant's CEO Challenge Bonus Program.

Incorporated by reference to Exhibit 10 (o) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

*(p) Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant.

Incorporated by reference to Exhibit 10 (p) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2000.

*(q) Letter Agreement dated December 4, 2000 between Registrant and William F. Buehler, Vice Chairman of Registrant.

Incorporated by reference to Exhibit 10 (p) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(r) (1) Separation Agreement dated October 3, 2001 between Registrant and Barry D. Romeril, Vice Chairman and Chief Financial Officer of Registrant.

(2) Form of Release between Registrant and Barry D. Romeril, Vice Chairman and Chief Financial Officer of Registrant.

(s) Letter Agreement dated April 2, 2001 between Registrant and Carlos Pascual, Executive Vice President of Registrant.

Incorporated by reference to Exhibit 10 (s) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 filed on June 7, 2001.

(t) (1) Master Supply Agreement, dated as of November 30, 2001, between Registrant and Flextronics International Ltd. **

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

(13) Registrant's 2001 Annual Report to Shareholders.

(21) Subsidiaries of Registrant.

(23) Consent of PricewaterhouseCoopers LLP.

(99.1) Order under Section 36 of the Securities Exchange Act of 1934 Granting Exemptions from Certain Provisions of the Act and Rules Thereunder, dated April 11, 2002 (Release No. 45730).

Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K dated April 11, 2002.

(99.2) Directors and Officers Information

** Pursuant to the Freedom of Information Act, the confidential portion of this material has been omitted and filed separately with the Securities and Exchange Commission.

Exhibit 3(b)

BY-LAWS

of

XEROX CORPORATION

January 1, 2002

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. Annual Meetings: A meeting of shareholders entitled to vote shall be held for the election of Directors and the transaction of other business each year in such month and on such day (except a Saturday, Sunday, or holiday) as determined by the Board of Directors.

SECTION 2. Special Meetings: Special Meetings of the shareholders may be called at any time by the Chairman of the Board or the Board of Directors.

SECTION 3. Place of Meetings: Meetings of shareholders shall be held at the principal office of the Company or at such other place, within or without the State of New York, as may be fixed by the Board of Directors.

SECTION 4. Notice of Meetings:

(a) Notice of each meeting of shareholders shall be in writing and shall state the place, date and hour of the meeting. Notice of a Special Meeting shall state the purpose or purposes for which it is being called and shall also indicate that it is being issued by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders, fulfilling the requirements of Section 623 of the Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose and to that effect.

(b) A copy of the notice of any meeting shall be given, personally or by mail, not less than ten nor more than sixty days before the date of the meeting, to each shareholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the shareholder at his or her address as it appears on the record of shareholders, or, if he or she shall have filed with the Secretary a written request that notices to him or her be mailed to some other address, then directed to him or her at such other address.

(c) Notice of meeting need not be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by him or her.

SECTION 5. Quorum and Adjourned Meetings:

(a) At any Annual or Special Meeting the holders of a majority of the votes of shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of any business, provided that when a specified item of business is required to be voted on by a

class or series, voting as a class, the holders of a majority of the votes of shares of such class or series shall constitute a quorum for the transaction of such specified item of business. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

(b) Despite the absence of a quorum, the shareholders present may adjourn the meeting to another time and place, and it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. If after the adjournment, however, the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder on the new record date entitled to notice under Section 4 of this Article I of the By-Laws.

SECTION 6. Nominations and Business at Meetings:

At any annual meeting of shareholders, only persons who are nominated or business which is proposed in accordance with the procedures set forth in this Section 6 shall be eligible for election as Directors or considered for action by shareholders. Nominations of persons for election to the Board of Directors of the Company may be made or business proposed at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the Company entitled to vote at the meeting who complies with the notice and other procedures set forth in this Section 6. Such nominations or business proposals, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Company and such business proposals must, under applicable law, be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 120 days nor more than 150 days in advance of the date which is the anniversary of the date the Company's proxy statement was released to security holders in connection with the previous year's annual meeting; provided, that, if the Company did not hold such previous year's annual meeting or if the anniversary date of the current year's annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, then such shareholder's notice shall be so delivered or mailed and received within a reasonable time before the Company begins to print and mail its proxy statement.

Such shareholder's notice shall set forth (a) as to each person whom such shareholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of such person on whose behalf such proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the Company's books and (ii) the class and number of shares of the Company which are beneficially owned by such shareholder. No person shall be eligible for election as a Director of the Company and no business shall be conducted at the annual meeting of shareholders unless nominated or proposed in accordance with the procedures set forth in this Section 6. The Chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination or proposal was not made in accordance with the provisions of this Section 6 and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination or proposal shall be disregarded.

SECTION 7. Organization: At every meeting of the shareholders, the Chairman of the Board, or in his or her absence an Executive Vice President designated by the Chairman of the Board, or in the absence of such officers, a person selected by the meeting, shall act as chairman of the meeting. The Secretary or, in his or her absence, an Assistant Secretary shall act as secretary of the meeting, and in the absence of both the Secretary and an Assistant Secretary, a person selected by the meeting shall act as secretary of the meeting.

SECTION 8. Voting:

(a) Whenever any corporate action, other than the election of Directors, is to be taken by vote of the shareholders, it shall, except as otherwise required by law or by the Certificate of Incorporation be authorized by a majority of the votes cast in favor of or against such action at a meeting of shareholders by the holders of shares entitled to vote thereon. An abstention shall not constitute a vote cast.

(b) Directors shall, except as otherwise required by law, be elected by a plurality of the votes cast at a meeting of shareholders by holders of shares entitled to vote in the election.

SECTION 9. Qualification of Voters:

(a) Every shareholder of record of Common Stock and Series B Convertible Preferred Stock of the Company shall be entitled at every meeting of such shareholders to one vote for every share of Common Stock and Series B Convertible Preferred Stock, respectively, standing in his or her name on the record of shareholders.

(b) Shares of stock belonging to the Company and shares held by another domestic or foreign corporation of any type or kind, if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the Company, shall not be shares entitled to vote or to be counted in determining the total number of outstanding shares.

(c) Shares held by an administrator, executor, guardian, conservator, committee, or other fiduciary, except a trustee, may be voted by him or her, either in person or by proxy, without transfer of such shares into his or her name. Shares held by a trustee may be voted by him or her, either in person or by proxy, only after the shares have been transferred into his or her name as trustee or into the name of his or her nominee.

(d) Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such officer, agent or proxy as the By-Laws of such corporation may provide, or in the absence of such provision, as the Board of Directors of such corporation may provide.

SECTION 10. Proxies:

(a) Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him or her by proxy.

(b) No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided by law.

(c) The authority of the holder of a proxy to act shall not be revoked by the incompetence or death of the shareholder who executed the proxy unless, before the authority is exercised, written notice of an adjudication of such incompetence or of such death is received by the Secretary or an Assistant Secretary.

(d) Without limiting the manner in which a shareholder may authorize another person or persons to act for him or her as proxy pursuant to paragraph (a) of this Section, the following shall constitute a valid means by which a shareholder may grant such authority:

(1) A shareholder may execute a writing authorizing another person or persons to act for him or her as proxy. Execution may be accomplished by the shareholder or the shareholder's authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A shareholder may authorize another person or persons to act for the shareholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be reasonably determined that the telegram, cablegram or other electronic transmission was authorized by the shareholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors shall specify the nature of the information upon which they relied.

(e) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to paragraph (d) of this Section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile, telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

SECTION 11. Inspectors of Election:

(a) The Board of Directors, in advance of any shareholders' meeting, shall appoint one or more inspectors to act at the meeting or any adjournment thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed, or if such persons are unable to act at a meeting of shareholders, the person presiding at a shareholders' meeting shall appoint one or more inspectors. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his or her ability.

(b) The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

SECTION 12. List of Shareholders at Meetings: A list of shareholders as of the record date, certified by the Secretary or by the transfer agent, shall be produced at any meeting of shareholders upon the request thereat or prior thereto of any shareholder. If the right to vote at any meeting is

challenged, the inspectors of election, or person presiding thereat shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. Power of Board and Qualification of Directors: The business of the Company shall be managed under the direction of the Board of Directors, each of whom shall be at least eighteen years of age.

SECTION 2. Number, Term of Office and Classification:

(a) The Board of Directors shall consist of not less than five nor more than twenty-one members. The number of Directors shall be determined from time to time by resolution of a majority of the entire Board of Directors then in office, provided that no decrease in the number of Directors shall shorten the term of any incumbent Director. At each Annual Meeting of shareholders Directors shall be elected to hold office until the next annual meeting.

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

(c) All Directors shall have equal voting power.

SECTION 3. Organization: At each meeting of the Board of Directors, the Chairman of the Board, or in his or her absence, a chairman chosen by a

majority of the Directors present shall preside. The Secretary shall act as secretary of the Board of Directors. In the event the Secretary shall be absent from any meeting of the Board of Directors, the meeting shall select its secretary.

SECTION 4. Resignations: Any Director of the Company may resign at any time by giving written notice to the Chairman of the Board or to the Secretary of the Company. Such resignation shall take effect at the time specified therein or, if no time be specified, then on delivery.

SECTION 5. Vacancies: Newly created directorships resulting from an increase in the number of Directors and vacancies occurring in the Board of Directors for any reason except the removal of Directors without cause may be filled by a vote of a majority of the Directors then in office, although less than a quorum exists. A Director elected to fill a vacancy shall hold office until the next annual meeting.

SECTION 6. Place of Meeting: The Board of Directors may hold its meetings at such place or places within or without the State of New York as the Board of Directors may from time to time by resolution determine.

SECTION 7. First Meeting: On the day of each annual election of Directors, the Board of Directors shall meet for the purpose of organization and the transaction of other business. Notice of such meeting need not be given. Such first meeting may be held at any other time which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors.

SECTION 8. Regular Meetings: Regular meetings of the Board of Directors may be held at such times as may be fixed from time to time by resolution of the Board of Directors without notice.

SECTION 9. Special Meetings: Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, or by any two of the Directors. Oral, telegraphic or written notice shall be given, sent or mailed not less than one day before the meeting and shall state, in addition to the purposes, the date, place and hour of such meeting.

SECTION 10. Waivers of Notice: Notice of a meeting need not be given to any Director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him or her.

SECTION 11. Quorum and Manner of Acting:

(a) If the number of Directors is twelve or more, seven Directors shall constitute a quorum for the transaction of business or any specified item of business. If the number of Directors is less than twelve, a majority of the entire Board of Directors shall constitute a quorum.

(b) A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting to another time and place without notice to any Director.

SECTION 12. Written Consents: Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or the committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of the proceedings of the Board or committee.

SECTION 13. Participation At Meetings By Telephone: Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the

meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

SECTION 14. Compensation: The Board of Directors shall have authority to fix the compensation of Directors for services in any capacity.

SECTION 15. Interested Directors:

(a) No contract or other transaction between the Company and one or more of its Directors, or between the Company and any other corporation, firm, association or other entity in which one or more of its Directors are directors or officers, or are financially interested, shall be either void or voidable for this reason alone or by reason alone that such Director or Directors are present at the meeting of the Board of Directors, or of a committee thereof, which approves such contract or transaction, or that his or her or their votes are counted for such purpose, provided that the parties to the contract or transaction establish affirmatively that it was fair and reasonable as to the Company at the time it was approved by the Board, a committee, or the shareholders.

(b) Any such contract or transaction may not be avoided by the Company for the reasons set forth in (a) if

(1) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the Board or committee, and the Board or committee approves such contract or transaction by a vote sufficient for such purpose without counting the vote of such interested Director or, if the votes of the disinterested Directors are insufficient for such purpose, by unanimous vote of the disinterested Directors (although common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which approves such contract or transactions), or

(2) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the shareholders entitled to vote thereon, and such contract or transaction is approved by vote of such shareholders.

SECTION 16. Loans to Directors: The Company may not lend money to or guarantee the obligation of a Director of the Company unless the particular loan or guarantee is approved by the shareholders, with the holders of a majority of the shares entitled to vote thereon constituting a quorum, but shares held of record or beneficially by Directors who are benefited by such loan or guarantee shall not be entitled to vote or to be included in the determination of a quorum.

ARTICLE III

EXECUTIVE COMMITTEE

SECTION 1. How Constituted and Powers: There shall be an Executive Committee, consisting of not less than three nor more than nine Directors, including the Chairman of the Board elected by a majority of the entire Board of Directors, who shall serve at the pleasure of the Board. The Chairman of the Board shall be the Chairman of the Executive Committee. The Executive Committee shall have all the authority of the Board, except it shall have no authority as to the following matters:

(a) The submission to shareholders of any action that needs shareholders' authorization.

(b) The filling of vacancies in the Board or in any committee.

(c) The fixing of compensation of the Directors for serving on the Board or on any committee.

(d) The amendment or repeal of the By-Laws, or the adoption of new By-Laws.

(e) The amendment or repeal of any resolution of the Board which, by its terms, shall not be so amendable or repealable.

(f) The declaration of dividends.

SECTION 2. Meetings: Meetings of the Executive Committee, of which no notice shall be necessary, shall be held on such days and at such place as shall be fixed, either by the Chairman of the Board or by a vote of the majority of the whole Committee.

SECTION 3. Quorum and Manner of Acting: Unless otherwise provided by resolution of the Board of Directors, a majority of the Executive Committee shall constitute a quorum for the transaction of business and the act of a majority of all of the members of the Committee, whether present or not, shall be the act of the Executive Committee. The members of the Executive Committee shall act only as a Committee. The procedure of the Committee and its manner of acting shall be subject at all times to the directions of the Board of Directors.

SECTION 4. Additional Committees: The Board of Directors by resolution adopted by a majority of the entire Board may designate from among its members additional committees, each of which shall consist of one or more Directors and shall have such authority as provided in the resolution designating the committee, except such authority shall not exceed the authority conferred on the Executive Committee by Section 1 of this Article.

SECTION 5. Alternate Members: The Board of Directors may designate one or more eligible Directors as alternate members of the Executive Committee, or of any other committee of the Board, who may replace any absent or disqualified member or members at any meeting of any such committee.

ARTICLE IV

OFFICERS

SECTION 1. Number: The officers of the Company shall be a Chairman of the Board, one or more Vice Presidents, a Treasurer, a Secretary, a Controller, and such other officers as the Board of Directors may in its discretion elect. Any two or more offices may be held by the same person.

SECTION 2. Term of Offices and Qualifications: Those officers whose titles are specifically mentioned in Section 1 of this Article IV shall be chosen by the Board of Directors on the day of the Annual Meeting. Unless a shorter term is provided in the resolution of the Board electing such officer, the term of office of such officer shall extend to and expire at the meeting of the Board held on the day of the next Annual Meeting. The Chairman of the Board shall be chosen from among the Directors.

SECTION 3. Additional Officers: Additional officers other than those whose titles are specifically mentioned in Section 1 of this Article IV shall be elected for such period, have such authority and perform such duties, either in an administrative or subordinate capacity, as the Board of Directors may from time to time determine.

SECTION 4. Removal of Officers: Any officer may be removed by the Board of Directors with or without cause, at any time. Removal of an officer without cause shall be without prejudice to his or her contract rights, if any, but his or her election as an officer shall not of itself create contract

rights.

SECTION 5. Resignation: Any officer may resign at any time by giving written notice to the Board of Directors, or to the Chairman of the Board or to the Secretary. Any such resignation shall take effect at the time specified therein, or if no time be specified, then upon delivery.

SECTION 6. Vacancies: A vacancy in any office shall be filled by the Board of Directors.

SECTION 7. Chairman of the Board: The Chairman of the Board shall preside at all meetings of the shareholders at which he or she is present, unless at such meetings the shareholders shall appoint a chairman other than the Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Directors at which he or she is present. The Chairman of the Board shall also be the Chairman of the Executive Committee and shall preside at meetings of the Executive Committee of the Board of Directors. The Chairman shall act as the Chief Executive Officer of the Company and it shall be his or her duty to supervise generally the management of the business of the Company with responsibility direct to the Board and subject to the control of the Board. The Chairman of the Board shall have such powers and perform such other duties as may be assigned to him or her by the Board.

SECTION 8. The Vice Presidents: Each Vice President shall have such powers and shall perform such duties as may be assigned to him or her by the Board of Directors or the Chairman of the Board.

SECTION 9. The Treasurer: The Treasurer shall, if required by the Board of Directors, give a bond for the faithful discharge of his or her duties, in such sum and with such sureties as the Board of Directors shall require. He or she shall have charge and custody of, and be responsible for, all funds and securities of the Company, and deposit all such funds in the name of and to the credit of the Company in such banks, trust companies, or other depositories as shall be selected by the Board of Directors. The Treasurer may sign certificates for stock of the Company authorized by the Board of Directors. He or she shall also perform all other duties customarily incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the Board of Directors.

SECTION 10. The Controller: The Controller shall keep and maintain the books of account for internal and external reporting purposes. He or she shall also perform all other duties customarily incident to the office of Controller and such other duties as may be assigned to him or her from time to time by the Board of Directors. If no Controller shall then be serving, or in the absence or inability to act of the Controller, an Assistant Controller shall perform all of the duties and exercise all of the powers of the Controller. If there is more than one Assistant Controller serving at such time, the Chief Executive Officer of the Company shall select the Assistant Controller to perform such duties and exercise such powers.

SECTION 11. The Secretary: It shall be the duty of the Secretary to act as secretary of all meetings of the Board of Directors, and of the shareholders, and to keep the minutes of all such meetings at which he or she shall so act in a proper book or books to be provided for that purpose; he or she shall see that all notices required to be given by the Company are duly given and served; he or she may sign and execute in the name of the Company certificates for the stock of the Company, deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors; he or she shall prepare, or cause to be prepared, for use at meetings of shareholders the list of shareholders as of the record date referred to in Article I, Section 12 of these By-Laws and shall certify, or cause the transfer agent to certify, such list; he or she shall keep a current list of the Company's Directors and officers and their residence addresses; he or she shall be custodian of the seal of the Company and shall affix the seal, or cause it to be affixed, to all agreements, documents and other papers requiring the same. The Secretary

shall have custody of the Minute Book containing the minutes of all meetings of shareholders, Directors, the Executive Committee, and any other committees which may keep minutes, and of all other contracts and documents which are not in the custody of the Treasurer or the Controller of the Company, or in the custody of some other person authorized by the Board of Directors to have such custody.

SECTION 12. Appointed Officers: The Board of Directors may delegate to any officer or committee the power to appoint and to remove any subordinate officer, agent or employee.

SECTION 13. Assignment and Transfer of Stocks, Bonds, and Other Securities: The Chairman of the Board, the Treasurer, the Secretary, any Assistant Secretary, any Assistant Treasurer, and each of them, shall have power to assign, or to endorse for transfer, under the corporate seal, and to deliver, any stock, bonds, subscription rights, or other securities, or any beneficial interest therein, held or owned by the Company.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS AND BANK ACCOUNTS

SECTION 1. Execution of Contracts: The Board of Directors, except as in these By-Laws otherwise provided, may authorize any officer or officers, agent, or agents, in the name of and on behalf of the Company to enter into any contract or execute and dliver any instrument, and such authority may be general or confined to specific instances; but, unless so authorized by the Board of Directors, or expressly authorized by these By-Laws, no officer, agent or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable pecuniarily in any amount for any purpose.

SECTION 2. Loans: No loans shall be contracted on behalf of the Company, and no negotiable paper shall be issued in its name unless specifically authorized by the Board of Directors.

SECTION 3. Checks, Drafts, etc.: All checks, drafts, and other orders for the payment of money out of the funds of the Company, and all notes or other evidences of indebtedness of the Company, shall be signed on behalf of the Company in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. Deposits: All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VI

STOCKS AND DIVIDENDS

SECTION 1. Shares of Stock: Shares of stock of the Company shall be represented by certificates except to the extent that the Board of Directors of the Company shall provide by resolution that some or all of any or all classes and series of the Company's shares shall be uncertificated shares, provided that such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Company. Except as otherwise expressly provided by law, the rights and obligations of holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of the same class and series shall be identical.

SECTION 2. Certificates For Shares. To the extent that shares of stock of the Company are to be represented by certificates, the certificates therefor shall be in such form as shall be approved by the Board of Directors.

The certificates of stock shall be numbered in order of their issue, shall be signed by the Chairman of the Board or a Vice President, and the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer. The signature of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Company itself or its employee. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he or she were an officer at the date of issue.

SECTION 3. Transfer of Stock: Transfers of stock of the Company shall be made only on the books of the Company by the holder thereof, or by his or her duly authorized attorney, on surrender of the certificate or certificates for stock represented by certificates, properly endorsed, or in the case of shares of stock not represented by certificates, on delivery to the Company of proper transfer instructions. Within a reasonable time after the issuance or transfer of uncertificated stock, the Company shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the Business Corporation Law of the State of New York. Every certificate surrendered to the Company shall be marked "Canceled", with the date of cancellation, and no new certificate shall be issued in exchange therefor until the old certificate has been surrendered and canceled. A person in whose name stock of the Company stands on the books of the Company shall be deemed the owner thereof as regards the Company; provided that, whenever any transfer of stock shall be made for collateral security, and not absolutely, such fact, if known to the Secretary of the Company, or to its transfer agent shall be so expressed in the entry of the transfer. No transfer of stock shall be valid as against the Company, or its shareholders for any purpose, until it shall have been entered in the stock records of the Company as specified in these By-Laws by an entry showing from and to whom transferred.

SECTION 4. Transfer and Registry Agents: The Company may, from time to time, maintain one or more transfer offices or agencies and/or registry offices at such place or places as may be determined from time to time by the Board of Directors; and the Board of Directors may, from time to time, define the duties of such transfer agents and registrars and make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for stock or uncertificated stock of the Company.

SECTION 5. Lost, Destroyed and Mutilated Certificates: The holder of any certificated stock of the Company shall immediately notify the Company of any loss, destruction or mutilation of the certificate therefor. The Company may issue a new certificate or uncertificated stock in place of the lost or destroyed certificate, but as a condition to such issue, the holder of such certificate must make satisfactory proof of the loss or destruction thereof, and must give to the Company a bond of indemnity in form and amount and with one or more sureties satisfactory to the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary. Such bond of indemnity shall also name as obligee each of the transfer agents and registrars for the stock the certificate for which has been lost or destroyed.

SECTION 6. Record Dates for Certain Purposes: The Board of Directors of the Company shall fix a day and hour not more than sixty days preceding the date of any meeting of shareholders, or the date for payment of any cash or stock dividend, or the date for the allotment of any rights of subscription, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or entitled to receive any such allotment of rights of subscription, or entitled to exercise rights in respect of any such change, conversion or exchange of capital stock, and in such case, such shareholders and only such shareholders as shall be

shareholders of record on the day and hour so fixed shall be entitled to such notice of, and to vote at, such meeting or any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights of subscription, or to exercise rights in connection with such change or conversion or exchange of capital stock, as the case may be, notwithstanding any transfer of any stock on the books of the Company after such day and hour fixed as aforesaid.

SECTION 7. Dividends and Surplus: Subject to the limitations prescribed by law, the Board of Directors (1) may declare dividends on the stock of the Company whenever and in such amounts as, in its opinion, the condition of the affairs of the Company shall render it advisable, (2) may use and apply, in its discretion, any part or all of the surplus of the Company in purchasing or acquiring any of the shares of stock of the Company, and (3) may set aside from time to time out of such surplus or net profits such sum or sums as it in its absolute discretion, may think proper as a reserve fund to meet contingencies or for equalizing dividends, or for the purpose of maintaining or increasing the property or business of the Company, or for any other purpose it may think conducive to the best interest of the Company.

ARTICLE VII

OFFICES AND BOOKS

SECTION 1. Offices: The Company shall maintain an office at such place in the County of Monroe, State of New York, as the Board of Directors may determine. The Board of Directors may from time to time and at any time establish other offices of the Company or branches of its business at whatever place or places seem to it expedient.

SECTION 2. Books and Records:

(a) There shall be kept at one or more offices of the Company (1) correct and complete books and records of account, (2) minutes of the proceedings of the shareholders, Board of Directors and the Executive Committee, (3) a current list of the Directors and officers of the Company and their residence addresses, and (4) a copy of these By-Laws.

(b) The stock records may be kept either at the office of the Company or at the office of its transfer agent or registrar in the State of New York, if any, and shall contain the names and addresses of all shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

ARTICLE VIII

GENERAL

SECTION 1. Seal: The corporate seal shall be in the form of a circle and shall bear the full name of the Company and the words and figures "Incorporated 1906, Rochester, N. Y.".

SECTION 2. Indemnification of Directors and Officers: Except to the extent expressly prohibited by law, the Company shall indemnify any person, made or threatened to be made, a party in any civil or criminal action or proceeding, including an action or proceeding by or in the right of the Company to procure a judgment in its favor or by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any Director or officer of the Company served in any capacity at the request of the Company, by reason of the fact that he or she, his or her testator or intestate is or was a Director or officer of the Company or serves or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity, against judgments, fines, penalties, amounts paid in settlement and reasonable expenses, including

attorneys' fees, incurred in connection with such action or proceeding, or any appeal therein, provided that no such indemnification shall be required with respect to any settlement unless the Company shall have given its prior approval thereto. Such indemnification shall include the right to be paid advances of any expenses incurred by such person in connection with such action, suit or proceeding, consistent with the provisions of applicable law. In addition to the foregoing, the Company is authorized to extend rights to indemnification and advancement of expenses to such persons by i) resolution of the shareholders, ii) resolution of the Directors or iii) an agreement, to the extent not expressly prohibited by law.

ARTICLE IX

FISCAL YEAR

SECTION 1. Fiscal Year: The fiscal year of the Company shall end on the 31st day of December in each year.

ARTICLE X

AMENDMENTS

SECTION 1. Amendments: By-Laws of the Company may be amended, repealed or adopted by a majority of the votes of the shares at the time entitled to vote in the election of any Directors. If, at any meeting of shareholders, action is proposed to be taken to amend, repeal or adopt By-Laws, the notice of such meeting shall include a brief statement or summary of the proposed action. The By-Laws may also be amended, repealed or adopted by the Board of Directors, but any By-Law adopted by the Board may be amended or repealed by shareholders entitled to vote thereon as hereinabove provided. If any By-Law regulating an impending election of Directors is adopted, amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of shareholders for the election of Directors the By-Law so adopted, amended or repealed, together with a concise statement of the changes made.

INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE ("this Instrument"), dated as of November 30, 2001 among Xerox Corporation (the "Company"), Bank One, N.A. (as successor by merger with The First National Bank of Chicago), a national banking association duly organized and existing under the laws of the United States, having its principal Corporate Trust Office at c/o 100 East Broad Street, 8th Floor, Columbus, Ohio, 43215 ("Bank One"), and Wells Fargo Bank Minnesota, National Association, a national banking association duly organized and existing under the laws of the United States, having its principal office at Wells Fargo Center, Sixth Street and Marquette Avenue; N9303-120, Minneapolis, Minnesota 55479 ("Wells Fargo").

RECITALS:

A. Property Trustee and Capital Securities

1. Xerox Capital Trust I (the "Trust"), a Delaware statutory business trust, was established pursuant to an Amended and Restated Declaration of Trust, dated as of January 29, 1997 (the "Declaration of Trust") among Administrative Trustees named therein (the "Administrative Trustees"), Bank One, as Property Trustee, First Chicago Delaware Inc., as Delaware Trustee, and the Company, as sponsor (in such capacity, the "Sponsor").

2. Pursuant to the Declaration of Trust, the Trust issued $650,000,000 aggregate principal amount at maturity of its 8% Series A Capital Securities ("Series A Capital Securities") and $20,103,000 aggregate principal amount at maturity of its 8% Series A Common Securities ("Series A Common Securities").

3. Pursuant to the terms and conditions of the Prospectus dated May 9, 1997 of the Trust and the Company (the "Exchange Offer Prospectus"), the Declaration of Trust, the Series A Capital Securities Guarantee (as defined below) and the Indenture (as defined below), the Trust issued (a) $649,200,000 aggregate principal amount at maturity of its 8% Series B Capital Securities ("Series B Capital Securities" and, together with the Series A Capital Securities, the "Capital Securities") in exchange for $649,200,000 aggregate principal amount at maturity of its 8% Series A Capital Securities and (b) $20,103,000 aggregate principal amount at maturity of its 8% Series B Common Securities ("Series B Common Securities" and, together with the Series A Common Securities, the "Common Securities") in exchange for $20,103,000 aggregate principal amount at maturity of its 8% Series A Common Securities.

4. Pursuant to the Declaration of Trust, the Trust appointed Bank One as the Property Trustee of the Trust (in such capacity, the "Property Trustee"), and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities (in such capacities, the "Registrar", the "Paying Agent" and the "Exchange Agent", respectively), and the Trust acts as the Paying Agent, Registrar and Exchange Agent for the Common Securities;

5. The Declaration of Trust provides that (i) the Property Trustee may resign as such by an instrument in writing signed by the resigning Property Trustee and delivered to the Sponsor and the Trust, which resignation to be effective upon appointment of a successor Property Trustee and acceptance of such appointment by instrument signed by such successor Property Trustee and delivered to the Trust, the Sponsor and the resigning Property Trustee, and (ii) the Paying Agent may resign as such for the Capital Securities upon 30 days' written notice to the Administrative Trustees.

6. The Declaration of Trust provides that (i) unless an Event of Default (as defined therein) shall have occurred and be continuing, trustees, including the Property Trustee, may be appointed or removed without cause at

any time by vote of the holders of a majority in liquidation amount of the Common Securities and (ii) the Administrative Trustees, on behalf of the Trust, are authorized to appoint the Registrar, Paying Agent and Exchange Agent for the Capital Securities.

7. Bank One wishes to resign as the Property Trustee and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities; and the Company, as the sole holder of the Common Securities, wishes to appoint Wells Fargo as the successor Property Trustee, and the undersigned Administrative Trustee, on behalf of the Trust, wishes to appoint Wells Fargo as the successor Registrar, Paying Agent and Exchange Agent for the Capital Securities.

B. Capital Securities Guarantee

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1. Pursuant to the Series A Capital Securities Guarantee Agreement dated as of January 29, 1997, executed and delivered by the Company, as guarantor (in such capacity, the "Guarantor"), Bank One, as trustee, for the benefit of the holders of the Series A Capital Securities (the "Series A Capital Securities Guarantee"), the Guarantor appointed Bank One as guarantee trustee (the "Series A Capital Securities Guarantee Trustee");

2. Pursuant to the Series B Capital Securities Guarantee Agreement dated as of June 13, 1997, executed and delivered by the Guarantor, Bank One, as trustee, for the benefit of the holders of the Series B Capital Securities (the "Series B Capital Securities Guarantee" and, together with the Series A Capital Securities Guarantee, the "Capital Securities Guarantee"), the Guarantor appointed Bank One as guarantee trustee (the "Series B Capital Securities Guarantee Trustee" and, in its capacity as the Series A Capital Securities Guarantee Trustee and the Series B Capital Securities Guarantee Trustee, the "Capital Securities Guarantee Trustee"); and

3. The Capital Securities Guarantee provides that the Capital Securities Guarantee Trustee may resign as such by an instrument in writing signed by the Capital Securities Guarantee Trustee and delivered to the Guarantor, which resignation to be effective upon appointment of a successor Capital Securities Guarantee Trustee and acceptance of such appointment by instrument signed by such successor Capital Securities Guarantee Trustee and delivered to the Guarantor and the resigning Capital Securities Guarantee Trustee.

4. Bank One wishes to resign as the Capital Securities Guarantee Trustee, and Guarantor wishes to appoint Wells Fargo as the successor Capital Securities Guarantee Trustee.

C. Subordinated Debentures

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1. Bank One has been appointed as trustee (in such capacity, the "Debenture Trustee") under the Indenture dated as of January 29, 1997 (the "Indenture"), between the Company and such Debenture Trustee, pursuant to which the Company issued $650,000,000 in aggregate principal amount at maturity of 8% Series A Junior Subordinated Debentures due February 1, 2027 (the "Series A Subordinated Debentures").

2. Pursuant to the terms and conditions of the Exchange Offer Prospectus, the Declaration of Trust, the Series A Capital Securities Guarantee and the Indenture, the Trust issued $649,200,000 aggregate principal amount at maturity of its 8% Series B Subordinated Debentures ("Series B Subordinated Debentures" and, together with the Series A Subordinated Debentures, the "Subordinated Debentures") in exchange for $649,200,000 aggregate principal amount at maturity of its 8% Series A Subordinated Debentures.

3. Bank One, as the Debenture Trustee, also acts as the Authenticating

Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures under the Indenture.

4. The Indenture provides that the Debenture Trustee may resign as such by giving written notice of such resignation to the Company and by mailing notice thereof to the holders of the Trust, the sole registered holder of the Subordinated Debentures, which resignation to be effective upon appointment of a successor Debenture Trustee and acceptance of such appointment by instrument signed by such successor Debenture Trustee and delivered to the Company and the resigning Debenture Trustee.

5. Bank One wishes to resign as the Debenture Trustee, and as the Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, and the Company wishes to appoint Wells Fargo as the successor Debenture Trustee, and as the successor Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures.

D. Bank One, in its capacities as the resigning Property Trustee, the resigning Registrar, Paying Agent and Exchange Agent for the Capital Securities, the resigning Capital Securities Guarantee Trustee, the resigning Debenture Trustee and the resigning Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, collectively, is hereinafter referred to as the "Resigning Trustee"; and Wells Fargo, in its capacities as the successor Property Trustee, the successor Registrar, Paying Agent and Exchange Agent for the Capital Securities, the successor Capital Securities Guarantee Trustee, the successor Debenture Trustee and the successor Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, collectively, is hereinafter referred to as the "Successor Trustee".

NOW, THEREFORE, for and in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby covenanted, declared and decreed by the Company, the Sponsor, the Guarantor, the Trust, the Successor Trustee and the Resigning Trustee as follows:

1. Property Trustee; and Registrar, Paying Agent and Exchange Agent for the Capital Securities.

(a) Bank One hereby resigns, and hereby gives notice of its resignation, as the Property Trustee and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities, such resignation to be effective as of the date hereof upon the execution and delivery of this Instrument by all the parties hereto. Simultaneously with the execution and delivery of this Instrument by all the parties hereto, (i) the undersigned Administrative Trustee, on behalf of the Trust, hereby waives any requirement relating to any prior notice of resignation of Bank One as Registrar, Paying Agent and Exchange Agent for the Capital Securities and (ii) each of the Trust, the Sponsor, Bank One, as the resigning Property Trustee and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities, and Wells Fargo, as the successor Property Trustee and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities, hereby acknowledges its receipt of notice of resignation and appointment.

(b) The Trust hereby appoints Wells Fargo, and Wells Fargo hereby accepts appointment, as the successor Property Trustee and as the Registrar, Paying Agent and Exchange Agent for the Capital Securities.

2. Capital Securities Guarantee Trustee.

(a) Bank One hereby resigns, and gives notice of its resignation, as the Capital Securities Guarantee Trustee, such resignation to be effective as of the date hereof upon the execution and delivery of this Instrument by all the parties hereto. Simultaneously with the execution and delivery of this

Instrument by all the parties hereto, each of the Guarantor, Bank One, as the resigning Capital Securities Guarantee Trustee, and Wells Fargo, as the successor Capital Securities Guarantee Trustee, hereby acknowledges its receipt of notice of resignation and appointment.

(b) The Guarantor hereby appoints Wells Fargo, and Wells Fargo hereby accepts appointment, as the successor Capital Securities Guarantee Trustee.

3. Debenture Trustee; and Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures.

(a) Bank One hereby resigns, and gives notice of its resignation, as the Debenture Trustee, Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, such resignation to be effective as of the date hereof upon the execution and delivery of this Instrument by all the parties hereto. Simultaneously with the execution and delivery of this Instrument by all the parties hereto, each of the Company, Bank One, as the resigning Debenture Trustee, Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, and Wells Fargo, as the successor Debenture Trustee, Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures, hereby acknowledges its receipt of notice of resignation and appointment.

(b) The Guarantor hereby appoints Wells Fargo, and Wells Fargo hereby accepts appointment, as the successor Debenture Trustee, Authenticating Agent, Paying Agent, Transfer Agent or Security Registrar for the Subordinated Debentures.

4. The Resigning Trustee hereby grants, gives, bargains, sells, remises, releases, conveys, confirms, assigns, transfers and sets over to the Successor Trustee as such successor trustee and its successors and assigns all rights, title and interest of the Resigning Trustee in and to the trust estate and all rights, powers and trusts, under the Indenture, Declaration of Trust and Guarantee Agreement; and the Resigning Trustee does hereby pay over, assign and deliver to the Successor Trustee any and all money, if any, and property, if any, held by the Resigning Trustee; and the Company for the purpose of more fully and certainly vesting in and confirming to the Successor Trustee said estate, properties, rights, powers and, at the request of the Successor Trustee, joins in the execution hereof.

5. Notwithstanding the resignation of the Resigning Trustee as Trustee under the Indenture, Declaration of Trust and Guarantee Agreement the Company shall remain obligated under the Indenture, Declaration of Trust, and Guarantee Agreement to compensate and reimburse the Resigning Trustee in connection with its Trusteeship under the Indenture.

6. The Resigning Trustee agrees to pay or indemnify, as applicable, the Successor Trustee and hereby saves the Successor Trustee harmless from and against any and all costs, claims, liabilities, losses or damages whatsoever arising out of the Resigning Trustee's actions or omissions during its tenure as Successor Trustee under the Indenture, Declaration of Trust, and Guarantee Agreement (including the reasonable fees, expenses and disbursements of counsel and other advisors of the Successor Trustee) that the Successor Trustee might suffer or incur arising out of actual, alleged or adjudicated actions of omissions of the Resigning Trustee. The Resigning Trustee will furnish to the Successor Trustee, promptly after receipt, all papers with respect to any action the outcome of which would make the indemnity provided for in this paragraph operative. The Resigning Trustee will have the right to provide its own defense and to select counsel and other advisors for the Successor Trustee in any such action. The Resigning Trustee and Successor Trustee hereby agree that the indemnities provided for in this paragraph shall apply only to claims, demands and actions that are made or brought against the Successor Trustee on or before the expiration of the period established by a statute of

limitations (the "Statute of Limitations Period") adjudicated by any final order of a court of competent jurisdiction to be applicable to such claim, demand or action. The Resigning Trustee and the Successor Trustee further hereby agree that the indemnities provided for in this paragraph shall not apply to any claims, demands or actions brought against the Successor Trustee after the expiration of an applicable Statute of Limitations Period, as determined by a court of competent jurisdiction in any claim, demand or action brought against the Successor Trustee.

7. The Company represents and warrants to the Successor Trustee that:

a. It is duly organized and validly existing;

b. It has not entered into any amendment or supplement to the Indenture, Declaration of Trust, or Guarantee Agreement, and the Indenture, Declaration of Trust, and Guarantee Agreement are in full force and effect;

c. It has performed and fulfilled each covenant and condition on its part to be performed or fulfilled under the Indenture, Declaration of Trust, and Guarantee Agreement;

d. The execution and delivery of this Instrument and the consummation of the transactions contemplated hereby do not and will not conflict with, or result in a breach of, any of the terms or provisions of, or constitute a default under, any contract, agreement, indenture or other instrument (including, without limitation, its certificate of incorporation and by- laws) to which it is a party or by which it or its property is bound, or any judgment, decree or order of any court or governmental agency or regulatory body or law, rule or regulation applicable to it or its property;

e. The Debentures are validly issued securities of the Company; and

f. The Trust Securities are validly issued securities of the Trust.

8. The Company hereby certifies that the person signing this Instrument on behalf of the Company is authorized to, among other things: (a) accept Resigning Trustee's resignation as Trustee under the Indenture, Declaration of Trust, and Guarantee Agreement; (b) appoint Wells Fargo Bank Minnesota, National Association as the Successor Trustee under the Indenture, Declaration of Trust, and Guarantee Agreement; and (c) execute and deliver such agreements and other instruments as may be necessary or desirable to effectuate the succession of Wells Fargo Bank Minnesota, National Association as Successor Trustee under the Indenture, Declaration of Trust, and Guarantee Agreement;

9. The Resigning Trustee hereby represents and warrants to the Successor Trustee that:

a. There is no action, suit or proceeding pending or, to the best of the knowledge of the Resigning Trustee threatened, against the Resigning Trustee before any court or governmental authority arising out of any action or omission by the Resigning Trustee as Successor Trustee under the Indenture, Declaration of Trust, and Guarantee Agreement;

b. It has made, or promptly will make, available to the Successor Trustee originals, if available, or copies in its possession, of all Documents relating to the trusts created by the Indenture, Declaration of Trust, and Guarantee Agreement (the "Trusts") and all information in the possession of its corporate trust administration department relating to the administration and status of the Trusts and will furnish to the Successor Trustee such Documents or information on or before the Effective Date;

c. On and as of the date hereof, the aggregate principal amount at maturity of the following securities with the following CUSIP numbers are outstanding:

(1) Series A Capital Securities: $ 800,000, CUSIP 984119AA5;

(2) Series B Capital Securities: $649,200,000, CUSIP 984119AC1;
(3) Series A Common Securities: None;
(4) Series B Common Securities: $ 20,103,000, CUSIP 9XCAPIG53;
(5) Series A Subordinated Debentures: $ 800,000; and
(6) Series B Subordinated Debentures: $649,200,000;

d. On and as of the date hereof, the registered holder of the following securities in the following denominations ($ in principal amount at maturity) is as follows:

(1) Series A Capital Securities:	Cede & Co., in a single denomination of $800,000;
(2) Series B Capital Securities:	Cede & Co., in denominations of $200,000,000, $200,000,000, $200,000,000 and $49,200,000;
(3) Series A Common Securities:	None;
(4) Series B Common Securities:	the Company, in a single denomination of $20,103,000;
(5) Series A Subordinated Debentures:	the Property Trustee, in a single denomination of $800,000; and
(6) Series B Subordinated Debentures:	the Property Trustee, in a single denomination of $649,200,000;

e. All interest on each of the Series A Capital Securities, Series B Capital Securities, Series A Subordinated Debentures and Series B Subordinated Debentures accrued through August 1, 2001 has been paid.

f. No covenant or condition contained in the Indenture, the Subordinated Debentures, the Declaration of Trust, the Capital Securities, the Common Securities or the Capital Securities Guarantee Agreement has been waived by the Resigning Trustee in its applicable capacity thereunder or to the best of the knowledge of the Resigning Trustee, by the security holders of the percentage in aggregate principal amount at maturity of the securities required by the Indenture, the Subordinated Debentures, the Declaration of Trust, the Capital Securities, the Common Securities or the Capital Securities Guarantee Agreement to effect any such waiver.

g. To the best of its knowledge, the Resigning Trustee has lawfully discharged its duties as the Resigning Trustee.

h. None of the Indenture, the Subordinated Debentures, the Declaration of Trust, the Capital Securities, the Common Securities or the Capital Securities Guarantee Agreement has been amended or modified in any respect, and each such agreement and instrument is in full force and effect on the date hereof.

i. To the best of the Resigning Trustee's knowledge, there is no default or Event of Default that currently exists under the Indenture, the Subordinated Debentures, the Declaration of Trust, the Capital Securities, the Common Securities or the Capital Securities Guarantee Agreement.

10. The Successor Trustee represents and warrants to the Resigning Trustee, and the Trust, the Sponsor, the Guarantor and the Company on and as of the date hereof that:

a. The execution, delivery and performance by it of this Instrument have been duly authorized by all necessary corporate action on its part; this Instrument has been duly executed and delivered by it and constitutes it legal, valid and binding obligation, enforceable against it in accordance with

its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

b. The execution, delivery and performance of this Instrument by it do not conflict with or constitute a breach of its charter or by-laws; and

c. No consent, approval or authorization of, or registration with or notice to, any federal banking authority is required for the execution, delivery or performance by it this Instrument;

d. It is a national banking association with trust powers and authority to execute and deliver, and to carry out and perform its obligations under the terms of, the Declaration of Trust, the Series A and Series B Capital Securities Guarantees, and the Indenture;

e. It is a corporation organized and doing business under the laws of the United States of America, authorized under such laws to exercise corporate trust powers, having, on the date hereof and as of the end of the fiscal year for which its most recent annual report was published, a combined capital and surplus of at least US$50,000,000, and subject to supervision or examination by the federal government of United States of America, or any State or territory thereof or the District of Columbia;

f. It does not have any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act; and

g. It is not an affiliate (as defined under Rule 405 under the Securities Act of 1933, as amended) of the Trust, the Capital Securities Guarantor or the Company.

11. The Company and the Resigning Trustee, for the purposes of more fully and certainly vesting in and confirming to the Successor Trustee, the rights, powers and trusts being conferred upon the Successor Trustee in accordance with the terms of this Instrument, agree, upon reasonable request of the Successor Trustee, to execute, acknowledge and deliver such further instruments of conveyance and further assurance and to do such other things as may reasonably be required for more fully and certainly vesting and confirming to the Successor Trustee all rights, powers and trusts which the Resigning Trustee now holds under and by virtue of the Indenture, the Subordinated Debentures, the Declaration of Trust, the Capital Securities, the Common Securities or the Capital Securities Guarantee Agreement.

12. All notices, whether faxed or mailed will be deemed received when sent pursuant to the following instructions:

TO BANK ONE, N.A.:
Jeffrey A. Ayres
Director and Vice President
100 E. Broad Street, 8th Floor
Columbus, OH 43215
TO THE COMPANY, SPONSOR, GUARANTOR AND HOLDER OF COMMON SECURITIES

Xerox Corporation
P.O. Box 1600
800 Long Ridge Road
Stamford, CT 06904
Attn: Treasurer
Fax: (203) 968-4373
Telephone: (203) 968-4489

TO THE TRUST:
Xerox Capital Trust I

c/o Xerox Corporation
P.O. Box 1600
800 Long Ridge Road
Stamford, CT 06904
Attn: Treasurer
Fax: (203) 968-4373
Telephone: (203) 968-4489

TO WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION
Jane Schweiger
Assistant Vice President
Wells Fargo Bank Minnesota, N.A.
Sixth Street and Marquette Avenue; N9303-120
Minneapolis, MN 55479
FAX: (612) 667-9825
Phone (612) 667-2344

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

13. This Instrument shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Instrument of Resignation, Appointment and Acceptance to be duly executed and their respective seals to be affixed hereunto and duly attested all as of the day and year first above written.

XEROX CORPORATION,
as the Company, Sponsor, Guarantor
and Sole Holder of Common Securities

By_____
Name: Gregory B. Tayler
Title: Vice President and Treasurer

_____
Eunice M. Filter,
as Administrative Trustee for
Xerox Capital Trust I

BANK ONE, N.A.
as Resigning Trustee

By_____
Authorized Signer

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION,
as Successor Trustee

By_____
Authorized Signer

INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, dated as of July 26, 2001 among Xerox Corporation (the "Company"), Bank One, National Association, a national banking association duly organized and existing under the laws of the United States, having its principal Corporate Trust Office at c/o 100 East Broad Street, 8th Floor, Columbus, Ohio, 43215 ("Resigning Trustee"), and Wells Fargo Bank Minnesota, National Association, a national banking association duly organized and existing under the laws of the United States, having its principal office at Wells Fargo Center, Sixth Street and Marquette Avenue; N9303-120, Minneapolis, Minnesota 55479 ("Successor Trustee").

WHEREAS, the Company issued Convertible Subordinated Debentures Due April 21, 2018 pursuant to the Indenture dated as of April 21, 1998, (the "Indenture"), between the Company and the Resigning Trustee, as successor by merger with The First National Bank of Chicago;

WHEREAS, the Company appointed the Resigning Trustee as the paying agent (the "Paying Agent"), and the Security Registrar (the "Security Registrar") under the Indenture;

WHEREAS, the Indenture provides that the Resigning Trustee may at any time resign by giving written notice thereof to the Company;

WHEREAS, the Resigning Trustee represents that it gave the Company a written notice of its resignation as Trustee, Paying Agent and Security Registrar, a true copy of which is annexed hereto marked Exhibit A;

WHEREAS, the Indenture further provides that, if the Trustee shall resign, the Company shall promptly appoint a successor Trustee;

WHEREAS, the Company authorizes, (signor of tripartite agreement), a duly qualified and acting officer of the Company whose signature is set forth in the certificate of incumbency attached as Exhibit B-1, to unilaterally appoint a successor in lieu of a board resolution as provided by the Resolutions Adopted by the Company's Board of Directors on December 8, 1997 and by Company's Executive Committee of the Board of Directors on April 14, 1998 (Exhibit B-2) and certified by the Company's Assistant Secretary as of the 26th July, 2001 (Exhibits B-3);

WHEREAS, the Indenture provides that the successor Trustee shall execute, acknowledge and deliver to the Company and to the resigning Trustee an Instrument accepting such appointment and thereupon the resignation of the Trustee shall become effective and such successor Trustee without any further act, deed or conveyance, shall become vested with all rights, powers, duties and obligations of the resigning Trustee;

WHEREAS, the Indenture further provides that no successor Trustee shall accept appointment as such unless at the time it is qualified and eligible under the Indenture;

WHEREAS, Wells Fargo Bank Minnesota, National Association is qualified, eligible and willing to accept such appointment as successor Trustee, Paying Agent and Security Registrar;

WHEREAS, the Indenture further provides that the Successor Trustee shall mail notice of the resignation of the Trustee and the appointment of a Successor Trustee to Holders of the Debentures;

WHEREAS, the Successor Trustee on behalf of the Company, simultaneously with the execution and delivery of this Instrument, has caused the notice required pursuant to the Indenture, a form of which is annexed hereto marked Exhibit C, to be mailed to the Holders of the

Debentures as therein required;

NOW, THEREFORE, THIS INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE, WITNESSETH: that for and in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, it is hereby covenanted, declared and decreed by the Company, the Successor Trustee and the Resigning Trustee as follows:

1. The resignation of the Resigning Trustee, and its discharge from the trust created by the Indenture, shall be effective as of the date hereof upon the execution and delivery of this Instrument by all the parties hereto.

2. The Company, in the exercise of the authority vested in it by the Indenture, hereby appoints Wells Fargo Bank Minnesota, National Association as Successor Trustee, Paying Agent and Security Registrar with all rights, powers, trusts, duties and obligations under the Indenture, such appointment to be effective as of the date hereof upon the execution and delivery of this Instrument by all the parties hereto.

3. The Successor Trustee hereby represents that it is qualified and eligible under the provisions of the Indenture to be appointed Successor Trustee, Paying Agent and Security Registrar and hereby accepts its appointment as Successor Trustee, Paying Agent and Security Registrar effective as of the date hereof upon the execution and delivery of this Instrument by all parties hereto, and hereby assumes the rights, powers, trusts, duties and obligations of the Trustee under the Indenture, Paying Agent and Registrar, subject to all terms and provisions therein contained.

4. The Resigning Trustee hereby grants, gives, bargains, sells, remises, releases, conveys, confirms, assigns, transfers and sets over to the Successor Trustee, and its successors and assigns, and the Successor Trustee, and its successors and assigns hereby accepts such assignment and transfer, all rights, title and interest of the Resigning Trustee in and to the trust estate and all rights, powers, trusts, duties and obligations of the Trustee, Paying Agent and Registrar under the Indenture; and the Resigning Trustee does hereby pay over, assign and deliver to the Successor Trustee, and the Successor Trustee, and its successors and assigns hereby accepts such assignment and transfer, any and all money, if any, and property, if any, held by the Resigning Trustee pursuant to the Indenture; and the Company for the purpose of more fully and certainly vesting in and confirming to the Successor Trustee said estate, properties, rights, powers and, at the request of the Successor Trustee, joins in the execution hereof.

5. Notwithstanding the resignation of the Resigning Trustee, as Trustee under the Indenture, the Company shall remain obligated under the Indenture to compensate and reimburse the Resigning Trustee in connection with its Trusteeship under the Indenture through the date hereof.

6. The Resigning Trustee agrees to pay or indemnify, as applicable, the Successor Trustee and hereby saves the Successor Trustee harmless from and against any and all costs, claims, liabilities, losses or damages whatsoever arising out of the Resigning Trustee's actions or omissions during its tenure as Trustee, Paying Agent and Security Registrar under the Indenture (including the reasonable fees, expenses and disbursements of counsel and other advisors of the Successor Trustee) that the Successor Trustee might suffer or incur arising out of actual, alleged or adjudicated actions of omissions of the Resigning Trustee (including in its capacity as resigning Paying Agent and Security Registrar). The Resigning Trustee will furnish to the Successor Trustee, promptly after receipt, all papers with respect to any action the outcome of which would make the indemnity provided for in this paragraph operative. The Resigning Trustee will have the right to provide its own defense and to select counsel and other advisors for the Successor Trustee in any such action. The Resigning Trustee and Successor

Trustee hereby agree that the indemnities provided for in this paragraph shall apply only to claims, demands and actions that are made or brought against the Successor Trustee on or before the expiration of the period established by a statute of limitations (the "Statute of Limitations Period") adjudicated by any final order of a court of competent jurisdiction to be applicable to such claim, demand or action. The Resigning Trustee and the Successor Trustee further hereby agree that the indemnities provided for in this paragraph shall not apply to any claims, demands or actions brought against the Successor Trustee after the expiration of an applicable Statute of Limitations Period, as determined by a court of competent jurisdiction in any claim, demand or action brought against the Successor Trustee.

7. The Company represents and warrants to the Successor Trustee that:

a. It is duly organized and validly existing;

b. It has not entered into any amendment or supplement to the Indenture, and the Indenture is in full force and effect;

c. It has performed and fulfilled each covenant and condition on its part to be performed or fulfilled under the Indenture;

d. The execution and delivery of this Instrument and the consummation of the transactions contemplated hereby do not and will not conflict with, or result in a breach of, any of the terms or provisions of, or constitute a default under, any contract, agreement, indenture or other instrument (including, without limitation, its certificate of incorporation and by-laws) to which it is a party or by which it or its property is bound, or any judgment, decree or order of any court or governmental agency or regulatory body or law, rule or regulation applicable to it or its property; and

e. The Debentures are validly issued securities of the Company.

f. The Company hereby certifies that the person signing this Instrument on behalf of the Company is authorized to, among other things: (a) accept Resigning Trustee's resignation as Trustee, Paying Agent and Security Registrar under the Indenture; (b) appoint Wells Fargo Bank Minnesota, National Association as the Successor Trustee and successor Paying Agent and Security Registrar under the Indenture; and (c) execute and deliver such agreements and other instruments as may be necessary or desirable to effectuate the succession of Wells Fargo Bank Minnesota, National Association as Successor Trustee and successor Paying Agent and Security Registrar under the Indenture.

8. The Resigning Trustee hereby represents and warrants to the Successor Trustee that:

a. There is no action, suit or proceeding pending or, to the best of the knowledge of the Resigning Trustee threatened, against the Resigning Trustee before any court or governmental authority arising out of any action or omission by the Resigning Trustee as Trustee, Paying Agent and Security Registrar under the Indenture;

b. It has made, or promptly will make, available to the Successor Trustee originals, if available, or copies in its possession, of all documents relating to the trusts created by the Indenture (the "Trusts") and all information in the possession of its corporate trust administration department relating to the administration and status of the Trusts and will furnish to the Successor Trustee such Documents or information on or before the effective date hereof;

c. The Resigning Trustee certifies $1,008,572,000 in Principal Amount at Stated Maturity on the Debentures is outstanding and interest has been paid through October 21, 2000 as to the Series of Debentures.

d. No covenant or condition contained in the Indenture has been waived by the Resigning Trustee, or to the best of the knowledge of the Resigning Trustee, by the security holders of the percentage in aggregate principal amount of the securities required by the Indenture to effect any such waiver.

e. To the best of its knowledge, it has lawfully discharged its duties as Trustee under the Indenture.

f. The Indenture has not been amended or modified and is in full force and effect except as noted.

g. To the best of the Resigning Trustee's knowledge, there are no defaults or Event of Default that currently exist under the Indenture.

9. The Successor Trustee represents and warrants to the Resigning Trustee, the Company and the Company that it is eligible to serve as trustee, Paying Agent and Security Registrar under the Indenture and the Trust Indenture Act of 1939, as amended; and this Instrument has been duly authorized, executed and delivered on behalf of the Successor Trustee and constitutes its legal, valid, binding and enforceable obligation;

10. The Company and the Resigning Trustee, for the purposes of more fully and certainly vesting in and confirming to the Successor Trustee, as Successor Trustee under the Indenture, said rights, powers and trusts, agrees, upon reasonable request of the Successor Trustee, to execute, acknowledge and deliver such further instruments of conveyance and further assurance and to do such other things as may reasonably be required for more fully and certainly vesting and confirming to the Successor Trustee all rights, powers and trusts which the Resigning Trustee now holds under and by virtue of the Indenture.

11. All notices, whether faxed or mailed will be deemed received when sent pursuant to the following instructions:

TO BANK ONE, N.A.:
Jeffrey A. Ayres
Vice President
100 E. Broad Street, 8th Floor
Columbus, OH 43215
FAX: (614) 248-5195
Phone: (614) 248-2566

TO THE COMPANY:
Xerox Corporation
800 Long Ridge Road
Stamford, CT 06904
Attn: Treasurer
Fax: (203) 968-3972
Telephone: (203) 968-4653

TO WELLS FARGO BANK MINNESOTA, National Association
Jane Schweiger
Assistant Vice President
Wells Fargo Bank Minnesota, N.A.
Sixth Street and Marquette Avenue; N9303-120
Minneapolis, MN 55479
FAX: (612) 667-9825
Phone (612) 667-2344

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

13. This Instrument shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Instrument of Resignation, Appointment and Acceptance to be duly executed and their respective seals to be affixed hereunto and duly attested all as of the day and year first above written.

Xerox Corporation

By _____

Bank One, National Association
as Resigning Trustee

By _____
Authorized Signer

Wells Fargo Bank Minnesota, National
Association as Successor Trustee,

By _____
Authorized Signer

EXHIBIT A

Attention: Secretary

Gentlemen:

NOTICE IS HEREBY GIVEN THAT, pursuant to Section 6.10(b) of the Indenture, dated as of April 21, 1998 (the "Indenture") between Xerox Corporation (the "Company") and Bank One, National Association ("BANK ONE"), BANK ONE hereby resigns as Trustee under the Indenture, such resignation to be effective upon the appointment, pursuant to Section 6.10(e) of the Indenture, of a successor Trustee, and the acceptance of such appointment by such successor Trustee, pursuant to Section 6.11 of the Indenture.

Would you please acknowledge receipt of this notice by signing two copies and returning them to us.

Very truly yours,

By_____
Vice President

Acknowledged By_____
Title:

EXHIBIT C

NOTICE OF
RESIGNATION OF TRUSTEE, PAYING AGENT AND SECURITY REGISTRAR; AND
APPOINTMENT OF SUCCESSOR TRUSTEE, PAYING AGENT AND SECURITY REGISTRAR

To the Holders of:

Xerox Corporation

Convertible Subordinated Debentures Due April 21, 2018
(CUSIP 984121BB8 - SEC registered Debentures)
(CUSIP 984121AY9 - Rule 144A Debentures)*

NOTICE IS HEREBY GIVEN that, effective as of July 26, 2001, Bank One, National Association, as successor by merger with The First National Bank of Chicago, has resigned as trustee, paying agent and security registrar, and Wells Fargo Bank Minnesota, National Association has been appointed as successor trustee paying agent and security registrar, for the above- referenced Debentures.

The principal corporate trust office of Wells Fargo Bank Minnesota, National Association is located at:

Wells Fargo Bank Minnesota, National Association
Attention: Jane Schweiger
Wells Fargo Center
Sixth Street and Marquette Avenue; N9303-120
Minneapolis, Minnesota 55479
Telephone: (612) 667-2344

If you have any questions concerning the foregoing resignation and appointment, please contact Wells Fargo Bank Minnesota, National Association at (612) 667-2344.

XEROX CORPORATION

Dated: July 26, 2001

By: _____
Authorized signatory

_____

* The CUSIP numbers included in this Notice are provided solely for the convenience of the holders. None of Xerox Corporation, Bank One, National Association, and Wells Fargo Bank Minnesota, National Association, makes any representation as to the correctness or accuracy of the CUSIP numbers indicated in this Notice.

AMENDMENT TO
INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE

This AMENDMENT TO INSTRUMENT OF RESIGNATION, APPOINTMENT AND ACCEPTANCE (this "Amendment") is entered into as of October 22, 2001 by and among Xerox Corporation ("Company"), Bank One, National Association, a national banking association duly organized and existing under the laws of the United States, having its principal Corporate Trust Office at c/o 100 East Broad Street, 8th Floor, Columbus, Ohio, 43215, as successor by merger with The First National Bank of Chicago ("Resigning Trustee"), and Wells Fargo Bank Minnesota, National Association, a national banking association duly organized and existing under the laws of the United States, having its principal office at Wells Fargo Center, Sixth Street and Marquette Avenue; N9303-120, Minneapolis, Minnesota 55479 ("Successor Trustee").

WHEREAS, the Company, Resigning Trustee and Successor Trustee entered into an Instrument of Resignation, Appointment and Acceptance dated as of July 26, 2001 (the "Instrument"), pursuant to which the Resigning Trustee resigned, and the Successor Trustee has been appointed by the Company, as the Trustee, Paying Agent and Security Registrar under the Indenture dated as of April 21, 1998 between the Company and Resigning Trustee (the "Indenture"), pursuant to which Indenture the Company issued its Convertible Subordinated Debentures Due April 21, 2018, such resignation and appointment became effective as of July 26, 2001; and

WHEREAS, the parties hereto wish to amend certain provisions of the Instrument as herein provided.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Section 8(c) of the Instrument is hereby amended and restated in its entirety as follows:

"c. The Resigning Trustee certifies that $953,072,000 in aggregate Principal Amount at Stated Maturity on the Debentures is outstanding as of July 26, 2001 and all interest on all of the Debentures has been paid through April 21, 2001."

SECTION 2. Except as otherwise expressly set forth herein, neither the effective date of the resignation of the Resigning Trustee, and the appointment of the Successor Trustee, as the Trustee, Paying Agent and Security Registrar under the Indenture, nor any other provision of the Instrument is amended or otherwise modified.

SECTION 3. Each party hereto represents and warrants to the other that (i) it is duly organized, validly existing and in good standing under the laws of its organization; (ii) its execution, delivery and performance of this Amendment is within its corporate (or organizational) powers, have been duly authorized by all necessary corporate (or organizational) action of such party, and do not contravene its charter or by-laws (or constitutional documents) or any law or contractual restriction binding upon or affecting it; (iii) no consent or approval or other action by, and no notice to or filing with, any governmental authority is required for its due execution, delivery and performance of this Amendment; and (iv) this Amendment has been duly executed and delivered on its behalf and constitutes a legal, valid and binding obligation of such party, enforceable against it in accordance with its terms.

SECTION 4. THIS AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED IN

ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK. This Amendment may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have duly executed this Amendment as of the date first above written.

XEROX CORPORATION

By: _____
Name: Richard Ragazzo
Title: Assistant Treasurer

BANK ONE, NATIONAL ASSOCIATION,
as Resigning Trustee

By: _____
Name: Robert H. Major
Title: Trust Officer

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION,
as Successor Trustee

By: _____
Name: Jane Schweiger
Title: Assistant Vice President

Exhibit 4(f)

EXECUTION COPY

XEROX EQUIPMENT LEASE OWNER TRUST 2001-1

and

U.S. BANK NATIONAL ASSOCIATION,

as Indenture Trustee and as Calculation Agent

INDENTURE

Dated as of July 1, 2001

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INDENTURE

This Indenture, dated as of July 1, 2001, is between Xerox Equipment Lease Owner Trust 2001-1, a Delaware business trust (the "Trust"), and U.S. Bank National Association, a national banking association, as trustee (in such capacity, the "Indenture Trustee") and as calculation agent (in such capacity, the "Calculation Agent").

Each party agrees as follows for the benefit of the other parties and for the equal and ratable benefit of the holders of the Trust's Floating Rate Asset Backed Notes (the "Notes"):

GRANTING CLAUSE

The Trust, to secure the payment of principal and interest on, and any other amounts owing in respect of, the Notes, equally and ratably without prejudice, priority or distinction except as set forth herein, and to secure compliance with the provisions of this Indenture, hereby Grants in trust to the Indenture Trustee on the Closing Date, as trustee for the benefit of the Noteholders, all of the Trust's right, title and interest, whether now owned or hereafter acquired, in and to the Trust Estate and all present and future claims, demands, causes and choses in action in respect of any or all of the foregoing and all payments on or under and all proceeds of every kind and nature whatsoever in respect of any or all of the foregoing, including all proceeds of the conversion, voluntary or involuntary, into cash or other liquid property, all cash proceeds, accounts, accounts receivable, notes, drafts, acceptances, chattel paper, checks, deposit accounts, condemnation awards, rights to payment of any and every kind and other forms of obligations and receivables, instruments, securities, financial assets and other property that at any time constitute all or part of or are included in the proceeds of any of the foregoing (collectively, the "Collateral"), in each case as such terms are defined herein.

The foregoing Grant is made in trust to secure the payment of principal and interest on, and any other amounts owing in respect of, the Notes, equally and ratably without prejudice, priority or distinction, and to secure compliance with the provisions of this Indenture, all as provided in this Indenture.

The Indenture Trustee, as trustee on behalf of the Noteholders, acknowledges the foregoing Grant, accepts the trusts under this Indenture in accordance with the provisions of this Indenture and agrees to perform its duties required in this Indenture to the best of its ability to the end that the interests of the Noteholders may be adequately and effectively protected.

ARTICLE ONE

DEFINITIONS

Section 1.01. Definitions. Capitalized terms used herein that are not otherwise defined shall have the meanings ascribed thereto in the Administration Agreement. Whenever used herein, unless the context otherwise requires, the following words and phrases have the following meanings:

"Account" has the meaning set forth in the Administration Agreement.

"Account Collateral" means securities, Permitted Investments and other assets credited to the Securities Accounts.

"Accrual Period" means with respect to any Payment Date for the Notes, the period from and including the immediately preceding Payment Date (or, in the case of the first Payment Date or if no interest has yet been paid, from and including the Closing Date), to but excluding such Payment Date.

"Act" has the meaning set forth in Section 11.03(a).

"Administration Agreement" means the sale and administration agreement, dated as of July 1, 2001, among the Trust, the Transferor, Xerox Equipment, the Administrative Agent and the Maintenance Provider.

"Administrative Agent" means Xerox, as Administrative Agent under the Administration Agreement, and its successors in such capacity.

"Administrative Agent Default" has the meaning set forth in the Administration Agreement.

"Administrative Agent Monthly Payment" means, with respect to a Payment Date and the related Collection Period, the amount to be paid to the Administrative Agent pursuant to Section 4.04 of the Administration Agreement in respect of (i) the Payment Date Advance Reimbursement and (ii) the Administration Fee, together with any unpaid Administration Fees in respect of one or more prior Collection Periods.

"Administrator" means Xerox, as Administrator under the Trust Administration Agreement, and its successors in such capacity.

"Advance" has the meaning set forth in the Administration Agreement.

"Affiliate" has the meaning set forth in the Administration Agreement.

"Authenticating Agent" means any Person authorized by the Indenture Trustee to act on behalf of the Indenture Trustee to authenticate and deliver the Notes.

"Authorized Newspaper" means a newspaper of general circulation in The City of New York, printed in the English language and customarily published on each Business Day, whether or not published on Saturdays, Sundays and holidays.

"Authorized Officer" means, with respect to the Trust, (i) any officer of the Owner Trustee who is authorized to act for the Owner Trustee in matters relating to the Trust and who is identified on the list of Authorized Officers delivered by the Owner Trustee to the Indenture Trustee on the Closing Date and (ii) so long as the Trust Administration Agreement is in effect, the President, any Vice President, the Treasurer, any Assistant Treasurer, the Secretary and any Assistant Secretary of the Administrator.

"Available Funds" has the meaning set forth in the Administration Agreement.

"Backup Administrative Agent" means U.S. Bank, in its capacity as Backup

Administrative Agent, so long as U.S. Bank is the Indenture Trustee, and thereafter, its successors and assigns in such capacity.

"Basic Documents" has the meaning set forth in the Administration Agreement.

"Benefit Plan" has the meaning set forth in the Trust Agreement.

"Book-Entry Notes" means a beneficial interest in the Notes, ownership and transfers of which shall be made through book entries by a Clearing Agency as described in Section 2.08.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banking institutions in the states of Connecticut, Delaware, Illinois and New York are authorized or obligated by law, executive order or government decree to be closed.

"Calculation Agent" means U.S. Bank and its successors and assigns in such capacity.

"Certificate Distribution Account" has the meaning set forth in the Trust Agreement.

"Certificateholder" has the meaning set forth in the Trust Agreement.

"Certificates" has the meaning set forth in the Trust Agreement.

"Clearing Agency" means an organization registered as a "clearing agency" pursuant to Section 17A of the Exchange Act and shall initially be DTC.

"Clearing Agency Participant" means a broker, dealer, bank or other financial institution or other Person for which from time to time a Clearing Agency effects book-entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Date" means July 24, 2001.

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

"Collateral" has the meaning set forth in the Granting Clause.

"Collection Account" has the meaning set forth in the Administration Agreement.

"Collection Period" has the meaning set forth in the Administration Agreement.

"Commission" means the Securities and Exchange Commission, and its successors.

"Control Agreement" has the meaning set forth in the Administration Agreement.

"Corporate Trust Office" means the office of the Indenture Trustee at which at any particular time its corporate trust business shall be administered, which office at the date of the execution of this Indenture is

located at 111 East Wacker Drive, Suite 3000, Chicago, Illinois 60601; or at such other address as the Indenture Trustee may designate from time to time by notice to the Noteholders and the Trust, or the principal corporate trust office of any successor Indenture Trustee (the address of which the successor Indenture Trustee shall notify the Noteholders and the Trust).

"CPC Contract" has the meaning set forth in the Administration Agreement.

"Default" means any occurrence that is, or with notice or lapse of time or both would become, an Indenture Default.

"Definitive Notes" means Notes that are issued in fully registered, certificated form to the related Noteholders or their respective nominees, rather than to DTC or its nominee.

"Deposit Date" has the meaning set forth in the Administration Agreement.

"Depository Agreement" means the agreement among the Trust, the Indenture Trustee and DTC, as the initial Clearing Agency, dated as of the Closing Date, substantially in the form of Exhibit B, as amended or supplemented from time to time.

"DTC" means The Depository Trust Company, and its successors.

"EDS" means Electronic Data Systems Corporation, and its successors.

"EDS Services" means certain information technology and consulting services provided by EDS (or similar service providers) in connection with the administration and servicing of the Leases and the provision of maintenance for the related Equipment, which services shall be similar to services provided by EDS to Xerox as of the Closing Date.

"EDS and Harris Fees and Expenses" means fees and expenses related to EDS Services and Harris Services incurred in connection with the administration and servicing of the Leases and the provision of maintenance for the related Equipment.

"Eligible Account" has the meaning set forth in the Administration Agreement.

"Entitlement Order" has the meaning set forth in the Administration Agreement.

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

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Executive Officer" means, with respect to any (i) corporation or depository institution, the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, President, Executive Vice President, any Vice President, the Secretary or the Treasurer of such corporation or depository institution, and (ii) partnership, any general partner thereof.

"Final Scheduled Payment Date" means the February 2008 Payment Date.

"Fitch" means Fitch, Inc., and its successors.

"Grant" means mortgage, pledge, bargain, sell, warrant, alienate, remise, release, convey, assign, transfer, create and grant a lien upon and a security interest in and right of set-off against, deposit, set over and confirm pursuant to this Indenture, and, with respect to the Collateral or any other agreement or instrument, shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including the immediate and continuing right to claim for, collect, receive and give receipt for principal and interest payments in respect of the Collateral and all other monies payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring Proceedings in the name of the granting party or otherwise and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

"Harris Interactive" means Harris Interactive, and its successors.

"Harris Services" means certain equipment reading and inquiry collection services provided by Harris Interactive (or similar service providers) in connection with the administration and servicing of the Leases and the provision of maintenance for the related Equipment, which services shall be similar to services provided by Harris Interactive to Xerox as of the Closing Date.

"Indenture" means this Indenture, as amended or supplemented from time to time.

"Indenture Default" has the meaning set forth in Section 5.01.

"Indenture Trustee" has the meaning set forth in the preamble.

"Independent" means, when used with respect to any specified Person, that such Person (i) is in fact independent of the Trust, any other obligor upon the Notes, the Administrative Agent, the Maintenance Provider and any of their respective Affiliates, (ii) does not have any direct financial interest or any material indirect financial interest in the Trust, any such other obligor, the Administrative Agent, the Maintenance Provider or any of their respective Affiliates and (iii) is not connected with the Trust, any such other obligor, the Administrative Agent, the Maintenance Provider or any of their respective Affiliates as an officer, employee, promoter, underwriter, trustee, partner, director or Person performing similar functions.

"Independent Certificate" means a certificate or opinion to be delivered to the Indenture Trustee under the circumstances described in, and otherwise complying with, the applicable requirements of Section 11.01(b), made by an Independent appraiser or other expert appointed by a Trust Order, and such opinion or certificate shall state that the signer has read the definition of "Independent" in this Indenture and that the signer is Independent within the meaning thereof.

"Initial Purchaser" means Merrill Lynch, Pierce, Fenner & Smith Incorporated, as initial purchaser pursuant to the Purchase Agreement.

"Initial Securities Balance" has the meaning set forth in the

Administration Agreement.

"Interest Rate" means a percentage equal to the sum of (i) the LIBOR Rate and (ii) 2.00% per annum (computed on the basis of the actual number of days elapsed, but assuming a 360-day year).

"Lease" has the meaning set forth in the Administration Agreement.

"Lessee" has the meaning set forth in the Administration Agreement.

"LIBOR Determination Date" means the second London Business Day prior to the Closing Date with respect to the first Payment Date and, as to each subsequent Payment Date, the second London Business Day prior to the immediately preceding Payment Date.

"LIBOR Rate" means, with respect to any Accrual Period and the related Payment Date, the arithmetic mean of the London interbank offered rates rounded to the nearest 1/100,000 of 1% (.0000001), with 5 millionths of a percentage point rounded upward, for deposits in United States dollars having a maturity of one month commencing on the first day of the Accrual Period which appear on Telerate Page 3750 as of 11:00 a.m., London time, on the related LIBOR Determination Date; provided, however, that if such rate does not appear on the Telerate Page 3750, the LIBOR Rate will equal the Reference Bank Rate on the related LIBOR Determination Date.

"London Business Day" means any day other than a Saturday, Sunday or a day on which banking institutions in London, England are authorized or obligated by law or government decree to be closed.

"Maintenance Provider" means Xerox, as Maintenance Provider under the Administration Agreement, and its successors in such capacity.

"Monthly Interest" has the meaning set forth in the Administration Agreement.

"Moody's" means Moody's Investors Service, Inc., and its successors.

"Note Balance" means, as of any Payment Date, the initial principal amount of the Notes, reduced by all payments of principal made on or prior to such Payment Date on the Notes.

"Note Distribution Account" means the trust account established by the Administrative Agent pursuant to Section 8.02(a), into which amounts released from the Collection Account and, when necessary, the Reserve Fund for distribution to Noteholders shall be deposited and from which all distributions to Noteholders shall be made.

"Note Owner" means, with respect to a Book-Entry Note, each Person who is the beneficial owner of all or part of the Notes evidenced by such Book- Entry Note, as reflected on the books of the Clearing Agency or a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

"Note Register" and "Note Registrar" have the respective meanings set forth in Section 2.04.

"Noteholder" means, as of any date, the Person in whose name a Note is registered on the Note Register on such date.

"Notes" means the Xerox Equipment Lease Trust 2001-1 Floating Rate Asset Backed Notes, which Notes shall be substantially in the form of Exhibit A hereto.

"Offering Circular" means the offering circular, dated July 18, 2001, relating to the private placement of the Notes.

"Officer's Certificate" means a certificate signed by an Authorized Officer of the Trust, under the circumstances described in, and otherwise complying with, the applicable requirements of Section 11.01 and delivered to the Indenture Trustee.

"Opinion of Counsel" means one or more written opinions of counsel who may, except as otherwise expressly provided in this Indenture, be employees of or counsel to the Trust or the Administrative Agent, and who shall be satisfactory to the Indenture Trustee and which opinion shall be in form and substance satisfactory to the Indenture Trustee.

"Optional Purchase" has the meaning set forth in the Trust Agreement.

"Optional Purchase Price" has the meaning set forth in the Trust Agreement.

"Outstanding" means, as of any date, all Notes theretofore authenticated and delivered under this Indenture except:

(i) Notes theretofore cancelled by the Note Registrar or delivered to the Note Registrar for cancellation;

(ii) Notes or portions thereof the payment for which money in the necessary amount has been theretofore deposited with the Indenture Trustee or any Paying Agent in trust for the related Noteholders (provided, however, that if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor, satisfactory to the Indenture Trustee, has been made); and

(iii) Notes in exchange for or in lieu of other Notes that have been authenticated and delivered pursuant to this Indenture unless proof satisfactory to the Indenture Trustee is presented that any such Notes are held by a bona fide purchaser;

provided, however, that, unless otherwise specified herein or in another Basic Document, in determining whether Noteholders holding the requisite Outstanding Amount have given any request, demand, authorization, direction, notice, consent or waiver hereunder or under any Basic Document, Notes owned by the Trust, the Transferor, the Administrative Agent (so long as Xerox or an Affiliate thereof is the Administrative Agent), the Maintenance Provider (so long as Xerox or an Affiliate thereof is the Maintenance Provider) or any of their respective Affiliates shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Indenture Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that a Responsible Officer knows to be so owned shall be so disregarded. Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee thereof

establishes to the satisfaction of the Indenture Trustee such pledgee's right so to act with respect to such Notes and that such pledgee is not the Trust, the Transferor, the Administrative Agent (so long as Xerox or an Affiliate thereof is the Administrative Agent), the Maintenance Provider (so long as Xerox or an Affiliate thereof is the Maintenance Provider) or any of their respective Affiliates.

"Outstanding Amount" means, as of any date, the aggregate principal amount of the applicable Notes Outstanding, reduced by all payments of principal made in respect thereof on or prior to such date.

"Owner Trustee" has the meaning set forth in the Trust Agreement.

"Paying Agent" means the Indenture Trustee or any other Person that meets the eligibility standards for the Indenture Trustee set forth in Section 6.11 and is authorized by the Trust to make the payments to and distributions from the Note Distribution Account, including the payment of principal of or interest on the Notes on behalf of the Trust.

"Payment Date" means the 15th day of each month or, if such day is not a Business Day, the immediately succeeding Business Day, commencing September 17, 2001.

"Payment Date Statement" has the meaning set forth in the Administration Agreement.

"Permitted Investments" has the meaning set forth in the Administration Agreement.

"Person" has the meaning set forth in the Administration Agreement.

"Predecessor Note" means, with respect to any particular Note, every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note, and, for the purpose of this definition, any Note authenticated and delivered under Section 2.05 in lieu of a mutilated, destroyed, lost or stolen Note shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Note.

"Principal Distribution Amount" has the meaning set forth in the Administration Agreement.

"Proceeding" has the meaning set forth in the Administration Agreement.

"Protected Purchaser" has the meaning set forth in Article 8 of the UCC.

"PTCE" means Prohibited Transaction Class Exemption.

"Purchase Agreement" means the purchase agreement relating to the Notes, dated July 18, 2001, among the Initial Purchaser, Xerox and the Transferor.

"QIB" means a "qualified institutional buyer" within the meaning of Rule 144A.

"Rating Agency" means each of Fitch, Moody's and Standard & Poor's.

"Rating Agency Condition" means, with respect to any action, that each Rating Agency shall have been given ten Business Days (or such shorter period

as is acceptable to each Rating Agency) prior notice thereof by the Transferor or the Administrative Agent, and that each Rating Agency shall not have notified the Transferor or the Administrative Agent in writing that such action will result in a qualification, reduction or withdrawal of its then- current rating of the Notes.

"Record Date" means, with respect to a Payment Date or Redemption Date, the close of business on the day immediately preceding such Payment Date or Redemption Date, as the case may be.

"Redemption Date" means in the case of a redemption of the Notes pursuant to Section 10.01, the Payment Date specified by the Administrative Agent or the Trust pursuant to Section 10.01.

"Redemption Price" means an amount equal to the unpaid principal amount of the Notes redeemed plus accrued and unpaid interest thereon at the applicable Interest Rate for the Notes being so redeemed, through the Accrual Period related to such Redemption Date.

"Reference Bank Rate" means, with respect to any Accrual Period, the arithmetic mean to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward, of the rates, as of 11:00 A.M., London time, on the related LIBOR Determination Date, at which deposits in United States dollars, having a maturity of one month commencing on the first day of the Accrual Period and a principal amount of not less than $1,000,000, offered by the Reference Banks from which the Calculation Agent has received quotations; provided however, in the event that the Calculation Agent has not received quotations from at least two Reference Banks, the Reference Bank Rate will be the arithmetic mean to the nearest 1/100,000 of 1% (0.0000001), with five one-millionths of a percentage point rounded upward, of the rates quoted by three major banks in New York City, selected by the Calculation Agent after consultation with the Transferor, as of 11:00 A.M., New York City time, on the LIBOR Determination Date for loans in United States dollars to leading European Banks having a maturity of one month commencing on the first day of the Accrual Period and in a principal amount not less than $1,000,000 that is representative of a single transaction in the market at that time; provided, further, if no such quotations can be obtained, the Reference Bank Rate shall be the Reference Bank Rate for the preceding Accrual Period.

"Reference Banks" means four major banks that are engaged in the London interbank market that are selected by the Administrative Agent.

"Registered Holder" means the Person in whose name a Note is registered on the Note Register on the related Record Date.

"Repayment Price" has the meaning set forth in the Trust Agreement.

"Reserve Fund" has the meaning set forth in the Administration Agreement.

"Reserve Fund Draw Amount" has the meaning set forth in the Administration Agreement.

"Responsible Officer" means, with respect to the Indenture Trustee, any officer within the Corporate Trust Department (or any successor group of the Indenture Trustee), including any Vice President, Assistant Secretary, trust

officer or other officer or assistant officer of the Indenture Trustee customarily performing functions similar to those performed by the people who at such time shall be officers, or to whom any corporate trust matter is referred within Corporate Trust Department because of his knowledge of and familiarity with the particular subject.

"Rule 144A" means Rule 144A promulgated by the Commission under the Securities Act.

"Rule 144A Information" means information requested of the Transferor, in connection with the proposed transfer of a Note, to satisfy the requirements of paragraph (d)(4) of Rule 144A.

"Securities" means the Notes and the Certificates.

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

"Securities Balance" has the meaning set forth in the Administration Agreement.

"Securities Accounts" has the meaning set forth in the Control Agreement.

"Securities Intermediary" has the meaning set forth in the Control Agreement.

"Securityholder" has the meaning set forth in the Administration Agreement.

"Seller" means Xerox Holding, and its successors.

"Standard & Poor's" means Standard & Poor's Ratings Group, a Division of The McGraw Hill Companies, Inc., and its successors.

"State" has the meaning set forth in the Administration Agreement

"Successor Administrative Agent" has the meaning set forth in the Administration Agreement.

"Successor Maintenance Provider" means any Person appointed as a successor to the Maintenance Provider pursuant to Section 8.04 of the Administration Agreement.

"TIA" means the Trust Indenture Act of 1939, as amended and as in force on the date hereof, unless otherwise specifically provided.

"Transferor" means Xerox Funding, and its successors.

"Transition Account" has the meaning set forth in the Administration Agreement.

"Trust" means Xerox Equipment Lease Owner Trust 2001-1.

"Trust Administration Agreement" has the meaning set forth in the Administration Agreement.

"Trust Agreement" means the trust agreement, as amended and restated as

of July 1, 2001, between the Transferor and HSBC Bank & Trust Company (Delaware) NA, as the owner trustee, as amended or supplemented from time to time.

"Trust Estate" has the meaning set forth in the Administration Agreement.

"Trust Order" and "Trust Request" means a written order or request of the Trust signed in the name of the Trust by an Authorized Officer and delivered to the Indenture Trustee.

"Trustees" has the meaning set forth in the Administration Agreement.

"UCC" means, unless the context otherwise requires, the Uniform Commercial Code as in effect in the relevant jurisdiction.

"United States" means the United States of America.

"U.S. Bank" means U.S. Bank National Association, and its successors.

"Xerox" means Xerox Corporation, and its successors.

"Xerox Equipment" means Xerox Equipment LLC, and its successors.

"Xerox Funding" means Xerox Funding LLC, and its successors.

"Xerox Holding" means Xerox Holding LLC, and its successors.

Section 1.02. Interpretive Provisions.

(a) For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires, (i) terms used herein include, as appropriate, all genders and the plural as well as the singular, (ii) references to this Indenture include all Exhibits hereto, (iii) references to words such as "herein", "hereof" and the like shall refer to this Indenture as a whole and not to any particular part, Article or Section within this Indenture, (iv) references to an Article or Section such as "Article One" or "Section 1.01" shall refer to the applicable Article or Section of this Indenture, (v) the term "include" and all variations thereof shall mean "include without limitation", (vi) the term "or" shall include "and/or" and (vii) the term "proceeds" shall have the meaning ascribed to such term in the applicable UCC.

(b) As used in this Indenture and in any certificate or other document made or delivered pursuant hereto or thereto, accounting terms not defined in this Indenture or in any such certificate or other document, and accounting terms partly defined in this Indenture or in any such certificate or other document to the extent not defined, shall have the respective meanings given to them under generally accepted accounting principles. To the extent that the definitions of accounting terms in this Indenture or in any such certificate or other document are inconsistent with the meanings of such terms under generally accepted accounting principles, the definitions contained in this Indenture or in any such certificate or other document shall control.

ARTICLE TWO

THE NOTES

Section 2.01. Form. The Notes, together with the Indenture Trustee's certificate of authentication, shall be in substantially the form set forth as Exhibit A hereto, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their execution of such Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of such Note.

The terms of the Notes set forth in Exhibit A hereto are part of the terms of this Indenture.

Section 2.02. Execution, Authentication and Delivery. The Notes shall be executed by the Owner Trustee on behalf of the Trust. The signature of any authorized officer of the Owner Trustee on the Notes may be manual or by facsimile. Notes bearing the manual or facsimile signature of individuals who were at any time authorized officers of the Owner Trustee shall bind the Trust, notwithstanding that any such individuals have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

The Indenture Trustee shall, upon receipt of a Trust Order, authenticate and deliver for original issue $513,000,000 aggregate principal amount of Notes. The aggregate principal amount of the Notes outstanding at any time may not exceed such respective amount, except as provided in Section 2.05.

Each Note shall be dated the date of its authentication. The Notes shall be issuable as registered notes in book-entry form in minimum denominations of $100,000 and in integral multiples of $1,000 in excess thereof.

No Note may be sold, pledged or otherwise transferred to any Person except in accordance with Section 2.04 and any attempted sale, pledge or transfer in violation of such Section shall be null and void.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form provided for herein executed by the Indenture Trustee by the manual signature of one of its authorized signatories, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder.

Section 2.03. Temporary Notes. Pending the preparation of Definitive Notes, the Owner Trustee may execute, on behalf of the Trust, and upon receipt of a Trust Order, the Indenture Trustee shall authenticate and deliver, temporary Notes that are printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the Definitive Notes in lieu of which they are issued and with such variations not inconsistent with the terms of this Indenture as the officers executing such Notes may determine, as evidenced by their execution of such Notes.

If temporary Notes are issued, the Trust shall cause Definitive Notes

to be prepared without unreasonable delay. After the preparation of Definitive Notes, the temporary Notes shall be exchangeable for Definitive Notes upon surrender of such temporary Notes at the office or agency of the Trust to be maintained as provided in Section 3.02, without charge to the related Noteholder. Upon surrender for cancellation of any one or more temporary Notes, the Owner Trustee shall execute, on behalf of the Trust, and the Indenture Trustee shall authenticate and deliver in exchange therefor, a like principal amount of Definitive Notes of authorized denominations. Until so exchanged, such temporary Notes shall in all respects be entitled to the same benefits under this Indenture as Definitive Notes.

Section 2.04. Registration; Registration of Transfer and Exchange.

(a) The Trust shall cause to be kept a register (the "Note Register") in which, subject to such reasonable regulations as it may prescribe, the Trust shall provide for the registration of Notes and the registration of transfers of Notes. The Indenture Trustee is hereby appointed the "Note Registrar" for the purpose of registering Notes and transfers of Notes as herein provided. Upon any resignation of any Note Registrar, the Trust shall promptly appoint a successor or, if it elects not to make such an appointment, assume the duties of Note Registrar.

If a Person other than the Indenture Trustee is appointed by the Trust as Note Registrar, the Trust shall give the Indenture Trustee prompt written notice of such appointment and the location, and any change in such location, of the Note Register, and the Indenture Trustee shall have the right to inspect the Note Register at all reasonable times and to obtain copies thereof, and the Indenture Trustee shall have the right to rely upon a certificate executed on behalf of the Note Registrar by an Executive Officer as to the names and addresses of the Noteholders and the principal amounts and number of such Notes.

(b) The Notes have not been registered under the Securities Act or any state securities law. Neither the Transferor, the Owner Trustee, the Trust, the Note Registrar, the Indenture Trustee nor any other entity is obligated to register the Notes under the Securities Act or any other securities or "Blue Sky" laws or to take any other action not otherwise required under this Indenture or the Trust Agreement to permit the transfer of any Note without registration.

(c) No transfer of any Note or any interest therein (including by pledge or hypothecation) shall be made except in compliance with the restrictions on transfer set forth in this Section (including the applicable legend to be set forth on the face of each Note as provided in Exhibit A) in a transaction exempt from the registration requirements of the Securities Act and applicable state securities or "Blue Sky" laws to a person (i) who the Transferor reasonably believes is a QIB in the form of beneficial interests in the Book-Entry Notes and (ii) that is aware that the resale or other transfer is being made in reliance on Rule 144A.

(d) Each Noteholder, by acceptance of its Note (and each Note Owner, by its acceptance of a beneficial interest in a Note), will be deemed to have acknowledged, represented to and agreed with the Trust, the Transferor, the Indenture Trustee and Note Registrar as follows:

(i) It (A) is a Qualified Institutional Buyer within the meaning of Rule 144A (a "QIB"), (B) is acquiring the Notes for its own account or

for the account of a QIB, (C) is aware that the sale of the Notes to it is being made in reliance on Rule 144A and (D) understands and acknowledges that the Notes will be offered and may be resold by the Initial Purchaser to QIBs pursuant to Rule 144A in the form of beneficial interests in the Book-Entry Notes.

(ii) It understands that the Notes have not been and will not be registered under the Securities Act or any state or other applicable securities laws and that the Notes, or any interest or participation therein, may not be offered, sold, pledged or otherwise transferred except (A) to a person whom the seller reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A and (B) in accordance with all applicable securities laws of any State of the United States or any other applicable jurisdictions..

(iii) It acknowledges that neither the Trust, the Transferor, the Initial Purchaser nor any person representing the Trust, the Transferor or the Initial Purchaser has made any representation to it with respect to the Trust or the offering or sale of any Notes, other than the information contained in the Offering Circular, which has been delivered to it and upon which it is relying in making its investment decision with respect to the Notes. It has had access to such financial and other information concerning the Trust, the Transferor and the Notes as it has deemed necessary in connection with its decision to purchase the Notes.

(iv) It acknowledges that the Notes will bear a legend to the following effect unless the Transferor determines otherwise, consistent with applicable law:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES OR BLUE SKY LAW. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO AN INSTITUTIONAL INVESTOR THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), PURCHASING FOR ITS OWN ACCOUNT OR A QIB PURCHASING FOR THE ACCOUNT OF A QIB, WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTIONS.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

NO RESALE OR OTHER TRANSFER OF ANY NOTE SHALL BE MADE TO ANY TRANSFEREE UNLESS: (A) SUCH TRANSFEREE IS NOT, AND WILL NOT ACQUIRE THE NOTE ON BEHALF OR WITH PLAN ASSETS OF, AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN

SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), OR ANY OTHER "PLAN" AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "INTERNAL REVENUE CODE"), THAT IS SUBJECT TO ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OR (B) THE ACQUISITION AND HOLDING OF THE NOTE ARE ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER PTCE 84-14, PTCE 90-1, PTCE 91-38, PTCE 95-60, PTCE 96-23 OR A SIMILAR EXEMPTION. EACH PURCHASER OR TRANSFEREE OF A NOTE, BY ITS ACCEPTANCE OF SUCH NOTE, WILL BE DEEMED TO HAVE MADE THE REPRESENTATION SET FORTH IN CLAUSE (A) OR (B) ABOVE.

THE PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

TRANSFERS OF THE NOTES MUST GENERALLY BE ACCOMPANIED BY APPROPRIATE TAX TRANSFER DOCUMENTATION AND ARE SUBJECT TO RESTRICTIONS AS PROVIDED IN THE INDENTURE.

THE HOLDER, BY ACCEPTANCE OF THIS NOTE, SHALL BE DEEMED TO HAVE AGREED TO TREAT THE NOTES AS DEBT SOLELY OF THE TRUST FOR UNITED STATES FEDERAL AND STATE INCOME TAX PURPOSES.

(v) If it is acquiring any Note, or any interest or participation therein, as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to such account and that it has full power to make the acknowledgments, representations and agreements contained herein on behalf of each such account.

(vi) It (A) is a QIB, (B) is aware that the sale to it is being made in reliance on Rule 144A and if it is acquiring such Notes or any interest or participation therein for the account of another QIB, such QIB is aware that the sale is being made in reliance on Rule 144A and (C) is acquiring such Notes or any interest or participation therein for its own account or for the account of a QIB.

(vii) It is purchasing the Notes for its own account, or for one or more investor accounts for which it is acting as fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirements of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell such Notes, or any interest or participation therein as described in the Offering Circular and pursuant to the provisions of this Indenture.

(viii) It agrees that if in the future it should offer, sell or otherwise transfer such Note or any interest or participation therein, it will do so only (A) to the Transferor or (B) pursuant to Rule 144A to a person who it reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, purchasing for its own account or for the account of a QIB, whom it has informed that such offer, sale or other transfer is being made in reliance on Rule 144A.

(ix) (A) It is not and will not acquire the Note on behalf of or with plan assets of (1) an "employee benefit plan" (as defined in

Section 3(3) of ERISA) that is subject to the provisions of Title I of ERISA or (2) any other "plan" as defined in Section 4975(e)(1) of the Code that is subject to Section 4975 of the Internal Revenue Code or (B) its acquisition and holding of the Note are eligible for the exemptive relief available under PTCE 84-14, PTCE 90-1, PTCE 91-38, PTCE 95-60, PTCE 96-23 or a similar exemption.

(x) It acknowledges that the Transferor, the Trust, the Initial Purchaser and others will rely on the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agrees that if any of the foregoing acknowledgments, representations and agreements deemed to have been made by it are no longer accurate, it shall promptly notify the Transferor, the Indenture Trustee and the Initial Purchaser.

(xi) It acknowledges that transfers of the Notes or any interest or participation therein shall otherwise be subject in all respects to the restrictions applicable thereto contained in this Indenture.

Any transfer, resale, pledge or other transfer of the Notes by the Noteholder contrary to the restrictions set forth above and in this Indenture shall be deemed void ab initio by the Indenture Trustee.

(e) The Transferor shall make the Rule 144A Information available to the prospective transferor and transferee of a Note. The Rule 144A Information shall include any or all of the following items requested by the prospective transferee:

(i) the Offering Circular, as amended or supplemented to the date of such transfer,

(ii) each Payment Date Statement delivered to holders of the Note on each Payment Date preceding such request and

(iii) such other information as is reasonably available to the Transferor in order to comply with requests for information pursuant to Rule 144A.

(f) Neither the Transferor, the Note, the Indenture Trustee, the Owner Trustee nor any other entity is under an obligation to register any Note under the Securities Act or any state securities laws.

(g) Notwithstanding anything to the contrary contained herein, each Note and this Indenture may be amended or supplemented to modify the restrictions on and procedures for resale and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally. Each Noteholder shall by its acceptance of such Note, have agreed to any such amendment or supplement.

(h) Upon surrender for registration of transfer of any Note at the office or agency of the Trust to be maintained as provided in Section 3.02, if the requirements of Section 8-401 of the UCC are met, the Owner Trustee shall execute, on behalf of the Trust, and the Indenture Trustee shall authenticate and the related Noteholder shall obtain from the Indenture Trustee, in the name of the designated transferee, one or more new Notes in any authorized denominations, of a like aggregate principal amount.

At the option of the related Noteholder, Notes may be exchanged for other Notes in any authorized denominations, of a like aggregate principal amount, upon surrender of such Notes at such office or agency. Whenever any Notes are so surrendered for exchange, if the requirements of Section 8-401 of the UCC are met, the Owner Trustee shall execute, on behalf of the Trust, the Indenture Trustee shall authenticate and the Noteholder shall obtain from the Indenture Trustee the Notes that the Noteholder making such exchange is entitled to receive.

Every Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form and substance satisfactory to the Trust and the Indenture Trustee, duly executed by the Noteholder thereof or its attorney-in-fact duly authorized in writing.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Trust, evidencing the same debt and entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

No service charge shall be made to a Noteholder for any registration of transfer or exchange of Notes, but the Trust may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith, other than exchanges pursuant to Sections 2.03 or 9.05 not involving any transfer.

The preceding provisions of this Section notwithstanding, the Trust shall not be required to make, and the Note Registrar need not register, transfers or exchanges of any Note (i) selected for redemption or (ii) for a period of 15 days preceding the due date for any payment with respect to such Note.

Section 2.05. Mutilated, Destroyed, Lost or Stolen Notes. If (i) any mutilated Note is surrendered to the Indenture Trustee, or the Indenture Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note and (ii) there is delivered to the Indenture Trustee such security or indemnity as may be required by it to hold the Trust, the Owner Trustee and the Indenture Trustee harmless, then, in the absence of notice to the Owner Trustee, the Note Registrar or the Indenture Trustee that such Note has been acquired by a Protected Purchaser, and provided that the requirements of Section 8-405 of the UCC are met, the Owner Trustee shall execute, on behalf of the Trust, and upon receipt of a Trust Request the Indenture Trustee shall authenticate and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a replacement Note; provided, however, that if any such destroyed, lost or stolen Note (but not a mutilated Note) shall have become or within seven days shall become due and payable, or shall have been called for redemption, instead of issuing a replacement Note, the Trust may pay such destroyed, lost or stolen Note when so due or payable or upon the Redemption Date without the surrender thereof. If, after the delivery of such replacement Note or payment of a destroyed, lost or stolen Note pursuant to the proviso to the preceding sentence, a Protected Purchaser of the original Note in lieu of which such replacement Note was issued presents for payment such original Note, the Trust and the Indenture Trustee shall be entitled to recover such replacement Note (or such payment) from the Person to whom it was delivered or any Person taking such replacement Note from such Person to whom such replacement Note was delivered

or any assignee of such Person, except a Protected Purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Trust or the Indenture Trustee in connection therewith.

Upon the issuance of any replacement Note under this Section, the Trust or the Indenture Trustee may require the payment by the related Noteholder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other reasonable expenses (including the fees and expenses of the Indenture Trustee or the Note Registrar) connected therewith.

Every replacement Note issued pursuant to this Section in replacement of any mutilated, destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Trust, whether or not the mutilated, destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 2.06. Persons Deemed Owners. Prior to due presentment for registration of transfer of any Note, the Trust, the Note Registrar and the Indenture Trustee and their respective agents may treat the Person in whose name any Note is registered (as of the date of determination) as the owner of such Note for the purpose of receiving payments of principal and interest, if any, on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and neither the Trust, the Note Registrar and the Indenture Trustee nor any of their respective agents shall be affected by notice to the contrary.

Section 2.07. Cancellation. All Notes surrendered for payment, registration of transfer, exchange or redemption shall, if surrendered to any Person other than the Indenture Trustee, be delivered to the Indenture Trustee and shall be promptly cancelled by the Indenture Trustee. The Trust may at any time deliver to the Indenture Trustee for cancellation any Notes previously authenticated and delivered hereunder that the Trust may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Indenture Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Indenture. All cancelled Notes may be held or disposed of by the Indenture Trustee in accordance with its standard retention or disposal policy as in effect at the time unless the Trust shall direct by a Trust Order that they be destroyed or returned to it; provided, that such Trust Order is timely and that such Notes have not been previously disposed of by the Indenture Trustee.

Section 2.08. Book-Entry Notes. Unless otherwise specified, the Notes, upon original issuance, will be issued in the form of one or more typewritten Notes representing the Book-Entry Notes, to be delivered to the Indenture Trustee, as agent for DTC, the initial Clearing Agency, by, or on behalf of, the Trust. One fully registered Note shall be issued with respect to each $400 million in principal amount of the Notes or such lesser amount as necessary. Such Notes shall initially be registered on the Note Register in the name of Cede & Co., the nominee of the initial Clearing Agency, and no

Note Owner shall receive a Definitive Note representing such Note Owner's interest in such Note except as provided in Section 2.10. Unless and until Definitive Notes have been issued to Note Owners pursuant to Section 2.10:

(a) the provisions of this Section shall be in full force and effect;

(b) the Note Registrar and the Indenture Trustee shall be entitled to deal with the Clearing Agency for all purposes of this Indenture (including the payment of principal and interest on the Notes and the giving of instructions or directions hereunder) as the sole Noteholder, and shall have no obligation to Note Owners;

(c) to the extent that the provisions of this Section conflict with any other provisions of this Indenture, the provisions of this Section shall control;

(d) the rights of Note Owners shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between or among such Note Owners and the Clearing Agency or Clearing Agency Participants; pursuant to the Depository Agreement, unless and until Definitive Notes are issued pursuant to Section 2.11, the initial Clearing Agency will make book-entry transfers among the Clearing Agency Participants and receive and transmit payments of principal and interest on the Notes to such Clearing Agency Participants; and

(e) whenever this Indenture requires or permits actions to be taken based upon instructions or directions of Noteholders evidencing a specified percentage of the Outstanding Amount, the Clearing Agency shall be deemed to represent such percentage only to the extent that it has received instructions to such effect from Note Owners or Clearing Agency Participants owning or representing, respectively, such required percentage of the beneficial interest in the Notes and has delivered such instructions to the Indenture Trustee.

Section 2.09. Notices to Clearing Agency. Whenever a notice or other communication to Noteholders is required under this Indenture, unless and until Definitive Notes shall have been issued to Note Owners pursuant to Section 2.10, the Indenture Trustee shall give all such notices and communications specified herein to be given to Noteholders to the Clearing Agency, and shall have no obligation to the Note Owners.

Section 2.10. Definitive Notes. If (i) (A) the Administrator advises the Indenture Trustee in writing that the Clearing Agency is no longer willing or able to properly discharge its responsibilities as described in the Depository Agreement and (B) neither the Indenture Trustee nor the Administrator is able to locate a qualified successor, (ii) the Administrator at its option advises the Indenture Trustee in writing that it elects to terminate the book-entry system through the Clearing Agency or (iii) after an Indenture Default, Note Owners representing in the aggregate not less than 51% of the Outstanding Amount advise the Indenture Trustee through the Clearing Agency and Clearing Agency Participants in writing that the continuation of a book-entry system through the Clearing Agency or its successor is no longer in the best interest of Note Owners, the Indenture Trustee shall be required to notify all Note Owners, through the Clearing Agency, of the occurrence of such event and the availability through the Clearing Agency of Definitive Notes to Note Owners requesting the same. Upon surrender to the Indenture Trustee by the Clearing Agency of the Note or

Notes representing the Book-Entry Notes and the receipt of instructions for re-registration, the Indenture Trustee shall issue Definitive Notes to Note Owners, who thereupon shall become Noteholders for all purposes of this Indenture. None of the Owner Trustee, the Note Registrar or the Indenture Trustee shall be liable for any delay in delivery of such instructions and may conclusively rely on, and shall be protected in relying on, such instructions.

The Indenture Trustee shall not be liable if the Indenture Trustee or the Administrative Agent is unable to locate a qualified successor Clearing Agency. The Definitive Notes shall be typewritten, printed, lithographed or engraved or produced by any combination of such methods (with or without steel engraved borders), all as determined by the officers executing such Notes, as evidenced by their execution of such Notes.

If Definitive Notes are issued and the Indenture Trustee is not the Note Registrar, the Owner Trustee shall furnish or cause to be furnished to the Indenture Trustee a list of the names and addresses of the Noteholders (i) as of each Record Date, within five days thereafter and (ii) as of not more than ten days prior to the time such list is furnished, within 30 days after receipt by the Owner Trustee of a written request therefor.

If Definitive Notes are issued, the prospective transferee shall be required to execute and deliver to the Indenture Trustee, the Owner Trustee, the Initial Purchaser and the Transferor an investor representation letter substantially in the form attached as an Exhibit to the Offering Circular as a condition to the registration of any transfer of a Note.

Section 2.11. Authenticating Agents. Upon the request of the Trust, the Indenture Trustee shall, and if the Indenture Trustee so chooses the Indenture Trustee may, appoint one or more Authenticating Agents with power to act on its behalf and subject to its direction in the authentication of Notes in connection with issuance, transfers and exchanges under Sections 2.02, 2.04, 2.05 and 9.05, as fully to all intents and purposes as though each such Authenticating Agent had been expressly authorized by such Sections to authenticate the Notes. For all purposes of this Indenture, the authentication of Notes by an Authenticating Agent pursuant to this Section shall be deemed to be the authentication of Notes by the Indenture Trustee.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, without the execution or filing of any further act on the part of the parties hereto or such Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Indenture Trustee and the Trust. The Indenture Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and the Trust. Upon receiving such notice of resignation or upon such termination, the Indenture Trustee shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Trust.

The Indenture Trustee agrees to pay to each Authenticating Agent from

time to time reasonable compensation for its services and reimbursement for its reasonable expenses relating thereto, and the Indenture Trustee shall be entitled to be reimbursed for all such payments, subject to Section 6.07. The provisions of Sections 2.04 and 6.04 shall be applicable to any Authenticating Agent.

Section 2.12. Tax Treatment. The Trust has entered into this Indenture, and the Notes will be issued, with the intention that, for all purposes including federal, state and local income, single business and franchise tax purposes, the Notes will qualify as indebtedness. The Trust, by entering into this Indenture, and each Noteholder, by its acceptance of a Note (and each Note Owner by its acceptance of an interest in the applicable Book-Entry Note), agree to treat the Notes for all purposes including federal, state and local income, single business and franchise tax purposes as indebtedness.

Section 2.13. Employee Benefit Plans. A fiduciary of a Benefit Plan purchasing the Notes with the assets of a Benefit Plan is deemed to represent that the purchase of one or more Notes is consistent with its fiduciary duties under ERISA and does not result in a nonexempt prohibited transaction as defined in Section 406 of ERISA or Section 4975 of the Code. If the Transferor, the Administrative Agent, the Indenture Trustee, the Owner Trustee or any of their respective Affiliates (i) has investment or administrative discretion with respect to the assets of a Benefit Plan, (ii) has authority or responsibility to give, or regularly gives, investment advice with respect to such Benefit Plan assets, for a fee and pursuant to an agreement or understanding that such advice (a) will serve as a primary basis for investment decisions with respect to such Benefit Plan assets and (b) will be based on the particular investment needs for such Benefit Plan or (iii) is an employer maintaining or contributing to such Benefit Plan, then a purchase of the Notes by such a Benefit Plan may represent a conflict of interest or act of self-dealing by the fiduciary.

Section 2.14. Representations and Warranties as to the Security Interest of the Indenture Trustee in the Leases and Lease Receivables. The Trust makes the following representations and warranties to the Indenture Trustee. The representations and warranties speak as of the execution and delivery of this Agreement and as of the Closing Date, and shall survive the sale of the Trust Estate to the Trust and the pledge thereof to the Indenture Trustee pursuant to this Agreement.

(a) This Agreement creates a valid and continuing security interest (as defined in the UCC) in the Leases and Lease Receivables in favor of the Indenture Trustee, which security interest is prior to all other Liens, and is enforceable as such as against creditors of and purchasers from the Trust.

(b) The Leases constitute "chattel paper", "payment intangibles" or "accounts" within the meaning of the Revised Article 9 of the UCC and "chattel paper", "general intangibles" or "accounts" within the meaning of the UCC in states that have not adopted the Revised Article 9 of the UCC.

(c) The Lease Receivables constitute "payment intangibles" or "accounts" within the meaning of the Revised Article 9 of the UCC and "general intangibles" or "accounts" within the meaning of the UCC in states that have not adopted the Revised UCC.

(d) The Trust owns and has good and marketable title to the Lease

Receivables free and clear of any lien, claim or encumbrance of any Person and, immediately prior to the pledge of the Trust Estate to the Indenture Trustee, a valid first priority perfected security interest in the Leases.

(e) The Trust has caused or will have caused, within ten days, the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Leases and Lease Receivables granted to the Indenture Trustee hereunder.

(f) Other than the security interest granted to the Indenture Trustee pursuant to this Agreement, the Trust has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Leases and Lease Receivables. The Trust has not authorized the filing of and is not aware of any financing statements against the Trust that include a description of collateral covering the Leases and Lease Receivables other than any financing statement relating to the security interest granted to the Indenture Trustee hereunder or that has been terminated. The Trust is not aware of any judgment or tax lien filings against it.

(g) To extent that the original copy of a cost per copy contract related to a Lease has not been destroyed, the Administrative Agent as custodian for the Trust has in its possession all original copies of the cost per copy contracts that constitute or evidence the Leases. The cost per copy contracts that constitute or evidence the Leases and Lease Receivables do not have any marks or notations indicating that they have been pledged, assigned or otherwise conveyed to any Person other than the Indenture Trustee.

Section 2.15. Representations and Warranties as to the Security Interest of the Indenture Trustee in the Account Collateral. The Trust makes the following representations and warranties to the Indenture Trustee. The representations and warranties speak as of the execution and delivery of this Agreement and as of the Closing Date, and shall survive the sale of the Trust Estate to the Trust and the pledge thereof to the Indenture Trustee pursuant to this Agreement.

(a) This Agreement creates a valid and continuing security interest (as defined in the UCC) in the Account Collateral in favor of the Indenture Trustee, which security interest is prior to all other Liens, and is enforceable as such as against creditors of and purchasers from the Trust.

(b) All of the Account Collateral has been and will have been credited to one of the Securities Accounts. The Securities Intermediary for each Securities Account has agreed to treat all assets credited to the Securities Accounts as "financial assets" within the meaning of the UCC.

(c) The Trust owns and has good and marketable title to the Account Collateral free and clear of any Lien, claim or encumbrance of any Person.

(d) The Trust has received all consents and approvals required by the terms of the Account Collateral to the transfer to the Indenture Trustee of its interest and rights in the Account Collateral hereunder.

(e) The Trust has delivered to the Indenture Trustee a fully executed agreement pursuant to which the Securities Intermediary has agreed to comply with all instructions originated by the Indenture Trustee relating to the Securities Accounts without further consent by the Trust.

(f) Other than the security interest granted to the Indenture Trustee pursuant to this Agreement, the Trust has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Account Collateral. The Trust has not authorized the filing of and is not aware of any financing statements against it that include a description of collateral covering the Account Collateral other than any financing statement relating to the security interest granted to the Indenture Trustee hereunder or that has been terminated. The Trust is not aware of any judgment or tax lien filings against it.

(g) The Securities Accounts are not in the name of any person other than the Trust or the Indenture Trustee. The Trust has not consented to compliance by the Securities Intermediary of any Securities Account with Entitlement Orders of any person other than the Indenture Trustee.

ARTICLE THREE

COVENANTS

Section 3.01. Payment of Principal and Interest. The Trust shall duly and punctually pay the principal and interest on the Notes in accordance with the terms of the Notes, the Administration Agreement and this Indenture. Without limiting the foregoing, subject to Sections 8.02(c) and 8.02(d), the Trust shall cause to be distributed all amounts on deposit in the Note Distribution Account on each Payment Date that have been deposited therein for the benefit of the Notes as set forth in Section 8.02(e). Amounts properly withheld under the Code by any Person from a payment to any Noteholder of interest or principal shall be considered to have been paid by the Trust to such Noteholder for all purposes of this Indenture.

Section 3.02. Maintenance of Office or Agency. The Note Registrar, on behalf of the Trust, shall maintain at the Corporate Trust Office or at such other location in the Borough of Manhattan, The City of New York chosen by the Note Registrar, acting for the Trust, an office or agency where Notes may be surrendered for registration of transfer or exchange, and where notices to and demands upon the Trust in respect of the Notes and this Indenture may be served. The Trust hereby appoints the Indenture Trustee as its agent to receive all such surrenders, notices and demands. The Trust shall give prompt written notice to the Indenture Trustee of the location, and of any change in the location, of any such office or agency. If at any time the Trust shall fail to maintain any such office or agency or shall fail to furnish the Indenture Trustee with the address thereof, such surrenders, notices and demands may be made or served at the Corporate Trust Office, and the Trust hereby appoints the Indenture Trustee as its agent to receive all such surrenders, notices and demands.

Section 3.03. Money for Payments to be Held in Trust. As provided in Sections 5.04(b) and 8.02, all payments of amounts due and payable with respect to any Notes that are to be made from amounts withdrawn from the Collection Account and the Note Distribution Account pursuant to Section 8.02 shall be made on behalf of the Trust by the Indenture Trustee or by another Paying Agent, and no amounts so withdrawn therefrom for payments on Notes shall be paid over to the Trust except as provided in this Section.

On or before each Payment Date and Redemption Date, the Trust shall deposit or cause to be deposited into the Note Distribution Account an

aggregate sum sufficient to pay the amounts then becoming due under the Notes, and the Paying Agent shall hold such sum in trust for the benefit of the Persons entitled thereto and (unless the Paying Agent is the Indenture Trustee) shall promptly notify the Indenture Trustee of any failure by the Trust to effect such deposit.

The Indenture Trustee, if the Indenture Trustee acts as the Paying Agent, hereby agrees to perform the obligations listed in the sub-paragraphs below, and the Trust shall cause each Paying Agent other than the Indenture Trustee to execute and deliver to the Indenture Trustee an instrument in which such Paying Agent shall agree with the Indenture Trustee (and if the Indenture Trustee acts as Paying Agent, it hereby so agrees to the extent relevant), subject to the provisions of this Section, that such Paying Agent shall:

(a) hold all sums held by it for the payment of amounts due with respect to the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(b) give the Indenture Trustee notice of any default by the Trust of which it has actual knowledge (or any other obligor upon the Notes, if any) in the making of any payment required to be made with respect to the Notes;

(c) at any time during the continuance of any such default, upon the written request of the Indenture Trustee, forthwith pay to the Indenture Trustee all sums so held in trust by such Paying Agent;

(d) immediately resign as a Paying Agent and forthwith pay to the Indenture Trustee all sums held by it in trust for the payment of Notes if at any time it ceases to meet the standards required to be met by a Paying Agent at the time of its appointment; and

(e) comply with all requirements of the Code with respect to the withholding from any payments made by it on any Notes of any applicable withholding taxes imposed thereon (including the payment thereof to the appropriate taxing authority if documentation is not obtained which exempts any such payments from withholding or subjects such payments to a reduced rate thereof) and with respect to any applicable reporting requirements in connection therewith.

The Trust may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Trust Order direct any Paying Agent to pay to the Indenture Trustee all sums held in trust by such Paying Agent, such sums to be held by the Indenture Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and upon such payment by any Paying Agent to the Indenture Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable laws with respect to escheat of funds, any money held by the Indenture Trustee or any Paying Agent in trust for the payment of any amount due with respect to any Note and remaining unclaimed for two years after such amount has become due and payable shall be discharged from such trust and be paid to the Trust on Trust Request, and the related Noteholder shall thereafter, as an unsecured general creditor, look only to the Trust for payment thereof, and all liability of the Indenture Trustee or such

Paying Agent with respect to such trust money shall thereupon cease; provided, however, that the Indenture Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Trust cause to be published once, in an Authorized Newspaper, notice that such money remains unclaimed and that, after a date specified therein, which date shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining shall be paid to the Transferor. The Indenture Trustee shall also adopt and employ, at the expense of the Trust, any other reasonable means of notification of such repayment (including mailing notice of such repayment to Noteholders the Notes of which have been called but not surrendered for redemption or whose right to or interest in monies due and payable but not claimed is determinable from the records of the Indenture Trustee or any Paying Agent at the last address of record for each such Noteholder).

Section 3.04. Existence. The Trust shall keep in full effect its existence, rights and franchises as a trust under the laws of the State of Delaware (unless it becomes, or any successor Trust hereunder is or becomes, organized under the laws of any other State or of the United States, in which case the Trust shall keep in full effect its existence, rights and franchises under the laws of such other jurisdiction) and shall obtain and preserve its qualification to do business in each jurisdiction in which such qualification is or shall be necessary to protect the validity and enforceability of this Indenture, the Notes, the Collateral and each other instrument or agreement included in the Trust Estate, in connection with this Indenture and the other Basic Documents and the transactions contemplated hereby and thereby until such time as the Trust shall terminate in accordance with the terms hereof.

Section 3.05. Protection of Trust Estate. The Trust intends the security interest Granted pursuant to this Indenture in favor of the Indenture Trustee on behalf of the Noteholders to be prior to all other liens in respect of the Trust Estate, and the Trust shall take all actions necessary to obtain and maintain, for the benefit of the Indenture Trustee on behalf of the Noteholders, a first lien on and a first priority, perfected security interest in the Trust Estate. The Trust shall from time to time execute and deliver all such supplements and amendments hereto and all such financing statements, continuation statements, instruments of further assurance and other instruments, all as prepared by the Administrative Agent and delivered to the Trust, and shall take such other action necessary or advisable to:

(a) Grant more effectively all or any portion of the Trust Estate;

(b) maintain or preserve the lien and security interest (and the priority thereof) created by this Indenture or carry out more effectively the purposes hereof;

(c) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture;

(d) enforce any of the Collateral;

(e) preserve and defend title to the Trust Estate and the rights of the Indenture Trustee and the Noteholders in the Trust Estate against the claims of all Persons; or

(f)..pay all taxes or assessments levied or assessed upon the Trust

Estate when due.

The Trust hereby designates the Administrative Agent as its agent and attorney-in-fact to execute all financing statements, continuation statements or other instruments required to be executed pursuant to this Section.

Section 3.06. Opinions as to Trust Estate.

(a) Promptly after the execution and delivery of this Indenture, the Trust shall furnish to the Indenture Trustee an Opinion of Counsel to the effect that, in the opinion of such counsel, either (i) all financing statements and continuation statements have been executed and filed that are necessary to create and continue the Indenture Trustee's first priority perfected security interest in the collateral for the benefit of the Noteholders, and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (ii) no such action shall be necessary to perfect such security interest.

(b) On or before April 15 of each calendar year, beginning with April 15, 2002, the Trust shall furnish to the Indenture Trustee an Opinion of Counsel to the effect that in the opinion of such counsel, either (i) all financing statements and continuation statements have been executed and filed that are necessary to continue the lien and security interest of the Indenture Trustee in the Collateral and reciting the details of such filings or referring to prior Opinions of Counsel in which such details are given, or (ii) no such action is necessary to continue such lien and security interest.

Section 3.07. Performance of Obligations; Administration of the Trust Estate.

(a) The Trust shall not take any action and shall use its best efforts not to permit any action to be taken by others, including the Administrative Agent, that would release any Person from any of such Person's material covenants or obligations under any instrument or agreement included in the Trust Estate or that would result in the amendment, hypothecation, subordination, termination or discharge of, or impair the validity or effectiveness of, any such instrument or agreement, except as expressly provided in the Basic Documents or such other instrument or agreement.

(b) The Trust may contract with other Persons to assist it in performing its duties under this Indenture, and any performance of such duties by a Person identified to the Indenture Trustee in an Officer's Certificate of the Trust shall be deemed to be action taken by the Trust. Initially, the Trust has contracted with the Administrator, and the Administrator has agreed, to assist the Trust in performing its duties under this Indenture.

(c) The Trust shall, and, shall cause the Administrator to, punctually perform and observe all of its obligations and agreements contained in this Indenture, the other Basic Documents and the instruments and agreements included in the Trust Estate, including filing or causing to be filed all UCC financing statements and continuation statements required to be filed by the terms of this Indenture and the other Basic Documents in accordance with and within the time periods provided for herein and therein. Except as otherwise expressly provided therein, the Trust, as a party to the Basic Documents, shall not, and shall not cause the Administrative Agent or the Administrator to, modify, amend, supplement, waive or terminate any Basic Document or any

provision thereof without the consent of the Indenture Trustee or the Noteholders of at least a majority of the Outstanding Amount or such greater percentage as may be specified in the particular provision or Basic Document.

Section 3.08. Negative Covenants. So long as any Notes are Outstanding, the Trust shall not:

(a) except as expressly permitted by this Indenture and the other Basic Documents, sell, exchange, transfer or otherwise dispose of any of the properties or assets of the Trust, including those comprising the Trust Estate, unless directed to do so by the Indenture Trustee;

(b) claim any credit on or make any deduction from the principal or interest payable in respect of the Notes (other than amounts properly withheld from such payments under the Code or applicable state law) or assert any claim against any present or former Noteholder by reason of the payment of the taxes levied or assessed upon any part of the Trust Estate;

(c) (i) permit the validity or effectiveness of this Indenture to be impaired, permit the lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged or permit any Person to be released from any covenants or obligations under this Indenture, except as may be expressly permitted hereby, (ii) permit any lien, charge, excise, claim, security interest, mortgage or other encumbrance to be created on or extend to or otherwise arise upon or burden the Trust Estate, any part thereof or any interest therein or the proceeds thereof (other than tax liens, mechanics' liens and other liens that arise by operation of law, in each case on any asset comprising part of the Trust Estate and arising solely as a result of an action or omission of the related Lessee) or (iii) except as otherwise provided in the Basic Documents, permit the lien of this Indenture not to constitute a valid first priority (other than with respect to any such tax, mechanics' or other lien) security interest in the Trust Estate; or

(d) except as otherwise permitted by the Basic Documents, dissolve or liquidate in whole or in part.

Section 3.09. Certificates and Reports.

(a) The Trust shall deliver to the Indenture Trustee and each Rating Agency, on or before April 30 of each calendar year, beginning with April 30, 2002, an Officer's Certificate stating, as to the Authorized Officer signing such Officer's Certificate, that:

(i) a review of the activities of the Trust during the preceding 12 months ended December 31 (or such shorter period in the case of the first such Officer's Certificate) and of the Trust's performance under this Indenture has been made under such Authorized Officer's supervision and

(ii) to the best of such Authorized Officer's knowledge, based on such review, the Trust has complied with all conditions and covenants under this Indenture throughout the preceding 12-month period (or such shorter period in the case of the first such Officer's Certificate), or, if there has been a Default in the compliance of any such condition or covenant, specifying each such Default known to such Authorized Officer and the nature and status thereof.

(b) Unless the Trust otherwise determines, the fiscal year of the Trust shall end on December 31 of each year.

Section 3.10. Restrictions on Certain Other Activities. Except as otherwise provided in the Basic Documents, the Trust shall not: (i) engage in any activities other than financing, acquiring, owning, leasing, pledging and managing the Trust Estate in the manner contemplated by the Basic Documents and activities incidental thereto; (ii) issue, incur, assume, guarantee or otherwise become liable, directly or indirectly, for any indebtedness other than the Notes and any other indebtedness permitted by or arising under the Basic Documents; (iii) make any loan, advance or credit to, guarantee (directly or indirectly or by an instrument having the effect of assuring another's payment or performance on any obligation or capability of so doing or otherwise), endorse or otherwise become contingently liable, directly or indirectly, in connection with the obligations, stocks or dividends of, own, purchase, repurchase or acquire (or agree contingently to do so) any stock, obligations, assets or securities of, or any other interest in, or make any capital contribution to, any other Person; or (iv) make any expenditure (by long-term or operating lease or otherwise) for capital assets (either realty or personalty).

Section 3.11. Administrative Agent Defaults.

(a) If the Trust or a Responsible Officer of the Indenture Trustee shall have knowledge of the occurrence and continuance of an Administrative Agent Default, such Person shall promptly notify the other Person and each Rating Agency thereof, and shall specify in such notice the action, if any, the Trust is taking in respect of such default. If an Administrative Agent Default shall arise from the failure of the Administrative Agent to perform any of its duties or obligations under the Administration Agreement, the Trust shall take all reasonable steps available to it to remedy such failure. Upon the occurrence and continuance of an Administrative Agent Default, the Indenture Trustee or the Noteholders may terminate all of the rights and obligations of the Administrative Agent in the manner set forth in Section 8.01(b) of the Administration Agreement, and a Successor Administrative Agent shall be appointed in accordance with the Administration Agreement. The Indenture Trustee may withdraw from the Transition Account or, if the amount on deposit in the Transition Account is insufficient, may require the Administrative Agent to allocate from payments made in respect of the Maintenance Component of the Leases, an amount necessary to pay for all reasonable costs and expenses incurred in connection with the transition to a Successor Administrative Agent following an Administrative Agent Default including costs associated with the transfer of the Lease Files to a Successor Administrative Agent and amending the Administration Agreement.

(b) As promptly as possible after the giving of notice of termination to the Administrative Agent of the Administrative Agent's rights and powers pursuant to Section 8.01 of the Administration Agreement, the Indenture Trustee shall appoint a Successor Administrative Agent in accordance with Section 8.02 of the Administration Agreement, and such Successor Administrative Agent shall accept its appointment by a written assumption in a form acceptable to the Trustees. Upon the termination or resignation of Xerox as Administrative Agent, so long as U.S. Bank is the Indenture Trustee, the Backup Administrative Agent shall be the initial Successor Administrative Agent. In the event that a Successor Administrative Agent has not been appointed and accepted its appointment at the time when the Administrative Agent ceases to act as Administrative Agent, the Indenture Trustee without

further action shall automatically be appointed the Successor Administrative Agent. The Indenture Trustee or the Backup Administrative Agent may resign as the Administrative Agent by giving written notice of such resignation to the Trust and in such event will be released from such duties and obligations, such release not to be effective until the Indenture Trustee appoints a Successor Administrative Agent and such Successor Administrative Agent accepts appointment under the Administration Agreement in manner set forth in Section 8.02(a) of the Administration Agreement. Upon such acceptance of its appointment, the Successor Administrative Agent shall be successor to the predecessor Administrative Agent under the Administration Agreement. Any Successor Administrative Agent other than the Indenture Trustee or the Backup Administrative Agent shall satisfy the criteria for a Successor Administration Agent set forth in Section 8.02(a) of the Administration Agreement. In connection with any such appointment, the Trust may make such arrangements for the compensation of such successor as it and such successor shall agree, subject to the limitations and conditions set forth below and in Section 8.02 of the Administration Agreement. If the Indenture Trustee shall succeed to the Administrative Agent's duties under the Administration Agreement as provided herein, it shall do so in its individual capacity and not in its capacity as Indenture Trustee and, accordingly, the provisions of Article Six shall be inapplicable to the Indenture Trustee in its duties as the Successor Administrative Agent. In case the Indenture Trustee or the Backup Administrative Agent shall become successor to the Administrative Agent under the Administration Agreement, the Indenture Trustee or the Backup Administrative Agent shall be entitled to appoint as Administrative Agent any one of its Affiliates or agents, provided that it shall be fully liable for the actions and omissions of such Affiliate or agent in such capacity as Successor Administrative Agent. If Xerox has been terminated as Administrative Agent, and the Backup Administrative Agent is acting as Administrative Agent, Xerox will continue to be obligated to pay EDS and Harris Fees and Expenses. If Xerox fails to pay EDS and Harris Fees and Expenses, the Backup Administrative Agent may pay such amounts from payments made in respect of the Maintenance Component of the Leases.

(c) Upon any termination of the Administrative Agent's rights and powers or resignation of the Administrative Agent pursuant to the Administration Agreement, the Trust shall promptly, but in any event within two Business Days of such termination or resignation, notify the Indenture Trustee thereof.

Section 3.12. Maintenance Provider Defaults.

(a) If the Trust or a Responsible Officer of the Indenture Trustee shall have knowledge of the occurrence and continuance of a Maintenance Provider Default, such Person shall promptly notify the other Person and each Rating Agency thereof, and shall specify in such notice the action, if any, the Trust is taking in respect of such default. If a Maintenance Provider Default shall arise from the failure of the Maintenance Provider to perform any of its duties or obligations under the Administration Agreement, the Trust shall take all reasonable steps available to it to remedy such failure. Upon the occurrence and continuance of a Maintenance Provider Default, the Indenture Trustee or the Noteholders may terminate all of the rights and obligations of the Maintenance Provider in the manner set forth in Section 8.03(b) of the Administration Agreement, and a Successor Maintenance Provider shall be appointed in accordance with the Administration Agreement. The Indenture Trustee may withdraw from the Transition Account or, in the event the amount on deposit in the Transition Account is insufficient, may have the

Administrative Agent allocate payments made in respect of the Maintenance Component of the Leases, an amount necessary to pay for all reasonable costs and expenses incurred in connection with the transition to a Successor Maintenance Provider including, among other things, costs associated with the transfer of servicing and maintenance records of the related Equipment to a Successor Maintenance Provider and amending the Administration Agreement.

(b) As promptly as possible after the giving of notice of termination to the Maintenance Provider of the Maintenance Provider's rights and powers pursuant to Section 8.03 of the Administration Agreement, the Indenture Trustee shall appoint a Successor Maintenance Provider in accordance with Section 8.04 of the Administration Agreement, and such Successor Maintenance Provider shall accept its appointment by a written assumption in a form acceptable to the Trustees. In the event that a Successor Maintenance Provider has not been appointed and accepted its appointment at the time when the Maintenance Provider ceases to act as Maintenance Provider, the Indenture Trustee without further action shall automatically be appointed the Successor Maintenance Provider. The Indenture Trustee may resign as the Maintenance Provider by giving written notice of such resignation to the Trust and in such event will be released from such duties and obligations, such release not to be effective until the Indenture Trustee appoints a Successor Maintenance Provider and such Successor Maintenance Provider accepts appointment under the Administration Agreement in the manner set forth in Section 8.04(a) of the Administration Agreement. Upon such acceptance of its appointment, the Successor Maintenance Provider shall be successor to the predecessor Administrative Agent under the Administration Agreement. Any Successor Maintenance Provider shall be an established corporate entity whose regular business includes the provision of supplies, maintenance and servicing in respect of document processing equipment. If within 45 days after the delivery of the notice referred to above, the Indenture Trustee has not appointed a Successor Maintenance Provider, the Indenture Trustee may appoint, or may petition a court of competent jurisdiction to appoint, a Successor Maintenance Provider. In connection with any such appointment, the Trust may make such arrangements for the compensation of such successor as it and such successor shall agree, subject to the limitations and conditions set forth in Section 8.04 of the Administration Agreement, the Trust and the Transferor shall enter into an agreement with such successor for the provision of maintenance (such agreement to be in form and substance satisfactory to the Indenture Trustee).

(c) Upon any termination of the Maintenance Provider's rights and powers or resignation of the Maintenance Provider pursuant to the Administration Agreement, the Trust shall promptly, but in any event within two Business Days of such termination or resignation, notify the Indenture Trustee thereof.

Section 3.13. Compliance with Laws; Further Instruments and Acts. The Trust shall comply with the requirements of all applicable laws, the non- compliance with which would, individually or in the aggregate, materially and adversely affect the ability of the Trust to perform its obligations under the Notes, this Indenture or any other Basic Document. Upon request of the Indenture Trustee, the Trust shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper to carry out more effectively the purposes of this Indenture.

Section 3.14. Delivery of the Trust Estate. On the Closing Date, the Trust shall deliver or cause to be delivered to the Indenture Trustee as

security for its obligations hereunder, the Trust Estate.

Section 3.15. Calculation of the Interest Rate. On each LIBOR Determination Date, the Calculation Agent shall provide the Indenture Trustee with the Note Rate for the Accrual Period commencing on the related Payment Date and inform the Administrative Agent (at the facsimile number given to the Indenture Trustee in writing) of such rate. The determinations of the Note Rate by the Calculation Agent shall, in the absence of manifest error, be conclusive for all purposes and binding on the Noteholders. All percentages resulting from any calculation of the rate of interest will be rounded, if necessary, to the nearest 1/100,000 of 1% (.0000001), with five one-millionths of a percentage point rounded upward.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

Section 4.01. Satisfaction and Discharge of Indenture. This Indenture shall discharge with respect to the Collateral securing the Notes except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, destroyed, lost or stolen Notes, (iii) rights of Noteholders to receive payments of principal thereof and interest thereon, (iv) Sections 3.03, 3.04, 3.05, 3.08, 3.10, 3.11, 3.12 and 3.13, (v) the rights, obligations and immunities of the Indenture Trustee hereunder (including the rights of the Indenture Trustee under Section 6.07 and the obligations of the Indenture Trustee under Section 4.02) and (vi) the rights of Noteholders as beneficiaries hereof with respect to the property so deposited with the Indenture Trustee payable to all or any of them, and the Indenture Trustee, on demand and at the expense and on behalf of the Trust, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(a) either

(i) all Notes theretofore authenticated and delivered (other than (A) Notes that have been mutilated, destroyed, lost or stolen and that have been replaced or paid as provided in Section 2.05 and (B) Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Trust and thereafter paid to the Persons entitled thereto or discharged from such trust, as provided in Section 3.03) have been delivered to the Indenture Trustee for cancellation; or

(ii) all Notes not theretofore delivered to the Indenture Trustee for cancellation (A) have become due and payable, (B) will become due and payable on the Final Scheduled Payment Date within one year or (C) are to be called for redemption within one year under arrangements satisfactory to the Indenture Trustee for the giving of notice of redemption by the Indenture Trustee in the name, and at the expense, of the Trust, and the Trust, in the case of clauses (A), (B) or (C) above, has irrevocably deposited or caused to be irrevocably deposited with the Indenture Trustee cash or direct obligations of or obligations guaranteed by the United States (that will mature prior to the date such amounts are payable), in trust for such purpose, in an amount sufficient to pay and discharge the entire indebtedness on such Notes (including interest, any fees due and payable to the Owner Trustee or the Indenture Trustee) not theretofore delivered to the Indenture Trustee for cancellation, when due, to the Final Scheduled Payment Date, or to the

Redemption Date (if Notes shall have been called for redemption pursuant to Section 10.01), as the case may be;

(b) the Trust has paid or performed or caused to be paid or performed all other amounts and obligations which the Trust may owe to or on behalf of the Indenture Trustee for the benefit of the Noteholders under this Indenture or the Notes;

(c) all amounts payable to the Indenture Trustee pursuant to Section 6.07 or otherwise payable hereunder have been paid or provided for; and

(d) the Trust has delivered to the Indenture Trustee an Officer's Certificate and an Opinion of Counsel, each meeting the applicable requirements of Section 11.01 and, subject to Section 11.02, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with (and, in the case of an Officer's Certificate, stating that the Rating Agency Condition has been satisfied).

Section 4.02. Application of Trust Money. All monies deposited with the Indenture Trustee pursuant to Section 4.01 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent, as the Indenture Trustee may determine, to the Noteholders of the particular Notes for the payment or redemption of which such monies have been deposited with the Indenture Trustee of all sums due and to become due thereon for principal and interest. Such monies need not be segregated from other funds except to the extent required herein or in the Administration Agreement or as required by law.

Section 4.03. Repayment of Monies Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture with respect to the Notes, all monies then held by any Paying Agent other than the Indenture Trustee under the provisions of this Indenture with respect to such Notes shall, upon demand of the Trust, be paid to the Indenture Trustee to be held and applied according to Section 3.03 and such Paying Agent shall thereupon be released from all further liability with respect to such monies.

ARTICLE FIVE

INDENTURE DEFAULT

Section 5.01. Indenture Defaults. Any one of the following events (whatever the reason for such Indenture Default and whether it shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body) shall constitute a default under this Indenture (each, an "Indenture Default"):

(a) default in the payment of any interest on any Note when the same becomes due and payable, and such default shall continue for a period of five days or more;

(b) default in the payment of principal of any Note on the Final Scheduled Payment Date or the Redemption Date;

(c) default in the observance or performance of any covenant or

agreement of the Trust made in this Indenture (other than a covenant or agreement, a default in the observance or performance of which is elsewhere in this Section specifically dealt with), or any representation or warranty of the Trust made in this Indenture or in any certificate or other writing delivered pursuant hereto or in connection herewith proving to have been incorrect in any material respect as of the time when the same shall have been made, and such default shall continue or not be cured, or the circumstance or condition in respect of which such misrepresentation or warranty was incorrect shall not have been eliminated or otherwise cured, for a period of 60 days or, in the case of a materially incorrect representation or warranty, 30 days, after there shall have been given, by registered or certified mail, to the Trust and the Indenture Trustee or by Noteholders representing at least 25% of the Outstanding Amount, a written notice specifying such default or incorrect representation or warranty and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder;

(d) the commencement of a proceeding seeking entry of a decree or order for relief by a court having jurisdiction in the premises in respect of the Trust or any substantial part of the Trust Estate in an involuntary case under any applicable federal or state bankruptcy, liquidation, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Trust or for any substantial part of the Trust Estate, or ordering the winding up or liquidation of the Trust's affairs, and such proceeding shall remain unstayed, undismissed and in effect for a period of 60 consecutive days or immediately upon entry of any such decree or order; or

(e) the commencement by the Trust of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect or the consent by the Trust to the entry of an order for relief in an involuntary case under any such law, the consent by the Trust to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Trust or for any substantial part of the Trust Estate, the making by the Trust of any general assignment for the benefit of creditors, the admission in writing of its inability to or the failure by the Trust generally to pay its debts as such debts become due or the taking of action by the Trust in furtherance of any of the foregoing.

The Trust shall deliver to the Indenture Trustee, each Rating Agency and each Noteholder, within five days after the occurrence thereof, written notice in the form of an Officer's Certificate of any event that with the giving of notice and the lapse of time would become an Indenture Default under clause (c), its status and what action the Trust is taking or proposes to take with respect thereto.

Subject to the provisions herein relating to the duties of the Indenture Trustee, if an Indenture Default occurs and is continuing, the Indenture Trustee shall be under no obligation to exercise any of the rights or powers under this Indenture at the request or direction of any Noteholder, if the Indenture Trustee reasonably believes that it will not be adequately indemnified against the costs, expenses and liabilities that might be incurred by it in complying with such request. Subject to such provisions for indemnification and certain limitations contained herein, Noteholders representing not less than a majority of the Outstanding Amount shall have the right to direct the time, method and place of conducting any proceeding

or any remedy available to the Indenture Trustee or exercising any trust power conferred on the Indenture Trustee, and Noteholders representing not less than a majority of the Outstanding Amount may, in certain cases, waive any default with respect thereto, except a default in the payment of principal or interest or a default in respect of a covenant or provision of the Indenture that cannot be modified without the waiver or consent of all of the holders of the Outstanding Notes.

Section 5.02. Rights upon Indenture Default. If an Indenture Default shall have occurred and be continuing, Noteholders representing at least 66 2/3% of the Outstanding Amount may declare the principal of the Notes immediately due and payable at par, together with accrued interest thereon. Such declaration may be rescinded by the Noteholders representing at least 66 2/3% of the Outstanding Amount before a judgment or decree for payment of the amount due has been obtained by the Indenture Trustee if (a) the Trust has deposited with the Indenture Trustee an amount sufficient to pay (i) all interest on and principal of the Notes as if the Indenture Default giving rise to such declaration had not occurred and (ii) all amounts advanced by the Indenture Trustee and its costs and expenses and (b) all Indenture Defaults (other than the nonpayment of principal of the Notes that has become due solely by such declaration) have been cured or waived.

At any time prior to the declaration of the maturity of the Notes, Noteholders holding not less than a majority of the Outstanding Amount may waive such Indenture Default and its consequences in the manner set forth, and in accordance with Section 5.12.

If the Notes have been declared due and payable following an Indenture Default, the Indenture Trustee may institute proceedings to collect amounts due as set forth in Section 5.04, exercise remedies as a secured party (including foreclosure or sale of the Trust Estate) or elect to maintain the Trust Estate and continue to apply the proceeds from the Trust Estate as if there had been no such declaration. Any sale of the Trust Estate by the Indenture Trustee will be subject to the terms and conditions of Section 5.04.

Section 5.03. Collection of Indebtedness and Suits for Enforcement by Indenture Trustee.

(a) The Trust covenants that if there is a default in the payment of (i) any interest on the Notes when the same becomes due and payable, and such default continues for a period of five days or more or (ii) the principal on any Notes on the Final Scheduled Payment Date or the Redemption Date, the Trust shall, upon demand of the Indenture Trustee, pay to the Indenture Trustee, for the benefit of such Noteholders, the entire amount then due and payable on such Notes for principal and interest, with interest on the overdue principal, and, to the extent payment at such rate of interest shall be legally enforceable, upon overdue installments of interest, at the Interest Rate in effect from time to time and in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Indenture Trustee and its agents, attorneys and counsel.

(b) The Indenture Trustee is hereby vested with the power to execute, acknowledge and deliver any notice, document, certificate, paper, pleading or instrument and to do in the name of the Indenture Trustee as well as in the name, place and stead of such Person such acts, things and deeds for or on

behalf of and in the name of such Person under this Indenture (including specifically under Section 5.04) and under the other Basic Documents which such Person could or might do or which may be necessary, desirable or convenient in the Indenture Trustee's sole discretion to effect the purposes contemplated hereunder and under the other Basic Documents and, without limitation, following the occurrence of an Indenture Default, exercise full right, power and authority to take, or defer from taking, any and all acts with respect to the administration, maintenance or disposition of the Trust Estate.

(c) If an Indenture Default occurs and is continuing, the Indenture Trustee may, in its discretion, proceed to protect and enforce its rights and the rights of the Noteholders, by such appropriate Proceedings as the Indenture Trustee shall deem most effective to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Indenture Trustee by this Indenture or by law.

(d) Notwithstanding anything to the contrary contained in this Indenture, if the Trust fails to perform its obligations under Section 10.01(b) when and as due, the Indenture Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Noteholders by such appropriate proceedings as the Indenture Trustee shall deem most effective to protect and enforce any such rights, whether for specific performance of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other remedy or legal or equitable right vested in the Indenture Trustee by this Indenture or by law; provided that the Indenture Trustee shall only be entitled to take any such actions to the extent such actions (i) are taken only to enforce the Trust's obligations to redeem the principal amount of Notes, and (ii) are taken only against the portion of the Collateral, if any, consisting of the Reserve Fund, any investments therein and any proceeds thereof.

(e) In case there shall be pending, relative to the Trust or any other obligor upon the Notes or any Person having or claiming an ownership interest in the Trust Estate, Proceedings under Title 11 of the United States Code or any other applicable federal or state bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Trust or its property or such other obligor or Person, or in case of any other comparable judicial Proceedings relative to the Trust or other obligor upon the Notes, or to the creditors or property of the Trust or such other obligor, the Indenture Trustee, irrespective of whether the principal on any Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Indenture Trustee shall have made any demand pursuant to the provisions of this Section, shall be entitled and empowered, by intervention in such Proceedings or otherwise:

(i) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee (including any claim for reasonable compensation to the Indenture Trustee and each predecessor Indenture Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities

incurred, and all advances and disbursements made, by the Indenture Trustee and each predecessor Indenture Trustee, except as a result of negligence or bad faith) and of the Noteholders allowed in such Proceedings;

(ii) unless prohibited by applicable law and regulations, to vote on behalf of the Noteholders in any election of a trustee, a standby trustee or Person performing similar functions in any such Proceedings;

(iii) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute all amounts received with respect to the claims of the Noteholders and the Indenture Trustee on their behalf; and

(iv) to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Indenture Trustee or the Noteholders allowed in any judicial proceedings relative to the Trust, its creditors and its property;

and any trustee, receiver, liquidator, custodian or other similar official in any such Proceeding is hereby authorized by each Noteholder to make payments to the Indenture Trustee and, in the event the Indenture Trustee shall consent to the making of payments directly to the Noteholders, to pay to the Indenture Trustee such amounts as shall be sufficient to cover reasonable compensation to the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred and all advances and disbursements made by the Indenture Trustee and each predecessor Indenture Trustee except as a result of negligence or bad faith.

(f) Nothing herein contained shall be deemed to authorize the Indenture Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Noteholder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Noteholder or to vote in respect of the claim of any Noteholder in any such proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar Person.

(g) All rights of action and of asserting claims under this Indenture, or under the Notes, may be enforced by the Indenture Trustee without the possession of the Notes or the production thereof in any trial or other Proceedings relative thereto, and any such action or Proceedings instituted by the Indenture Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment, subject to the payment of the expenses, advances, disbursements and compensation of the Indenture Trustee, each predecessor Indenture Trustee and their respective agents, attorneys and counsel shall be for the ratable benefit of the Noteholders in respect of which such judgment has been recovered.

(h) In any Proceedings brought by the Indenture Trustee (including any Proceedings involving the interpretation of any provision of this Indenture to which the Indenture Trustee shall be a party), the Indenture Trustee shall be held to represent all the Noteholders, and it shall not be necessary to make any Noteholder a party to any such Proceedings.

Section 5.04. Remedies; Priorities.

(a) If an Indenture Default shall have occurred and be continuing, the Indenture Trustee may do one or more of the following (subject to Sections 5.02 and 5.05):

(i) institute Proceedings in its own name and as trustee of an express trust for the collection of all amounts then payable on the Notes or under this Indenture with respect thereto, whether by declaration or otherwise, enforce any judgment obtained, and collect from the Trust and any other obligor upon such Notes monies adjudged due;

(ii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Trust Estate;

(iii) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Indenture Trustee and the Noteholders; and

(iv) subject to Section 5.17, after a declaration of the maturity of the Notes pursuant to Section 5.02, sell the Trust Estate or any portion thereof or rights or interest therein, at one or more public or private sales called and conducted in any manner permitted by law and deliver the proceeds of such sale or liquidation to the Trustee for distribution in accordance with the terms of this Indenture; provided, however, that, except as otherwise provided in the immediately succeeding sentence, no such sale or liquidation can be made if the proceeds of such sale or liquidation distributable to the Noteholders are not sufficient to pay all outstanding principal of and accrued interest on the Notes;

provided, however, any sale of the Leases pursuant to any of clauses (i) through (iv) above shall be subject to the condition that so long as no Maintenance Provider Default has occurred and is continuing, the Maintenance Provider will continue to act in such capacity and will continue to be paid the Maintenance Component payable to it; provided, further, the proceeds of such sale or liquidation need not be sufficient to pay all outstanding principal and accrued interest on the Notes if the related Indenture Default arose as described in clause (a), (b), (d) or (e) of Section 5.01 and (1) the Noteholders representing 100% of the Outstanding Amount consent to such sale or liquidation or (2) the Indenture Trustee determines that the Trust Estate will not continue to provide sufficient funds for the payment of principal and interest on the Notes as they would have become due if the Notes had not been declared due and payable, the Indenture Trustee provides prior written notice of such sale or liquidation to each Rating Agency and Noteholders representing at least 66% of the Outstanding Amount consent to such sale or liquidation. In determining such sufficiency or insufficiency of (i) the proceeds of such sale or liquidation to pay all outstanding principal and accrued interest on the Notes or (ii) the Trust Estate to provide sufficient funds for the payment of principal and interest on the Notes as they would have become due if the Notes had not been declared due and payable, the Indenture Trustee may but need not obtain (at the expense of the Trust) and rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose. Notwithstanding the foregoing, the Indenture Trustee will be required to sell or otherwise liquidate the Trust Estate upon the conditions specified in Section 9.02 of the Trust Agreement.

(b) If the Indenture Trustee collects any money or property pursuant to Article Five upon sale of the Trust Estate, it shall pay out such money or property in the following order:

(i) to the Indenture Trustee for amounts due as compensation or indemnity payments under this Indenture (if not previously paid by the Administrative Agent);

(ii) to the Administrative Agent, any accrued but unpaid Administrative Agent Monthly Payment;

(iii) to Noteholders for the payments of interest which is due and unpaid on the Notes (including any overdue interest, and to the extent permitted under applicable law, interest on any overdue interest at the Interest Rate);

(iv) to the Noteholders in payment of the principal amount due and unpaid on the Notes until the Note Balance has been reduced to zero;

(v) to the Certificate Distribution Account for distribution to the Certificateholders for amounts due and unpaid in respect of the principal amount due and unpaid on the Certificates, until the Certificates have been paid in full; and

(vi) any remaining amounts to the Transferor.

(c) The Indenture Trustee may fix a record date and payment date for any payment to Noteholders pursuant to this Section. At least 15 days before such record date, the Trust shall mail to each Noteholder and the Indenture Trustee a notice that states the record date, the payment date and the amount to be paid.

Section 5.05. Optional Preservation of the Trust Estate. If the Notes have been declared to be due and payable under Section 5.02 following an Indenture Default and such declaration and its consequences have not been rescinded and annulled, the Indenture Trustee may, unless directed to sell pursuant to Section 9.02 of the Trust Agreement, but need not, elect to maintain possession of the Trust Estate and continue to apply the proceeds thereof in accordance with Section 4.04 of the Administration Agreement and Section 3.01 hereof. It is the intent of the parties hereto and the Noteholders that there be at all times sufficient funds for the payment of principal and interest on the Notes, and the Indenture Trustee shall take such intent into account when determining whether or not to maintain possession of the Trust Estate. In determining whether to maintain possession of the Trust Estate, the Indenture Trustee may but need not obtain (at the expense of the Trust) and rely upon an opinion of an Independent investment banking or accounting firm of national reputation as to the feasibility of such proposed action and as to the sufficiency of the Trust Estate for such purpose. Notwithstanding the foregoing provisions of this Section and Section 5.04, the Indenture Trustee shall sell the Trust Estate if so instructed by the Owner Trustee pursuant to Section 9.02 of the Trust Agreement, and the proceeds of such sale shall be distributed in accordance with Section 4.04 of the Administration Agreement.

Section 5.06. Limitation of Suits.

(a) No holder of any Note shall have any right to institute any Proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless: (i) such Noteholder previously has given to the Indenture Trustee written notice of a continuing Indenture Default, (ii) Noteholders representing not less than 25% of the Outstanding Amount have made written request to the Indenture Trustee to institute such Proceeding in respect of such Indenture Default in its own name as Indenture Trustee, (iii) such Noteholder has offered the Indenture Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in complying with such request, (iv) the Indenture Trustee has for 60 days failed to institute such Proceedings and (v) no direction inconsistent with such written request has been given to the Indenture Trustee during such 60-day period by Noteholders representing not less than a majority of the Outstanding Amount.

No Noteholder or group of Noteholders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Noteholders or to obtain or to seek to obtain priority or preference over any other Noteholder or to enforce any right under this Indenture, except in the manner herein provided.

In the event the Indenture Trustee shall receive conflicting or inconsistent requests and indemnity from two or more groups of Noteholders, each representing less than a majority of the Outstanding Amount, the Indenture Trustee in its sole discretion may determine what action, if any, shall be taken, notwithstanding any other provisions of this Indenture.

(b) No Noteholder shall have any right to vote except as provided pursuant to this Indenture and the Notes, nor any right in any manner to otherwise control the operation and management of the Trust.

Section 5.07. Unconditional Rights of Noteholders to Receive Principal and Interest. Notwithstanding any other provision in this Indenture, each Noteholder shall have the right, which is absolute and unconditional, to receive payment of the principal and interest on, if any, such Note on or after the respective due dates thereof expressed in such Note or this Indenture (or, in the case of redemption, on or after the Redemption Date) and to institute suit for the enforcement of any such payment, and such right shall not be impaired without the consent of such Noteholder.

Section 5.08. Restoration of Rights and Remedies. If the Indenture Trustee or any Noteholder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason or has been determined adversely to the Indenture Trustee or such Noteholder, then and in every such case the Trust, the Indenture Trustee and the Noteholders shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Indenture Trustee and the Noteholders shall continue as though no such Proceeding had been instituted.

Section 5.09. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Indenture Trustee or the Noteholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law, in equity or otherwise. The assertion or employment of any right or

remedy hereunder or otherwise shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.10. Delay or Omission Not a Waiver. No delay or omission of the Indenture Trustee or any Noteholder to exercise any right or remedy accruing upon any Default or Indenture Default shall impair any such right or remedy or constitute a waiver of any such Default or Indenture Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Indenture Trustee or the Noteholders may be exercised from time to time, and as often as may be deemed expedient, by the Indenture Trustee or by the Noteholders, as the case may be.

Section 5.11. Control by Noteholders. Noteholders representing at least a majority of the Outstanding Amount shall have the right to direct the time, method and place of conducting any Proceeding or any remedy available to the Indenture Trustee with respect to the Notes or with respect to the exercise of any trust or power conferred on the Indenture Trustee, provided that:

(a) such direction shall not be in conflict with any rule of law or this Indenture;

(b) subject to Section 5.04, any direction to the Indenture Trustee to, sell or liquidate the Trust Estate shall be made by Noteholders representing not less than 100% of the Outstanding Amount;

(c) if the conditions set forth in Section 5.05 have been satisfied and the Indenture Trustee elects to retain the Trust Estate pursuant to such Section, and except in the case of a sale of the Trust Estate pursuant to Section 9.02 of the Trust Agreement, then any direction to the Indenture Trustee by Noteholders representing less than 100% of the Outstanding Amount to sell or liquidate the Trust Estate shall be of no force and effect; and

(d) the Indenture Trustee may take any other action deemed proper by the Indenture Trustee that is not inconsistent with such direction.

Notwithstanding the rights of Noteholders set forth in this Section, subject to Section 6.01, the Indenture Trustee need not take any action it determines might expose it to personal liability or might materially adversely affect or unduly prejudice the rights of any Noteholders not consenting to such action.

Section 5.12. Waiver of Past Defaults. Prior to a declaration of maturity of the Notes pursuant to Section 5.02, Noteholders representing not less than a majority of the Outstanding Amount may waive any past Indenture Default and its consequences except an Indenture Default (i) in payment of principal or interest on the Notes or (ii) in respect of a covenant or provision hereof that cannot be modified or amended without the consent of each Noteholder. In the case of any such waiver, the Trust, the Indenture Trustee and the Noteholders shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Indenture Default or impair any right consequent thereto.

Upon any such waiver, such Indenture Default shall cease to exist and be deemed to have been cured and not to have occurred, and any Indenture Default arising therefrom shall be deemed to have been cured and not to have occurred for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Indenture Default or impair any right consequent thereto.

Section 5.13. Undertaking for Costs. All parties to this Indenture agree, and each Noteholder by such Noteholder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Indenture Trustee for any action taken, suffered or omitted by it as Indenture Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant, but the provisions of this Section shall not apply to (i) any suit instituted by the Indenture Trustee, (ii) any suit instituted by any Noteholder or group of Noteholders, in each case representing more than 10% of the Outstanding Amount or (iii) any suit instituted by any Noteholder for the enforcement of the payment of principal or interest on any Note on or after the related due dates expressed in such Note and in this Indenture (or, in the case of redemption, on or after the Redemption Date).

Section 5.14. Waiver of Stay or Extension Laws. The Trust covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead or in any manner whatsoever, claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture, and the Trust (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Indenture Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 5.15. Action on Notes. The Indenture Trustee's right to seek and recover judgment on the Notes or under this Indenture shall not be affected by the seeking, obtaining or application of any other relief under or with respect to this Indenture. Neither the lien of this Indenture nor any rights or remedies of the Indenture Trustee or the Noteholders shall be impaired by the recovery of any judgment by the Indenture Trustee against the Trust or by the levy of any execution under such judgment upon any portion of the Trust Estate or upon any of the assets of the Trust. Any money or property collected by the Indenture Trustee shall be applied in accordance with Section 5.04(b).

Section 5.16. Performance and Enforcement of Certain Obligations.

(a) Promptly following a request from the Indenture Trustee to do so, the Trust shall take all such lawful action as the Indenture Trustee may request to compel or secure the performance and observance by the Transferor, the Administrative Agent and the Maintenance Provider, as applicable, of each of their obligations to the Trust under or in connection with the Administration Agreement in accordance with the terms thereof, and to exercise any and all rights, remedies, powers and privileges lawfully available to the Trust under or in connection with each such agreement to the extent and in the manner directed by the Indenture Trustee, including the transmission of notices of default on the part of the Administrative Agent thereunder and the institution of legal or administrative actions or proceedings to compel or secure performance by the Transferor, the Administrative Agent and the Maintenance Provider of their respective obligations under the Administration Agreement.

(b) If an Indenture Default has occurred and is continuing, the Indenture Trustee may, and at the direction (which direction shall be in writing or by telephone (confirmed in writing promptly thereafter)) of Noteholders representing not less than a majority of the Outstanding Amount, shall, exercise all rights, remedies, powers, privileges and claims of the Trust against the Transferor, the Administrative Agent and the Maintenance Provider under or in connection with the Administration Agreement, including the right or power to take any action to compel or secure performance or observance by the Administrative Agent or the Maintenance Provider of their respective obligations to the Trust thereunder and to give any consent, request, notice, direction, approval, extension or waiver under the Administration Agreement, and any right of the Trust to take such action shall be suspended.

Section 5.17. Sale of Trust Estate. If the Indenture Trustee acts to sell the Trust Estate or any part thereof pursuant to Section 5.04(a), the Indenture Trustee shall publish a notice in an Authorized Newspaper stating that the Indenture Trustee intends to effect such a sale in a commercially reasonable manner and on commercially reasonable terms, which shall include the solicitation of competitive bids. Following such publication, the Indenture Trustee shall, unless otherwise prohibited by applicable law from any such action, sell the Trust Estate or any part thereof, in such manner and on such terms as provided above to the highest bidder; provided, however, that the Indenture Trustee may from time to time postpone any sale by public announcement made at the time and place of such sale. The Indenture Trustee shall give notice to the Transferor and the Administrative Agent of any proposed sale, and the Transferor, the Administrative Agent and their respective Affiliates shall be permitted to bid for the Trust Estate at any such sale. The Indenture Trustee may obtain a prior determination from a conservator, receiver or trustee in bankruptcy of the Trust that the terms and manner of any proposed sale are commercially reasonable. The power to effect any sale of any portion of the Trust Estate pursuant to Section 5.04 and this Section shall not be exhausted by any one or more sales as to any portion of the Trust Estate remaining unsold, but shall continue unimpaired until the entire Trust Estate shall have been sold or all amounts payable on the Notes shall have been paid.

ARTICLE SIX

THE INDENTURE TRUSTEE

Section 6.01. Duties of Indenture Trustee.

(a) If an Indenture Default has occurred and is continuing, the Indenture Trustee shall exercise the rights and powers vested in it by this Indenture and in the same degree of care and skill in their exercise as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

(b) Except during the continuance of an Indenture Default:

(i) the Indenture Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Indenture Trustee; and

(ii) in the absence of bad faith on its part, the Indenture Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Indenture Trustee and conforming to the requirements of this Indenture; however, the Indenture Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture and the other Basic Documents to which the Indenture Trustee is a party.

(c) The Indenture Trustee shall not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful, misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b);

(ii) the Indenture Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Indenture Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to any provision of this Indenture.

(d) Every provision of this Indenture that in any way relates to the Indenture Trustee is subject to paragraphs (a), (b) and (c).

(e) The Indenture Trustee shall, and hereby agrees that it will perform all of the obligations and duties required of it under the Administration Agreement.

(f) The Indenture Trustee shall not be liable for interest on any money received by it except as the Indenture Trustee may agree in writing with the Trust.

(g) Money held in trust by the Indenture Trustee need not be segregated from other funds except to the extent required by law or the terms of this Indenture or the Administration Agreement.

(h) No provision of this Indenture shall require the Indenture Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayments of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(i) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Indenture Trustee shall be subject to the provisions of this Section.

(j) The Indenture Trustee shall not be deemed to have knowledge of any Default, Indenture Default. Administrative Agent Default, Maintenance Provider Default or other event unless a Responsible Officer has actual knowledge thereof or has received written notice thereof in accordance with the provisions of this Indenture or the Administration Agreement.

Section 6.02. Rights of Indenture Trustee.

(a) Except as provided by the second succeeding sentence, the Indenture Trustee may conclusively rely and shall be protected in acting upon or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, note, direction, demand, election or other paper or document believed by it to be genuine and to have been signed or presented by the proper person. The Indenture Trustee need not investigate any fact or matter stated in the related item or document. Notwithstanding the foregoing, the Indenture Trustee, upon receipt of all resolutions, certificates, statements, opinions, reports, documents, orders or other instruments furnished to it that shall be specifically required to be furnished pursuant to any provision of this Indenture, shall examine them to determine whether they comply as to form to the requirements of this Indenture.

(b) Before the Indenture Trustee acts or refrains from acting, it may require an Officer's Certificate (with respect to factual matters) or an Opinion of Counsel, as applicable. The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officer's Certificate or Opinion of Counsel.

(c) The Indenture Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys or a custodian or nominee, and the Indenture Trustee shall not be responsible for any misconduct or negligence on the part of, or for the supervision of, any agent, attorney, custodian or nominee appointed with due care by it hereunder.

(d) The Indenture Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within its rights or powers; provided, however, that the Indenture Trustee's conduct does not constitute willful misconduct, negligence or bad faith.

(e) The Indenture Trustee may consult with counsel, and the advice of such counsel or any Opinion of Counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Indenture Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture or to institute, conduct or defend any litigation under this Indenture or in relation to this Indenture or to honor the request or direction of any of the Noteholders pursuant to this Indenture unless such Noteholders shall have offered to the Indenture Trustee reasonable security or indemnity against the reasonable costs, expenses, disbursements, advances and liabilities that might be incurred by it, its agents and its counsel in compliance with such request or direction.

(g) The Indenture Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond or other paper or document, unless requested in writing to do so by the Noteholders representing not less than 25% of the Outstanding Amount; provided, however, that if the payment within a reasonable time to the Indenture Trustee of the costs, expenses or liabilities likely to be incurred

by it in the making of such investigation is, in the opinion of the Indenture Trustee, not reasonably assured to the Indenture Trustee by the security afforded to it by the terms of this Indenture, the Indenture Trustee may require reasonable indemnity against such costs, expenses or liabilities as a condition to so proceeding. The reasonable expense of each such investigation shall be paid by the Person making such request, or, if paid by the Indenture Trustee, shall be reimbursed by the Person making such request upon demand.

(h) Any request or direction of the Trust mentioned herein shall be sufficiently evidenced by a Trust Request.

Section 6.03. Individual Rights of Indenture Trustee. The Indenture Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Trust or its Affiliates with the same rights it would have if it were not Indenture Trustee. Any Paying Agent, Note Registrar, co-registrar, co-paying agent, co-trustee or separate trustee may do the same with like rights. The Indenture Trustee must, however, comply with Section 6.11.

Section 6.04. Indenture Trustee's Disclaimer. The Indenture Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture, the Trust Estate or the Notes, shall not be accountable for the Trust's use of the proceeds from the Notes and shall not be responsible for any statement in the Indenture or in any document issued in connection with the sale of the Notes or in the Notes, all of which shall be taken as the statements of the Trust, other than the Indenture Trustee's certificate of authentication.

Section 6.05. Notice of Defaults. If a Default occurs and is continuing, and if it is known to a Responsible Officer of the Indenture Trustee, the Indenture Trustee shall mail to each Noteholder and each Rating Agency notice of such Default within 60 days after it occurs. Except in the case of a Default with respect to payment of principal or interest on any Note (including payments pursuant to the redemption of Notes), the Indenture Trustee may withhold such notice if and so long as a committee of its Responsible Officers in good faith determines that withholding such notice is in the interests of the Noteholders; provided, however, that in the case of any Indenture Default of the character specified in Section 5.01(e), no such notice shall be given until at least 30 days after the occurrence thereof.

Section 6.06. Reports by Indenture Trustee to Noteholders. The Indenture Trustee, at the expense of the Trust, shall deliver to each Noteholder or Note Owner, not later than the latest date permitted by law, such information as may be reasonably requested (and reasonably available to the Indenture Trustee) to enable such holder to prepare its federal and state income tax returns.

Section 6.07. Compensation and Indemnity. The Indenture Trustee shall receive reasonable compensation for its services as Indenture Trustee and Backup Administrative Agent from Available Funds in accordance with Section 4.04(a) of the Administration Agreement. The Administrative Agent or, in the event Xerox is not the Administrative Agent, the Trust, from the Transition Account until the amount on deposit therein equals zero and then from Available Funds in accordance with Section 4.04(a) of the Administration Agreement, shall (i) reimburse the Indenture Trustee and Backup Administrative Agent for all reasonable expenses, advances and disbursements

reasonably incurred by it and (ii) indemnify the Indenture Trustee for, and hold it harmless against, any and all loss, liability or expense (including reasonable attorneys' fees) incurred by it in connection with the administration of the Trust or the performance of its duties. The Indenture Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Indenture Trustee and Backup Administrative Agent shall notify the Trust and the Administrative Agent promptly of any claim for which it may seek indemnity. Failure by the Indenture Trustee or the Backup Administrative Agent to so notify the Trust and the Administrative Agent shall not relieve the Trust or the Administrative Agent of its obligations hereunder. The Administrative Agent or the Trust, as applicable, shall defend any such claim, and the Indenture Trustee and Backup Administrative Agent may have separate counsel and the Administrative Agent shall pay the fees and expenses of such counsel. The Indenture Trustee and Backup Administrative Agent shall not be indemnified by the Administrative Agent or the Trust against any loss, liability or expense incurred by it through its own willful misconduct, negligence or bad faith, except that the Indenture Trustee shall not be liable (i) for any error of judgment made by it in good faith unless it is proved that the Indenture Trustee was negligent in ascertaining the pertinent facts, (ii) with respect to any action it takes or omits to take in good faith in accordance with a direction received by it from the Noteholders in accordance with the terms of this Indenture and (iii) for interest on any money received by it except as the Indenture Trustee and the Trust may agree in writing. Any amounts payable by the Trust pursuant to this Section will be paid in accordance with Section 4.04(a) of the Administration Agreement.

The Administrative Agent's and the Trust's payment obligations to the Indenture Trustee and the Backup Administrative Agent pursuant to this Section shall survive the discharge of this Indenture. When the Indenture Trustee and the Backup Administrative Agent incurs expenses after the occurrence of an Indenture Default set forth in Section 5.01(d) or (e) with respect to the Trust, the expenses are intended to constitute expenses of administration under Title 11 of the United States Code or any other applicable federal or state bankruptcy, insolvency or similar law.

Section 6.08. Replacement of Indenture Trustee. Noteholders representing not less than a majority of the Outstanding Amount may remove the Indenture Trustee without cause by so notifying the Indenture Trustee and the Trust, and following such removal may appoint a successor Indenture Trustee. The Trust shall give prompt written notice to each Rating Agency of such removal. The Indenture Trustee may resign at any time by so notifying the Trust, the Administrator, the Administrative Agent and each Rating Agency. The Trust shall remove the Indenture Trustee if:

(i) the Indenture Trustee fails to comply with Section 6.11;

(ii) a court having jurisdiction in the premises in respect of the Indenture Trustee in an involuntary case or proceeding under federal or state banking or bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, shall have entered a decree or order granting relief or appointing a receiver, liquidator, assignee, custodian, trustee, conservator, sequestrator (or similar official) for the Indenture Trustee or for any substantial part of the Indenture Trustee's property, or ordering the winding-up or liquidation of the Indenture Trustee's affairs, provided any such decree or order shall have continued unstayed and in effect for a period of 30

consecutive days;

(iii) the Indenture Trustee commences a voluntary case under any federal or state banking or bankruptcy laws, as now or hereafter constituted, or any other applicable federal or state bankruptcy, insolvency or other similar law, or consents to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, conservator, sequestrator or other similar official for the Indenture Trustee or for any substantial part of the Indenture Trustee's property, or makes any assignment for the benefit of creditors or fails generally to pay its debts as such debts become due or takes any corporate action in furtherance of any of the foregoing; or

(iv) the Indenture Trustee otherwise becomes incapable of acting.

Upon the resignation or required removal of the Indenture Trustee, or the failure of the Noteholders to appoint a successor Indenture Trustee following the removal without cause of the Indenture Trustee (the Indenture Trustee in any such event being referred to herein as the retiring Indenture Trustee), the Administrator shall be required promptly to appoint a successor Indenture Trustee. Any successor Indenture Trustee must at all times satisfy the eligibility requirements of Section 6.11. Prior to the appointment of any successor Indenture Trustee, the Rating Agency Condition must be satisfied with respect to such successor Indenture Trustee.

A successor Indenture Trustee shall deliver a written acceptance of its appointment to the retiring Indenture Trustee and to the Trust. Thereupon the resignation or removal of the retiring Indenture Trustee shall become effective and the successor Indenture Trustee, without any further act, deed or conveyance, shall have all the rights, powers and duties of the Indenture Trustee under this Indenture, subject to satisfaction of the Rating Agency Condition. The successor Indenture Trustee shall mail a notice of its succession to the Noteholders. The retiring Indenture Trustee shall promptly transfer all property held by it as Indenture Trustee to the successor Indenture Trustee.

If a successor Indenture Trustee does not take office within 45 days after the retiring Indenture Trustee resigns or is removed, the retiring Indenture Trustee, the Trust or Noteholders holding not less than a majority of the Outstanding Amount may petition any court of competent jurisdiction for the appointment of a successor Indenture Trustee.

If the Indenture Trustee fails to comply with Section 6.11, any Noteholder may petition any court of competent jurisdiction for the removal of the Indenture Trustee and the appointment of a successor Indenture Trustee.

Any resignation or removal of the Indenture Trustee and appointment of a successor Indenture Trustee pursuant to any of the provisions of this Section shall not become effective until acceptance of appointment by the successor Indenture Trustee pursuant to this Section. Notwithstanding the replacement of the Indenture Trustee pursuant to this Section, the retiring Indenture Trustee shall be entitled to payment or reimbursement of such amounts as such Person is entitled pursuant to Section 6.07. Upon the resignation or removal of U.S. Bank as Indenture Trustee, U.S. Bank shall cease to be the Backup Administrative Agent.

Section 6.09. Successor Indenture Trustee by Merger. If the Indenture

Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to another corporation or depository institution the resulting, surviving or transferee corporation, without any further act, shall be the successor Indenture Trustee; provided, that such corporation or depository institution shall be otherwise qualified and eligible under Section 6.11. The Indenture Trustee shall provide each Rating Agency prior written notice of any such transaction.

In case at the time such successor or successors by merger, conversion or consolidation to the Indenture Trustee shall succeed to the trusts created by this Indenture, the Notes shall have been authenticated but not delivered, any such successor to the Indenture Trustee may adopt the certificate of authentication of any predecessor trustee and deliver such Notes so authenticated, and in case at that time the Notes shall not have been authenticated, any successor to the Indenture Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Indenture Trustee, and in all such cases such certificates shall have the full force that it is anywhere in the Notes or in this Indenture provided that the certificate of the Indenture Trustee shall have.

Section 6.10. Appointment of Co-Trustee or Separate Trustee.

(a) Notwithstanding any other provision of this Indenture, at any time, for the purpose of meeting any legal requirement of any jurisdiction in which any part of the Trust Estate may at the time be located, the Indenture Trustee and the Administrative Agent acting jointly shall have the power and may execute and deliver all instruments to appoint one or more Persons to act as a co-trustee or co-trustees, or separate trustee or separate trustees, of all or any part of the Collateral, and to vest in such Person or Persons, in such capacity and for the benefit of the Noteholders, such title to the Trust Estate or any part hereof and, subject to the other provisions of this Section, such powers, duties, obligations, rights and trusts as the Indenture Trustee and the Administrative Agent may consider necessary or desirable. If the Administrative Agent shall not have joined in such appointment within 15 days after it received a request that it so join, the Indenture Trustee alone shall have the power to make such appointment. No co-trustee or separate trustee hereunder shall be required to meet the terms of eligibility as a successor trustee under Section 6.11 and no notice to Noteholders of the appointment of any co-trustee or separate trustee shall be required under Section 6.08.

(b) Every separate trustee and co-trustee shall, to the extent permitted by law, be appointed and act subject to the following provisions and conditions:

(i) all rights, powers, duties and obligations conferred or imposed upon the Indenture Trustee shall be conferred or imposed upon and exercised or performed by the Indenture Trustee and such separate trustee or co-trustee jointly (it being intended that such separate trustee or co-trustee is not authorized to act separately without the Indenture Trustee joining in such act), except to the extent that under any law of any jurisdiction in which any particular act or acts are to be performed, the Indenture Trustee shall be incompetent or unqualified to perform such act or acts, in which event such rights, powers, duties and obligations (including the holding of title to the Collateral or any portion thereof in any such jurisdiction) shall be exercised and performed singly by such separate

trustee or co-trustee, but solely at the direction of the Indenture Trustee;

(ii) no separate trustee or co-trustee hereunder shall be personally liable by reason of any act or omission of any other trustee hereunder; and

(iii) the Indenture Trustee and the Administrator may at any time accept the resignation of or remove any separate trustee or co-trustee.

(c) Any notice, request or other writing given to the Indenture Trustee shall be deemed to have been given to each of the then-separate trustees and co-trustees, as effectively as if given to each of them. Every instrument appointing any separate trustee or co-trustee shall refer to this Indenture and the conditions of this Article. Each separate trustee and co-trustee, upon its acceptance of the trusts conferred, shall be vested with the estates or property specified in its instrument of appointment, either jointly with the Indenture Trustee or separately, as may be provided therein, subject to all the provisions of this Indenture and specifically including every provision of this Indenture relating to the conduct of, affecting the liability of or affording protection to the Indenture Trustee. Every such instrument shall be filed with the Indenture Trustee and a copy thereof given to the Administrator.

(d) Any separate trustee or co-trustee may at any time constitute the Indenture Trustee, its agent or attorney-in-fact with full power and authority, to the extent not prohibited by law, to do any lawful act under or in respect of this Indenture on its behalf and in its name. If any separate trustee or co-trustee shall die, become incapable of acting, resign or be removed, then all of its estates, properties, rights, remedies and trusts shall vest in and be exercised by the Indenture Trustee to the extent permitted by law, without the appointment of a new or successor trustee. Notwithstanding anything to the contrary in this Indenture, the appointment of any separate trustee or co-trustee shall not relieve the Indenture Trustee of its obligations and duties under this Indenture.

Section 6.11. Eligibility; Disqualification. The Indenture Trustee shall at all times satisfy the requirements of Section 310(a) of the TIA and shall in addition have a combined capital and surplus of at least $50,000,000 (as set forth in its most recent published annual report of condition) and a long-term debt rating of "A" or better by, or be otherwise acceptable to, each Rating Agency. The Indenture Trustee shall satisfy the requirements of Section 310(b) of the TIA. The Transferor, the Administrative Agent, the Maintenance Provider, the Administrator and their respective Affiliates may maintain normal commercial banking relationships with the Indenture Trustee and its Affiliates, but neither the Trust nor any Affiliate of the Trust may serve as Indenture Trustee.

Section 6.12. Representations and Warranties of Indenture Trustee. The Indenture Trustee hereby makes the following representations and warranties on which the Trust and Noteholders shall rely:

(i) the Indenture Trustee is a national banking association duly organized, validly existing and in good standing under the laws of the United States; and

(ii) the Indenture Trustee has full power, authority and legal right to execute, deliver, and, perform this Indenture and the other Basic Documents

to which it is a party and shall have taken all necessary action to authorize the execution, delivery and performance by it of this Indenture and such other Basic Documents.

ARTICLE SEVEN

NOTEHOLDERS' LISTS, REPORTS AND DOCUMENTS

Section 7.01. Trust to Furnish Indenture Trustee Noteholder Names and Addresses. The Trust shall furnish or cause to be furnished to the Indenture Trustee (i) not more than five days after each Record Date a list, in such form as the Indenture Trustee may reasonably require, of the names and addresses of the Noteholders as of such Record Date and (ii) at such other times as the Indenture Trustee may request in writing, within 30 days after receipt by the Trust of any such request, a list of similar form and content as of a date not more than ten days prior to the time such list is furnished; provided, however, that so long as the Indenture Trustee is the Note Registrar or the Notes are issued as Book-Entry Notes, no such list shall be required to be furnished to the Indenture Trustee.

Section 7.02. Preservation of Information; Communications to Noteholders. The Indenture Trustee shall preserve in as current a form as is reasonably practicable the names and addresses of the Noteholders contained in the most recent list furnished to the Indenture Trustee as provided in Section 7.01 and the names and addresses of Noteholders received by the Indenture Trustee in its capacity as Note Registrar. The Indenture Trustee may destroy any list furnished to it as provided in Section 7.01 upon receipt of a new list so furnished.

Section 7.03. Reports by Indenture Trustee. If required by TIA Section 313(a), within 60 days after each April 15, beginning with April 15, 2001, the Indenture Trustee shall mail to each Noteholder as required by TIA Section 313(c) a brief report dated as of such date that complies with TIA Section 313(a). The Indenture Trustee also shall comply with TIA Section 313(b).

Section 7.04. Furnishing of Documents. The Indenture Trustee shall furnish to any Noteholder promptly upon receipt of a written request by such Noteholder (at the expense of the requesting Noteholder) therefor, duplicates or copies of all reports, notices, requests, demands, certificates and any other instruments furnished to the Indenture Trustee under the Basic Documents.

ARTICLE EIGHT

ACCOUNTS, DISBURSEMENTS AND RELEASES

Section 8.01. Collection of Money. Except as otherwise expressly provided herein, the Indenture Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all money and other property payable to or receivable by the Indenture Trustee pursuant to this Indenture. The Indenture Trustee shall apply all such money received by it as provided in this Indenture. Except as otherwise expressly provided in this Indenture, if any default occurs in the making of any payment or performance under any agreement or instrument that is part of the Trust Estate, the Indenture Trustee may take such action as may be appropriate to enforce such payment or

performance, including the institution and prosecution of appropriate Proceedings. Any such action shall be without prejudice to any right to claim an Indenture Default under this Indenture and any right to proceed thereafter as provided in Article Five.

Section 8.02. Accounts.

(a) Pursuant to Section 4.01 of the Administration Agreement, the Transferor shall, on or prior to the Closing Date, establish and maintain an Eligible Account in the name of the Indenture Trustee, on behalf of (i) the Noteholders, which shall be designated as the "Note Distribution Account", (ii) the Noteholders, which shall be designated as the "Collection Account", (iii) the Trust, which shall be designated as the "Reserve Fund" and (iv)the Securityholders, which shall be designated as the "Transition Account". The Note Distribution Account shall be held in trust for the benefit of the Noteholders, the Collection Account, the Reserve Fund and the Transition Account shall be held in trust for the Securityholders. Each Account shall be established with the Indenture Trustee and shall be under the sole dominion and control of the Indenture Trustee.

(b) On or before each Payment Date, all amounts required to be deposited in the Collection Account with respect to the related Collection Period will be deposited as provided in Sections 2.07, 3.02, 3.03 and 4.02 of the Administration Agreement. On or before each Payment Date, all amounts required to be deposited in the Note Distribution Account with respect to the related Collection Period pursuant to Section 4.04 of the Administration Agreement will be transferred from the Collection Account and/or the Reserve Fund to the Note Distribution Account.

(c) On each Payment Date and Redemption Date, the Indenture Trustee shall distribute all amounts on deposit in the Note Distribution Account in respect of the related Collection Period to Noteholders in respect of the Notes to the extent of amounts due and unpaid on the Notes for interest and principal in the following amounts and in the following order of priority (except as otherwise provided in Section 5.04(b)):

(i) to each Noteholder, for payment of interest on the Notes, the Monthly Note Interest; provided, that if there are not sufficient funds in the Note Distribution Account or the Reserve Fund to pay the Monthly Interest due, the amount available shall be allocated to each Noteholder pro rata on the basis of the total amount of interest due to it;

(ii) to each Noteholder, for payment of principal of the Notes, an amount equal to the Principal Distributable Amount; and

(iii) to each Noteholder, for payment of principal of the Notes, an amount equal to the Additional Principal Distribution Amount until the Notes are paid in full.

All other Available Funds for such Payment Date will be distributed as described in Section 4.04 of the Administration Agreement.

(d) On each Payment Date, after taking into account, among other things, amounts to be distributed to Noteholders from the Note Distribution Account, pursuant to Section 4.04(b) of the Administration Agreement, the Administrative Agent will allocate the Reserve Fund Draw Amount, if any, reflected in the related Payment Date Statement and will instruct the

Indenture Trustee to make the following deposits and distributions to the Note Distribution Account in the following amounts and order of priority, prior to 11:00 a.m., New York City time:

(i) to pay any remaining Monthly Interest due on the outstanding Notes on such Payment Date and

(ii) to pay any remaining Principal Distribution Amount due on the Notes.

(e) On each Payment Date or Redemption Date, from the amounts on deposit in the Note Distribution Account, the Indenture Trustee shall duly and punctually distribute payments of principal and interest on the Notes due and by check mailed to the Person whose name appears as the Registered Holder of a Note (or one or more Predecessor Notes) on the Note Register as of the close of business on the related Record Date, except that with respect to Notes registered on the Record Date in the name of (i) the nominee of DTC (initially, such nominee to be Cede & Co.) and (ii) a Person (other than the nominee of DTC) that holds Notes with original denominations aggregating at least $1 million and has given the Indenture Trustee appropriate written instructions at least five Business Days prior to the related Record Date (which instructions, until revised, shall remain operative for all Payment Dates thereafter), payments shall be made by wire transfer in immediately available funds to the account designated by such nominee or Person. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Note Register as of the applicable Record Date without requiring that the Note be submitted for notation of payment. Any reduction in the principal amount of any Note (or any one or more Predecessor Notes) affected by any payments made on any Payment Date or Redemption Date shall be binding upon all future holders of any Note issued upon the registration of transfer thereof or in exchange hereof or in lieu hereof, whether or not noted thereon. Amounts properly withheld under the Code by any Person from payment to any Noteholder of interest or principal shall be considered to have been paid by the Indenture Trustee to such Noteholder for purposes of this Indenture. If funds are expected to be available, pursuant to the notice delivered to the Indenture Trustee, for payment in full of the remaining unpaid principal amount of the Notes on a Payment Date or Redemption Date, then the Indenture Trustee, in the name of and on behalf of the Trust, shall notify each Person who was the Registered Holder of a Note as of the Record Date preceding the most recent Payment Date or Redemption Date by notice mailed within 30 days of such Payment Date or Redemption Date and the amount then due and payable shall be payable only upon presentation and surrender of the Note at the Corporate Trust Office of the Indenture Trustee or at the office of the Indenture Trustee's agent appointed for such purposes located in The City of New York.

Section 8.03. General Provisions Regarding Accounts.

(a) For so long as no Indenture Default shall have occurred and be continuing, funds in the Accounts shall be invested and reinvested by the Indenture Trustee, until the Outstanding Amount has been reduced to zero and thereafter by the Owner Trustee, in each case at the direction of the Administrative Agent in Permitted Investments. No such investment shall be sold prior to maturity. On each Payment Date, net investment earnings on the Collection Account, the Transition Account and the Reserve Fund shall be deposited in the Collection Account.

(b) Subject to Section 6.01(c), the Indenture Trustee shall not in any way be held liable by reason of any insufficiency in the Accounts resulting from any loss on any Permitted Investments included therein, except for losses attributable to the Indenture Trustee's failure to make payments on any such Permitted Investments issued by the Indenture Trustee in its commercial capacity as principal obligor and not as trustee, in accordance with their terms.

(c) If (i) the Administrative Agent shall have failed to give investment directions for any funds on deposit in the Accounts to the Indenture Trustee by 3:00 p.m., New York City time (or such other time as may be agreed by the Administrative Agent and Indenture Trustee), on any Business Day or (ii) a Default or Indenture Default shall have occurred and be continuing with respect to the Notes but the Notes shall not have been declared due and payable pursuant to Section 5.02 or (iii) if the Notes shall have been declared due and payable following an Indenture Default, amounts collected or receivable from the Trust Estate are being applied in accordance with Section 5.05 as if there had not been such a declaration, then the Indenture Trustee shall, to the fullest extent practicable, invest and reinvest funds in investments that are Permitted Investments as set forth in paragraph (vi) of the definition thereof.

Section 8.04. Payment Date Statements.

(a) On each Payment Date, the Indenture Trustee shall send a copy of the Payment Date Statement delivered to it by the Administrative Agent pursuant to Section 4.07 of the Administration Agreement by first class mail to each Person that was a Noteholder as of the close of business on the related Record Date (which shall be Cede & Co. as the nominee of DTC unless Definitive Notes are issued under the limited circumstances described herein).

(b) The Indenture Trustee shall have no duty or obligation to verify or confirm the accuracy of any of the information or numbers set forth in the Payment Date Statement delivered to the Indenture Trustee in accordance with this Section, and the Indenture Trustee shall be fully protected in relying upon such Payment Date Statement.

Section 8.05. Release of Trust Estate.

(a) Subject to the payment of its fees and expenses pursuant to Section 6.07, the Indenture Trustee may, and when required by the provisions of this Indenture shall, execute instruments to release property from the lien of this Indenture, or convey the Indenture Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of this Indenture. No party relying upon an instrument executed by the Indenture Trustee as provided in this Article shall be bound to ascertain the Indenture Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any monies.

(b) The Indenture Trustee shall, at such time as there are no Notes Outstanding and all sums due the Indenture Trustee pursuant to Section 6.07 have been paid, release any remaining portion of the Trust Estate that secured the Notes from the lien of this Indenture and release to the Trust or any other Person entitled thereto any funds then on deposit in the Accounts. Such release shall include delivery to the Trust or its designee of the Trust Estate and delivery to the Securities Intermediary under the Control

Agreement of a certificate evidencing the release of the lien of this Indenture and transfer of dominion and control over the Reserve Fund to the Owner Trustee. The Indenture Trustee shall release property from the lien of this Indenture pursuant to this Section only upon receipt of a Trust Request.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

Section 9.01. Supplemental Indentures Without Consent of Noteholders.

(a) Without the consent of the Noteholders, but with prior notice to each Rating Agency and subject to the satisfaction of the Rating Agency Condition, the Trust and the Indenture Trustee, when so requested by a Trust Request, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Indenture Trustee, for any of the following purposes:

(i) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or better to assure, convey or confirm unto the Indenture Trustee any property subject or required to be subjected to the lien of this Indenture, or to subject additional property to the lien of this Indenture;

(ii) to evidence the succession, in compliance with the applicable provisions hereof, of another Person to the Trust and the assumption by any such successor of the covenants of the Trust contained herein and in the Notes;

(iii) to add to the covenants of the Trust for the benefit of the Noteholders or to surrender any right or power herein conferred upon the Trust;

(iv) to convey, transfer, assign, mortgage or pledge any property to or with the Indenture Trustee;

(v) to cure any ambiguity, correct or supplement any provision herein or in any supplemental indenture that may be defective or inconsistent with any other provision herein or in any supplemental indenture or make any other provisions with respect to matters or questions arising under this Indenture or in any supplemental indenture that shall not be inconsistent with the provisions of this Indenture; provided that such other provisions shall not adversely affect the interests of the Noteholders; or

(vi) to evidence and provide for the acceptance of the appointment hereunder by a successor trustee with respect to the Notes or to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one trustee, pursuant to the requirements of Article Six.

The Indenture Trustee is hereby authorized to join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations as may be therein contained.

(b) The Trust and the Indenture Trustee, when requested by a Trust Request, may also without the consent of any of the Holders of the Notes but

with prior notice to each Rating Agency enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or for the purpose of modifying in any manner (other than the modifications set forth in Section 9.02, which require consent of the Holder of each Note affected thereby) the rights of the Noteholders under this Indenture; provided, however, that (i) such action shall not, as evidenced by an Opinion of Counsel, materially adversely affect the interests of any Noteholder and (ii) the Rating Agency Condition shall have been satisfied with respect to such action.

Section 9.02. Supplemental Indentures With Consent of Noteholders. The Trust and the Indenture Trustee, when requested by a Trust Request, also may, with prior notice to each Rating Agency, with the consent of Noteholders representing not less than a majority of the Outstanding Amount, by Act of such Noteholders delivered to the Trust and the Indenture Trustee, enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, this Indenture or of modifying in any manner the rights of the Noteholders under this Indenture subject to the satisfaction of the Rating Agency Condition and provided, however, that, no such supplemental indenture shall, without the consent of the Noteholder of each Outstanding Note affected thereby:

(a) change the Final Scheduled Payment Date of or the date of payment of any installment of principal or interest on any Note, or reduce the principal amount thereof, the Interest Rate thereon or the Redemption Price with respect thereto, change the provision of this Indenture relating to the application of collections on, or the proceeds of the sale of, the Trust Estate to payment of principal or interest on the Notes, or change any place of payment where, or the coin or currency in which, any Note or the interest thereon is payable, or impair the right to institute suit for the enforcement of the provisions of this Indenture requiring the application of funds available therefor, as provided in Article Five, to the payment of any such amount due on the Notes on or after the respective due dates thereof (or, in the case of redemption, on or after the Redemption Date);

(b) reduce the percentage of the Outstanding Amount, the consent of the Noteholders of which is required for any such supplemental indenture or the consent of the Noteholders of which is required for any waiver of compliance with provisions of this Indenture or Indenture Defaults hereunder and their consequences provided for in this Indenture;

(c) modify or alter the provisions of the proviso to the definition of the term "Outstanding";

(d) reduce the percentage of the Outstanding Amount required to direct the Indenture Trustee to direct the Owner Trustee to sell the Trust Estate pursuant to Section 5.04, if the proceeds of such sale would be insufficient to pay the Outstanding Amount plus accrued but unpaid interest on the Notes;

(e) modify any provision of this Section, except to increase any percentage specified herein or to provide that certain additional provisions of this Indenture or the other Basic Documents cannot be modified or waived without the consent of the Noteholder of each Outstanding Note affected thereby; or

(f) permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Trust Estate or, except as otherwise permitted or contemplated herein, terminate the lien of this Indenture on any property at any time subject hereto or deprive any Noteholder of the security provided by the lien of this Indenture.

The Indenture Trustee may in its discretion determine whether or not any Notes would be affected by any supplemental indenture and any such determination shall be conclusive upon all Noteholders, whether theretofore or thereafter authenticated and delivered hereunder. The Indenture Trustee shall not be liable for any such determination made in good faith.

It shall not be necessary for any Act of Noteholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

Promptly after the execution by the Trust and the Indenture Trustee of any supplemental indenture pursuant to this Section, the Indenture Trustee shall mail to the Noteholders a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Indenture Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

Section 9.03. Execution of Supplemental Indentures. In executing, or permitting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Indenture Trustee shall be entitled to receive, and subject to Sections 6.01 and 6.02, shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Indenture Trustee may but shall not be obligated to enter into any such supplemental indenture that affects the Indenture Trustee's own rights, duties, liabilities or indemnities under this Indenture or otherwise.

Section 9.04. Effect of Supplemental Indenture. Upon the execution of any supplemental indenture pursuant to the provisions hereof, this Indenture shall be and shall be deemed to be modified and amended in accordance therewith with respect to the Notes affected thereby, and the respective rights, limitations of rights, obligations, duties, liabilities and immunities under this Indenture of the Indenture Trustee, the Trust, the Owner Trustee and the Noteholders shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be and shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

Section 9.05. Reference in Notes to Supplemental Indentures. Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and if required by the Indenture Trustee shall, bear a notation in form approved by the Indenture Trustee as to any matter provided for in such supplemental indenture. If the Trust or the Indenture Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Indenture Trustee and the Trust, to any such supplemental indenture may be prepared and executed by the Trust and authenticated and delivered by the Indenture Trustee in exchange for Outstanding Notes.

ARTICLE TEN

REDEMPTION OF NOTES

Section 10.01. Redemption.

(a) Pursuant to Section 9.01 of the Trust Agreement, the Transferor shall be permitted at its option to purchase the Trust Estate on any Redemption Date relating to the exercise of an Optional Purchase. In connection with the exercise of an Optional Purchase, the Transferor will deposit the Optional Purchase Price (other than amounts on deposit in the Reserve Fund to be applied in connection with an Optional Purchase described in Section 9.03 of the Trust Agreement, which amount will constitute part of the related Reserve Fund Draw Amount) into the Collection Account on the Deposit Date relating to the Redemption Date. In connection with an Optional Purchase, the Notes shall be redeemed on the Redemption Date in whole, but not in part, for the Redemption Price and thereupon the pledge of the Trust Estate shall be discharged and released and the Trust Estate shall be returned to or upon the order of the Transferor.

(b) In connection with the exercise of an Optional Purchase, pursuant to Section 4.04(a) of the Administration Agreement, on the Redemption Date, prior to 11:00 a.m., New York City time, the Indenture Trustee shall transfer the Optional Purchase Price (including, in connection with an Optional Purchase described in Section 9.03(a)(ii) of the Trust Agreement, the portion of the Optional Purchase Price constituting the Reserve Fund Draw Amount) as part of the Available Funds from the Collection Account as follows: (i) to the Note Distribution Account, the Redemption Price and (ii) to the Certificate Distribution Account, the Repayment Price.

(c) The Administrative Agent or the Trust shall furnish each Rating Agency notice of such redemption. If the Notes are to be redeemed pursuant to this Section, the Administrative Agent or the Trust shall provide at least 15 days' prior notice of the redemption of the Notes to the Indenture Trustee and the Owner Trustee, and the Indenture Trustee shall provide at least 10 days' notice thereof to the Noteholders.

Section 10.02. Form of Redemption Notice. Notice of redemption under Section 10.01 shall be given by the Indenture Trustee by first-class mail, postage prepaid, mailed to each holder of Notes as of the close of business on the Record Date preceding the applicable Redemption Date at such holder's address appearing in the Note Register. In addition, the Administrative Agent shall notify each Rating Agency upon the redemption of the Notes, pursuant to the Trust Administration Agreement.

All notices of redemption shall state:

(a) the Redemption Date;

(b) the Redemption Price;

(c) the place where the Notes to be redeemed are to be surrendered for payment of the Redemption Price (which shall be the office or agency of the Trust to be maintained as provided in Section 3.02); and

(d) that on the Redemption Date, the Redemption Price will become due and payable upon each such Note and that interest thereon shall cease to accrue from and after the Redemption Date.

Notice of redemption of the Notes shall be given by the Indenture Trustee in the name and at the expense of the Trust. Failure to give notice of redemption (or any defect therein) to any Noteholder shall not impair or affect the validity of the redemption of any other Note.

Section 10.03. Notes Payable on Redemption Date. The Notes to be redeemed shall, following notice of redemption as required by Section 10.02, become due and payable on the Redemption Date at the Redemption Price and (unless the Trust shall default in the payment of the Redemption Price) no interest shall accrue on the Redemption Price for any period after the date to which accrued interest is calculated for purposes of calculating the Redemption Price.

ARTICLE ELEVEN

MISCELLANEOUS

Section 11.01. Compliance Certificates and Opinions.

(a) Upon any application or request by the Trust to the Indenture Trustee to take any action under any provision of this Indenture, the Trust shall furnish to the Indenture Trustee (i) an Officer's Certificate stating that all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and (ii) an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that, in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include:

(i) a statement that each signatory of such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(ii) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(iii) a statement that, in the opinion of each such signatory, such signatory has made such examination or investigation as is necessary to enable such signatory to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(iv) a statement as to whether, in the opinion of each such signatory, such condition or covenant has been complied with.

(b) In addition to any obligation imposed in Section 11.01(a) or elsewhere in this Indenture:

(i) Prior to the deposit of any Collateral or other property or securities with the Indenture Trustee that is to be made the basis for the release of any property or securities subject to the lien of this Indenture, the Trust shall furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each Person signing

such certificate as to the fair value (within 90 days of such deposit) to the Trust of the Collateral or other property or securities to be so deposited.

(ii) Whenever the Trust is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signer thereof as to the matters described in clause (i) above, the Trust shall also deliver to the Indenture Trustee an Independent Certificate as to the same matters, if the fair value of the property or securities to be so deposited and of all other such securities made the basis of any such withdrawal or release since the commencement of the then-current calendar year of the Trust, as set forth in the Officer's Certificate delivered pursuant to clause (i) above, is 10% or more of the Outstanding Amount; provided, however, such Independent Certificate need not be furnished with respect to any securities so deposited, if the fair value thereof to the Trust as set forth in the related Officer's Certificate is less than $25,000 or less than 1% of the Outstanding Amount.

(iii) Other than with respect to any release described in clause (A) or (B) of Section 11.01(b)(v), whenever any property or securities are to be released from the lien of this Indenture, the Trust shall also furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of each Person signing such certificate as to the fair value (within 90 days of such release) of the property or securities proposed to be released and stating that in the opinion of such Person, the proposed release will not impair the security under this Indenture in contravention of the provisions hereof.

(iv) Whenever the Trust is required to furnish to the Indenture Trustee an Officer's Certificate certifying or stating the opinion of any signer thereof as to the matters described in clause (iii) above, the Trust shall also furnish to the Indenture Trustee an Independent Certificate as to the same matters, if the fair value of the property or securities and of all other property, or securities (other than property described in clauses (A) or (B) of Section 11.01(b)(v)) released from the lien of this Indenture since the commencement of the then current calendar year, as set forth in the Officer's Certificates required by clause (iii) above and this clause, equals 10% or more of the Outstanding Amount, but such Officer's Certificate need not be furnished in the case of any release of property or securities if the fair value thereof as set forth in the related Officer's Certificate is less than $25,000 or less than 1% of the Outstanding Amount.

(v) Notwithstanding Section 2.08 or any other provision of this Section, the Trust may (A) collect, liquidate, sell or otherwise dispose of the Collateral as and to the extent permitted or required by the Basic Documents and (B) make cash payments out of the Accounts as and to the extent permitted or required by the Basic Documents.

Section 11.02. Form of Documents Delivered to Indenture Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify

or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Authorized Officer may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate of an Authorized Officer or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of or representations by an officer or officers of the Administrator, the Administrative Agent, the Transferor or the Trust, stating that the information with respect to such factual matters is in the possession of the Administrator, the Administrative Agent, the Transferor or the Trust, unless such officer or counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture, in connection with any application or certificate or report to the Indenture Trustee, it is provided that the Trust shall deliver any document as a condition of the granting of such application, or as evidence of the Trust's compliance with any terms hereof, it is intended that the truth and accuracy, at the time of the granting of such application or at the effective date of such certificate or report (as the case may be), of the facts and opinions stated in such document shall in such case be conditions precedent to the right of the Trust to have such application granted or to the sufficiency of such certificate or report. The foregoing shall not, however, be construed to affect the Indenture Trustee's right to rely upon the truth and accuracy of any statement or opinion contained in any such document as provided in Article Six.

Section 11.03. Acts of Noteholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Noteholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Noteholders in person or by agents duly appointed in writing; and except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Indenture Trustee, and, where it is hereby expressly required, to the Trust. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Noteholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 6.01) conclusive in favor of the Indenture Trustee and the Trust, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner that the Indenture Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the holder of any Note shall bind the holder of every Note issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Indenture Trustee or the Trust in reliance thereon, whether or not notation of such action is made upon such Note.

Section 11.04. Notices. All demands, notices and communications hereunder shall be in writing and shall be delivered or mailed by registered or certified first-class United States mail, return receipt requested, postage prepaid, hand delivery, prepaid courier service or by telecopier, and addressed in each case as follows: (i) if to the Trust c/o the Owner Trustee, at 1201 Market Street, 10th Floor, Wilmington, Delaware 19801, (telecopier no. (302) 657-8415), Attention: Anton Bodor, with a copy to the Administrative Agent, at 800 Long Ridge Road, Stamford, Connecticut 06904 (telecopier no. (203) 968-3000), Attention: Treasurer; (ii) if to the Indenture Trustee, at 111 East Wacker Drive, Suite 3000, Chicago, Illinois 60601 (telecopier no. (312) 228-9401), Attention: Xerox Equipment Lease Owner Trust 2001-1; (iii) if to Moody's, at 99 Church Street, New York, New York 10007 (telecopier no. (212) 553-7820), Attention: ABS Monitoring Group; (iv) if to Standard & Poor's, to Standard & Poor's Ratings Services, a Division of The McGraw-Hill Companies, Inc., 55 Water Street, New York, New York, 10041 (telecopier no. (212) 208-0030), Attention: Asset Backed Monitoring Group; (v) if to Fitch, to Fitch Inc., 55 East Monroe Street, Suite 3800, Chicago, Illinois 60603 (telecopier no. (312) 368-2069), Attention: Asset Backed Monitoring Group (Equipment Leases); or (vi) at such other address as shall be designated by any of the foregoing in a written notice to the other parties hereto. Delivery shall occur only upon receipt or reported tender of such communication by an officer of the recipient entitled to receive such notices located at the address of such recipient for notices hereunder.

Section 11.05. Notices to Noteholders; Waiver. Where this Indenture provides for notice to Noteholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first class, postage prepaid to each Noteholder affected by such event, at its address as it appears on the Note Register, not later than the latest and not earlier than the earliest date prescribed for the giving of such notice. In any case where notice to Noteholders is given by mail, neither the failure to mail such notice nor any defect in any notice so mailed to any particular Noteholder shall affect the sufficiency of such notice with respect to other Noteholders, and any notice that is mailed in the manner herein provided shall conclusively be presumed to have been duly given.

Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Noteholders shall be filed with the Indenture Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such a waiver.

In case, by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity, it shall be impractical to mail notice of any event of Noteholders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving

such notice as shall be satisfactory to the Indenture Trustee shall be deemed to be a sufficient giving of such notice.

Where this Indenture provides for notice to each Rating Agency, failure to give such notice shall not affect any other rights or obligations created hereunder, and shall not under any circumstance constitute an Indenture Default.

Section 11.06. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 11.07. Successors and Assigns. All covenants and agreements in this Indenture and the Notes by the Trust shall bind its successors and assigns, whether so expressed or not. All agreements of the Indenture Trustee in this Indenture shall bind its successors.

Section 11.08. Severability. If any one or more of the covenants, agreements, provisions or terms of this Agreement or the Notes shall be for any reason whatsoever held invalid, then such covenants, agreements, provisions or terms shall be deemed severable from the remaining covenants, agreements, provisions or terms of this Agreement or the Notes, as supplemented or amended, and shall in no way affect the validity or enforceability of the other covenants, agreements, provisions or terms of this Agreement or the Notes.

Section 11.09. Benefits of Indenture. Nothing in this Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the Noteholders, and any other party secured hereunder and any other Person with an ownership interest in any part of the Trust Estate, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 11.10. Legal Holidays. In any case where the date on which any payment is due shall not be a Business Day, then (notwithstanding any other provision of the Notes or this Indenture) payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the date on which nominally due, and no interest shall accrue for the period from and after any such nominal date.

Section 11.11. Governing Law. This Indenture shall be governed by and construed in accordance with the internal laws of the State of New York without regard to any otherwise applicable principles of conflict of laws (other than Section 5-1401 of the New York General Obligations Law).

Section 11.12. Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 11.13. Recording of Indenture. If this Indenture is subject to recording in any appropriate public recording offices, such recording is to be effected by the Trust accompanied by an Opinion of Counsel (who may be counsel to the Indenture Trustee or any other counsel reasonably acceptable to the Indenture Trustee) to the effect that such recording is necessary either for the protection of the Noteholders or any other Person secured hereunder or for the enforcement of any right or remedy granted to the

Indenture Trustee under this Indenture.

Section 11.14. Trust Obligation. No recourse may be taken, directly or indirectly, with respect to the obligations of the Trust, the Owner Trustee or the Indenture Trustee on the Notes or under this Indenture or any certificate or other writing delivered in connection herewith or therewith, against (i) the Indenture Trustee or the Owner Trustee in its individual capacity, (ii) any Certificateholder, (iii) any owner of a beneficial interest in the Trust or (iv) any partner, owner, beneficiary, agent, officer, director, employee or agent of the Indenture Trustee or the Owner Trustee in its individual capacity, any Certificateholder, the Owner Trustee or of the Indenture Trustee or any successor or assign of the Indenture Trustee or the Owner Trustee in its individual capacity, except as any such Person may have expressly agreed (it being understood that the Indenture Trustee and the Owner Trustee have no such obligations in their individual capacity) and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity.

Section 11.15. No Petition. The Indenture Trustee, by entering into this Indenture, and each Noteholder or Note Owner, by accepting a Note or in the case of a Note Owner, a beneficial interest in a Note, hereby covenant and agree that they will not institute against the Trust or the Transferor, or join in instituting against the Trust or the Transferor, any bankruptcy, reorganization, arrangement, insolvency or liquidation Proceeding, or other Proceeding under federal or State bankruptcy or similar laws for a period of one year and a day after payment in full of all amounts due in respect of the Securities.

Section 11.16. No Recourse. Each Noteholder or Note Owner, by acceptance of a Note or, in the case of a Note Owner, a beneficial interest in a Note, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Trust, the Owner Trustee or the Indenture Trustee on the Notes or under the Indenture or any certificate or other writing delivered in connection therewith against (i) the Indenture Trustee or the Owner Trustee in its individual capacity, (ii) any owner of a beneficial interest in the Trust or (iii) any partner, owner, beneficiary, agent, officer, director or employee of the Indenture Trustee or the Owner Trustee in its individual capacity or any holder of a beneficial interest in the Trust, the Owner Trustee or the Indenture Trustee or of any successor or assign of the Indenture Trustee or the Owner Trustee in its individual capacity, except as any such Person may have expressly agreed and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity.

Section 11.17. Inspection. The Trust agrees that on reasonable prior notice it will permit any representative of the Indenture Trustee, during the Trust's normal business hours, to examine all the books of account, records, reports and other papers of the Trust, to make copies and extracts therefrom, to cause such books to be audited by Independent certified public accountants and to discuss the Trust's affairs, finances and accounts with the Trust's officers, employees and Independent certified public accountants, all at such reasonable times and as often as may be reasonably requested. The Indenture Trustee shall and shall cause its representatives to hold in confidence all

such information, except to the extent disclosure may be required by law (and all reasonable applications for confidential treatment are unavailing) and except to the extent the Indenture Trustee may reasonably determine that such disclosure is consistent with its obligations hereunder.

Section 11.18. Limitation of Liability of Owner Trustee. Notwithstanding anything contained herein to the contrary, this instrument has been countersigned by HSBC Bank & Trust Company (Delaware) NA not in its individual capacity but solely in its capacity as Owner Trustee of the Trust and in no event shall HSBC Bank & Trust Company (Delaware) NA in its individual capacity or any beneficial owner of the Trust have any liability for the representations, warranties, covenants, agreements or other obligations of the Trust hereunder, as to all of which recourse shall be had solely to the assets of the Trust. For all purposes of this Indenture, in the performance of any duties or obligations of the Trust hereunder, the Owner Trustee shall be subject to, and entitled to the benefits of, the terms and provisions of Articles Six, Seven, Eight and Ten of the Trust Agreement.

IN WITNESS WHEREOF, the Trust, the Indenture Trustee and the Calculation Agent have caused this Indenture to be duly executed by their respective officers, thereunto duly authorized, all as of the day and year first above written.

XEROX EQUIPMENT LEASE OWNER TRUST 2001-1

By: HSBC BANK & TRUST COMPANY (DELAWARE) NA,
as Owner Trustee

By:
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION,
as Indenture Trustee

By:
Name:
Title:

U.S. BANK NATIONAL ASSOCIATION,
as Calculation Agent

By:
Name:
Title:

EXHIBIT A

FORM OF NOTE

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER ANY STATE SECURITIES OR BLUE SKY LAW. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT THIS NOTE MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO AN INSTITUTIONAL INVESTOR THAT THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), PURCHASING FOR ITS OWN ACCOUNT OR A QIB PURCHASING FOR THE ACCOUNT OF A QIB, WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A AND IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTIONS.

UNLESS THIS NOTE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE TRUST OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY NOTE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

NO RESALE OR OTHER TRANSFER OF ANY NOTE SHALL BE MADE TO ANY TRANSFEREE UNLESS: (A) SUCH TRANSFEREE IS NOT, AND WILL NOT ACQUIRE THE NOTE ON BEHALF OR WITH PLAN ASSETS OF, AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") OR ANY OTHER "PLAN" AS DEFINED IN SECTION 4975(e)(1) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "INTERNAL REVENUE CODE"), THAT IS SUBJECT TO ERISA OR SECTION 4975 OF THE INTERNAL REVENUE CODE OR (B) THE ACQUISITION AND HOLDING OF THE NOTE ARE ELIGIBLE FOR THE EXEMPTIVE RELIEF AVAILABLE UNDER PTCE 84-14, PTCE 90-1, PTCE 91-38, PTCE 95-60, PTCE 96-23 OR A SIMILAR EXEMPTION. EACH PURCHASER OR TRANSFEREE OF A NOTE, BY ITS ACCEPTANCE OF SUCH NOTE, WILL BE DEEMED TO HAVE MADE THE REPRESENTATION SET FORTH IN CLAUSE (A) OR (B) ABOVE.

THE PRINCIPAL OF THIS NOTE IS PAYABLE AS SET FORTH HEREIN. ACCORDINGLY, THE OUTSTANDING PRINCIPAL AMOUNT OF THIS NOTE AT ANY TIME MAY BE LESS THAN THE AMOUNT SHOWN ON THE FACE HEREOF.

TRANSFERS OF THE NOTES MUST GENERALLY BE ACCOMPANIED BY APPROPRIATE TAX TRANSFER DOCUMENTATION AND ARE SUBJECT TO RESTRICTIONS AS PROVIDED IN THE INDENTURE.

THE HOLDER, BY ACCEPTANCE OF THIS NOTE, SHALL BE DEEMED TO HAVE AGREED TO TREAT THE NOTES AS DEBT SOLELY OF THE TRUST FOR UNITED STATES FEDERAL, STATE AND LOCAL INCOME, SINGLE BUSINESS AND FRANCHISE TAX PURPOSES.

XEROX EQUIPMENT LEASE OWNER TRUST 2001-1

FLOATING RATE ASSET BACKED NOTE

REGISTERED $400,000,000
No. R-1 CUSIP NO. 98414F AA 8

Xerox Equipment Lease Owner Trust 2001-1, a business trust organized and existing under the laws of the State of Delaware (including any permitted successors and assigns, the "Trust"), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of FOUR HUNDRED MILLION DOLLARS ($400,000,000) in monthly installments on the 15th day of each month, or if such day is not a Business Day, on the immediately succeeding Business Day, commencing on September 17, 2001 (each, a "Payment Date"), until the principal of this Note is paid or made available for payment, and to pay interest on each Payment Date on the Note Balance as of the preceding Payment Date (after giving effect to all payments of principal made on the preceding Payment Date), or as of the Closing Date in the case of the first Payment Date or if no interest has yet been paid, at the rate per annum equal to the LIBOR Rate plus 2.00% (the "Interest Rate"), in each case as and to the extent described below; provided, however, that the entire Note Balance shall be due and payable on the earlier of February 15, 2008 (the "Final Scheduled Payment Date") and the Redemption Date, if any, pursuant to Section 10.01 of the Indenture. The Trust shall pay interest on overdue installments of interest at the Interest Rate in effect from time to time to the extent lawful. Such principal of and interest on this Note shall be paid in the manner specified on the reverse hereof.

The principal of and interest on this Note are payable in such coin or currency of the United States as at the time of payment is legal tender for payment of public and private debts. All payments made by the Trust with respect to this Note shall be applied first to interest due and payable on this Note as provided above and then to the unpaid principal of this Note.

Reference is made to the further provisions of this Note set forth on the reverse hereof, which shall have the same effect as though fully set forth on the face of this Note.

Unless the certificate of authentication hereon has been executed by the Indenture Trustee the name of which appears below by manual signature, this Note shall not be entitled to any benefit under the Indenture referred to on the reverse hereof or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Trust has caused this instrument to be signed, manually or by facsimile, by its Authorized Officer as of the date set forth below.

Dated: , 2001 XEROX EQUIPMENT LEASE OWNER TRUST 2001-1,

By: HSBC BANK & TRUST COMPANY
(DELAWARE) NA,
as Owner Trustee

By:
Name:
Title:

INDENTURE TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Notes designated above and referred to in the within-mentioned Indenture.

Dated: , 2001 By: U.S. BANK NATIONAL ASSOCIATION,
as Indenture Trustee

By:
Name:
Title:

[REVERSE OF NOTE]

This Note is one of a duly authorized issue of Notes of the Trust, designated as its "Xerox Equipment Lease Owner Trust 2001-1 Floating Rate Asset Backed Notes" (herein called the "Notes") issued under an Indenture, dated as of July 1, 2001 (such indenture, as supplemented or amended, is herein called the "Indenture"), between the Trust and U.S. Bank National Association, as trustee (the "Indenture Trustee", which term includes any successor Indenture Trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights and obligations thereunder of the Trust, the Indenture Trustee and the Noteholders. The Notes are subject to all terms of the Indenture. All terms used in this Note that are defined in the Indenture, as supplemented or amended, shall have the meanings assigned to them in or pursuant to the Indenture, as so supplemented or amended.

The Notes are and will be equally and ratably secured by the Collateral pledged as security therefor as provided in the Indenture. However, except under the circumstances set forth in the Indenture, on each Payment Date principal will be paid on the Notes. Principal payable on the Notes will be paid on each Payment Date in the amount specified in the Indenture. As described above, the entire unpaid principal amount of this Note will be payable on the earlier of the Final Scheduled Payment Date and the Redemption Date, if any, selected pursuant to the Indenture. Notwithstanding the foregoing, under certain circumstances, the entire unpaid principal amount of the Notes shall be due and payable following the occurrence and continuance of an Indenture Default, as described in the Indenture. In such an event, principal payments on the Notes shall be made to the Noteholders until the Note Balance has been reduced to zero.

Payments of principal and interest on this Note due and payable on each Payment Date or Redemption Date shall be made by check mailed to the Person whose name appears as the Registered Holder of this Note (or one or more Predecessor Notes) on the Note Register as of the close of business on the related Record Date, except that with respect to Notes registered on the Record Date in the name of (i) the nominee of DTC (initially, such nominee to be Cede & Co.), and (ii) a Person (other than the nominee of DTC) that holds

Notes with original denominations aggregating at least $1 million and has given the Indenture Trustee appropriate written instructions at least five Business Days prior to the related Record Date (which instructions, until revised, shall remain operative for all Payment Dates thereafter), payments will be made by wire transfer in immediately available funds to the account designated by such nominee or Person. Such checks shall be mailed to the Person entitled thereto at the address of such Person as it appears on the Note Register as of the applicable Record Date without requiring that this Note be submitted for notation of payment. Any reduction in the principal amount of this Note (or any one or more Predecessor Notes) affected by any payments made on any Payment Date or Redemption Date shall be binding upon all future holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof, whether or not noted hereon. If funds are expected to be available, as provided in the Indenture, for payment in full of the remaining unpaid principal amount of this Note on a Payment Date or Redemption Date, then the Indenture Trustee, in the name of and on behalf of the Trust, will notify the Person who was the Registered Holder hereof as of the Record Date preceding such Payment Date or Redemption Date by notice mailed within five days of such Payment Date or Redemption Date and the amount then due and payable shall be payable only upon presentation and surrender of this Note at the Corporate Trust Office of the Indenture Trustee or at the office of the Indenture Trustee's agent appointed for such purposes located in The City of New York.

As provided in the Indenture, the Transferor will be permitted at its option to purchase the Trust Estate from the Trust and to terminate the pledge thereof on any Payment Date if, either before or after giving effect to any payment of principal required to be made on such Payment Date, the Securities Balance is less than or equal to 5% of the Initial Securities Balance. The purchase price for the Trust Estate shall equal the unpaid principal balances of the Securities, together with accrued interest on the Notes through the Accrual Period related to the Payment Date on which the Redemption Date occurs and certain other amounts, which amount shall be deposited by the Transferor into the Collection Account on the Deposit Date relating to the Payment Date fixed for redemption. In connection with an Optional Purchase, the Notes will be redeemed on such Payment Date in whole, but not in part, for the Redemption Price and thereupon the pledge of the Trust Estate shall be discharged and released and the Trust Estate shall be returned to the Transferor.

As provided in the Indenture and subject to certain limitations set forth therein, the transfer of this Note may be registered on the Note Register upon surrender of this Note for registration of transfer at the office or agency designated by the Trust pursuant to the Indenture. No service charge will be charged for any registration of transfer or exchange of this Note, but the Transferor may be required to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any such registration of transfer or exchange.

Each Noteholder or Note Owner, by acceptance of a Note or, in the case of a Note Owner, a beneficial interest in a Note, covenants and agrees that no recourse may be taken, directly or indirectly, with respect to the obligations of the Trust, the Owner Trustee or the Indenture Trustee on the Notes or under the Indenture or any certificate or other writing delivered in connection therewith against (i) the Indenture Trustee or the Owner Trustee in its individual capacity, (ii) any owner of a beneficial interest in the Trust or (iii) any partner, owner, beneficiary, agent, officer, director or

employee of the Indenture Trustee or the Owner Trustee in its individual capacity, any holder of a beneficial interest in the Trust, the Owner Trustee or the Indenture Trustee or of any successor or assign of the Indenture Trustee or the Owner Trustee in its individual capacity, except as any such Person may have expressly agreed and except that any such partner, owner or beneficiary shall be fully liable, to the extent provided by applicable law, for any unpaid consideration for stock, unpaid capital contribution or failure to pay any installment or call owing to such entity.

The Notes represent obligations of the Trust only and do not represent interests in, recourse to or obligations of the Transferor, the Seller, the Administrative Agent, Xerox Equipment or any of their respective Affiliates.

Each Noteholder by acceptance of a Note, or in the case of a Note Owner, by acceptance of a beneficial interest in the Notes, hereby covenants and agrees that it will not institute against the Trust or the Transferor, or join in instituting against the Trust or the Transferor, any bankruptcy, reorganization, arrangement, insolvency or liquidation Proceeding, or other Proceeding under federal or State bankruptcy or similar laws for a period of one year and a day after payment in full of all amounts due in respect of the Securities.

Prior to the due presentment for registration of transfer of this Note, the Owner Trustee, the Indenture Trustee and any agent of the Owner Trustee or the Indenture Trustee may treat the Person in whose name this Note (as of the day of determination or as of such other date as may be specified in the Indenture) is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Owner Trustee, the Indenture Trustee nor any such agent shall be affected by notice to the contrary.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Trust and the rights of the Noteholders under the Indenture at any time by the Trust with the consent of the Noteholders representing not less than a majority of the Outstanding Amount. The Indenture also contains provisions permitting Noteholders representing specified percentages of the Outstanding Amount, on behalf of all Noteholders, to waive compliance by the Trust with certain provisions of the Indenture and certain past Defaults under the Indenture and their consequences. Any such consent or waiver by the Noteholder of this Note (or any one or more Predecessor Notes) shall be conclusive and binding upon such Noteholder and upon all future Noteholders of this Note and of any Note issued upon the registration of transfer hereof or in exchange hereof or in lieu hereof whether or not notation of such consent or waiver is made upon this Note. The Indenture also permits the Indenture Trustee to amend or waive certain terms and conditions set forth in the Indenture without the consent of the Noteholders.

The Notes are issuable only in registered form in denominations as provided in the Indenture, subject to certain limitations therein set forth.

This Note and the Indenture shall be construed in accordance with the laws of the State of New York, and the obligations, rights and remedies of the parties hereunder and thereunder shall be determined in accordance with such laws.

No reference herein to the Indenture and no provision of this Note or the Indenture shall alter or impair the obligation of the Trust, which is

absolute and unconditional, to pay the principal and interest on this Note at the times, place and rate and in the coin or currency herein prescribed.

ASSIGNMENT

Social Security or taxpayer I.D. or other identifying number of assignee:

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

(name and address of assignee)

the within Note and all rights thereunder, and hereby irrevocably constitutes and appoints attorney, to transfer said Note on the books kept for registration thereof, with full power of substitution in the premises.

Dated*:

Signature Guaranteed:

* The signature to this assignment must correspond with the name of the registered owner as it appears on the face of the within Note in every particular, without alteration, enlargement or any change whatsoever.

EXHIBIT B

FORM OF DEPOSITORY AGREEMENT

Exhibit 4(g)(1)

XEROX CORPORATION

INDENTURE

DATED AS OF NOVEMBER 27, 2001

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

AS TRUSTEE

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7 1/2% CONVERTIBLE JUNIOR SUBORDINATED DEBENTURES DUE 2021

TIE-SHEET

of provisions of Trust Indenture Act of 1939 with Indenture dated as of November 27, 2001 between Xerox Corporation and Wells Fargo Bank Minnesota, National Association, as Trustee:

ACT SECTION	INDENTURE SECTION
310(a)(1)	6.09
(a)(2)	6.09
310(a)(3)	N/A
(a)(4)	N/A
310(a)(5)	6.10, 6.11
310(b)	N/A
310(c)	6.13
311(a) and (b)	N/A
311(c)	4.01, 4.02(a)
312(a)	4.02
312(b) and (c)	4.04
313(a)	4.04
313(b)(1)	4.04
313(b)(2)	4.04
313(c)	4.04
313(d)	4.04
314(a)	4.03
314(b)	N/A
314(c)(1) and (2)	6.07
314(c)(3)	N/A
314(d)	N/A
314(e)	6.07
314(f)	N/A
315(a)(c) and (d)	6.01
315(b)	5.08
315(e)	5.09
316(a)(1)	5.07
316(a)(2)	N/A
316(a) last sentence	2.09
316(b)	9.02
317(a)	5.05
317(b)	6.05
318(a)	13.08

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THIS TIE-SHEET IS NOT PART OF THE INDENTURE AS EXECUTED.

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THIS INDENTURE, dated as of November 27, 2001, between XEROX CORPORATION, a New York corporation (hereinafter sometimes called the "Company"), and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (hereinafter sometimes called the "Trustee"),

W I T N E S S E T H :

In consideration of the premises, and the purchase of the Securities by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01 Definitions.

The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), or which are by reference therein defined in the Securities Act, shall (except as herein otherwise expressly provided or unless the context otherwise requires) have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture as originally executed. The following terms have the meanings given to them in the Declaration: (i) Administrative Trustees; (ii) Business Day; (iii) Clearing Agency; (iv) Delaware Trustee; (v) Direct Action; (vi) Distributions; (vii) Property Trustee; (viii) Purchase Agreement; (ix) Special Event; (x) Tax Event; (xi) Trust Preferred Securities; (xii) Trust Securities Guarantee; (xiii) Xerox Funding Debentures; and (xiv) Xerox Funding Indenture. All accounting terms used herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles and the term "generally accepted accounting principles" means such accounting principles as are generally accepted at the time of any computation. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. Headings are used for convenience of reference only and do not affect interpretation. The singular includes the plural and vice versa.

"Additional Interest" shall have the meaning set forth in Section 2.06(c).

"Affiliate" means, with respect to a specified Person, (a) any Person directly or indirectly owning, controlling or holding the power to vote 10% or more of the outstanding voting securities or other ownership interests of the specified Person, (b) any Person 10% or more of whose outstanding voting securities or other ownership interests are directly or indirectly owned, controlled or held with power to vote by the specified Person, (c) any Person directly or indirectly controlling, controlled by, or under common control with the specified Person, (d) a partnership in which the specified Person is a general partner, (e) any officer or director of the specified Person, and (f) if the specified Person is an individual, any entity of which the specified Person is an officer, director or general partner.

"Associate" shall have the meaning set forth in Section 15.02(a).

"Average Sale Price" shall have the meaning set forth in

Section 16.07.

"Authenticating Agent" shall mean any agent or agents of the Trustee which at the time shall be appointed and acting pursuant to Section 6.14.

"Bankruptcy Law" shall mean Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Board of Directors" shall mean either the Board of Directors of the Company or any duly authorized committee of that board.

"Board Resolution" shall mean a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Capital Stock" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that corporation.

"Change in Control" shall have the meaning set forth in Section 15.02(a).

"Change in Control Purchase Date" shall have the meaning set forth in Section 15.02(a).

"Change in Control Purchase Notice" shall have the meaning set forth in Section 15.02(f).

"Change in Control Purchase Price" shall have the meaning set forth in Section 15.02(a).

"Commission" shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Stock" shall mean the Common Stock, par value $1.00 per share, of the Company or any other class of stock resulting from changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value

"Company" shall mean Xerox Corporation, a New York corporation, and, subject to the provisions of Article X, shall include its successors and assigns.

"Company Change in Control Notice" shall have the meaning set forth in Section 15.02(e).

"Company Notice" shall have the meaning set forth in Section 15.01(e).

"Company Notice Date" shall have the meaning set forth in Section 15.01(e).

"Company Request" or "Company Order" shall mean a written request or order signed in the name of the Company by the Chairman, the Chief Executive Officer, the President, a Vice Chairman, the Chief Financial Officer, a Vice President, the Controller, an Assistant Controller, the Secretary or an Assistant Secretary of the Company, and delivered to the Trustee.

"Conversion Agent" shall have the meaning set forth in Section 6.15.

"Conversion Date" shall have the meaning set forth in Section 16.02.

"Conversion Price" shall have the meaning set forth in Section 16.01.

"Conversion Rate" shall have the meaning set forth in Section 16.01.

"Coupon Rate" shall have the meaning set forth in Section 2.06(a).

"Custodian" shall mean any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

"Declaration" means the Amended and Restated Declaration of Trust of Xerox Capital, dated as of the Issue Date.

"Debenture Guarantee" means the Debenture Guarantee Agreement, dated as of November 27, 2001, between the Company and the guarantee trustee thereto.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" shall have the meaning set forth in Section 2.11.

"Defeasance Agent" has the meaning set forth in Section 11.05 hereof.

"Definitive Securities" shall mean those securities issued in fully registered certificated form not otherwise in global form.

"Depositary" shall mean, with respect to Securities of any series, for which the Company shall determine that such Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Exchange Act or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to Section 2.05(d).

"Discharged" has the meaning set forth in Section 11.05 hereof.

"Event of Default" shall mean any event specified in

Section 5.01, continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

"Ex-Dividend Date" shall have the meaning set forth in Section 16.08.

"Ex-Dividend Measurement Period" shall have the meaning set forth in Section 16.08.

"Ex-Dividend Time" shall have the meaning set forth in Section 16.07.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exchange Event" means the exchange by Xerox Funding of the Securities for Xerox Funding Debentures and the distribution of the Securities to the holders of such Xerox Funding Debentures pro rata in accordance with the LLC Agreement and the Xerox Funding Indenture.

"Expiration Time" shall have the meaning set forth in Section 16.09.

"Extraordinary Cash Dividend" shall have the meaning set forth in Section 16.08.

"Global Security" means, with respect to the Securities, a Security executed by the Company and delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depositary or its nominee.

"group" shall have meaning set forth in Section 15.02.

"Guarantees" means the Debenture Guarantee and the Trust Securities Guarantee.

"Indenture" shall mean this instrument as originally executed or, if amended as herein provided, as so amended.

"Initial Optional Redemption Date" means December 4, 2004.

"Interest" shall include all interest payable on or in respect of the Securities, including Additional Interest payable pursuant to Section 2.06(c).

"Interest Payment Date" shall have the meaning set forth in Section 2.06.

"Investment Company Act" means the Investment Company Act of 1940, as amended from time to time, or any successor legislation.

"Issue Date" means November 27, 2001.

"LLC Agreement" means the limited liability company agreement of Xerox Funding, dated as of November 19, 2001, by the Company as sole member.

"Market Price" shall have the meaning set forth in Section 15.01.

"Maturity Date" means November 27, 2021.

"Non Book-Entry Xerox Funding Debentures" shall have the meaning set forth in Section 2.05.

"Non-public Consideration" shall have the meaning set forth in Section 16.08(d).

"Officers" shall mean any of the Chairman, a Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, a Vice President, the Controller, an Assistant Controller, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of the Company.

"Officers' Certificate" shall mean a certificate signed by two Officers and delivered to the Trustee.

"Opinion of Counsel" shall mean a written opinion of counsel, who may be an employee of the Company, and who shall be reasonably acceptable to the Trustee.

"Other Debentures" means all junior subordinated debentures issued by the Company from time to time and sold to finance subsidiaries to be established by the Company (if any), in each case similar to the Trust.

"Other Guarantees" means all guarantees now or in the future issued by the Company in respect of any preferred or preference stock of any affiliate of the Company, including its guarantees of the preferred securities of Xerox Capital Trust I.

The term "outstanding" when used with reference to Securities, shall, subject to the provisions of Section 7.04, mean, as of any particular time, all Securities authenticated and delivered by the Trustee or the Authenticating Agent under this Indenture, except

(a) Securities theretofore cancelled by the Trustee or the Authenticating Agent or delivered to the Trustee for cancellation;

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided that, if such Securities, or portions thereof, are to be redeemed prior to maturity thereof, notice of such redemption shall have been given as in Article XIV provided or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Securities in lieu of or in substitution for which other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.08 unless proof satisfactory to the Company and the Trustee is presented that any such Securities are held by bona fide holders in due course.

"Paying Agent" has the meaning set forth in Section 3.04.

"Person" shall mean any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pledge Agreement" means the pledge agreement, dated November 27, 2001, between Xerox Funding and Wells Fargo Bank Minnesota, National Association, as pledge trustee.

"Pledged Account" has the meaning set forth in the Pledge Agreement.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt and as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.08 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

"Principal Office of the Trustee", or other similar term, shall mean the principal corporate trust office of the Trustee at which, at any particular time, its corporate trust business shall be administered, which office at the date hereof is located at Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services, except where such office is required to be located in the State of New York, then such term shall mean the office or agency of the Trustee in the Borough of Manhattan, The City of New York, which office at the date hereof is located at c/o The Depository Trust Company, 1st Floor - TADS Department, 55 Water Street, New York, New York 10041.

"Purchase Date" shall have the meaning set forth in Section 15.01(a).

"Purchase Notice" shall have the meaning set forth in Section 15.01(a).

"Purchase Price" shall have the meaning set forth in Section 15.01(a).

"Purchased Shares" shall have the meaning set forth in Section 16.09.

"Redemption Price" means the Regular Redemption Price and the Special Redemption Price, as applicable.

"Regular Redemption Price" means an amount equal to 100% of the principal amount of the Debentures called for redemption, plus accrued and unpaid interest to but excluding the date of redemption.

"Relevant Cash Dividends" shall have the meaning set forth in Section 16.08.

"Responsible Officer", when used with respect to the Trustee, shall mean the chairman or any vice chairman of the board of directors, the chairman or any vice chairman of the executive committee of

the board of directors, the chairman of the trust committee, the president, any vice president, the cashier, any assistant cashier, the secretary, any assistant secretary, the treasurer, any assistant treasurer or senior trust officer, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Security" shall mean Securities that bear or are required to bear the Securities Act legends set forth in Exhibit A hereto.

"Rights" shall have the meaning set forth in Section 16.20.

"Rights Agreement" shall have the meaning set forth in Section 16.20.

"Rule 144A" means Rule 144A under the Securities Act, as such Rule may be amended from time to time, or under any similar rule or regulation hereafter adopted by the Commission.

"Sale Price" of any security on any date means the closing per share sale price (or, if no closing sale price is reported, the average of the bid and ask prices or, if more than one in either case, the average of the average bid and the average ask prices) on such date as reported in the composite transactions for the principal United States securities exchange on which the security is traded. In the absence of such quotation, the Company shall be entitled to determine the Sale Price on the basis of such quotations as it considers appropriate.

"Securities" means the securities issued hereunder.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securityholder", "Holder of Securities", "Holder", or other similar terms, shall mean any person in whose name at the time a particular Security is registered on the register kept by the Company or the Trustee for that purpose in accordance with the terms hereof; provided, however, that, in determining whether the holders of the requisite percentage of principal amount of the Securities have given any request, notice, consent or waiver hereunder, "Holder" shall not include the Company or any Affiliate of the Company (other than Xerox Funding or Xerox Capital); and provided, further, that, in determining whether the holders of the requisite principal amount of Securities have voted on any matter provided for in this Indenture, then for purpose of such determination only (and not for any other purpose hereunder), if the Securities or the Xerox Funding Debentures are held by the Property Trustee, the term "Holders" shall mean the holders of the Trust Securities, acting at the direction of the beneficial owners thereof, and, after a Trust Dissolution Event, if the Securities are held by Xerox Funding, the term "Holders" shall mean the holders of the Xerox Funding Debentures, acting at the direction of the beneficial owners thereof.

"Security Register" shall mean (i) prior to an Exchange Event, the List of Holders provided to the Trustee pursuant to Section 4.01,

and (ii) following an Exchange Event, any security register maintained by a security registrar for the Securities appointed by the Company following the execution of a supplemental indenture providing for transfer procedures as provided for in Section 2.07(a).

"Senior Indebtedness" shall mean, with respect to an obligor, (i) the principal, premium, if any, and interest in respect of (A) indebtedness of such obligor for money borrowed, and (B) indebtedness evidenced by securities, debentures, bonds or other similar instruments issued by such obligor, (ii) all capital lease obligations of such obligor, (iii) all obligations of such obligor issued or assumed as the deferred purchase price of property, all conditional sale obligations of such obligor and all obligations of such obligor under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business), (iv) all obligations of such obligor for the reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction, (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons for the payment of which such obligor is responsible or liable as obligor, guarantor or otherwise and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of such obligor (whether or not such obligation is assumed by such obligor), except for (1) any such indebtedness that is by its terms subordinated to or ranks pari passu with the Securities, and (2) any indebtedness between and among the Company and its subsidiaries, including all other debt securities or guarantees in respect of those debt securities, issued to (a) Xerox Capital Trust I, (b) any other trust or trustee of that trust and (c) any other trust, or a trustee of that trust, partnership or other entity affiliated with the Company that is a financing vehicle of the Company (a "financing entity") in connection with the issuance by such financing entity of trust preferred securities or other securities that rank pari passu with or junior in right of payment to the Trust Preferred Securities. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

"Special Redemption Price" means, with respect to the Securities, the following percentages of the principal amounts of such Securities called for redemption, plus accrued and unpaid interest, if any, to but excluding the date of redemption if redeemed during the periods set forth below:

Period	Percentage
From December 4, 2004 to November 26, 2005	103.75%
From November 27, 2005 to November 26, 2006	102.50%
From November 27, 2006 to November 26, 2007	101.25%
After November 26, 2007	100.00%

"Subsidiary" shall mean with respect to any Person, (i) any corporation at least a majority of whose outstanding voting stock is owned, directly or indirectly, by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture, limited liability company or similar entity, at

least a majority of whose outstanding partnership, membership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner. For the purposes of this definition, "voting stock" means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

"Time of Determination" shall have the meaning set forth in Section 16.07.

"Trading Day" means a day during which trading in securities generally occurs on the New York Stock Exchange ("NYSE") or, if the Common Stock is not listed on the NYSE, on the principal United States securities exchange on which the Common Stock is then listed or quoted.

"Trust Indenture Act" shall mean the Trust Indenture Act of 1939 as in force at the date of execution of this Indenture, except as provided in Section 9.03.

"Trust Securities" shall mean the Trust Preferred Securities and the Common Securities, collectively.

"Trustee" shall mean the Person identified as "Trustee" in the first paragraph hereof, and, subject to the provisions of Article VI hereof, shall also include its successors and assigns as Trustee hereunder The term "Trustee" as used with respect to a particular series of the Securities shall mean the trustee with respect to that series.

"U.S. Government Obligations" shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Xerox Capital" shall mean Xerox Capital Trust II, a Delaware business trust.

"Xerox Funding" shall mean Xerox Funding LLC II, a Delaware limited liability company.

ARTICLE II

SECURITIES

SECTION 2.01. Forms Generally.

The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, the terms of which are incorporated in and made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject or usage. Each Security shall be dated the date of its authentication. The Securities shall be issued in denominations of $50 and integral multiples thereof.

SECTION 2.02. Execution and Authentication.

One Officer shall sign the Securities for the Company by manual or facsimile signature in the manner set forth in Exhibit A. If an Officer whose signature is on a Security no longer holds that office at the time the Security is authenticated, the Security shall nevertheless be valid. A Security shall not be valid until authenticated by the manual signature of an authorized officer of the Trustee. The signature of the Trustee shall be conclusive evidence that the Security has been authenticated under this Indenture. The form of Trustee's certificate of authentication to be borne by the Securities shall be substantially as set forth in Exhibit A hereto. The Trustee shall, upon a Company Order, authenticate for original issue up to, and the aggregate principal amount of Securities outstanding at any time may not exceed the sum of $1,067,010,400 aggregate principal amount of the Securities, except as provided in Sections 2.07, 2.08, 2.09 and 14.05.

SECTION 2.03. Form and Payment and Delivery.

Except as provided in Section 2.05, the Securities shall be issued in fully registered certificated form without interest coupons. Amounts due on or in respect of the Securities issued in certificated form will be payable or deliverable, the transfer of such Securities will be registrable and such Securities will be exchangeable for Securities bearing identical terms and provisions at the office or agency of the Company maintained for such purpose under Section 3.02; provided, however, that payment of interest with respect to the Securities may be made at the option of the Company (i) by check mailed to the holder at such address as shall appear in the Security Register or (ii) by transfer to an account maintained by the Person entitled thereto, provided that proper transfer instructions have been received in writing by the relevant record date. Notwithstanding the foregoing, so long as the holder of any Securities is the Property Trustee, the payment or delivery of amounts due on or in respect of such Securities held by the Property Trustee will be made at such place and to such account as may be designated by the Property Trustee.

SECTION 2.04. Legends.

(a) Except as otherwise determined by the Company in accordance with applicable law, each Security shall bear the applicable legends relating to restrictions on transfer pursuant to the securities laws in substantially the form set forth on Exhibit A hereto.

SECTION 2.05. Global Security.

(a) In connection with an Exchange Event,

(i) if any Xerox Funding Debentures are held in book-entry form (or, if all the Xerox Funding Debentures are then held by the Property Trustee, if any Trust Preferred Securities are held in book-entry form), the related certificates evidencing such securities shall be presented to the Trustee (if an arrangement with the Depositary has been maintained) by any holder thereof in exchange for one or more Global Securities (as may be required pursuant to Section 2.07) in an aggregate principal amount equal to the aggregate principal amount of all outstanding Xerox Funding Debentures, to be registered in the name of the Depositary, or its nominee, and delivered by the Trustee to the Depositary for crediting to the accounts of its participants pursuant to the instructions of such holder; the Company, upon any such presentation, shall execute one or more Global Securities in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery in accordance with this Indenture; and payments on the Securities issued as a Global Security will be made to the Depositary; and

(ii) if any Xerox Funding Debentures are held in certificated form (or, if all the Xerox Funding Debentures are then held by the Property Trustee, if any Trust Preferred Securities are held in certificated form), the related Definitive Securities may be presented to the Trustee by any holder and any Xerox Funding Debenture certificate which represents Xerox Funding Debentures other than Xerox Funding Debentures in book-entry form ("Non Book-Entry Xerox Funding Debentures") will be deemed to represent beneficial interests in Securities presented to the Trustee by such holder having an aggregate principal amount equal to the aggregate principal amount of the Non Book-Entry Xerox Funding Debentures until such Xerox Funding Debenture certificates are presented to the Security Registrar for transfer or reissuance, at which time such Xerox Funding Debenture certificates will be cancelled and a Security, registered in the name of the holder of the Xerox Funding Debenture certificate or the transferee of the holder of such Xerox Funding Debenture certificate, as the case may be, with an aggregate principal amount equal to the aggregate principal amount of the Xerox Funding Debenture certificate cancelled, will be executed by the Company and delivered to the Trustee for authentication and delivery in accordance with the Indenture. Upon the issuance of such Securities, Securities with an equivalent aggregate principal amount that were presented to the Trustee will be deemed to have been cancelled.

(b) The Global Securities shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon; provided, that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, conversions, purchases and redemptions. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee, in accordance with instructions given by the Company as required by this Section 2.05.

(c) The Global Securities may be transferred, in whole but not in part, only to the Depositary, another nominee of the Depositary, or to a successor Depositary selected or approved by the Company or to a nominee of

such successor Depositary.

(d) If at any time the Depositary notifies the Company that it is unwilling or unable to continue as Depositary or the Depositary has ceased to be a clearing agency registered under the Exchange Act, and a successor Depositary is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, the Company will execute, and the Trustee, upon written notice from the Company, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security. If there is an Event of Default, the Depositary shall have the right to exchange the Global Securities for Definitive Securities. In addition, the Company may at any time determine that the Securities shall no longer be represented by a Global Security. In the event of such an Event of Default or such a determination, the Company shall execute, and subject to Section 2.07, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security. Upon the exchange of the Global Security for such Definitive Securities, in authorized denominations, the Global Security shall be cancelled by the Trustee. Such Definitive Securities issued in exchange for the Global Security shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Definitive Securities to the Depositary for delivery to the Persons in whose names such Definitive Securities are so registered.

SECTION 2.06. Interest.

(a) Each Security will bear interest at the rate of 7 1/2% per annum (the "Coupon Rate") from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from the Issue Date, until the principal thereof becomes due and payable, and at the rate of 7 1/2% per annum on any overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest, compounded quarterly, payable quarterly in arrears on February 27, May 27, August 27 and November 27 of each year (each, an "Interest Payment Date") commencing on February 27, 2002, to the Person in whose name such Security or any predecessor Security is registered, at the close of business on the regular record date for such interest installment, which shall be the Business Day or, if none of the Trust Preferred Securities, the Xerox Funding Debentures or the Securities are represented by a global certificate, the 15th calendar day, immediately preceding the relevant Interest Payment Date. The amount of interest payable on any Interest Payment Date, the applicable redemption date, the applicable Purchase Date, the Change in Control Purchase Date or the Maturity Date shall include interest accrued from and including the Issue Date or the last Interest Payment Date to which interest has been paid to but excluding such Interest Payment Date, such redemption date, such Purchase Date, such Change in Control Purchase Date or the Maturity Date, as applicable.

(b) Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months and, for any period of less than a

full calendar month, the number of days lapsed in such month.

(c) During such time as Xerox Funding or Xerox Capital is the holder of any Securities, the Company shall pay any additional interest on the Securities in an amount sufficient so that the net amounts received and retained by the holder of the Securities after paying any taxes, duties, assessments or governmental charges of whatever nature, other than withholding taxes, imposed by the United States, or any other taxing authority will be equal to the amounts the holder of the Securities would have received had no such taxes, duties, assessments or other governmental charges been imposed ("Additional Interest").

(d) Notwithstanding Section 2.06(c) above, none of the Company, Xerox Funding or Xerox Capital will be responsible for, nor will the Company, Xerox Funding or Xerox Capital be required to compensate holders of or investors in the Trust Preferred Securities (or Xerox Funding Debentures that may be distributed by Xerox Capital) for, any withholding taxes that are imposed on interest payments on the Securities or the Xerox Funding Debentures or on distributions with respect to the Trust Preferred Securities.

(e) Notwithstanding anything to the contrary herein, for any date on which a payment on the Securities is due and payable, to the extent the corresponding payment on or in respect of the Xerox Funding Debentures is made or otherwise duly provided for on such date from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement, for all purposes of this Indenture, such payment on the Securities shall be deemed to have been paid in full on such date.

SECTION 2.07. Transfer and Exchange.

(a) Transfer Restrictions. The Securities may not be transferred except in compliance with the legend contained in Exhibit A unless otherwise determined by the Company in accordance with applicable law. Upon any exchange of the Securities following a Exchange Event, the Company and the Trustee shall enter into a supplemental indenture pursuant to Section 9.01 to provide for the transfer restrictions and procedures with respect to the Securities substantially similar to those contained in the Xerox Funding Indenture and the Declaration to the extent applicable in the circumstances existing at such time.

(b) General Provisions Relating to Transfers and Exchanges. Upon surrender for registration of transfer of any Security at the office or agency of the Company maintained for the purpose pursuant to Section 3.02, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of a like aggregate principal amount and such method shall be the only method of effecting a transfer of a Security.

At the option of the holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the holder making the exchange is entitled to receive.

Every Security presented or surrendered for registration of transfer or exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the holder thereof or his attorney duly authorized in writing. All Definitive Securities and Global Securities issued upon any registration of transfer or exchange of Definitive Securities or Global Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Definitive Securities or Global Securities surrendered upon such registration of transfer or exchange.

No service charge shall be made to a holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith.

The Company shall not be required to (i) issue, register the transfer of or exchange Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Securities for redemption under Article XIV hereof and ending at the close of business on the day of such mailing; or (ii) register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unpaid portion of any Security being redeemed in part.

SECTION 2.08. Replacement Securities.

If any mutilated Security is surrendered to the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, the Company shall issue and the Trustee shall authenticate a replacement Security if the Trustee's requirements for replacements of Securities are met. An indemnity bond must be supplied by the holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any agent thereof or any authenticating agent from any loss that any of them may suffer if a Security is replaced. The Company or the Trustee may charge for its expenses in replacing a Security.

Every replacement Security is an obligation of the Company and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Securities duly issued hereunder.

SECTION 2.09. Temporary Securities.

Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and make available for delivery, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise reproduced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company shall cause definitive Securities to be prepared without unreasonable delay. The

definitive Securities shall be printed, lithographed or engraved, or provided by any combination thereof, or in any other manner as the Company may elect to the extent (if such definitive Securities are listed thereon) permitted by the rules and regulations of any applicable securities exchange. After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency maintained by the Company for such purpose pursuant to Section 3.02 hereof, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute, and the Trustee shall authenticate and make available for delivery, in exchange therefor the same aggregate principal amount of definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.10. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Trustee and no one else shall cancel all Securities surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall retain or dispose of cancelled Securities in accordance with its normal practices (subject to the record retention requirement of the Exchange Act). The Company may not issue new Securities to replace Securities that have been redeemed or paid or that have been delivered to the Trustee for cancellation.

SECTION 2.11. Defaulted Interest.

Any interest on any Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its election, as provided in clause (a) or clause (b) below:

(a) The Company may make payment of any Defaulted Interest on Securities to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register, not less than 10 days prior to such special record date. Notice of

the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable pursuant to the following clause (b).

(b) The Company may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

SECTION 2.12. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of exchange, redemption, purchase and conversion as a convenience to Securityholders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of an exchange, redemption, purchase and conversion and that reliance may be placed only on the other identification numbers printed on the Securities, and any such exchange, redemption, purchase and conversion shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE III

PARTICULAR COVENANTS OF THE COMPANY

SECTION 3.01. Payment and Delivery of Amounts due.

The Company covenants and agrees for the benefit of the holders of the Securities that it will duly and punctually pay, deliver or cause to be paid or delivered all amounts due on or in respect of the Securities at the place, at the respective times and in the manner provided herein. Except as provided in Section 2.03, each installment of interest on the Securities may be paid by mailing checks for such interest payable to the order of the holder of Security entitled thereto as they appear in the Security Register.

SECTION 3.02. Offices for Notices and Payments, etc.

So long as any of the Securities remain outstanding, the Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where the Securities may be presented for payment, an office or agency where the Securities may be presented for registration of transfer, for exchange, purchase and conversion as in this Indenture provided and an office or agency where notices and demands to or upon the Company in respect of the Securities or of this Indenture may be served. The Company will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof. Until otherwise designated from time to time by the Company in a notice to the Trustee, any such office or agency for all of the above purposes shall be the Principal Office of the Trustee. In case the Company shall fail to maintain any such office or agency in the

Borough of Manhattan, The City of New York, or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Principal Office of the Trustee.

In addition to any such office or agency, the Company may from time to time designate one or more offices or agencies outside the Borough of Manhattan, The City of New York, where the Securities may be presented for payment, registration of transfer and for exchange, purchase and conversion in the manner provided in this Indenture, and the Company may from time to time rescind such designation, as the Company may deem desirable or expedient; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain any such office or agency in the Borough of Manhattan, The City of New York, for the purposes above mentioned. The Company will give to the Trustee prompt written notice of any such designation or rescission thereof.

SECTION 3.03. Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.04. Provision as to Paying Agent.

(a) If the Company shall appoint a paying agent other than the Trustee with respect to the Securities, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provision of this Section 3.04,

(1) that it will hold all sums held by it as such agent for the payment of the principal of and premium, if any, or interest on the Securities (whether such sums have been paid to it by the Company or by any other obligor on the Securities of such series) in trust for the benefit of the holders of the Securities;

(2) that it will give the Trustee notice of any failure by the Company (or by any other obligor on the Securities) to make any payment of the principal of and premium or interest on the Securities when the same shall be due and payable; and

(3) that it will at any time during the continuance of any such failure, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by it as such paying agent.

(b) If the Company shall act as its own paying agent, it will, on or before each due date of the principal of and premium, if any, or interest on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal, premium or interest so becoming due and will notify the Trustee of any failure to take such action and of any failure by the Company (or by any other obligor under the Securities) to make any payment of the principal of and premium, if any, or interest on the Securities when the same shall become due and payable.

(c) Anything in this Section 3.04 to the contrary

notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to the Securities hereunder, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust for any such series by the Trustee or any paying agent hereunder, as required by this Section 3.04, such sums to be held by the Trustee upon the trusts herein contained.

(d) Anything in this Section 3.04 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.04 is subject to Sections 11.03 and 11.04.

(e) The Company appoints the Trustee as the initial paying agent (the "Paying Agent").

SECTION 3.05. Certificate to Trustee.

The Company will deliver to the Trustee on or before 120 days after the end of each fiscal year of the Company, commencing with the first fiscal year ending after the date hereof, so long as Securities are outstanding hereunder, an Officers' Certificate, one of the signers of which shall be the principal executive, principal financial or principal accounting officer of the Company stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any default by the Company in the performance of any covenants contained herein, stating whether or not they have knowledge of any such default and, if so, specifying each such default of which the signers have knowledge and the nature thereof.

SECTION 3.06. Compliance with Consolidation Provisions.

The Company will not, while any of the Securities remain outstanding, consolidate with, or merge into, or merge into itself, or sell, lease or convey all or substantially all of its property to any other Person unless the provisions of Article X hereof are complied with.

SECTION 3.07. Limitation on Dividends.

The Company will not (i) declare or pay any dividend on, or make any distribution relating to, or redeem, purchase, acquire, or make a liquidation payment relating to, any of the Company's Capital Stock (which includes common and preferred stock) or (ii) make any payment of principal, interest or premium, if any, on or repay or repurchase or redeem any debt securities of the Company (including any Other Debentures) that rank pari passu with or junior in right of payment to the Securities or (iii) make any guarantee payments with respect to any guarantee by the Company of any securities of any Subsidiary of the Company (including any Other Guarantees) if such guarantee ranks pari passu or junior in right of payment to the Securities (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, Common Stock; (b) any declaration of a dividend in connection with the implementation of a stockholder rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto; (c) payments or deliveries of any consideration under the Guarantees; (d) the purchase of fractional interests in shares of the Company's Capital Stock resulting from a reclassification of such Capital Stock, (e) as a result of an exchange or conversion of any class or series of the Company's

Capital Stock for another class or series of the Company's Capital Stock; (f) the purchase of fractional interests in shares of the Company's Capital Stock pursuant to the conversion or exchange provisions of such Capital Stock or the security being converted or exchanged; (g) any declaration or payment of a dividend on the Company's Series B Convertible Preferred Stock as required under the Company's Restated Certificate of Incorporation, in connection with the operation of the Company's Employee Stock Ownership Plan ("Plan") and (h) the conversion, repurchase or redemption of or other acquisitions of shares of the Company's Capital Stock (including Series B Preferred Stock) in connection with any employee benefit plans or employee stock option plans or any other contractual obligation of the Company, other than a contractual obligation ranking pari passu with or junior to the Securities), if at such time (1) there shall have occurred and be continuing an event of default under the Declaration, (2) there shall have occurred and be continuing an Event of Default under this Indenture or an Event of Default (as such term is defined under the Xerox Funding Indenture) under the Xerox Funding Indenture, (3) there shall have occurred and be continuing a payment default under the Declaration, this Indenture or the Xerox Funding Indenture, or (4) the Company shall be in default with respect to its payment of any obligations under the Guarantees.

SECTION 3.08. Covenants as to Xerox Capital and Xerox Funding.

For so long as the Securities remain outstanding, the Company agrees (i) to maintain directly or indirectly 100% ownership of Xerox Funding's common securities, unless a successor of the Company succeeds to its ownership of such common securities, (ii) to maintain directly or indirectly 100% ownership of Xerox Capital's common securities, unless a permitted successor of the Company succeeds to its ownership of such common securities; (iii) not to voluntarily terminate, wind-up or liquidate Xerox Funding, except as permitted under the LLC Agreement after November 27, 2004 following the exchange of Xerox Funding Debentures for the Securities; (iv) to use its reasonable efforts to cause Xerox Funding to not be (x) an investment company required to register under the Investment Company Act, or (y) classified as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes, (v) to use its reasonable efforts to cause Xerox Capital to: (x) remain a statutory business trust, except in connection with the distribution of Xerox Funding Debentures to the holders of Trust Securities in liquidation of Xerox Capital, the redemption of all the Trust Securities, or mergers, consolidations or amalgamations, each as permitted by the Declaration; (y) not be an investment company required to register under the Investment Company Act; and (z) otherwise continue to be classified as a grantor trust for United States federal income tax purposes; (vi) to maintain the reservation for issuance of the number of shares of Common Stock that would be required from time to time upon the conversion of all the Securities then outstanding, (vii) to deliver shares of Common Stock upon an election by a Holder to convert such Securities into or for Common Stock, and (viii) to honor all obligations relating to the conversion, purchase or exchange of the Securities into or for Common Stock.

SECTION 3.09. Payment of Expenses.

In connection with the offering, sale and issuance of the Securities to Xerox Funding, the issuance of the Xerox Funding Debentures to Xerox Capital and in connection with the sale of the Trust Securities by Xerox Capital, the Company, in its capacity as borrower with respect to the

Securities, shall:

(a) pay all costs and expenses relating to the offering, sale and issuance of the Securities, including commissions to the initial purchasers payable pursuant to the Purchase Agreement and compensation of the Trustee in accordance with the provisions of Section 6.06;

(b) pay all costs and expenses of Xerox Capital (including, but not limited to, costs and expenses relating to the organization of Xerox Capital, the offering, sale and issuance of the Trust Securities (including commissions to the initial purchasers in connection therewith), the fees and expenses of the Property Trustee and the Delaware Trustee, the costs and expenses relating to the operation of Xerox Capital, including without limitation, costs and expenses of accountants, attorneys, statistical or bookkeeping services, expenses for printing and engraving and computing or accounting equipment, paying agent(s), registrar(s), transfer agent(s), duplicating, travel and telephone and other telecommunications expenses and costs and expenses incurred in connection with the acquisition, financing, and disposition of assets of Xerox Capital;

(c) pay all costs and expenses of Xerox Funding (including, but not limited to, costs and expenses relating to the organization of Xerox Funding, the offering, sale and issuance of the Xerox Funding Debentures, the fees and expenses of the trustee under the Xerox Funding Indenture, the costs and expenses relating to the operation of Xerox Funding, including without limitation, costs and expenses of accountants, attorneys, statistical or bookkeeping services, expenses for printing and engraving and computing or accounting equipment, paying agent(s), registrar(s), transfer agent(s), duplicating, travel and telephone and other telecommunications expenses and costs and expenses incurred in connection with the acquisition, financing, and disposition of assets of Xerox Funding;

(d) be primarily and fully liable for any indemnification obligations arising with respect to the Declaration and the Xerox Funding Indenture;

(e) pay any and all taxes (other than United States withholding taxes attributable to Xerox Capital, Xerox Funding and their respective assets) and all liabilities, costs and expenses with respect to such taxes of Xerox Capital and Xerox Funding; and

(f) pay all other fees, expenses, debts and obligations (other than the payment or delivery of principal of, premium, if any, or interest on the Trust Securities or the Xerox Funding Debentures) related to Xerox Capital and Xerox Funding.

SECTION 3.10. Payment Upon Resignation or Removal.

Upon termination of this Indenture or the removal or resignation of the Trustee, unless otherwise stated, the Company shall pay to the Trustee all amounts accrued and owing to the date of such termination, removal or resignation. Upon termination of the Declaration or the removal or resignation of the Delaware Trustee or the Property Trustee, as the case may be, pursuant to Section 5.7 of the Declaration, the Company shall pay to the Delaware Trustee or the Property Trustee, as the case may be, all amounts accrued and owing to the date of such termination, removal or resignation

ARTICLE IV

SECURITYHOLDERS' LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 4.01. Lists of Securityholders.

(a) The Company shall provide the Trustee, unless the Trustee or one of its Affiliates is registrar for the Securities (i) within 14 days after each record date for payment of distributions on the Securities, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Securityholders ("List of Holders") as of such record date, provided that the Company shall not be obligated to provide such List of Holders at any time the List of Holders does not differ from the most recent List of Holders given to the Trustee by the Company, and (ii) at any other time, within 30 days of receipt by the Company of a written request for a List of Holders as of a date no more than 14 days before such List of Holders is given to the Trustee. The Trustee shall preserve, in as current a form as is reasonably practicable, all information contained in Lists of Holders given to it or which it receives in the capacity as paying agent for the Securities (if acting in such capacity), provided that the Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders. (b) The Trustee shall comply with its obligations under Sections 311(a), 311(b) and 312(b) of the Trust Indenture Act.

SECTION 4.02. Reports by the Trustee.

Within 60 days after December 15 of each year, commencing December 15, 2002, the Trustee shall provide to the Securityholders such reports as are required by Section 313 of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Property Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

SECTION 4.03. Periodic Reports to Trustee.

The Company shall provide to the Trustee such documents, reports and information as are required by Section 314 (if any) and the compliance certificate required by Section 314 of the Trust Indenture Act in the form, in the manner and at the times required by Section 314(a)(4) of the Trust Indenture Act, such compliance certificate to be delivered annually on or before 120 days after the end of each fiscal year of the Company.

ARTICLE V

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT

SECTION 5.01. Events of Default.

One or more of the following events of default shall constitute an Event of Default hereunder (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest upon any

Security when it becomes due and payable, and continuance of such default for a period of 30 days, to the extent the corresponding interest payment on the Xerox Funding Debentures for the related interest payment date is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(b) default in the payment of all or any part of the principal of (or premium, if any), Redemption Price, Purchase Price or Change in Control Purchase Price on any Security as and when the same shall become due and payable either at maturity, upon redemption, upon purchase, by declaration of acceleration of maturity or otherwise, to the extent the corresponding payment on the Xerox Funding Debentures for the related date of such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(c) the Company fails either to deliver shares of Common Stock (or to pay cash in lieu of fractional shares) or other consideration in accordance with the terms hereof when such Common Stock (or cash in lieu of fractional shares) or other consideration is required to be delivered, whether upon conversion or purchase, and such failure is not remedied for a period of 10 Business Days, to the extent that the corresponding cash payment on the Xerox Funding Debentures for the related date of such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(d) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(e) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company, Xerox Funding (so long as it holds any of the Securities) or Xerox Capital (so long as the Trust Securities are outstanding) in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company, Xerox Funding or Xerox Capital, as the case may be, or for any substantial part of their property, or ordering the winding-up or liquidation of their affairs and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(f) the Company, Xerox Funding (so long as it holds any of the Securities) or Xerox Capital (so long as the Trust Securities are outstanding) shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company, Xerox Funding or Xerox Capital, as the case may be, or of any substantial part of their property, or shall make any general assignment for the benefit of creditors,

or shall fail generally to pay their debts as they become due; or

(g) the occurrence and continuance of an Event of Default under the Xerox Funding Indenture.

If an Event of Default with respect to Securities at the time outstanding occurs and is continuing, then in the cases specified in (e) and (f) above, the principal amount of all Securities automatically shall become immediately due and payable; in every other case specified above, the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities then outstanding may declare the principal amount of all Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the holders of the outstanding Securities), and upon any such declaration the same shall become immediately due and payable.

The foregoing provisions, however, are subject to the condition that if, at any time after the principal of the Securities shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, (i) the Company shall pay or shall deposit with the Trustee a sum sufficient to pay (A) all matured installments of interest upon all the Securities and the principal of and premium, if any, on any and all Securities which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Securities to the date of such payment or deposit) and (B) such amount as shall be sufficient to cover reasonable compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of gross negligence or bad faith, and (ii) any and all Events of Default under the Indenture, other than the non-payment of the principal of the Securities which shall have become due solely by such declaration of acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, in every such case, the holders of a majority in aggregate principal amount of the Securities then outstanding, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the holders of the Securities shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the holders of the Securities shall continue as though no such proceeding had been taken.

SECTION 5.02. Payment of Securities on Default; Suit Therefor.

The Company covenants that (a) in case default shall be made in the payment of any installment of interest upon any of the Securities as and when the same shall become due and payable, and such default shall

have continued for a period of 30 days, to the extent the corresponding interest payment on the Xerox Funding Debentures for the related interest payment date is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement, (b) in case default shall be made in the payment of the principal of or premium, if any, Redemption Price, Purchase Price or Change in Control Purchase Price on any of the Securities as and when the same shall have become due and payable, whether at maturity of the Securities or upon redemption, purchase or by declaration or otherwise, to the extent the corresponding payment on the Xerox Funding Debentures for the related date of such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement or (c) in case default shall be made in the delivery of shares of Common Stock (or to pay cash in lieu of fractional shares) or other consideration in accordance with the terms hereof when such Common Stock (or cash in lieu of fractional shares) or other consideration is required to be delivered, whether upon conversion or purchase, and such failure is not remedied for a period of 10 Business Days, to the extent that the corresponding cash payment on the Xerox Funding Debentures for the related date of such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement, then, upon demand of the Trustee, the Company will pay or deliver to the Trustee, for the benefit of the holders of the Securities, the whole amount that then shall have become due and payable or deliverable on all such Securities including the Redemption Price, Purchase Price or Change in Control Purchase Price, with interest upon such overdue amounts, if any, and (to the extent that payment of such interest is enforceable under applicable law and, if the Securities are held by Xerox Funding or Xerox Capital, without duplication of any other amounts paid by Xerox Funding or Xerox Capital in respect thereof) upon the overdue installments of interest at the rate borne by the Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its gross negligence or bad faith.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Company or any other obligor on the Securities and collect in the manner provided by law out of the property of the Company or any other obligor on the Securities wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Securities under Title 11, United States Code, or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Securities, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.02, shall be entitled and

empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Securities and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee, except as a result of gross negligence or bad faith) and of the Securityholders allowed in such judicial proceedings relative to the Company or any other obligor on the Securities, or to the creditors or property of the Company or such other obligor, unless prohibited by applicable law and regulations, to vote on behalf of the holders of the Securities in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or person performing similar functions in comparable proceedings, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Securityholders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of gross negligence or bad faith

Nothing herein contained shall be construed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Securities, may be enforced by the Trustee without the possession of any of the Securities, or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Securities.

In any proceedings brought by the Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Securities, and it shall not be necessary to make any holders of the Securities parties to any such proceedings.

SECTION 5.03. Application of Moneys Collected by Trustee.

Any moneys and properties collected by the Trustee shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys and properties, upon presentation of the Securities in respect of which moneys have been collected, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

First: To the payment of costs and expenses of collection applicable to the Securities and reasonable compensation to the Trustee, its agents, attorneys and counsel, and of all other expenses and liabilities incurred, and all advances made, by the Trustee except as a result of its gross negligence or bad faith;

Second: To the payment of all Senior Indebtedness of the Company if and to the extent required by Article XVII;

Third: To the payment or delivery of the amounts then due and unpaid upon Securities for principal of (and premium, if any), Redemption Price, Purchase Price or Change in Control Purchase Price and interest on the Securities, in respect of which or for the benefit of which money has been collected, ratably, without preference of priority of any kind, according to the amounts due on such Securities; and

Fourth: To the Company.

SECTION 5.04. Proceedings by Securityholders.

No holder of any Security shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to the Securities specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Securities then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable security or indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the taker and holder of every Security with every other taker and holder and the Trustee, that no one or more holders of Securities shall have any right in any manner whatever by virtue of or by availing itself of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Security to receive payment of the principal of (premium, if any) and interest on such Security, on or after the same shall have become due and payable, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such holder and by accepting a Security hereunder it is expressly understood, intended and covenanted by the taker and holder of every Security with every other such taker and holder and the Trustee, that no one or more holders of Securities shall have any right in any manner whatsoever by virtue or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other

Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

The Company and the Trustee acknowledge that so long as Xerox Funding Debentures or the Securities are held by the Property Trustee, pursuant to the Declaration, the holders of Trust Preferred Securities are entitled, in the circumstances and subject to the limitations set forth therein, to commence a Direct Action with respect to any Event of Default under this Indenture and the Securities; provided, further, that, the Company and the Trustee acknowledge that, so long as the Securities are held solely by Xerox Funding (and no Trust Securities are outstanding), pursuant to the Xerox Funding Indenture, the holders of the Xerox Funding Debentures are entitled, in the circumstances and subject to the limitations set forth therein, to commence a Direct Action with respect to any Event of Default under this Indenture and the Securities.

SECTION 5.05. Proceedings by Trustee.

In case an Event of Default occurs with respect to Securities and is continuing, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 5.06. Remedies Cumulative and Continuing.

All powers and remedies given by this Article V to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to the Securities, and no delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.04, every power and remedy given by this Article V or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 5.07. Direction of Proceedings and Waiver of Defaults by Majority of Securityholders.

The holders of a majority in aggregate principal amount of the Securities at the time outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee;

provided, however, that (subject to the provisions of Section 6.01) the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if the Trustee in good faith by its board of directors or trustees, executive committee, or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceedings so directed would involve the Trustee in personal liability. Prior to any declaration accelerating the maturity of the Securities, the holders of a majority in aggregate principal amount of the Securities at the time outstanding may on behalf of the holders of all of the Securities waive any past default or Event of Default and its consequences except a default (a) in the payment of principal of or premium, if any, Redemption Price, Purchase Price, Change in Control Purchase Price or interest on any of the Securities or delivery of Common Stock or other consideration upon conversion or purchase or (b) in respect of covenants or provisions hereof which cannot be modified or amended without the consent of the holder of each Security affected; provided, however, that (i) if the Xerox Funding Debentures or the Securities are held by the Property Trustee, such waiver or modification or amendment shall not be effective until the holders of a majority in aggregate liquidation amount of Trust Securities shall have consented to such waiver or modification or amendment or if the consent of the holder of each affected Security is required, such waiver shall not be effective until each holder of the Trust Securities shall have consented to such waiver and (ii) if the Securities are held solely by Xerox Funding and no Trust Securities are outstanding, such waiver or modification or amendment shall not be effective until the holders of a majority in aggregate principal amount of Xerox Funding Debentures shall have consented to such waiver, modification or amendment or if the consent of the holder of each affected Security is required, such waiver, modification or amendment shall not be effective until each holder of the Xerox Funding Debentures shall have consented to such waiver, modification or amendment. Upon any such waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Securities shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 5.07, said default or Event of Default shall for all purposes of the Securities and this Indenture be deemed to have been cured and to be not continuing.

SECTION 5.08. Notice of Defaults.

The Trustee shall, within 90 days after the occurrence of a default with respect to the Securities mail to all Securityholders, as the names and addresses of such holders appear upon the Security Register, notice of all defaults known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 5.08 being hereby defined to be the events specified in clauses (a), (b), (c), (d), (e) and (f) of Section 5.01, not including periods of grace, if any, provided for therein, and irrespective of the giving of written notice specified in clause (d) of Section 5.01); and provided that, except in the case of default in the payment or delivery of any amounts due and payable on any of the Securities, the Trustee shall be protected in withholding such notice if and so long as the board of

directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Securityholders; and provided further, that in the case of any default of the character specified in Section 5.01(d) no such notice to Securityholders shall be given until at least 45 days after the occurrence thereof but shall be given within 60 days after such occurrence.

SECTION 5.09. Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.09 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in aggregate principal amount of the Securities outstanding, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security against the Company on or after the same shall have become due and payable.

ARTICLE VI

CONCERNING THE TRUSTEE

SECTION 6.01. Duties and Responsibilities of Trustee.

With respect to the holders of the Securities issued hereunder, the Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith, in accordance with the direction of the Securityholders pursuant to Section 5.07, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 6.02. Reliance on Documents, Opinions, etc.

Except as otherwise provided in Section 6.01:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein may be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed); and any Board Resolution may be evidenced to the Trustee by a copy thereof certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and

liabilities which may be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default (that has not been cured or waived), to exercise such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, coupon or other paper or document, unless requested in writing to do so by the holders of a majority in aggregate principal amount of the outstanding Securities; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture, the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents (including any Authenticating Agent) or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed by it with due care.

SECTION 6.03. No Responsibility for Recitals, etc.

The recitals contained herein and in the Securities (except in the certificate of authentication of the Trustee or the Authenticating Agent) shall be taken as the statements of the Company and the Trustee and the Authenticating Agent assume no responsibility for the correctness of the same. The Trustee and the Authenticating Agent make no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee and the Authenticating Agent shall not be accountable for the use or application by the Company of any Securities or the proceeds of any Securities authenticated and delivered by the Trustee or the Authenticating Agent in conformity with the provisions of this Indenture.

SECTION 6.04. Trustee, Authenticating Agent, Paying Agents, Transfer Agents or Registrar May Own Securities.

The Trustee or any Authenticating Agent or any paying agent or any transfer agent or any Security registrar, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Trustee, Authenticating Agent, paying agent, transfer agent or Security registrar.

SECTION 6.05. Moneys to be Held in Trust.

Subject to the provisions of Section 11.04, all moneys

received by the Trustee or any paying agent shall, until used or applied as herein provided, be held in trust for the purpose for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee and any paying agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Company, signed by the Chairman of the Board of Directors, the President or a Vice President or the Treasurer or an Assistant Treasurer of the Company.

SECTION 6.06. Compensation and Expenses of Trustee.

The Company, as borrower, covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as shall be agreed to in writing between the Company and the Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its negligence or bad faith. The Company also covenants to indemnify each of the Trustee or any predecessor Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any and all loss, damage, claim, liability or expense including taxes (other than taxes based on the income of the Trustee) incurred without gross negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises. The obligations of the Company under this Section 6.06 to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.01(e) or Section 5.01(f), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture and the resignation or removal of the Trustee.

SECTION 6.07. Officers' Certificate as Evidence.

Except as otherwise provided in Sections 6.01 and 6.02, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof is herein specifically prescribed)

may, in the absence of gross negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 6.08. Conflicting Interest of Trustee.

If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Company shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act. The Declaration and Indenture shall be deemed to be specifically described in this Indenture for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

SECTION 6.09. Eligibility of Trustee.

The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia or a corporation or other Person permitted to act as trustee by the Commission authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million U.S. dollars ($50,000,000) and subject to supervision or examination by federal, state, territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.09 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.09, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.10.

SECTION 6.10. Resignation or Removal of Trustee.

(a) The Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the holders of the Securities at their addresses as they shall appear on the Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee or trustees by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the Securityholders, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security for at least six months may, subject to the provisions of Section 5.09, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of Section 6.08 after written request therefor by the Company or by any Securityholder who has been a bona fide holder of a Security or Securities for at least six months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 5.09, any Securityholder who has been a bona fide holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Trustee and nominate a successor trustee, which shall be deemed appointed as successor trustee unless within 10 days after such nomination the Company objects thereto or if no successor trustee shall have been so appointed and shall have accepted appointment within 30 days after such removal, in which case the Trustee so removed or any Securityholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 6.10 provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 6.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.11.

SECTION 6.11. Acceptance by Successor Trustee.

Any successor trustee appointed as provided in Section 6.10 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the retiring trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 6.06, execute and

deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring trustee thereunder. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 6.06.

No successor trustee shall accept appointment as provided in this Section 6.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 6.08 and eligible under the provisions of Section 6.09.

Upon acceptance of appointment by a successor trustee as provided in this Section 6.11, the Company shall mail notice of the succession of such trustee hereunder to the holders of Securities at their addresses as they shall appear on the Security Register. If the Company fails to mail such notice within 10 days after the acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

SECTION 6.12. Succession by Merger, etc.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which the Securities or this Indenture elsewhere provides that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 6.13. Limitation on Rights of Trustee as a Creditor.

The Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship described in Section 311(b) of the Trust Indenture Act. A Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent included therein.

SECTION 6.14. Authenticating Agents.

There may be one or more Authenticating Agents appointed by the Trustee upon the request of the Company with power to act on its behalf and subject to its direction in the authentication and delivery of Securities issued upon exchange or transfer thereof as fully to all intents and purposes as though any such Authenticating Agent had been expressly authorized to authenticate and deliver Securities; provided, that the Trustee shall have no liability to the Company for any acts or omissions of the Authenticating Agent with respect to the authentication and delivery of Securities.

Any such Authenticating Agent shall at all times be a corporation organized and doing business under the laws of the United States or of any state or territory thereof or of the District of Columbia authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of at least $5,000,000 and being subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section 6.14 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect herein specified in this Section. Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section 6.14 without the execution or filing of any paper or any further act on the part of them parties hereto or such Authenticating Agent. Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section 6.14, the Trustee may, and upon the request of the Company shall, promptly appoint a successor Authenticating Agent eligible under this Section 6.14, shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Securityholders as the names and addresses of such holders appear on the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all rights, powers, duties and responsibilities of its predecessor hereunder, with like effect as if originally named as Authenticating Agent herein.

The Company, as borrower, agrees to pay to any Authenticating Agent from time to time reasonable compensation for its services. Any Authenticating Agent shall have no responsibility or liability for any action taken by it as such in accordance with the directions of the Trustee.

SECTION 6.15. Appointment of Conversion Agent.

The Company shall maintain in the Borough of Manhattan, The City of New York, an office or agency where Securities may be presented for conversion (the "Conversion Agent"). The Company may appoint the Conversion Agent and may appoint one or more additional conversion agents in such other locations as it shall determine. The term "Conversion Agent" includes any additional conversion agent. The Company may change any Conversion Agent without prior notice to any holder. The Conversion Agent shall be permitted to resign as Conversion Agent upon 30 days' written notice to the Company. Upon such resignation, the Company shall notify the holders of the name and address of any Conversion Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Conversion Agent, the Trustee or any Affiliate thereof designated by the Trustee which meets the requirements of Section 6.09 hereof shall act as such. The Company or any of its Affiliates may act as Conversion Agent.

The Trust initially appoints Wells Fargo Bank Minnesota, National Association as Conversion Agent for the Securities.

ARTICLE VII

CONCERNING THE SECURITYHOLDERS

SECTION 7.01. Action by Securityholders.

Whenever in this Indenture it is provided that the holders of a specified percentage in aggregate principal amount of the Securities may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action) the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by such Securityholders in person or by agent or proxy appointed in writing, or (b) by the record of such holders of Securities voting in favor thereof at any meeting of such Securityholders duly called and held in accordance with the provisions of Article VIII, or (c) by a combination of such instrument or instruments and any such record of such a meeting of such Securityholders.

If the Company shall solicit from the Securityholders any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action or to revoke any such action, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action or revocation may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the outstanding Securities shall be computed as of the record date; provided, however, that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 7.02. Proof of Execution by Securityholders.

Subject to the provisions of Section 6.01, 6.02 and 8.05, proof of the execution of any instrument by a Securityholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The ownership of Securities shall be proved by the Security Register or by a certificate of the Security registrar. The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

The record of any Securityholders' meeting shall be proved in the manner provided in Section 8.06.

SECTION 7.03. Who Are Deemed Absolute Owners.

Prior to due presentment for registration of transfer of any Security, the Company, the Trustee, any Authenticating Agent, any paying agent, any transfer agent and any Security registrar may deem the person in whose name such Security shall be registered upon the Security Register to be, and may treat him as, the absolute owner of such Security (whether or not such Security shall be overdue) for the purpose of receiving payment of or on account of the principal of and premium, if any Redemption Price, Purchase Price and Change in Control Purchase Price and (subject to Section 2.06) interest on such Security and for all other purposes; and neither the Company nor the Trustee nor any Authenticating Agent nor any paying agent nor any transfer agent nor any Security registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being or upon his order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 7.04. Securities Owned by Company Deemed Not Outstanding.

In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities which are owned by the Company or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (other than Xerox Funding and Xerox Capital) or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Securities which the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Securities and that the pledgee is not the Company or any such other obligor or person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 7.05. Revocation of Consents; Future Holders

Bound.

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 7.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security (or any Security issued in whole or in part in exchange or substitution therefor), subject to Section 7.01, the serial number of which is shown by the evidence to be included in the Securities the holders of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of holding as provided in Section 7.02, revoke such action so far as concerns such Security (or so far as concerns the principal amount represented by any exchanged or substituted Security). Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon such Security or any Security issued in exchange or substitution therefor.

ARTICLE VIII

SECURITYHOLDERS' MEETINGS

SECTION 8.01. Purposes of Meetings.

A meeting of Securityholders may be called at any time and from time to time pursuant to the provisions of this Article VIII for any of the following purposes:

(a) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders pursuant to any of the provisions of Article V;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article VI;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.02; or

(d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of such Securities under any other provision of this Indenture or under applicable law.

SECTION 8.02. Call of Meetings by Trustee.

The Trustee may at any time call a meeting of Securityholders to take any action specified in Section 8.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine. Notice of every meeting of the Securityholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed to holders of Securities at their addresses as they shall appear on the Securities Register. Such notice shall be mailed not less than 20 nor

more than 180 days prior to the date fixed for the meeting.

SECTION 8.03. Call of Meetings by Company or Securityholders.

In case at any time the Company pursuant to a resolution of the Board of Directors, or the holders of at least 10% in aggregate principal amount of the Securities then outstanding, shall have requested the Trustee to call a meeting of Securityholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Securityholders may determine the time and the place in said Borough of Manhattan for such meeting and may call such meeting to take any action authorized in Section 8.01, by mailing notice thereof as provided in Section 8.02.

SECTION 8.04. Qualifications for Voting.

To be entitled to vote at any meeting of Securityholders a person shall (a) be a holder of one or more Securities or (b) a person appointed by an instrument in writing as proxy by a holder of one or more Securities. The only persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 8.05. Regulations.

Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 8.03, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote of the meeting.

Subject to the provisions of Section 8.04, at any meeting each holder of Securities or proxy therefor shall be entitled to one vote for each $50 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.02 or 8.03 may be adjourned from time to time by a majority of those present, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice.

SECTION 8.06. Voting.

The vote upon any resolution submitted to any meeting of holders of Securities shall be by written ballots on which shall be subscribed the signatures of such holders or of their representatives by proxy and the serial number or numbers of the Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.02. The record shall show the serial numbers of the Securities voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

ARTICLE IX

AMENDMENTS

SECTION 9.01. Without Consent of Securityholders.

The Company and the Trustee may from time to time and at any time amend the Indenture, without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Article X hereof;

(b) to add to the covenants of the Company such further covenants, restrictions or conditions for the protection of the Securityholders as the Board of Directors and the Trustee shall consider to be for the protection of the Securityholders, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(c) to provide for the issuance under this Indenture of Securities in coupon form (including Securities registrable as to principal

only) and to provide for exchangeability of such Securities with the Securities issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(d) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture; provided that any such action shall not materially adversely affect the interests of the holders of the Securities;

(e) to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Securities;

(f) to make provision for transfer procedures, certification, book-entry provisions, the form of restricted securities legends, if any, to be placed on Securities, minimum denominations and all other matters required pursuant to Section 2.07 or otherwise necessary, desirable or appropriate in connection with the issuance of Securities to holders of Xerox Funding Debentures in the event of a distribution of Securities by Xerox Funding following an Exchange Event;

(g) to qualify or maintain qualification of this Indenture under the Trust Indenture Act; or

(h) to make any change that does not adversely affect the rights of any Securityholder in any material respect.

The Trustee is hereby authorized to join with the Company in the execution of any supplemental indenture to effect such amendment, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise

Any amendment to the Indenture authorized by the provisions of this Section 9.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. With Consent of Securityholders.

With the consent (evidenced as provided in Section 7.01) of the holders of a majority in aggregate principal amount of the Securities at the time outstanding, the Company, when authorized by a Board Resolution, and the Trustee may from time to time and at any time amend the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the holders of the Securities; provided, however, that no such amendment or modification shall without the consent of the holders of each Security then outstanding and affected thereby (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, reduce the Redemption Price, Purchase Price or Change in Control Purchase Price, make any change that adversely affects the right to convert any Security, make any change that

adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and of this Indenture, modify the provisions of this Indenture relating to the subordination of the Securities or the right to commence a Direct Action in a manner adverse to the Securityholders, or make the principal thereof or any interest or premium thereon payable in any coin or currency other than that provided in the Securities, or impair or affect the right of any Securityholder to institute suit for payment thereof, or (ii) reduce the aforesaid percentage of Securities the holders of which are required to consent to any such modification or amendment to the Indenture or waive compliance by the Company or Xerox Funding, as the case may be, with any covenant or waive any past default, provided, however, that (i) if the Securities are held solely by Xerox Funding and no Trust Securities are outstanding, such amendment or modification shall not be effective until the holders of a majority in principal amount of Xerox Funding Debentures shall have consented to such amendment or modification; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment or modification shall not be effective until each holder of the Xerox Funding Debentures shall have consented to such amendment or modification and (ii) if the Xerox Funding Debentures are held solely by the Property Trustee, such amendment or modification shall not be effective until the holders of a majority in liquidation amount of Trust Securities shall have consented to such amendment or modification; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment or modification shall not be effective until each holder of the Trust Securities shall have consented to such amendment or modification.

Upon the request of the Company accompanied by a copy of a resolution of the Board of Directors certified by its Secretary or Assistant Secretary authorizing the execution of any supplemental indenture affecting such amendment, and upon the filing with the Trustee of evidence of the consent of Securityholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, prepared by the Company, setting forth in general terms the substance of such supplemental indenture, to the Securityholders as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.03. Compliance with Trust Indenture Act; Effect of Supplemental Indentures.

Any supplemental indenture executed pursuant to the provisions of this Article IX shall comply with the Trust Indenture Act. Upon

the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Notation on Securities.

Securities authenticated and delivered after the execution of any supplemental indenture affecting such series pursuant to the provisions of this Article IX may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Board of Directors, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by the Company, authenticated by the Trustee or the Authenticating Agent and delivered in exchange for the Securities then outstanding.

SECTION 9.05. Evidence of Compliance of Supplemental Indenture to be Furnished Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX.

The Trustee may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

ARTICLE X

CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

SECTION 10.01. Company May Consolidate, etc., on Certain Terms.

Nothing contained in this Indenture or in any of the Securities shall prevent any consolidation or merger of the Company with or into any other Person (whether or not affiliated with the Company, as the case may be), or successive consolidations or mergers in which the Company, or its successor or successors, as the case may be, shall be a party or parties, or shall prevent any sale, conveyance, transfer or lease of all or substantially all of the property of the Company, or its successor or successors, as the case may be, as an entirety, or substantially as an entirety, to any other Person (whether or not affiliated with the Company, or its successor or successors, as the case may be) authorized to acquire and operate the same; provided, that (a) the Company is the surviving Person, or the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, conveyance,transfer or lease of

property is made is a Person organized and existing under the laws of the United States or any State thereof or the District of Columbia, and (b) upon any such consolidation, merger, sale, conveyance, transfer or lease, the due and punctual payment or delivery of all amounts due on the Securities according to their tenor and the due and punctual performance and observance of all the obligations, covenants and conditions of this Indenture and the Guarantees to be kept or performed by the Company shall be expressly assumed, by supplemental indenture (which shall conform to the provisions of the Trust Indenture Act, as then in effect) satisfactory in form to the Trustee executed and delivered to the Trustee by the Person formed by such consolidation, or into which the Company, shall have been merged, or by the Person which shall have acquired such property, as the case may be, and (c) after giving effect to such consolidation, merger, sale, conveyance, transfer or lease, no Default or Event of Default shall have occurred and be continuing.

SECTION 10.02. Successor Corporation to be Substituted for Company.

In case of any such consolidation, merger, conveyance or transfer and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the due and punctual payment or delivery of all amounts due on all of the Securities and the due and punctual performance and observance of all of the obligations, covenants and conditions of this Indenture to be performed or observed by the Company, such successor Person shall succeed to and be substituted for the Company, with the same effect as if it had been named herein as the party of the first part, and the Company thereupon shall be relieved of any further liability or obligation hereunder or upon the Securities. Such successor Person thereupon may cause to be signed, and may issue either in its own name or in the name of Xerox Corporation, any or all of the Securities issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee or the Authenticating Agent; and, upon the order of such successor Person instead of the Company and subject to all the terms, conditions and limitations in this Indenture prescribed, the Trustee or the Authenticating Agent shall authenticate and deliver any Securities which previously shall have been signed and delivered by the officers of the Company to the Trustee or the Authenticating Agent for authentication, and any Securities which such successor Person thereafter shall cause to be signed and delivered to the Trustee or the Authenticating Agent for that purpose. All the Securities so issued shall in all respects have the same legal rank and benefit under this Indenture as the Securities theretofore or thereafter issued in accordance with the terms of this Indenture as though all of such Indentures had been issued at the date of the execution hereof.

SECTION 10.03. Opinion of Counsel to be Given Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, may receive an Opinion of Counsel as conclusive evidence that any consolidation, merger, sale, conveyance, transfer or lease, and any assumption, permitted or required by the terms of this Article X complies with the provisions of this Article X.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 11.01. Discharge of Indenture.

When (a) the Company shall deliver to the Trustee for cancellation all Securities theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.08) and not theretofore cancelled, or (b) all the Securities not theretofore cancelled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit or cause to be deposited with the Trustee, in trust, money, U.S. Government Obligations or a combination thereof sufficient to pay on the Maturity Date or upon redemption all of the Securities (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced as provided in Section 2.08) not theretofore cancelled or delivered to the Trustee for cancellation, including principal and premium, if any, Redemption Price or Purchase Price and interest due or to become due to the Maturity Date or redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of or premium, if any, Redemption Price or Purchase Price or interest on the Securities (1) theretofore repaid to the Company in accordance with the provisions of Section 11.04, or (2) paid to any State or to the District of Columbia pursuant to its unclaimed property or similar laws, and if in either case the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect except for the provisions of Sections 2.02, 2.07, 2.08, 3.01, 3.02, 3.04, 6.06, 6.10, 11.04 and 15.01 hereof, and Article XVI which shall survive until such Securities shall mature and be paid. Thereafter, Sections 6.06, 6.10 and 11.04, and Article XVI shall survive, and the Trustee, on demand of the Company accompanied by any Officers' Certificate and an Opinion of Counsel and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture, the Company, however, hereby agreeing to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred by the Trustee in connection with this Indenture or the Securities.

SECTION 11.02. Deposited Moneys to be Held in Trust by Trustee.

Subject to the provisions of Section 11.04, all moneys and U.S. Government Obligations deposited with the Trustee pursuant to Section 11.01 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Company if acting as its own paying agent), to the holders of the particular Securities for the payment of which such moneys or U.S. Government Obligations have been deposited with the Trustee, of all sums due and to become due thereon for principal, premium, if any, Redemption Price and Purchase Price, and interest.

SECTION 11.03. Paying Agent to Repay Moneys Held.

Upon the satisfaction and discharge of this Indenture all moneys then held by any paying agent of the Securities (other than the Trustee) shall, upon written demand of the Company, be repaid to it or paid to the Trustee, and thereupon such paying agent shall be released from all

further liability with respect to such moneys.

SECTION 11.04. Return of Unclaimed Moneys.

Any moneys deposited with or paid to the Trustee or any paying agent for payment of the principal of or premium, if any, Redemption Price or Purchase Price or interest on Securities and not applied but remaining unclaimed by the holders of Securities for two years after the date upon which the principal of or premium, if any, Redemption Price or Purchase Price or interest on such Securities, as the case may be, shall have become due and payable, shall be repaid to the Company by the Trustee or such paying agent on Company Request; and the holder of any of the Securities shall thereafter look only to the Company for any payment which such holder may be entitled to collect and all liability of the Trustee or such paying agent with respect to such moneys shall thereupon cease.

SECTION 11.05. Defeasance Upon Deposit of Moneys or U.S. Government Obligations.

(a) The Company shall be deemed to have been Discharged (as defined below) from its respective obligations with respect to the Securities upon satisfaction of the applicable conditions set forth below with respect to such Securities:

(i) The Company shall have deposited or caused to be deposited irrevocably with the Trustee or the Defeasance Agent as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities of such series (A) money in an amount, or (B) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination of (A) and (B), sufficient, in the opinion (with respect to (B) and (C)) of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee and the Defeasance Agent, if any, to pay and discharge each installment of principal of, and interest and premium, if any, Redemption Price and Purchase Price on, the outstanding Securities on the dates such amounts are due;

(ii) no Event of Default or event which with notice or lapse of time would become an Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit; and

(iii) the Company shall have delivered to the Trustee and the Defeasance Agent, if any, an Opinion of Counsel to the effect that holders of the Securities of such series will not recognize income, gain or loss for United States federal income tax purposes as a result of the exercise of the option under this Section 11.05 and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised.

(b) "Discharged" means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities and to have satisfied all the obligations

under this Indenture relating to the Securities (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except (A) the rights of holders of Securities of such series to receive, from the trust fund described in clause (1) above, payment of all amounts due and payable on such Securities when such payments are due; (B) the Company's obligations with respect to such Securities under Sections 2.07, 2.08, 3.02, 3.04, 5.03, 11.04 and 15.01 and Article XVI hereof; and (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

(c) "Defeasance Agent" means another financial institution which is eligible to act as Trustee hereunder and which assumes all of the obligations of the Trustee necessary to enable the Trustee to act hereunder. In the event such a Defeasance Agent is appointed pursuant to this section, the following conditions shall apply:

(i) The Trustee shall have approval rights over the document appointing such Defeasance Agent and the document setting forth such Defeasance Agent's rights and responsibilities;

(ii) The Defeasance Agent shall provide verification to the Trustee acknowledging receipt of sufficient money and/or U.S. Government Obligations to meet the applicable conditions set forth in this Section 11.05.

ARTICLE XII

IMMUNITY OF INCORPORATORS, STOCKHOLDERS, OFFICERS AND DIRECTORS

SECTION 12.01. Indenture and Securities Solely Corporate Obligations.

No recourse for the payment of the principal of or premium, if any, Purchase Price, Redemption Price, Change in Control Purchase Price or interest on any Security, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture, or in any Security, or because of the creation of any indebtedness represented thereby, shall be had against any incorporator, stockholder, officer or director, as such, past, present or future, of the Company or of any successor Person to the Company, either directly or through the Company or any successor Person to the Company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Securities.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

SECTION 13.01. Successors.

All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind the Company's successors and assigns whether so expressed or not.

SECTION 13.02. Official Acts by Successor Corporation.

Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any board, committee or officer of the Company shall and may be done and performed with like force and effect by the like board, committee or officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. Surrender of Company Powers.

The Company by instrument in writing executed by authority of 2/3 (two-thirds) of its Board of Directors and delivered to the Trustee may surrender any of the powers reserved to the Company, and thereupon such power so surrendered shall terminate both as to the Company, as the case may be, and as to any successor Person.

SECTION 13.04. Addresses for Notices, etc.

Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities on the Company may be given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee for the purpose) to the Company, 800 Long Ridge Road, P.O. Box 1600, Stamford, CT 06904-1600, Attention: Vice President, Treasurer and Secretary. Any notice, direction, request or demand by any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the office of the Trustee, Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services (unless another address is provided by the Trustee to the Company for the purpose). Any notice or communication to a Holder shall be mailed by first class mail to his or her address shown on the register kept by the Registrar. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

SECTION 13.05. Governing Law.

This Indenture and each Security shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said State, without regard to conflicts of laws principles thereof.

SECTION 13.06. Evidence of Compliance with Conditions Precedent.

Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that in the opinion of the signers all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or

covenant provided for in this Indenture (except pursuant to Section 3.05) shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.07. Business Days.

In any case where the date of payment of principal of or premium, if any, or interest on the Securities will not be a Business Day, the payment of such principal of or premium, if any, Purchase Price, Redemption Price or Change in Control Purchase Price or interest on the Securities need not be made on such date but may be made on the next succeeding Business Day (except that if such next succeeding Business Day falls in a subsequent calendar year, such payment shall be made on the Business Day next preceding such date of payment), with the same force and effect as if made on such date payment was originally payable, and no interest shall accrue for the period from and after such date.

SECTION 13.08. Trust Indenture Act to Control.

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.09. Table of Contents, Headings, etc.

The table of contents and the titles and headings of the articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 13.10. Execution in Counterparts.

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

SECTION 13.11. Separability.

In case any one or more of the provisions contained in this Indenture or in the Securities shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of the Securities, but this Indenture and the Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.12. Assignment.

The Company will have the right at all times to assign any

of its respective rights or obligations under this Indenture to a direct or indirect wholly owned Subsidiary of the Company, provided that, in the event of any such assignment, the Company will remain primarily liable for all its obligations. Subject to the foregoing, the Indenture is binding upon and inures to the benefit of the parties thereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties thereto.

SECTION 13.13. Acknowledgement of Rights.

The Company acknowledges that, with respect to any Securities held by Xerox Funding so long as the Xerox Funding Debentures are held by Xerox Capital or a trustee of such trust, if the Property Trustee of Xerox Capital fails to enforce its rights under the Xerox Funding Indenture to cause Xerox Funding as the holder of the Securities held as the assets of Xerox Funding any holder of Trust Preferred Securities may institute legal proceedings directly against the Company to enforce such Property Trustee's rights under the Xerox Funding Indenture without first instituting any legal proceedings against such Property Trustee or any other person or entity. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Company to pay principal of or premium, if any, Purchase Price, Redemption Price or Change in Control Purchase Price or interest on the Securities when due, the Company acknowledges that a holder of Trust Preferred Securities may directly institute a proceeding for enforcement of payment to such holder of the principal of or premium, if any, Purchase Price, Redemption Price or Change in Control Purchase Price or interest on the Securities having a principal amount equal to the aggregate liquidation amount of the Trust Preferred Securities of such holder on or after the respective due date specified in the Securities.

Furthermore, the Company acknowledges that, so long as the Securities are held by Xerox Funding and no Trust Securities are outstanding, the holders of the Xerox Funding Debentures shall have the right to enforce Xerox Funding's rights as the holder of Securities under this Indenture. Any holder of Xerox Funding Debentures may institute legal proceedings directly against the Company to enforce such holder's rights under this Indenture without first instituting any legal proceedings against Xerox Funding or any other person or entity. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Company to pay or deliver any amounts on the Securities when due, the Company acknowledges that a holder of Xerox Funding Debentures may directly institute a proceeding for enforcement of payment or delivery to such holder of such amounts on the Securities having a principal amount equal to the aggregate principal amount of the Xerox Funding Debentures of such holder on or after the respective due date specified in the Securities.

ARTICLE XIV

REDEMPTION

SECTION 14.01. Optional Redemption by Company.

Subject to the provisions of this Article XIV, the Company may at its option (i) on and after the Initial Optional Redemption Date, redeem the Securities in whole or in part, at the applicable Special Redemption Price and (ii) if a Special Event shall occur and be continuing,

redeem the Securities in whole (but not in part) at any time prior to the Initial Optional Redemption Date and within 90 days of the occurrence of such Special Event, at the Regular Redemption Price.

If the Securities are only partially redeemed pursuant to this Section 14.01, the Securities will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption the Securities are registered as a Global Security, the Depositary shall determine, in accordance with its procedures, the principal amount of such Securities held for the account of its participants to be prepaid. The applicable Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or at such earlier time as the Company determines, provided that the Company shall deposit with the Trustee an amount sufficient to pay the applicable Redemption Price by 10:00 a.m., New York time, on the date such Redemption Price is to be paid.

SECTION 14.02. No Sinking Fund.

The Securities are not entitled to the benefit of any sinking fund.

SECTION 14.03. Notice of Redemption; Selection of Securities.

In the event the Company shall desire to exercise the right to redeem all, or, as the case may be, any part of the Securities in accordance with their terms, it shall fix a date for redemption and shall mail a notice of such redemption at least 30 and not more than 60 days prior to the date fixed for redemption to the holders of Securities so to be redeemed as a whole or in part at their last addresses as the same appear on the Security Register. Such mailing shall be by first class mail. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Each such notice of redemption shall specify the CUSIP number of the Securities to be redeemed, the date fixed for redemption, the Redemption Price at which the Securities are to be redeemed (or the method by which such Redemption Price is to be calculated), the place or places of payment, that payment will be made upon presentation and surrender of the Securities, that interest accrued to but excluding the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. If less than all the Securities are to be redeemed, the notice of redemption shall specify the numbers of the Securities to be redeemed. In case any Security is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities in principal amount equal to the unpaid portion thereof will be issued.

By 10:00 a.m. New York time on the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more paying agents an

amount of money sufficient to redeem on the redemption date all the Securities so called for redemption.

The Company will give the Trustee notice not less than 45 days prior to the redemption date (unless a shorter time shall be satisfactory to the Trustee) as to the aggregate principal amount of Securities to be redeemed and the Trustee shall select, in such manner as in its sole discretion it shall deem appropriate and fair, the Securities or portions thereof (in integral multiples of $50, except as otherwise set forth in the applicable form of Security) to be redeemed.

SECTION 14.04. Payment of Securities Called for Redemption.

If notice of redemption has been given as provided in Section 14.03, the Securities or portions of Securities with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the applicable Redemption Price (subject to the rights of holders of Securities on the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the redemption date), and on and after said date (unless the Company shall default in the payment of such Securities at the applicable Redemption Price) interest on the Securities or portions of Securities so called for redemption shall cease to accrue. On presentation and surrender of such Securities at a place of payment specified in said notice, the said Securities or the specified portions thereof shall be redeemed by the Company at the applicable Redemption Price (subject to the rights of holders of Securities on the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the redemption date).

Upon presentation of any Security redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations, in principal amount equal to the remaining portion of the Security so presented.

SECTION 14.05. Conversion Arrangement on Call for Redemption. In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment banking institutions or other purchasers to purchase such Securities by paying to the Trustee in trust for the Securityholders, on or prior to 10:00 a.m. New York City time on the applicable date fixed for redemption, an amount that, together with any amounts deposited with the Trustee by the Company for the redemption of such Securities, is not less than the Redemption Price of such Securities. Notwithstanding anything to the contrary contained in this Article XIV, the obligation of the Company to pay the Redemption Prices of such Securities shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers. If such an agreement is entered into, any Securities not duly surrendered for conversion by the holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such holders and (notwithstanding anything to the contrary contained in Article XVI) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the second Business Day prior to the date fixed for redemption, subject to payment of the above amount as aforesaid. The Trustee shall hold and pay to the holders whose Securities are selected for redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys

deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

ARTICLE XV

PURCHASE

SECTION 15.01. Purchase of Securities at Option of the Holder.

(a) General. Securities shall be purchased by the Company on December 4, 2004, November 27, 2006, November 27, 2008, November 27, 2011 and November 27, 2016 (each, a "Purchase Date"), at the purchase price of $50 per Security, plus accrued and unpaid interest thereon to but excluding the date of purchase (the "Purchase Price"), at the option of the holder thereof, upon: (i) delivery to the Paying Agent, by the holder of a written notice of purchase (a "Purchase Notice") at any time from the opening of business on the date that is at least 20 Business Days prior to a Purchase Date until the close of business on the second Business Day immediately preceding such Purchase Date stating:

(A) the certificate number and CUSIP number of the Securities which the Holder will deliver to be purchased,

(B) the portion of the aggregate principal amount of the Securities which the holder will deliver to be purchased, which portion must be a minimum principal amount of $50 or any integral multiple thereof,

(C) that such Securities shall be purchased as of the Purchase Date pursuant to the terms and conditions specified herein, and

(D) with respect to a purchase on any Purchase Date, in the event the Company elects, pursuant to Section 15.01(b), to pay the Purchase Price as of such Purchase Date, in whole or in part, in shares of Common Stock but such portion of the Purchase Price shall ultimately be payable to such holder entirely in cash because any of the conditions to payment of the Purchase Price (or a portion thereof) in Common Stock is not satisfied prior to the close of business on the Business Day immediately preceding such Purchase Date, as set forth in Section 15.01(d), whether such Holder elects (i) to withdraw such Purchase Notice as to some or all of the Securities to which such Purchase Notice relates (stating the principal amount and certificate numbers of the Securities as to which such withdrawal shall relate), or (ii) to receive cash in respect of the entire Purchase Price for all

Securities (or portions thereof) to which such Purchase Notice relates; and

(ii) delivery of such Security to the Paying Agent prior to, on or after the Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent, such delivery being a condition to receipt by the holder of the Purchase Price therefor; provided, however, that such Purchase Price shall be so paid pursuant to this Section 15.01 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice, as determined by the Company and such Purchase Notice shall not be validly withdrawn by the holder.

If a holder, in such holder's Purchase Notice and in any written notice of withdrawal delivered by such holder pursuant to the terms of Section 15.03, fails to indicate such holder's choice with respect to the election set forth in clause (D) of Section 15.01(a)(i), such Holder shall be deemed to have elected to receive cash in respect of the Purchase Price for all Securities subject to such Purchase Notice in the circumstances set forth in such clause (D).

The Company shall purchase from the holder thereof, pursuant to this Section 15.01, a portion of a Security if the principal amount of such portion is $50 or any integral multiple of $50. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 15.01 shall be consummated by the delivery of the consideration to be received by the holder promptly following the later of the Purchase Date and the time of delivery of the Security.

Notwithstanding anything herein to the contrary, any holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 15.01(a) shall have the right to withdraw such Purchase Notice at any time prior to the close of business on the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 15.03.

The Paying Agent shall promptly notify the Company of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(b) Company's Right to Elect Manner of Payment of Purchase Price. The Securities to be purchased pursuant to Section 15.01(a) may be paid for, at the election of the Company, in U.S. legal tender ("cash") or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in Sections 15.01(c) and (d). For any repurchase pursuant to this Section 15.01 on any Purchase Date, the Company shall designate, in the Company Notice delivered pursuant to Section 15.01(e), whether the Company will purchase the Securities for cash or Common Stock, or, if a combination thereof, the percentages of the Purchase Price of Securities in respect of which it will pay in cash or Common Stock; provided that the Company will pay cash for fractional interests in Common Stock. For purposes of determining the existence of potential fractional interests, all Securities subject to purchase by the Company held by a Holder shall be considered together (no matter how many separate certificates are to be presented). Each holder whose Securities are purchased pursuant to this

Section 15.01 shall receive the same percentage of cash or Common Stock in payment of the Purchase Price for such Securities, except (i) as provided in Section 15.01(d) with regard to the payment of cash in lieu of fractional shares of Common Stock and (ii) in the event that the Company is unable to purchase the Securities of a holder or holders for Common Stock because any of the conditions specified in Section 15.01(d) have not been satisfied, the Company may purchase the Securities of such holder or holders for cash. The Company may not change its election with respect to the consideration (or components or percentages of components thereof) to be paid once the Company has given its Company Notice to Securityholders except pursuant to Section 15.01(d) in the event of a failure to satisfy, prior to the close of business on the Purchase Date, any condition to the payment of the Purchase Price, in whole or in part, in Common Stock.

At least three Business Days before the Company Notice Date, the Company shall deliver an Officers' Certificate to the Trustee specifying:

(i) the manner of payment selected by the Company,

(ii) the information requi red by Section 15.01(e),

(iii) if the Company elects to pay the Purchase Price, or a specified percentage thereof, in Common Stock, that the conditions to such manner of payment set forth in Section 15.01(d) have been or will be complied with, and

(iv) whether the Company desires the Trustee to give the Company Notice required by Section 15.01(e).

(c) Purchase with Cash. On each Purchase Date, at the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 15.01(a) has been given, or a specified percentage thereof, may be paid by the Company with cash equal to the aggregate Purchase Price of such Securities.

(d) Payment by Issuance of Common Stock. On each Purchase Date, at the option of the Company, the Purchase Price of Securities in respect of which a Purchase Notice pursuant to Section 15.01(a) has been given, or a specified percentage thereof, may be paid by the Company by the issuance of a number of shares of Common Stock equal to the quotient obtained by dividing (i) the amount of cash to which the Securityholders would have been entitled had the Company elected to pay all or such specified percentage, as the case may be, of the Purchase Price of such Securities in cash by (ii) 95% of the Market Price of a share of Common Stock, subject to the next succeeding paragraph.

The Company will not issue a fractional share of Common Stock in payment of the Purchase Price. Instead the Company will pay cash for the current market value of the fractional share. The current market value of a fraction of a share shall be determined by multiplying 95% of the Market Price by such fraction and rounding the product to the nearest whole cent. It is understood that if a holder elects to have more than one Security purchased, the number of shares of Common Stock shall be based on the aggregate amount of Securities to be purchased.

Upon a payment by Common Stock pursuant to the terms

hereof, that portion of accrued interest attributable to the period from the Issue Date to the Purchase Date with respect to the purchased Security shall not be cancelled, extinguished or forfeited but rather shall be deemed paid in full to the holder through the delivery of the Common Stock in exchange for the Security being purchased pursuant to the terms hereof, and the fair market value of such Common Stock (together with any cash payments in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for the unpaid interest accrued through the Purchase Date, and the balance, if any, of the fair market value of such shares of Common Stock shall be treated as issued in exchange for the principal amount of the Security being purchased pursuant to the provisions hereof.

The Company's right to exercise its election to purchase the Securities pursuant to Section 15.01 through the issuance of shares of Common Stock shall be conditioned upon:

(i) the Company's not having given its Company Notice of an election to pay entirely in cash and its giving of timely Company Notice of election to purchase all or a specified percentage of the Securities with Common Stock as provided herein;

(ii) the shares of Common Stock having been admitted for listing or admitted for listing subject to notice of issuance on the principal United States securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a national or regional securities exchange, as quoted on the National Association of Securities Dealers Automated Quotation System;

(iii) any necessary qualification or registration under applicable state securities laws or the availability of an exemption from such qualification and registration; and

(iv) the receipt by the Trustee of an Officers' Certificate and an Opinion of Counsel each stating that (A) the terms of the issuance of the Common Stock are in conformity with this Indenture and (B) the shares of Common Stock to be issued by the Company in payment of the Purchase Price in respect of Securities have been duly authorized and, when issued and delivered pursuant to the terms of this Indenture in payment of the Purchase Price in respect of the Securities, will be validly issued, fully paid and non-assessable and, to the best of such counsel's knowledge, free from preemptive rights, and, in the case of such Officers' Certificate, stating that conditions (i), (ii) and (iii) above and the condition set forth in the second sentence of the immediately succeeding paragraph have been satisfied.

Such Officers' Certificate shall also set forth the number of shares of Common Stock to be issued for each $50 principal amount of Securities and the Sale Price of a share of Common Stock on each Trading Day during the period for which the Market Price is calculated. The Company may pay the Purchase Price (or any portion thereof) in Common Stock only if the information necessary to calculate the Market Price is published in a daily newspaper of national circulation or by other appropriate means. If the foregoing conditions are not satisfied with respect to a holder or holders prior to the close of business on the Purchase Date and the Company has

elected to purchase the Securities pursuant to this Section 15.01 through the issuance of shares of Common Stock, the Company shall pay the entire Purchase Price of the Securities of such holder or holders in cash.

The "Market Price" of the Common Stock means the average of the Sale Prices of the Common Stock for the five-trading-day period ending on the third Business Day prior to the applicable Purchase Date (if the third Business Day prior to the applicable Purchase Date is a Trading Day or, if not, then on the last Trading Day immediately prior thereto), appropriately adjusted to take into account the occurrence, during the period commencing on the first of such Trading Days during such five Trading Day period and ending on such Purchase Date, of any event described in Section 16.06, 16.07, 16.08 or 16.09; subject, however, to the conditions set forth in Sections 16.10 and 16.11.

(e) Notice of Election. The Company's notice of election to purchase with cash or Common Stock or any combination thereof (the "Company Notice") shall be sent to the holders (and to beneficial owners as required by applicable law) not less than 20 Business Days prior to the applicable Purchase Date or 30 Business Days prior to the applicable Change in Control Purchase Date (the "Company Notice Date"). Any such Company Notice shall state the manner of payment elected and shall contain the following information:

In the event the Company has elected to pay the Purchase Price (or a specified percentage thereof) with Common Stock, the Company Notice shall:

(A) state that each holder will receive Common Stock based on 95% of the Market Price determined as of a specified date prior to the Purchase Date equal to such specified percentage of the Purchase Price of the Securities held by such holder (except any cash amount to be paid in lieu of fractional shares);

(B) set forth the method of calculating the Market Price of the Common Stock; and

(C) state that because the Market Price of Common Stock will be determined prior to the Purchase Date, holders will bear the market risk with respect to the value of the Common Stock to be received from the date such Market Price is determined to the Purchase Date.

In any case, each Company Notice shall include a form of Purchase Notice to be completed by a Securityholder and shall state:

(i) the Purchase Price and the Conversion Rate (and any adjustments thereto pursuant to Article XVI) with respect to the Securities as of the Purchase Date;

(ii) the name and address of the Paying Agent and the Conversion Agent;

(iii) that Securities as to which a Purchase Notice has been given may be converted pursuant to Article XVI hereof only if the applicable Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(iv) that Securities must be surrendered to the Paying Agent to collect payment of the Purchase Price;

(v) that the Purchase Price for any Security as to which a Purchase Notice has been given and not withdrawn will be paid promptly following the later of the Purchase Date and the time of surrender of such Security as described in (iv);

(vi) the procedures the holder must follow to exercise rights under Section 15.01 and a brief description of those rights;

(vii) briefly, the conversion rights of the Securities and the last date upon which the holder can exercise the conversion rights;

(viii) the procedures for withdrawing a Purchase Notice (including, without limitation, for a conditional withdrawal pursuant to the terms of Section 15.01(a)(i)(D) or Section 15.03);

(ix) that, unless the Company defaults in making payment of such Purchase Price, interest on Securities surrendered for purchase will cease to accrue on and after the Purchase Date; and

(x) the CUSIP number of the Securities.

At the Company's request, the Trustee shall give such Company Notice in the Company's name and at the Company's expense, provided that the Company makes such request at least 15 days (unless a shorter period shall be acceptable to the Trustee) prior to the date such Company Notice must be mailed; and provided, further, that, in all cases, the text of such Company Notice shall be prepared by the Company.

Upon determination of the actual number of shares of Common Stock to be issued for each $50 principal amount of Securities, the Company shall publish such determination on the Company's web site or by other appropriate means.

(f) Covenants of the Company. All shares of Common Stock delivered upon purchase of the Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim and subject to no restriction on transfer other than those that may be applicable at that time to the Trust Securities.

(g) Procedure upon Purchase. The Company shall deposit cash (in respect of a cash purchase under Section 15.01(c) or for fractional interests, as applicable) or shares of Common Stock, or a combination thereof, as applicable, at the time and in the manner as provided in Section 15.06, sufficient to pay the aggregate Purchase Price of all Securities to be purchased pursuant to this Section 15.01. As soon as practicable after the Purchase Date, the Company shall deliver to each holder entitled to receive Common Stock through the Paying Agent, a certificate (or other evidence of ownership) for the number of full shares of Common Stock issuable in payment of the Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of shares of Common Stock on the Business Day following the Purchase Date. No payment or adjustment will be made for dividends on the Common Stock the record date for which occurred on or prior

to the Purchase Date.

(h) Taxes. If a holder of a Security is paid in Common Stock, the Company shall pay any documentary, stamp or similar issue or transfer tax due on such issue of shares of Common Stock. However, the holder shall pay any such tax which is due if the Holder requests the shares of Common Stock to be issued in a name other than the holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations being deducted by the Company.

SECTION 15.02. Purchase of Securities at Option of the Holder upon a Change in Control.

(a) If on or prior to December 4, 2004 there shall have occurred a Change in Control, each holder of Securities may require the Company to purchase all or a portion of such Securities, at the option of the holder thereof, at a price equal to the principal amount of such Securities, plus accrued and unpaid interest to but excluding the date of such purchase (the "Change in Control Purchase Price"), on a date that is no later than 45 Business Days after the occurrence of the applicable Change in Control (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the holder of the requirements set forth in Sections 15.02(b) and 15.02(c).

A "Change in Control" shall be deemed to have occurred at such time as either of the following events shall occur:

(i) Any "person", including its Affiliates and Associates (other than the Company, its Subsidiaries or the Company's or its Subsidiaries' employee benefit plans) or any "group" file a Schedule 13D or Schedule TO (or any successor schedule, form or report) pursuant to the Exchange Act disclosing that such person (for the purposes of this Section 15.02 only, as the term "person" is used in Section 13(d)(3) or Section 14(d)(2) of the Exchange Act), or group has become the beneficial owner of 50% or more, in the aggregate, of the combined voting power of the (x) Capital Stock then outstanding or (y) other Capital Stock into which the Common Stock is reclassified or changed, having ordinary power to elect directors or has the power, directly or indirectly, to elect managers, trustees, or a majority of the members of the Company's Board of Directors; provided, however, that a person shall not be deemed the beneficial owner of, or to own beneficially, (A) any securities tendered pursuant to a tender or exchange offer made by or on behalf of such person or any of such person's Affiliates or Associates until such tendered securities are accepted for purchase or exchange thereunder, or (B) any securities if such beneficial ownership (1) arises solely as a result of a revocable proxy delivered in response to a proxy or consent solicitation made pursuant to the applicable rules and regulations under the Exchange Act or an exemption therefrom, and (2) is not also then reportable on Schedule 13D (or any successor schedule) under the Exchange Act;

(ii) There shall be consummated any share exchange, consolidation or merger of the Company pursuant to which the Common

Stock would be converted into cash, securities or other property, or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets, in each case other than pursuant to a share exchange, consolidation or merger of the Company in which the holders of the Common Stock immediately prior to the share exchange, consolidation or merger have, directly or indirectly, at least a majority of the total voting power in the aggregate of all classes of Capital Stock of the continuing or surviving corporation immediately after the share exchange, consolidation or merger; or

(iii) The Company is dissolved or liquidated.

"Associate" shall have the meaning ascribed to such term in Rule 12b-2 of the General Rules and Regulations under the Exchange Act, as in effect on the date hereof.

The terms "person" and "group" shall have the meanings given to them for purposes of Sections 13(d) and 14(d) of the Exchange Act and the term "group" shall include any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act or any successor provision.

The term "beneficial owner" shall be determined in accordance with Rule 13d-3 under the Exchange Act as in effect on November 27, 2001.

The number of shares of Common Stock outstanding will be deemed to include, in addition to all outstanding shares of Common Stock and unissued shares of such Common Stock deemed to be held by the "group" or other person with respect to which the Change in Control determination is being made, all unissued shares of Common Stock deemed to be held by all other persons.

(b) Company's Right to Elect Manner of Payment of Change in Control Purchase Price. The Securities to be purchased pursuant to Section 15.02(a) may be paid for, at the election of the Company, in cash or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in Sections 15.02(c) and (d). For any repurchase pursuant to this Section 15.02 on any Change in Control Purchase Date, the Company shall designate, in the Company Change in Control Notice delivered pursuant to Section 15.02(e), whether the Company will purchase the Securities for cash or Common Stock, or, if a combination thereof, the percentages of the Change in Control Purchase Price of Securities in respect of which it will pay in cash or Common Stock; provided that the Company will pay cash for fractional interests in Common Stock. For purposes of determining the existence of potential fractional interests, all Securities subject to purchase by the Company held by a holder shall be considered together (no matter how many separate certificates are to be presented). Each holder whose Securities are purchased pursuant to this Section 15.02 shall receive the same percentage of cash or Common Stock in payment of the Change in Control Purchase Price for such Securities, except (i) as provided in Section 15.02(d) with regard to the payment of cash in lieu of fractional shares of Common Stock and (ii) in the event that the Company is unable to purchase the Securities of a holder or holders for Common Stock because any of the conditions specified in Section 15.02(d) have not been satisfied, the Company may purchase the Securities of such holder or holders for cash. The Company may not change its election with respect to the consideration (or

components or percentages of components thereof) to be paid once the Company has given its Company Notice to Securityholders except pursuant to Section 15.02(d) in the event of a failure to satisfy, prior to the close of business on the Change in Control Purchase Date, any condition to the payment of the Change in Control Purchase Price, in whole or in part, in Common Stock.

At least three Business Days before the Company Change in Control Notice Date, the Company shall deliver an Officers' Certificate to the Trustee specifying:

(i) the manner of payment selected by the Company,

(ii) the information required by Section 15.02(e),

(iii) if the Company elects to pay the Change in Control Purchase Price, or a specified percentage thereof, in Common Stock, that the conditions to such manner of payment set forth in Section 15.02(d) have been or will be complied with, and

(iv) whether the Company desires the Trustee to give the Company Change in Control Notice required by Section 15.02(e)

(c) Purchase with Cash. On each Change in Control Purchase Date, at the option of the Company, the Change in Control Purchase Price of Securities in respect of which a Change in Control Purchase Notice pursuant to Section 15.02(a) has been given, or a specified percentage thereof, may be paid by the Company with cash equal to the aggregate Change in Control Purchase Price of such Securities.

(d) Payment by Issuance of Common Stock. On each Change in Control Purchase Date, at the option of the Company, the Change in Control Purchase Price of Securities in respect of which a Change in Control Purchase Notice pursuant to Section 15.02(f) has been given, or a specified percentage thereof, may be paid by the Company by the issuance of a number of shares of Common Stock equal to the quotient obtained by dividing (i) the amount of cash to which the Securityholders would have been entitled had the Company elected to pay all or such specified percentage, as the case may be, of the Change in Control Purchase Price of such Securities in cash by (ii) 95% of the Market Price of a share of Common Stock, subject to the next succeeding paragraph.

The Company will not issue a fractional share of Common Stock in payment of the Change in Control Purchase Price. Instead the Company will pay cash for the current market value of the fractional share. The current market value of a fraction of a share shall be determined by multiplying the 95% of the Market Price by such fraction and rounding the product to the nearest whole cent. It is understood that if a holder elects to have more than one Security purchased, the number of shares of Common Stock shall be based on the aggregate amount of Securities to be purchased.

Upon a payment by Common Stock pursuant to the terms hereof, that portion of accrued interest attributable to the period from the Issue Date to the Change in Control Purchase Date with respect to the purchased Security shall not be cancelled, extinguished or forfeited but rather shall be deemed paid in full to the Holder through the delivery of the Common Stock in exchange for the Security being purchased pursuant to the terms hereof, and the fair market value of such Common Stock (together with

any cash payments in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for the unpaid interest accrued through the Change in Control Purchase Date, and the balance, if any, of the fair market value of such shares of Common Stock shall be treated as issued in exchange for the principal amount of the Security being purchased pursuant to the provisions hereof.

the Securities pursuant to Section 15.02 through the issuance of shares of Common Stock shall be conditioned upon:

(i) the Company's not having given its Company Change in Control Notice of an election to pay entirely in cash and its giving of timely Company Notice of election to purchase all or a specified percentage of the Securities with Common Stock as provided herein;

(ii) the shares of Common Stock having been admitted for listing or admitted for listing subject to notice of issuance on the principal United States securities exchange on which the Common Stock is then listed or, if the Common Stock is not then listed on a national or regional securities exchange, as quoted on the National Association of Securities Dealers Automated Quotation System;

(iii) the registration of such shares of Common Stock under the Securities Act or the Exchange Act, if required, (it being understood that no such registration shall be required on or after the Resale Restriction Termination Date (as defined in the Declaration));

(iv) any necessary qualification or registration under applicable state securities laws or the availability of an exemption from such qualification and registration ; and

(v) the receipt by the Trustee of an Officers' Certificate and an Opinion of Counsel each stating that (A) the terms of the issuance of the Common Stock are in conformity with this Indenture and (B) the shares of Common Stock to be issued by the Company in payment of the Change in Control Purchase Price in respect of Securities have been duly authorized and, when issued and delivered pursuant to the terms of this Indenture in payment of the Change in Control Purchase Price in respect of the Securities, will be validly issued, fully paid and non-assessable and, to the best of such counsel's knowledge, free from preemptive rights, and, in the case of such Officers' Certificate, stating that conditions (i), (ii) and (iii) above and the condition set forth in the second succeeding sentence have been satisfied and, in the case of such Opinion of Counsel, stating that conditions (ii) and (iii) above have been satisfied.

Such Officers' Certificate shall also set forth the number of shares of Common Stock to be issued for each $50 principal amount of Securities and the Sale Price of a share of Common Stock on each Trading Day during the period for which the Market Price is calculated. The Company may pay the Change in Control Purchase Price (or any portion thereof) in Common Stock only if the information necessary to calculate the Market Price is published in a daily newspaper of national circulation or by other appropriate means. If the foregoing conditions are not satisfied with respect to a Holder or Holders prior to the close of business on the Change in

Control Purchase Date and the Company has elected to purchase the Securities pursuant to this Section 15.02 through the issuance of shares of Common Stock, the Company shall pay the entire Change in Control Purchase Price of the Securities of such holder or holders in cash.

(e) Notices. Within 30 Business Days after the occurrence of a Change in Control, the Company shall mail a written notice of such Change in Control (the "Company Change in Control Notice") by first-class mail to the Trustee and to each Holder (and to beneficial owners as required by applicable law). Any such Company Change in Control Notice shall state the manner of payment elected and shall contain the following information:

In the event the Company has elected to pay the Change in Control Purchase Price (or a specified percentage thereof) with Common Stock, the Company Change in Control Notice shall:

(A) state that each holder will receive Common Stock based upon 95% of the Market Price determined as of a specified date prior to the Change in Control Purchase Date equal to such specified percentage of the Change in Control Purchase Price of the Securities held by such Holder (except any cash amount to be paid in lieu of fractional shares);

(B) set forth the method of calculating the Market Price of the Common Stock; and

(C) state that because the Market Price of Common Stock will be determined prior to the Change in Control Purchase Date, holders will bear the market risk with respect to the value of the Common Stock to be received from the date such Market Price is determined to the Change in Control Purchase Date.

In any case, such notice shall include a form of Change in Control Purchase Notice to be completed by the Securityholder and shall state:

(1) briefly, the events causing a Change in Control and the date of such Change in Control;

(2) the date by which the Change in Control Purchase Notice pursuant to this Section 15.02 must be given;

(3) the Change in Control Purchase Price;

(4) the Change in Control Purchase Date;

(5) the name and address of the Paying Agent and the Conversion Agent;

(6) the Conversion Rate (including any adjustments thereto pursuant to Article XVI hereof);

(7) that Securities as to which a Change in Control Purchase Notice has been given by the holder may be converted pursuant to Article XVI hereof only if the Change in Control Purchase Notice has been withdrawn in accordance with the terms of this Indenture;

(8) that Securities must be surrendered to the Paying Agent to collect payment of the Change in Control Purchase Price;

(9) that the Change in Control Purchase Price for any Security as to which a Change in Control Purchase Notice has been duly given and not withdrawn will be paid promptly following the later of the Change in Control Purchase Date and the time of surrender of such Security as described in (8);

(10) briefly, the procedures the Holder must follow to exercise rights under this Section 15.02;

(11) briefly, the conversion rights of the Securities and the last date upon which the Holder can exercise the conversion rights;

(12) the procedures for withdrawing a Change in Control Purchase Notice;

(13) that, unless the Company defaults in making payment of such Change in Control Purchase Price, interest on Securities surrendered for purchase will cease to accrue on and after the Change in Control Purchase Date; and

(14) the CUSIP number of the Securities.

(f) Change in Control Purchase Notice. A Holder may exercise its rights specified in Section 15.02(a) upon delivery of a written notice of purchase (a "Change in Control Purchase Notice") to the Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date, stating:

(1) the certificate number and CUSIP number of the Securities which the holder will deliver to be purchased;

(2) the portion of the aggregate principal amount of the Securities which the holder will deliver to be purchased, which portion must be $50 or an integral multiple thereof;

(3) that such Securities shall be purchased pursuant to the terms and conditions specified in this Section 15.02; and

(4) with respect to a purchase on any Change in Control Purchase Date, in the event the Company elects, pursuant to Section 15.02(b), to pay the Change in Control Purchase Price as of such Change in Control Purchase Date, in whole or in part, in shares of Common Stock but such portion of the Change in Control Purchase Price shall ultimately be payable to such holder entirely in cash because any of the conditions to payment of the Change in Control Purchase Price (or a portion thereof) in Common Stock is not satisfied prior to the close of business on the Business Day immediately preceding such Change in Control Purchase Date, as set forth in Section 15.02(a), whether such holder elects (i) to withdraw such Change in Control Purchase Notice as to some or all of the Securities to which such Change in Control Purchase Notice relates (stating the principal amount and certificate numbers of the Securities as to which such withdrawal shall relate), or (ii) to receive cash in respect of the entire Change in Control Purchase

Price for all Securities (or portions thereof) to which such Change in Control Purchase Notice relates; and

If a holder, in such holder's Change in Control Purchase Notice and in any written notice of withdrawal delivered by such holder pursuant to the terms of Section 15.03, fails to indicate such holder's choice with respect to the election set forth in clause (4) of Section 15.02(f), such holder shall be deemed to have elected to receive cash in respect of the Change in Control Purchase Price for all Securities subject to such Change in Control Purchase Notice in the circumstances set forth in such clause (4).

The delivery of such Security to the Paying Agent prior to, on or after the Change in Control Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent shall be a condition to the receipt by the holder of the Change in Control Purchase Price therefor; provided, however, that such Change in Control Purchase Price shall be so paid pursuant to this Section 15.02 only if the Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Change in Control Purchase Notice and such Change in Control Purchase Notice shall not be validly withdrawn by the holder.

The Company shall purchase from the holder thereof, pursuant to this Section 15.02, a portion of a Security if the principal amount of such portion is $50 or an integral multiple of $50. Provisions of this Indenture that apply to the purchase of all of a Security also apply to the purchase of such portion of such Security.

Any purchase by the Company contemplated pursuant to the provisions of this Section 15.02 shall be consummated by the delivery of the consideration to be received by the holder promptly following the later of the Change in Control Purchase Date and the time of delivery of the Security to the Paying Agent in accordance with this Section 15.02.

Notwithstanding anything herein to the contrary, any holder delivering to the Paying Agent the Change in Control Purchase Notice contemplated by this Section 15.02 shall have the right to withdraw such Change in Control Purchase Notice at any time prior to the close of business on the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with Section 15.03.

The Paying Agent shall promptly notify the Company of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

The Company shall not be required to comply with this Section 15.02 if a third party mails a written notice of Change in Control in the manner, at the times and otherwise in compliance with this Section 15.02 and repurchases all Securities for which a Change in Control Purchase Notice shall be delivered and not withdrawn.

(g) Covenants of the Company. All shares of Common Stock delivered upon purchase of the Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim and subject to no restriction on transfer other than those that may be applicable at that time to the Trust Securities.

(h) Procedure upon Purchase. The Company shall deposit cash (in respect of a cash purchase under Section 15.02(c) or for fractional interests, as applicable) or shares of Common Stock, or a combination thereof, as applicable, at the time and in the manner as provided in Section 15.06, sufficient to pay the aggregate Change in Control Purchase Price of all Securities to be purchased pursuant to this Section 15.02. As soon as practicable after the Change in Control Purchase Date, the Company shall deliver to each holder entitled to receive Common Stock through the Paying Agent, a certificate (or other evidence of ownership) for the number of full shares of Common Stock issuable in payment of the Change in Control Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of shares of Common Stock on the Business Day following the Change in Control Purchase Date. No payment or adjustment will be made for dividends on the Common Stock the record date for which occurred on or prior to the Change in Control Purchase Date.

(i) Taxes. If a holder of a Security is paid in Common Stock, the Company shall pay any documentary, stamp or similar issue or transfer tax due on such issue of shares of Common Stock. However, the holder shall pay any such tax which is due if the Holder requests the shares of Common Stock to be issued in a name other than the holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations being deducted by the Company.

SECTION 15.03. Effect of Purchase Notice or Change in Control Purchase Notice. Upon receipt by the Paying Agent of the Purchase Notice or Change in Control Purchase Notice specified in Section 15.01(a) or Section 15.02(f), as applicable, the holder of the Security in respect of which such Purchase Notice or Change in Control Purchase Notice, as the case may be, was given shall (unless such Purchase Notice or Change in Control Purchase Notice is withdrawn as specified in the following two paragraphs) thereafter be entitled to receive solely the Purchase Price or Change in Control Purchase Price, as the case may be, with respect to such Security to the Purchase Date or Change in Control Purchase Date, as the case may be. Such Purchase Price or Change in Control Purchase Price shall be paid to such holder, subject to receipts of funds and/or securities by the Paying Agent, promptly following the later of (x) the Purchase Date or the Change in Control Purchase Date, as the case may be, with respect to such Security (provided the conditions in Section 15.01(a) or Section 15.02(f), as applicable, have been satisfied) and (y) the time of delivery of such Security to the Paying Agent by the holder thereof in the manner required by Section 15.01(a) or Section 15.02(f), as applicable. Securities in respect of which a Purchase Notice or Change in Control Purchase Notice, as the case may be, has been given by the holder thereof may not be converted pursuant to Article XVI hereof on or after the date of the delivery of such Purchase Notice or Change in Control Purchase Notice, as the case may be, unless such Purchase Notice or Change in Control Purchase Notice, as the case may be, has first been validly withdrawn as specified in the following two paragraphs.

A Purchase Notice or Change in Control Purchase Notice, as the case may be, may be withdrawn by means of a written notice of withdrawal

delivered to the office of the Paying Agent in accordance with the Purchase Notice or Change in Control Purchase Notice, as the case may be, at any time prior to the close of business on the applicable Purchase Date or the Change in Control Purchase Date, as the case may be, specifying:

(A) the principal amount of the Security with respect to which such notice of withdrawal is being submitted,

(B) the certificate number and CUSIP number of the Security in respect of which such notice of withdrawal is being submitted, and

(C) the principal amount, if any, of such Security which remains subject to the original Purchase Notice or Change in Control Purchase Notice, as the case may be, and which has been or will be delivered for purchase by the Company.

A written notice of withdrawal of a Purchase Notice may be in the form set forth in the preceding paragraph or may be in the form of (i) a conditional withdrawal contained in a Purchase Notice pursuant to the terms of Section 15.01(a)(i)(D) or a Change in Control Purchase Notice pursuant to the terms of Section 15.02 (f) (4) or (ii) a conditional withdrawal containing the information set forth in Section 15.01(a)(i)(D) or 15.02(f)(4) and the preceding paragraph and contained in a written notice of withdrawal delivered to the Paying Agent as set forth in the preceding paragraph.

There shall be no purchase of any Securities pursuant to Section 15.01 (other than through the issuance of Common Stock in payment of the Purchase Price, including cash in lieu of fractional shares) or Section 15.02 (other than through the issuance of Common Stock in payment of the Change in Control Purchase Price, including cash in lieu of fractional shares) if there has occurred (prior to, on or after, as the case may be, the giving, by the holders of such Securities, of the required Purchase Notice or Change in Control Purchase Notice, as the case may be) and is continuing an Event of Default (other than a default in the payment of the Purchase Price or Change in Control Purchase Price, as the case may be) or an event of default under the Trust Securities, other than a default in the payment of the purchase price with respect to such Trust Securities. The Paying Agent will promptly return to the respective Holders thereof any Securities (x) with respect to which a Purchase Notice or Change in Control Purchase Notice, as the case may be, has been withdrawn in compliance with this Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price or Change in Control Purchase Price) in which case, upon such return, the Purchase Notice or Change in Control Purchase Notice with respect thereto shall be deemed to have been withdrawn.

SECTION 15.04. Deposit of Purchase Price or Change in Control Purchase Price. Prior to 10:00 a.m. New York City time on the Business Day preceding the Purchase Date or the Change in Control Purchase Date, as the case may be, the Company shall deposit with the Trustee or with the Paying Agent (or, if the Company or a Subsidiary or an Affiliate thereof is acting as the Paying Agent, shall segregate and hold in trust as provided herein) an amount of money (in immediately available funds if deposited on such Business Day) or Common Stock, if permitted hereunder, sufficient to pay the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of all the Securities or portions thereof which are to be purchased

as of the Purchase Date or Change in Control Purchase Date, as the case may be. After the Purchase Date or the Change in Control Purchase Date, interest shall cease to accrue on such Security, whether or not such Security is delivered to the Paying Agent.

SECTION 15.05. Securities Purchased in Part. Any Security which is to be purchased only in part shall be surrendered at the office of the Paying Agent (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the holder thereof or such holder's attorney duly authorized in writing) and the Company shall execute and the Trustee shall authenticate and deliver to the holder of such Security, without service charge, a new Security or Securities, of any authorized denomination as requested by such holder in aggregate principal amount equal to, and in exchange for, the portion of the principal amount of the Security so surrendered which is not purchased.

SECTION 15.06. Covenant to Comply With Securities Laws Upon Purchase of Securities. In connection with any offer to purchase or purchase of Securities under Section 15.01 or 15.02 hereof (provided that such offer or purchase constitutes an "issuer tender offer" for purposes of Rule 13e-4 (which term, as used herein, includes any successor provision thereto) under the Exchange Act at the time of such offer or purchase), the Company shall (i) comply with Rule 13e-4 and Rule 14e-1 under the Exchange Act and any other then applicable tender offer rules, (ii) file the related Schedule TO (or any successor schedule, form or report) under the Exchange Act, and (iii) otherwise comply with all federal and state securities laws so as to permit the rights and obligations under Sections 15.01 and 15.02 to be exercised in the time and in the manner specified in Sections 15.01 and 15.02; provided, that if any of such laws or regulations conflict with the provisions of this Article XV, the compliance by the Company with such laws and regulations shall not be deemed a breach of the Company's obligations under this Article XV, provided, further, that the foregoing shall not relieve the Company of its obligations to pay the Purchase Price on the Purchase Date.

SECTION 15.07. Repayment to the Company. The Trustee and the Paying Agent shall return to the Company any cash or shares of Common Stock that remain unclaimed as provided herein, together with interest or dividends, if any, thereon, held by them for the payment of the Purchase Price or Change in Control Purchase Price, as the case may be. To the extent that the aggregate amount of cash or shares of Common Stock deposited by the Company exceeds the aggregate Purchase Price or Change in Control Purchase Price, as the case may be, of the Securities or portions thereof which the Company is obligated to purchase as of the Purchase Date or Change in Control Purchase Date, as the case may be, then promptly after the Business Day following the Purchase Date or Change in Control Purchase Date, as the case may be, the Trustee shall return any such excess to the Company together with interest or dividends, if any, thereon.

ARTICLE XVI

CONVERSION

SECTION 16.01. Conversion Privilege. A holder of a Security may convert such Security into Common Stock until the close of business on the second Business Day immediately preceding Maturity Date, subject to the provisions of this Article XVI. The number of shares of Common Stock issuable

upon conversion of a Security per $50 of the principal amount thereof (the "Conversion Rate") shall be initially 5.4795 shares of Common Stock, subject to adjustment as set forth herein. The Conversion Price is, as of any date of determination, for each $50 aggregate principal amount of Securities the principal amount thereof divided by the Conversion Rate then in effect.

A holder may convert a portion of the principal amount of a Security if the portion is $50 or any integral multiple of $50 in excess thereof. Provisions of this Indenture that apply to conversion of all of a Security also apply to conversion of a portion of a Security.

SECTION 16.02. Conversion Procedure. So long as any Trust Securities are outstanding, in order to convert Securities into Common Stock, the Holder, or its authorized agent, shall, upon receipt of notice from the conversion agent under the Declaration of a notice of conversion thereunder, (i) elect to convert an equivalent aggregate principal amount of the Securities then held by it into shares of Common Stock by delivering to the Conversion Agent an irrevocable Notice of Conversion setting forth the number of Securities to be converted and the name or names in which the shares of Common Stock are to be issued and (ii) deliver such Common Stock to the Property Trustee for distribution to the holders of the Trust Securities so converted. Upon such delivery, the Conversion Agent shall notify the trustee under the Xerox Funding Indenture of such conversion whereupon an equivalent aggregate principal amount of Xerox Funding Debentures shall be deemed to have been paid in full in accordance with the provisions of the Xerox Funding Indenture.

On and after the date on which Trust Securities are no longer outstanding, if any Xerox Funding Debentures are outstanding, the Holder, or its authorized agent, shall, upon receipt of notice from the conversion agent under the Xerox Funding Indenture of a notice of conversion thereunder, (i) elect to convert an equivalent aggregate principal amount of the Securities then held by it into shares of Common Stock by delivering to the Conversion Agent an irrevocable Notice of Conversion setting forth the number of Securities to be converted and the name or names in which the shares of Common Stock are to be issued and (ii) deliver such Common Stock to the trustee under the Xerox Funding Indenture for distribution to the holders of the Xerox Funding Debentures so converted.

If any Trust Securities or Xerox Funding Debentures are outstanding, the Holder agrees that it will not elect to convert any of its Securities other than as provided above.

On and after the date on which the Trust Securities and the Xerox Funding Debentures are no longer outstanding, in order to convert Securities into Common Stock, the Holder of such Securities shall submit to the Conversion Agent an irrevocable Notice of Conversion to convert Securities on behalf of such Holder, together, if the Securities are in certificated form, with such certificates. The Notice of Conversion shall (i) set forth the number of Securities to be converted and the name or names, if other than the Holder, in which the shares of Common Stock are to be issued and (ii) direct the Conversion Agent to immediately convert such Securities into Common Stock and, if applicable, other securities, cash or property (at the Conversion Rate specified in the preceding paragraph) and any cash in lieu of any fractional share determined pursuant to Section 16.03.

The Company will not make, nor will it be required to make, any payment, allowance or adjustment upon any conversion on account of any unpaid interest, whether or not in arrears, accrued on the Securities surrendered for conversion, or on account of any accrued and unpaid dividends on the shares of Common Stock issued upon such conversion. Securities shall be deemed to have been converted immediately prior to the close of business on the day on which an irrevocable Notice of Conversion relating to such Securities is received by the Conversion Agent in accordance with the foregoing provisions (the "Conversion Date"). As promptly as practicable on or after the Conversion Date, the Company shall issue and deliver (or cause the transfer agent for the Common Stock to deliver) at the office of the Conversion Agent a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion, together with the cash payment, if any, in lieu of any fraction of any share to the Person or Persons entitled to receive the same, unless otherwise directed by the Holder in the Notice of Conversion, and the Conversion Agent shall distribute such certificate or certificates to such Person or Persons.

The Person in whose name the certificate is registered shall be treated as a stockholder of record as of the close of business on the Conversion Date; provided, however, that no surrender of a Security on any date when the stock transfer books of the Company shall be closed shall be effective to constitute the Person or Persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the Person or Persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding day on which such stock transfer books are open; and such conversion shall be at the Conversion Rate in effect on the date that such Security shall have been surrendered for conversion, as if the stock transfer books of the Company had not been closed. Upon conversion of a Security, such Person shall no longer be a holder of such Security.

Holders of any Security at the close of business on any record date for any payment on such security will be entitled to receive the amount of such payment notwithstanding such Security having been converted following such record date but on or prior to such payment date.

No payment or adjustment will be made for dividends on, or other distributions with respect to, any Common Stock except as provided in this Article XVI. On conversion of a Security, that portion of accrued interest attributable to the period from the Issue Date of the Security through the Conversion Date with respect to the converted Security shall not be cancelled, extinguished or forfeited, but rather shall be deemed to be paid in full to the holder thereof through delivery of the Common Stock (together with the cash payment, if any, in lieu of fractional shares) in exchange for the Security being converted pursuant to the provisions hereof; and the fair market value of such shares of Common Stock (together with any such cash payment in lieu of fractional shares) shall be treated as issued, to the extent thereof, first in exchange for interest accrued through the Conversion Date, and the balance, if any, of such fair market value of such Common Stock (and any such cash payment) shall be treated as issued in exchange for the principal amount of the Security being converted pursuant to the provisions hereof.

If the holder converts more than one Security at the same

time, the number of shares of Common Stock issuable upon the conversion shall be based on the total principal amount of the Securities converted.

If the last day on which a Security may be converted is a Legal Holiday, the Security may be surrendered on the next succeeding Business Day that is not a Legal Holiday; provided, however, the Security shall be deemed to have been converted and surrendered as of such last day, notwithstanding the occurrence of a Legal Holiday on such day.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trustee shall authenticate and deliver to the holder, a new Security in an authorized denomination equal in principal amount to the unconverted portion of the Security surrendered.

All shares of Common Stock delivered upon any conversion of any Restricted Security shall bear a restrictive legend substantially in the form of the legend required to be set forth on such Restricted Security and shall be subject to the restrictions on transfer provided by such legend and in Section 2.07(a) hereof.

SECTION 16.03. Fractional Shares. The Company will not issue a fractional share of Common Stock upon conversion of a Security. Instead, the Company will deliver cash for the current market value of the fractional share. The current market value of a fractional share shall be determined, to the nearest 1/1,000th of a share, by multiplying the Sale Price of the Common Stock, on the last Trading Day prior to the Conversion Date, of a full share by the fractional amount and rounding the product to the nearest whole cent.

SECTION 16.04. Taxes on Conversion. If a holder converts a Security, the Company shall pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of Common Stock upon the conversion. However, the holder shall pay any such tax which is due because the holder requests the shares to be issued in a name other than the holder's name. The Conversion Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the holder's name until the Conversion Agent receives a sum sufficient to pay any tax which will be due because the shares are to be issued in a name other than the holder's name. Nothing herein shall preclude any tax withholding required by law or regulations by the Company.

SECTION 16.05. Company to Provide Stock. The Company shall, prior to issuance of any Securities under this Article XVI, and from time to time as may be necessary, reserve out of its authorized but unissued Common Stock a sufficient number of shares of Common Stock to permit the conversion of the Securities.

All shares of Common Stock delivered upon conversion of the Securities shall be newly issued shares or treasury shares, shall be duly and validly issued and fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim.

The Company will list or cause to have quoted such shares of Common Stock on each national or regional securities exchange or such other market on which the Common Stock is then listed or quoted.

SECTION 16.06. Adjustment for Change In Capital Stock. If,

after the Issue Date of the Securities, the Company:

(a) pays a dividend or makes a distribution on its Common Stock in shares of its Common Stock;

(b) subdivides its outstanding shares of Common Stock into a greater number of shares;

(c) combines its outstanding shares of Common Stock into a smaller number of shares;

(d) pays a dividend or makes a distribution on its Common Stock in shares of its Capital Stock (other than Common Stock referred to in (a) above or rights, warrants or options referred to in Section 16.07); or

(e) issues by reclassification of its Common Stock any shares of its Capital Stock (other than rights, warrants or options referred to in Section 16.07),

then the Conversion Rate in effect immediately prior to such action shall be adjusted so that the holder of a Security thereafter converted may receive the number of shares of Capital Stock of the Company which such holder would have owned immediately following such action if such Holder had converted the Security immediately prior to such action.

The adjustment shall become effective immediately after the record date in the case of a dividend or distribution and immediately after the effective date in the case of a subdivision, combination or reclassification.

If after an adjustment a holder of a Security upon conversion of such Security may receive shares of two or more classes of Capital Stock of the Company, the Conversion Rate shall thereafter be subject to adjustment upon the occurrence of an action taken with respect to any such class of Capital Stock as is contemplated by this Article XVI with respect to the Common Stock, on terms comparable to those applicable to Common Stock in this Article XVI.

SECTION 16.07. Adjustment for Rights Issue.

If after the Issue Date of the Securities, the Company distributes any rights, warrants or options to all holders of its Common Stock entitling them, for a period expiring within 60 days after the record date for such distribution, to purchase shares of Common Stock at a price per share less than the Sale Price of the Common Stock as of the Time of Determination, the Conversion Rate shall be adjusted in accordance with the formula:

$$R' = R \times \frac{(O + N)}{(O + [(N \times P)/M])}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

O = the number of shares of Common Stock outstanding on the record date for the distribution to which this Section 16.07 is being applied.

N = the number of additional shares of Common Stock offered pursuant to the distribution.

P = the purchase price per share of the additional shares.

M = the Average Sale Price, minus, in the case of (i) a distribution to which Section 16.06(d) applies or (ii) a distribution to which Section 16.08 applies, for which, in each case, (x) the record date shall occur on or before the record date for the distribution to which this Section 16.07 applies and (y) the Ex-Dividend Time shall occur on or after the date of the Time of Determination for the distribution to which this Section 16.07 applies, the fair market value (on the record date for the distribution to which this Section 16.07 applies) of:

(a) the Capital Stock of the Company distributed in respect of each share of Common Stock in such Section 16.06(d) distribution; and

(b) the assets of the Company or debt securities or any rights, warrants or options to purchase securities of the Company distributed in respect of each share of Common Stock in such Section 16.08 distribution.

The Board of Directors shall determine fair market values for the purposes of this Section 16.07.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the rights, warrants or options to which this Section 16.07 applies. If all of the shares of Common Stock subject to such rights, warrants or options have not been issued when such rights, warrants or options expire, then the Conversion Rate shall promptly be readjusted to the Conversion Rate which would then be in effect had the adjustment upon the issuance of such rights, warrants or options been made on the basis of the actual number of shares of Common Stock issued upon the exercise of such rights, warrants or options.

No adjustment shall be made under this Section 16.07 if the application of the formula stated above in this Section 16.07 would result in a value of R' that is equal to or less than the value of R.

"Average Sale Price" means the average of the Sale Prices of the Common Stock for the shorter of:

(i) 30 consecutive Trading Days ending on the last full Trading Day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated, or

(ii) the period (x) commencing on the date next succeeding the first public announcement of (a) the issuance of rights, warrants or options or (b) the distribution, in each case, in respect of which the Average Sale Price is being calculated and (y) proceeding through the last full Trading Day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated (excluding days within such period, if

any, which are not Trading Days), or

(iii) the period, if any, (x) commencing on the date next succeeding the Ex-Dividend Time with respect to the next preceding (a) issuance of rights, warrants or options or (b) distribution, in each case, for which an adjustment is required by the provisions of Section 16.06(d), 16.07 or 16.08 and (y) proceeding through the last full Trading Day prior to the Time of Determination with respect to the rights, warrants or options or distribution in respect of which the Average Sale Price is being calculated (excluding days within such period, if any, which are not Trading Days).

In the event that the Ex-Dividend Time (or in the case of a subdivision, combination or reclassification, the effective date with respect thereto) with respect to a dividend, subdivision, combination or reclassification to which Section 16.06(a), (b), (c) or (e) applies occurs during the period applicable for calculating "Average Sale Price" pursuant to the definition in the preceding sentence, "Average Sale Price" shall be calculated for such period in a manner determined by the Board of Directors of the Company to reflect the impact of such dividend, subdivision, combination or reclassification on the Sale Price of the Common Stock during such period.

"Time of Determination" means the time and date of the earlier of (i) the determination of shareholders entitled to receive rights, warrants or options or a distribution, in each case, to which Section 16.07 or 16.08 applies and (ii) the time ("Ex-Dividend Time") immediately prior to the commencement of "ex-dividend" trading for such rights, warrants or options or distribution on the New York Stock Exchange or such other United States national or regional exchange or market on which the Common Stock is then listed or quoted.

SECTION 16.08. Adjustment for Other Distributions.

(a) Subject to 16.08(c), if, after the Issue Date of the Securities, the Company distributes to all holders of its Common Stock any of its assets (including shares of capital stock of a Subsidiary other than those referred to in Section 16.08(b) or equity securities of any other Person, but excluding distributions of Capital Stock referred to in 16.06) or debt securities or any rights, warrants or options to purchase securities of the Company (including securities or cash, but excluding (x) distributions of Capital Stock referred to in Section 16.06 and distributions of rights, warrants or options referred to in Section 16.07 and (y) cash dividends or other cash distributions that are paid out of consolidated current net earnings or earnings retained in the business as shown on the books of the Company unless such cash dividends or other cash distributions are Extraordinary Cash Dividends) the Conversion Rate shall be adjusted, subject to the provisions of Section 16.08(c), in accordance with the formula:

$$R' = \frac{R \times M}{M - F}$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

M = the Average Sale Price, minus, in the case of a distribution to which Section 16.06(d) applies, for which (i) the record date shall occur on or before the record date for the distribution to which this Section 16.08 applies and (ii) the Ex-Dividend Time shall occur on or after the date of the Time of Determination for the distribution to which this Section 16.08 applies, the fair market value (on the record date for the distribution to which this Section 16.08 applies) of any Capital Stock of the Company distributed in respect of each share of Common Stock in such Section 16.06(d) distribution.

F = the fair market value (on the record date for the distribution to which this Section 16.08 applies) of the assets, securities, rights, warrants or options to be distributed in respect of each share of Common Stock in the distribution to which this Section 16.08 is being applied (including, in the case of cash dividends or other cash distributions giving rise to an adjustment, all such cash distributed concurrently).

The Board of Directors shall determine fair market values for the purposes of this Section 16.08.

The adjustment shall become effective immediately after the record date for the determination of shareholders entitled to receive the distribution to which this Section 16.08 applies.

For purposes of this Section 16.08, the term "Extraordinary Cash Dividend" shall mean any cash dividend or distribution with respect to the Common Stock the amount of which, together with the aggregate amount of cash dividends on the Common Stock to be aggregated with such cash dividend in accordance with the provisions of this paragraph, exceeds the threshold percentage set forth in item (i) below. For purposes of item (i) below, the "Ex-Dividend Measurement Period" with respect to a cash dividend on the Common Stock shall mean the 365 consecutive day period ending on the date prior to the Ex-Dividend Time with respect to such cash dividend, and the "Relevant Cash Dividends" with respect to a cash dividend on the Common Stock shall mean the cash dividends on the Common Stock with Ex-Dividend Times occurring in the Ex-Dividend Measurement Period.

(i) If, upon the date prior to the Ex-Dividend Time with respect to a cash dividend on the Common Stock, the aggregate amount of such cash dividend together with the amounts of all Relevant Cash Dividends equals or exceeds on a per share basis 15% of the Sale Price of the Common Stock on the last Trading Day preceding the date of declaration by the Board of Directors of the cash dividend or distribution with respect to which this provision is being applied, then such cash dividend together with all Relevant Cash Dividends, shall be deemed to be an Extraordinary Cash Dividend and for purposes of applying the formula set forth above in this Section 16.08, the value of "F" shall be equal to (y) the aggregate amount of such cash dividend together with the amount of all Relevant Cash Dividends, minus (z) the aggregate amount of all Relevant Cash Dividends for which a prior adjustment in the Conversion Rate was previously made under this Section 16.08.

(ii) In making the determinations required by item (i) above, the amount of cash dividends paid on a per share basis and the amount of any Relevant Cash Dividends specified in item (i) above, shall

be appropriately adjusted to reflect the occurrence during such period of any event described in Section 16.06.

(b) Subject to Section 16.08(c), if, after the Issue Date, the Company pays a dividend or makes a distribution to all holders of its Common Stock consisting of Capital Stock of any class or series, or similar equity interests, of or relating to a Subsidiary or other business unit of the Company, the Conversion Rate shall be adjusted in accordance with the formula:

$$R' = R \times (1 + F/M)$$

where:

R' = the adjusted Conversion Rate.

R = the current Conversion Rate.

M = the average of the Sale Prices of the Common Stock for the 10 Trading Days commencing on and including the fifth Trading Day after the date on which "ex-dividend trading" commences for such dividend or distribution on The New York Stock Exchange or such other national or regional exchange or market which such securities are then listed or quoted (the "Ex-Dividend Date").

F = the average of the Sale Prices of the securities distributed in respect of each share of Common Stock for which this Section 16.08(b) applies for the 10 Trading Days commencing on and including the fifth Trading Day after the Ex-Dividend Date.

(c) In the event that, with respect to any distribution to which Section 16.08(a) would otherwise apply, the difference between "M-F" is less than $1.00 or "F" is equal to or greater than "M", then the adjustment provided by Section 16.08(a) or 16.08(b) shall not be made and in lieu thereof the provisions of Section 16.15 shall apply to such distribution.

(d) If, after the Issue Date of the Securities, a Change in Control occurs prior to November 27, 2004, in which:

(i) shareholders of the Company receive consideration per share of Common Stock that is greater than the Conversion Price, without giving effect to the adjustment described below, at the effective time of the Change in Control; and

(ii) at least 10%, but less than 75%, of the total consideration paid to shareholders of the Company consists of cash, cash equivalents, securities or other assets (other than publicly-traded securities) ("Non-public Consideration");

then the Conversion Rate shall be adjusted so that, upon conversion of outstanding Securities after such Change in Control, in addition to the securities, cash or other assets deliverable upon the conversion of the Securities under this Section 16.08(e), each holder will receive, in respect of each such Security so converted, a number of the acquiror's publicly traded shares of common stock or other publicly traded securities delivered in connection with the transaction resulting in a Change in Control in accordance with the following formula:

$$\frac{P \times (N/T)}{S}$$

where:

P = the present value of the aggregate interest payments that would have been payable on a Security from the Conversion Date of that Security through November 27, 2004, calculated using a discount rate equal to 2.00% plus the yield to maturity of U.S. Treasury securities having a maturity closest to, but not later than November 27, 2004.

N = the value of the Non-public Consideration payable to the Company's shareholders at the effective time of the Change in Control, with the value of any assets or securities other than cash or a publicly-traded security being determined in good faith by the Board of Directors based upon an opinion as to that value obtained from an accounting, appraisal or investment banking firm of international standing.

T = the total value of the Consideration (including Non-public Consideration) payable to the Company's shareholders at the effective time of the Change in Control, with the value of any assets or securities other than cash or publicly-traded security being determined as specified in "N" above.

S = the Sale Price of a share of the acquiror's publicly-traded common stock or other publicly-traded securities delivered in connection with the Change in Control at the effective time of the Change of Control.

provided, that if the consideration per share of Common Stock received by shareholders of the Company in respect of the Change in Control is greater than the Conversion Rate at the effective time of such Change in Control and consists of at least 75% Non-public Consideration or if the acquiror's common stock is not publicly traded, then upon conversion of any outstanding Security that remains outstanding after such Change in Control, in lieu of the foregoing adjustment to the Conversion Price, such holder shall be entitled to receive, in respect of each such Security converted, an additional amount as follows:

$$P \times (N/T)$$

SECTION 16.09. Adjustment for Self Tender Offer.

If, after the Issue Date of the Securities, the Company or any of its Subsidiaries engages in a tender or exchange offer (other than an odd-lot tender offer meeting the requirements of Exchange Act Rule 13e-4(h)(5)) for Common Stock, and such tender or exchange offer (as amended upon the expiration thereof) shall require the payment to stockholders of consideration per share of Common Stock having a fair market value that as of the last time (the "Expiration Time") tenders or exchanges may be made pursuant to such tender or exchange offer (as it may be amended) exceeds the Sale Price per share of Common Stock as of the Trading Day next succeeding the Expiration Time, the Conversion Rate shall be increased so that it shall equal the rate determined by (A) multiplying the Conversion Rate in effect immediately prior to the Expiration Time by (B) a fraction, the denominator of which shall be the number of shares of Common Stock outstanding (including any tendered or exchanged shares) at the

Expiration Time multiplied by the Sale Price per share of Common Stock as of the Trading Day next succeeding the Expiration Time and the numerator of which shall be the sum of (x) the fair market value of the aggregate consideration payable to stockholders based on the acceptance (up to any maximum specified in the terms of the tender or exchange offer) of all shares of Common Stock validly tendered or exchanged and not withdrawn as of the Expiration Time (the shares of Common Stock deemed so accepted, up to any such maximum, being referred to as the "Purchased Shares") and (y) the product of the number of shares of Common Stock outstanding (less any Purchased Shares) at the Expiration Time and the Sale Price per share of Common Stock as of the Trading Day next succeeding the Expiration Time, such increase to become effective as of the opening of business on the Trading Day next succeeding the Expiration Time. In the event that the Company is obligated to purchase shares of Common Stock pursuant to any such tender or exchange offer, but the Company is permanently prevented by applicable law from effecting any such purchases or all such purchases are rescinded, the Conversion Rate shall again be adjusted to be the Conversion Rate that would then be in effect if such tender or exchange offer had not been made.

The Board of Directors, whose determination in good faith shall be conclusive, shall determine fair market values for the purposes of this Section 16.09.

SECTION 16.10. When Adjustment May Be Deferred. No adjustment in the Conversion Rate need be made unless the adjustment would require an increase or decrease of at least 1% in the Conversion Rate. Any adjustments that are not made shall be carried forward and taken into account in any subsequent adjustment.

All calculations under this Article XVI shall be made to the nearest cent or to the nearest 1/1,000th of a share, as the case may be.

SECTION 16.11. When No Adjustment Required. No adjustment need be made for a transaction referred to in Section 16.06, 16.07, 16.08, 16.09 or 16.15 if Securityholders are to participate in the transaction, on a basis and with notice that the Board of Directors determines to be fair and appropriate in light of the basis and notice on which holders of Common Stock participate in the transaction. Such participation by Securityholders may include participation upon conversion provided that an adjustment shall be made at such time as the Securityholders are no longer entitled to participate.

No adjustment need be made for rights to purchase Common Stock pursuant to a Company plan for reinvestment of dividends or interest.

No adjustment need be made for a change in the par value or no par value of the Common Stock.

To the extent the Securities become convertible pursuant to this Article XVI into cash, no adjustment need be made thereafter as to the cash. Interest will not accrue on the cash.

Notwithstanding any provision to the contrary in this Indenture, no adjustment shall be made in the Conversion Rate to the extent, but only to the extent, such adjustment results in the following quotient being less than the par value of the Common Stock: (i) $50 (ii) the Conversion Rate as so adjusted.

No adjustment will be made pursuant to this Article XVI which would result, through the application of two or more provisions hereof, in the duplication of any adjustment.

SECTION 16.12. Notice of Adjustment. Whenever the Conversion Rate is adjusted, the Trustee shall, at the request and expense of the Company, promptly mail to Securityholders a notice of the adjustment. The Company shall file with the Trustee and the Conversion Agent such notice and a certificate from the Company's independent public accountants briefly stating the facts requiring the adjustment and the manner of computing it. The certificate shall be conclusive evidence that the adjustment is correct. Neither the Trustee nor any Conversion Agent shall be under any duty or responsibility with respect to any such certificate except to exhibit the same to any Holder desiring inspection thereof.

SECTION 16.13. Voluntary Increase. The Company from time to time may increase the Conversion Rate by any amount for any period of time. Whenever the Conversion Rate is increased, the Trustee shall, at the request and expense of the Company, mail to Securityholders and file with the Trustee and the Conversion Agent a notice of the increase. The Company shall mail the notice at least 15 days before the date the increased Conversion Rate takes effect. The notice shall state the increased Conversion Rate and the period it will be in effect.

A voluntary increase of the Conversion Rate does not change or adjust the Conversion Rate otherwise in effect for purposes of Section 16.06, 16.07, 16.08 or 16.09.

SECTION 16.14. Notice of Certain Transactions. If:

(a) the Company takes any action that would require an adjustment in the Conversion Rate pursuant to Section 16.06, 16.07, 16.08 or 16.09 (unless no adjustment is to occur pursuant to Sections 16.10 or 16.11); or

(b) the Company takes any action that would require a supplemental indenture pursuant to Section 16.15; or

(c) there is a liquidation or dissolution of the Company;

then the Trustee shall, at the request of the Company, mail to Securityholders and file with the Trustee and the Conversion Agent a notice stating the proposed record date for a dividend or distribution or the proposed effective date of a subdivision, combination, reclassification, consolidation, merger, binding share exchange, transfer, liquidation or dissolution. The Company shall file and mail the notice at least 15 days before such date. Failure to file or mail the notice or any defect in it shall not affect the validity of the transaction.

SECTION 16.15. Reorganization of Company; Special Distributions. (a) If the Company is a party to a transaction subject to Section 10.01 (other than a sale or lease of all or substantially all of the assets of the Company in a transaction in which the holders of Common Stock immediately prior to such transaction do not receive securities, cash, property or other assets of the Company or any other person) or a merger or binding share exchange which reclassifies or changes the outstanding Common

Stock, the person obligated to deliver securities, cash or other assets upon conversion of Securities shall enter into a supplemental indenture. If the issuer of securities deliverable upon conversion of Securities is an Affiliate of the successor Company, that issuer shall join in the supplemental indenture.

(b) The supplemental indenture shall provide that the holder of a Security may convert it into the kind and amount of securities, cash or other assets which such holder would have received immediately after the consolidation, merger, binding share exchange or transfer if such holder had converted the Security immediately before the effective date of the transaction, assuming (to the extent applicable) that such Holder (i) was not a constituent person or an Affiliate of a constituent person to such transaction; (ii) made no election with respect thereto; and (iii) was treated similarly to the plurality of non-electing Holders. The supplemental indenture shall provide for adjustments which shall be as nearly equivalent as may be practical to the adjustments provided for in this Article XVI. The successor Company shall mail to Securityholders anotice briefly describing the supplemental indenture.

(c) If this Section 16.15 applies, neither Section 16.06 nor 16.07 applies.

(d) If the Company makes a distribution to all holders of its Common Stock of any of its assets, or debt securities or any rights, warrants or options to purchase securities of the Company that, but for the provisions of Section 16.08(c), would otherwise result in an adjustment in the Conversion Rate pursuant to the provisions of Section 16.08, then, from and after the record date for determining the holders of Common Stock entitled to receive the distribution, a Holder of a Security that converts such Security in accordance with the provisions of this Indenture shall upon such conversion be entitled to receive, in addition to the shares of Common Stock into which the Security is convertible, the kind and amount of securities, cash or other assets comprising the distribution that such Holder would have received if such Holder had converted the Security immediately prior to the record date for determining the holders of Common Stock entitled to receive the distribution.

SECTION 16.16. Company Determination Final. Any determination that the Company or the Board of Directors makes pursuant to this Article XIV is conclusive.

SECTION 16.17. Trustee's Adjustment Disclaimer. The Trustee has no duty to determine when an adjustment under this Article XVI should be made, how it should be made or what it should be. The Trustee has no duty to determine whether a supplemental indenture under Section 9.01 need be entered into or whether any provisions of any supplemental indenture are correct. The Trustee shall not be accountable for and makes no representation as to the validity or value of any securities or assets issued upon conversion of Securities. The Trustee shall not be responsible for the Company's failure to comply with this Article XVI. Each Conversion Agent shall have the same protection under this Section 16.17 as the Trustee.

SECTION 16.18. Simultaneous Adjustments. In the event that this Article XVI requires adjustments to the Conversion Rate under more than one of Sections 16.06(d), 16.07 or 16.08, and the record dates for the distributions giving rise to such adjustments shall occur on the same date,

then such adjustments shall be made by applying, first, the provisions of Section 16.06, second, the provisions of Section 16.08 and, third, the provisions of Section 16.07.

SECTION 16.19. Successive Adjustments. After an adjustment to the Conversion Rate under this Article XVI, any subsequent event requiring an adjustment under this Article XVI shall cause an adjustment to the Conversion Rate as so adjusted.

SECTION 16.20. Rights Issued in Respect of Common Stock Issued Upon Conversion. Each share of Common Stock issued upon conversion of Securities pursuant to this Article XVI shall be entitled to receive the appropriate number of common stock or preferred stock purchase rights, as the case may be (the "Rights"), if any, and the certificates representing the Common Stock issued upon such conversion shall bear such legends, if any, in each case as may be provided by the terms of any shareholder rights agreement adopted by the Company and then in effect, as the same may be amended from time to time (in each case, a "Rights Agreement"). Provided that such Rights Agreement requires that each share of Common Stock issued upon conversion of Securities at any time prior to the distribution of separate certificates representing the Rights be entitled to receive such Rights, then, notwithstanding anything else to the contrary in this Article XVI, there shall not be any adjustment to the conversion privilege or Conversion Rate as a result of the issuance of Rights, the distribution of separate certificates representing the Rights, the exercise or redemption of such Rights in accordance with any such Rights Agreement, or the termination or invalidation of such Rights.

ARTICLE XVII

SUBORDINATION OF SECURITIES

SECTION 17.01. Agreement to Subordinate.

The Securities issued hereunder will be subordinate and junior in right of payment to all Senior Indebtedness. No payment of principal (including upon redemption), premium, if any, or interest on the Securities may be made at any time when (i) any Senior Indebtedness is not paid when due, (ii) any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (iii) the maturity of any Senior Indebtedness has been accelerated because of a default.

No provision of this Article XVII shall prevent the occurrence of any Default or Event of Default hereunder.

SECTION 17.02. Default on Senior Indebtedness.

In the event that, any payment shall be received by the Trustee when such payment is prohibited by Section 17.01, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Indebtedness or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Indebtedness may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Indebtedness (or their representative or representatives or a trustee) notify the Trustee in writing, within 90 days of such payment of the amounts then due and owing

on such Senior Indebtedness and only the amounts specified in such notice to the Trustee shall be paid to the holders of such Senior Indebtedness.

SECTION 17.03. Liquidation; Dissolution; Bankruptcy.

Upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding of the Company, all Senior Indebtedness must be paid in full before the holders of the Securities are entitled to receive or retain any payment in respect thereof; and upon any such dissolution or winding-up or liquidation or reorganization or assignment, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Securityholders or the Trustee would be entitled to receive from the Company, except for the provisions of this Article XVII, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Securityholders or by the Trustee under the Indenture if received by them or it, directly to the holders of Senior Indebtedness of the Company (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay all such Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Securityholders or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee before all Senior Indebtedness is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the holders of such Senior Indebtedness.

For purposes of this Article XVII, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article XVII with respect to the Securities to the payment of Senior Indebtedness that may at the time be outstanding, provided that (i) such Senior Indebtedness is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of such Senior Indebtedness are not, without the consent of such holders,

altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another Person or the liquidation or dissolution of the Company following the sale, conveyance, transfer or lease of its property as an entirety, or substantially as an entirety, to another Person upon the terms and conditions provided for in Article X of this Indenture shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 17.03 if such other Person shall, as a part of such consolidation, merger, sale, conveyance, transfer or lease, comply with the conditions stated in Article X of this Indenture.

SECTION 17.04. Subrogation.

Subject to the payment in full of all Senior Indebtedness, the rights of the Securityholders shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company, as the case may be, applicable to such Senior Indebtedness until the principal of (and premium, if any) and interest on the Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of such Senior Indebtedness of any cash, property or securities to which the Securityholders or the Trustee would be entitled except for the provisions of this Article XVII, and no payment over pursuant to the provisions of this Article XVII to or for the benefit of the holders of such Senior Indebtedness by Securityholders or the Trustee, shall, as between the Company, its creditors other than holders of Senior Indebtedness of the Company, and the holders of the Securities, be deemed to be a payment by the Company to or on account of such Senior Indebtedness. It is understood that the provisions of this Article XVII are and are intended solely for the purposes of defining the relative rights of the holders of the Securities, on the one hand, and the holders of such Senior Indebtedness on the other hand.

Nothing contained in this Article XVII or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness of the Company, and the holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Securities and creditors of the Company, as the case may be, other than the holders of Senior Indebtedness of the Company, as the case may be, nor shall anything herein or therein prevent the Trustee or the holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under the Indenture, subject to the rights, if any, under this Article XVII of the holders of such Senior Indebtedness in respect of cash, property or securities of the Company, as the case may be, received upon the exercise of any such remedy.

SECTION 17.05. Trustee to Effectuate Subordination.

Each Securityholder by such Securityholder's acceptance thereof authorizes and directs the Trustee on such Securityholder's behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article XVII and appoints the Trustee such Securityholder's attorney-in-fact for any and all such purposes.

SECTION 17.06. Notice by the Company.

The Company shall give prompt written notice to a Responsible Officer of the Trustee of any fact known to the Company that would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions of this Article XVII. Notwithstanding the provisions of this Article XVII or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions of this Article XVII, unless and until a Responsible Officer of the Trustee assigned to the Principal Office of the Trustee shall have received written notice thereof from the Company or a holder or holders of Senior Indebtedness or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 17.06 at least two Business Days prior to the date (i) upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Security), or (ii) moneys are deposited in trust pursuant to Article XI, then anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary that may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness of the Company (or a trustee or representative on behalf of such holder), as the case may be, to establish that such notice has been given by a holder of such Senior Indebtedness or a trustee or representative on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of such Senior Indebtedness to participate in any payment or distribution pursuant to this Article XVII, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article XVII, and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Upon any payment or distribution of assets of the Company referred to in this Article XVII, the Trustee and the Securityholders shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Securityholders, for the purpose of ascertaining the persons entitled to participate in such payment or

distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article XVII.

SECTION 17.07. Rights of the Trustee; Holders of Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XVII in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article XVII, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and, subject to the provisions of Article VI of this Indenture, the Trustee shall not be liable to any holder of Senior Indebtedness if it shall pay over or deliver to Securityholders, the Company or any other Person money or assets to which any holder of Senior Indebtedness shall be entitled by virtue of this Article XVII or otherwise.

Nothing in this Article XVII shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06.

SECTION 17.08. Subordination May Not Be Impaired.

(a) No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof that any such holder may have or otherwise be charged with.

(b) Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Securityholders, without incurring responsibility to the Securityholders and without impairing or releasing the subordination provided in this Article XVII or the obligations hereunder of the holders of the Securities to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (iii) release any Person liable in any manner for the collection of such Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

Wells Fargo Bank Minnesota, National Association hereby

accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

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

XEROX CORPORATION

By:

Name:
Title:

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
as Trustee

By:

Name:
Title:

EXHIBIT A

(FORM OF SECURITY)

[IF THE SECURITY IS A GLOBAL SECURITY, INSERT: - THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN

AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

No. CUSIP No. 984121 BD4

XEROX CORPORATION

71/2% CONVERTIBLE JUNIOR SUBORDINATED DEBENTURE DUE 2021

Xerox Corporation, a New York corporation (the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to or registered assigns, the principal sum of Dollars on November 27, 2021 (the "Maturity Date"), unless previously paid, and to pay interest on the outstanding principal amount hereof from November 27, 2001, or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly in arrears on February 27, May 27, August 27 and November 27 of each year, commencing February 27, 2002 at the rate of 7 1/2% per annum until the principal hereof shall have become due and payable, and at the rate of 7 1/2% per annum on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the rate of 7 1/2% per annum compounded quarterly. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months and, for any period less than a full calendar month, the number of days elapsed in such month. In the event that any date on which the principal of (or premium, if any), Purchase Price, Redemption Price, Change in Control Purchase Price, or interest on this Security is payable is not a Business Day, then the payment payable on such date will be made on the next succeeding day that is a Business Day (except that if such next succeeding Business Day falls in a subsequent calendar year, such payment shall be made on the Business Day next preceding such date of payment), with the same force and effect as if made on such date payment was originally payable, and no interest shall accrue for the period from and after such date. The amount of interest payable on any Interest Payment Date, the applicable redemption date, the applicable Purchase Date, the Change in Control Purchase Date or the Maturity Date shall include interest accrued from and including the Issue Date or the last Interest Payment Date to which interest has been paid to but excluding such Interest Payment Date, such redemption date, such Purchase Date, such Change in Control Purchase Date, or the Maturity Date, as applicable.

The interest installment so payable, and punctually paid or

duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Security (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, which shall be the Business Day or, if none of the Trust Preferred Securities, Xerox Funding Debentures or the Securities are represented by global certificates, the 15th calendar day, immediately preceding the relevant interest payment date. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the holders on such regular record date and may be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the holders of Securities not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The principal of (and premium, if any) Purchase Price, Redemption Price, Change in Control Purchase Price and interest on this Security shall be payable at the office or agency of the Trustee maintained for that purpose in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided, however, that, payment of interest may be made at the option of the Company by (i) check mailed to the holder at such address as shall appear in the Security Register or (ii) by transfer to an account maintained by the Person entitled thereto, provided that proper written transfer instructions have been received by the relevant record date. Notwithstanding the foregoing, so long as the Holder of this Security is the Property Trustee, the payment of the principal of (and premium, if any) Purchase Price, Redemption Price, Change in Control Purchase Price, and interest on this Security will be made at such place and to such account as may be designated by the Property Trustee.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Security shall not be entitled to any benefit under the Indenture hereinafter referred to, or be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Security are continued on the reverse side hereof and such provisions shall for all purposes have the

same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed.

XEROX CORPORATION

By:
Name:
Title

Attest:

By:
Name:
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities referred to in the within- mentioned Indenture.

Dated November 27, 2001

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION
as Trustee

By
Authorized Officer

(FORM OF REVERSE OF SECURITY)

This Security is one of the Securities of the Company (herein sometimes referred to as the "Securities"), specified in the Indenture, all issued or to be issued under and pursuant to an Indenture, dated as of November 27, 2001 (the "Indenture"), duly executed and delivered between the Company and Wells Fargo Bank Minnesota, National Association, as Trustee (the "Trustee"), to which Indenture reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Securities.

Subject to the provisions of Article XIV of the Indenture, the Company may at its option (i) on and after the Initial Optional Redemption Date, redeem the Securities in whole or in part, at the applicable

Special Redemption Price and (ii) if a Special Event shall occur and be continuing, redeem the Securities in whole (but not in part) at any time prior to the Initial Optional Redemption Date and within 90 days of the occurrence of such Special Event, at the Regular Redemption Price.

If the Securities are only partially redeemed pursuant to Article XIV of the Indenture, the Securities will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption the Securities are registered as a Global Security, the Depositary shall determine, in accordance with its procedures, the principal amount of such Securities held for the account of its participants to be redeemed. The applicable Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or at such earlier time as the Company determines, provided that the Company shall deposit with the Trustee an amount sufficient to pay the applicable Redemption Price by 10:00 a.m., New York time, on the date such Redemption Price is to be paid.

In the event of redemption of this Security in part only, a new Security or Securities for the unpaid portion hereof will be issued in the name of the holder hereof upon the cancellation hereof.

The Securities are convertible into Common Stock of the Company and subject to purchase at the option of the holders hereof as described in the Indenture.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Securities may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of a majority in aggregate principal amount of the Securities at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of the Securities; provided, however, that no such supplemental indenture shall, without the consent of each holder of Securities then outstanding and affected thereby, (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, reduce the Redemption Price, Purchase Price or Change in Control Purchase Price, make any change that adversely affects the right to convert any Security, make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and of this Indenture, modify the provision of this Indenture relating to the subordination of the Securities or the right to commence a Direct Action, or (ii) reduce the aforesaid percentage of Securities, the holders of which are required to consent to any such supplemental indenture; provided, however, that (i) if the Securities are held solely by Xerox Funding and no Trust Securities are outstanding, such amendment or modification shall not be effective until the holders of a majority in principal amount of Xerox Funding Debentures shall have consented to such amendment or modification; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment or modification shall not be effective until each holder of the Xerox Funding Debentures shall have consented to such amendment or modification and (ii) if

the Xerox Funding Debentures are held solely by the Property Trustee, such amendment or modification shall not be effective until the holders of a majority in liquidation amount of Trust Securities shall have consented to such amendment or modification; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment or modification shall not be effective until each holder of the Trust Securities shall have consented to such amendment or modification. The Indenture also contains provisions permitting the holders of a majority in aggregate principal amount of the Securities at the time outstanding, on behalf of all of the holders of the Securities, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture, and its consequences, except a default in the payment of the principal of or premium, if any, Redemption Price, Purchase Price, Change in Control Purchase Price or interest on any of the Securities or a default in respect of any covenant or provision under which the Indenture cannot be modified or amended without the consent of each holder of Securities then outstanding. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future holders and owners of this Security and of any Security issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Security at the time and place and at the rate and in the money herein prescribed.

The Company has agreed that it will not (i) declare or pay any dividend on, or make any distribution relating to, or redeem, purchase, acquire, or make a liquidation payment relating to, any of the Company's Capital Stock (which includes common and preferred stock) or (ii) make any payment of principal, interest or premium, if any, on or repay or repurchase or redeem any debt securities of the Company (including any Other Debentures) that rank pari passu with or junior in right of payment to the Securities or (iii) make any guarantee payments with respect to any guarantee by the Company of any securities of any Subsidiary of the Company (including any Other Guarantees) if such guarantee ranks pari passu or junior in right of payment to the Securities (other than (a) dividends or distributions in shares of, or options, warrants or rights to subscribe for or purchase shares of, Common Stock; (b) any declaration of a dividend in connection with the implementation of a stockholder rights plan, or the issuance of stock under any such plan in the future, or the redemption or repurchase of any such rights pursuant thereto; (c) payments or deliveries of any consideration under the Guarantees; (d) the purchase of fractional interests in shares of the Company's Capital Stock resulting from a reclassification of such Capital Stock, (e) as a result of an exchange or conversion of any class or series of the Company's Capital Stock for another class or series of the Company's Capital Stock; (f) the purchase of fractional interests in shares of the Company's Capital Stock pursuant to the conversion or exchange provisions of such capital stock or the security being converted or exchanged; (g) any declaration or payment of a dividend on the Company's Series B Convertible Preferred Stock as required under the Company's Restated Certificate of Incorporation, in connection with the operation of the Company's Employee Stock Ownership Plan ("Plan") and (h) the conversion, repurchase or

redemption of or other acquisitions of shares of the Company's Capital Stock (including Series B Preferred Stock) in connection with any employee benefit plans or employee stock option plans or any other contractual obligation of the Company, other than a contractual obligation ranking pari passu with or junior to the Securities, if at such time (1) there shall have occurred and be continuing an event of default under the Declaration, (2) there shall have occurred and be continuing an Event of Default under the Indenture or the Xerox Funding Indenture, (3) there shall have occurred and be continuing a payment default under the Declaration, the Indenture or the Xerox Funding Indenture, or (4) the Company shall be in default with respect to its payment of any obligations under the Guarantees.

The Securities are issuable only in registered form without coupons in denominations of $50.00 and any integral multiple thereof. As provided in the Indenture and subject to the transfer restrictions limitations as may be contained herein and therein from time to time, this Security is transferable by the holder hereof on the Security Register of the Company, upon surrender of this Security for registration of transfer at the office or agency of the Company in the City and State of New York accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Security registrar duly executed by the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Security, the Company, the Trustee, any authenticating agent, any paying agent, any transfer agent and the registrar may deem and treat the holder hereof as the absolute owner hereof (whether or not this Security shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and (subject to the Indenture) interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any authenticating agent nor any paying agent nor any transfer agent nor any registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this Security, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor Person, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THE INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS THEREOF.

Exhibit 4(g)(2)

XEROX FUNDING LLC II

INDENTURE

DATED AS OF NOVEMBER 27, 2001

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

AS TRUSTEE

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7 1/2% CONVERTIBLE JUNIOR SUBORDINATED DEBENTURES DUE 2021

TIE-SHEET

of provisions of Trust Indenture Act of 1939 with Indenture dated as of November 27, 2001 between Xerox Funding LLC II and Wells Fargo Bank Minnesota, National Association, as Trustee:

ACT SECTION	INDENTURE SECTION
310(a)(1)	6.09
(a)(2)	6.09
310(a)(3)	N/A
(a)(4)	N/A
310(a)(5)	6.10, 6.11
310(b)	N/A
310(c)	6.13
311(a) and (b)	N/A
311(c)	4.01, 4.02(a)
312(a)	4.02
312(b) and (c)	4.04
313(a)	4.04
313(b)(1)	4.04
313(b)(2)	4.04
313(c)	4.04
313(d)	4.04
314(a)	4.03
314(b)	N/A
314(c)(1) and (2)	6.07
314(c)(3)	N/A
314(d)	N/A
314(e)	6.07
314(f)	N/A
315(a)(c) and (d)	6.01
315(b)	5.08
315(e)	5.09
316(a)(1)	5.07
316(a)(2)	N/A
316(a) last sentence	2.09
316(b)	9.02
317(a)	5.05
317(b)	6.05
318(a)	13.08

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THIS TIE-SHEET IS NOT PART OF THE INDENTURE AS EXECUTED.

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SUBORDINATION OF SECURITIES

THIS INDENTURE, dated as of November 27, 2001, between XEROX FUNDING LLC II, a Delaware limited liability company (hereinafter sometimes called the "Company"), and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (hereinafter sometimes called the "Trustee"),

W I T N E S S E T H :

In consideration of the premises, and the purchase of the Securities by the holders thereof, the Company covenants and agrees with the Trustee for the equal and proportionate benefit of the respective holders from time to time of the Securities, as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions.

The terms defined in this Section 1.01 (except as herein otherwise expressly provided or unless the context otherwise requires) for all purposes of this Indenture shall have the respective meanings specified in this Section 1.01. All other terms used in this Indenture which are defined in the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act"), or which are by reference therein defined in the Securities Act, shall (except as herein otherwise expressly provided or unless the context otherwise requires) have the meanings assigned to such terms in said Trust Indenture Act and in said Securities Act as in force at the date of this Indenture as originally executed. The following terms have the meanings given to them in the Declaration: (i) Administrative Trustees; (ii) Business Day; (iii) Clearing Agency; (iv) Delaware Trustee; (v) Direct Action; (vi) Distributions; (vii) Property Trustee; (viii) Purchase Agreement; (ix) Special Event; (x) Trust Preferred Securities; (xi) Xerox Debentures; and (xii) Xerox Indenture. All accounting terms used herein and not expressly defined shall have the meanings assigned to such terms in accordance with generally accepted accounting principles and the term "generally accepted accounting principles" means such accounting principles as are generally accepted at the time of any computation. The words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision. Headings are used for convenience of reference only and do not affect interpretation. The singular includes the plural and vice versa.

"Additional Interest" shall have the meaning set forth in Section 2.06(c).

"Affiliate" means, with respect to a specified Person, (a) any Person directly or indirectly owning, controlling or holding the power to vote 10% or more of the outstanding voting securities or other ownership interests of the specified Person, (b) any Person 10% or more of whose outstanding voting securities or other ownership interests are directly or indirectly owned, controlled or held with power to vote by the specified Person, (c) any Person directly or indirectly controlling, controlled by, or under common control with the specified Person, (d) a partnership in which the specified Person is a general partner, (e) any officer or director of the specified Person, and (f) if the specified

Person is an individual, any entity of which the specified Person is an officer, director or general partner.

"Authenticating Agent" shall mean any agent or agents of the Trustee which at the time shall be appointed and acting pursuant to Section 6.14.

"Bankruptcy Law" shall mean Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

"Capital Stock" for any corporation means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) stock issued by that corporation.

"Change in Control" has the meaning set forth in Section 15.02 of the Xerox Indenture.

"Change in Control Purchase Price" shall have the meaning set forth in Section 15.02(a).

"Commission" shall mean the Securities and Exchange Commission, as from time to time constituted, created under the Exchange Act, or if at any time after the execution of this Indenture such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Common Securities" shall mean the common securities of Xerox Capital.

"Common Stock" shall mean the Common Stock, par value $1.00 per share, of Xerox or any other class of stock resulting from changes or reclassifications of such Common Stock consisting solely of changes in par value, or from par value to no par value, or from no par value to par value.

"Company" shall mean Xerox Funding LLC II, a Delaware limited liability company, and, subject to the provisions of Article X, shall include its successors and assigns.

"Company Request" or "Company Order" shall mean a written request or order signed in the name of the Company by any member thereof or its duly authorized officer and delivered to the Trustee.

"Conversion Agent" shall have the meaning set forth in Section 6.15.

"Conversion Rate" shall have the meaning set forth in Section 16.01.

"Custodian" shall mean any receiver, trustee, assignee, liquidator, or similar official under any Bankruptcy Law.

"Declaration" means the Amended and Restated Declaration of Trust of Xerox Capital, dated as of the Issue Date.

"Debenture Guarantee" means the Debenture Guarantee Agreement, dated as of November 27, 2001, between the Company and the

guarantee trustee thereto.

"Default" means any event, act or condition that with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulted Interest" shall have the meaning set forth in Section 2.11.

"Defeasance Agent" has the meaning set forth in Section 11.05(a)(i).

"Definitive Securities" shall mean those securities issued in fully registered certificated form not otherwise in global form.

"Depositary" shall mean, with respect to Securities of any series, for which the Company shall determine that such Securities will be issued as a Global Security, The Depository Trust Company, New York, New York, another clearing agency, or any successor registered as a clearing agency under the Exchange Act or other applicable statute or regulation, which, in each case, shall be designated by the Company pursuant to Section 2.05(d).

"Discharged" has the meaning set forth in Section 11.05(b).

"Event of Default" shall mean any event specified in Section 5.01, continued for the period of time, if any, and after the giving of the notice, if any, therein designated.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Exchange Event" means the exchange by the Company of the Securities for Xerox Debentures and the distribution of the Xerox Debentures to the holders of such Securities pro rata in accordance with the LLC Agreement and this Indenture.

"Global Security" means, with respect to the Securities, a Security executed by the Company and delivered by the Trustee to the Depositary or pursuant to the Depositary's instruction, all in accordance with the Indenture, which shall be registered in the name of the Depositary or its nominee.

"Guarantees" means the Debenture Guarantee and the Trust Securities Guarantee.

"Indenture" shall mean this instrument as originally executed or, if amended as herein provided, as so amended.

"Initial Optional Redemption Date" means December 4, 2004.

"Investment Company Act" means the Investment Company Act of 1940, as amended from time to time, or any successor legislation.

"Interest Payment Date" shall have the meaning set forth in Section 2.06.

"Issue Date" means November 27, 2001.

"LLC Agreement" means the limited liability company agreement of the Company, dated as of November 19, 2001, by Xerox as sole member.

"Like Amount" means (i) with respect to a conversion, redemption or purchase of the Securities, Securities having an aggregate principal amount equal to the aggregate principal amount of Xerox Debentures to be converted, redeemed or purchased in accordance with their terms, (ii) with respect to a conversion, redemption or purchase of the Securities, Securities having an aggregate principal amount equal to the aggregate liquidation amount of Trust Securities to be converted, redeemed or purchased in accordance with their terms, (iii) with respect to the distribution of Xerox Debentures upon an Exchange Event, Xerox Debentures having a principal amount equal to the aggregate principal amount of the Securities of the holder to whom such Xerox Debentures are distributed and (iv) with respect to a distribution of Securities upon a Trust Dissolution Event of Xerox Capital, Securities having a principal amount equal to the aggregate liquidation amount of the Trust Securities of the holder to whom such Securities are distributed.

"Maturity Date" means November 27, 2021.

"Member" means any member of the Company.

"Non Book-Entry Trust Preferred Securities" shall have the meaning set forth in Section 2.05.

"Officers" shall mean any duly appointed officer of the Company.

"Officers' Certificate" shall mean a certificate signed by any Officer or Member and delivered to the Trustee.

"Opinion of Counsel" shall mean a written opinion of counsel, who may be an employee of the Company, and who shall be reasonably acceptable to the Trustee.

The term "outstanding" when used with reference to Securities, shall, subject to the provisions of Section 7.04, mean, as of any particular time, all Securities authenticated and delivered by the Trustee or the Authenticating Agent under this Indenture, except

(a) Securities theretofore cancelled by the Trustee or the Authenticating Agent or delivered to the Trustee for cancellation;

(b) Securities, or portions thereof, for the payment or redemption of which moneys in the necessary amount shall have been deposited in trust with the Trustee or with any paying agent (other than the Company) or shall have been set aside and segregated in trust by the Company (if the Company shall act as its own paying agent); provided that, if such Securities, or portions thereof, are to be redeemed prior to maturity thereof, notice of such redemption shall have been given as in Article XIV provided or provision satisfactory to the Trustee shall have been made for giving such notice; and

(c) Securities in lieu of or in substitution for which

other Securities shall have been authenticated and delivered pursuant to the terms of Section 2.08 unless proof satisfactory to the Company and the Trustee is presented that any such Securities are held by bona fide holders in due course.

"Paying Agent" has the meaning set forth in Section 3.04.

"Person" shall mean any individual, corporation, estate, partnership, joint venture, association, joint-stock company, limited liability company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Pledge Agreement" means the pledge agreement, dated November 27, 2001, between the Company and Wells Fargo Bank Minnesota, National Association, as pledge trustee.

"Pledged Account" has the meaning set forth in the Pledge Agreement.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt and as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 2.08 in lieu of a lost, destroyed or stolen Security shall be deemed to evidence the same debt as the lost, destroyed or stolen Security.

"Principal Office of the Trustee", or other similar term, shall mean the principal corporate trust office of the Trustee at which, at any particular time, its corporate trust business shall be administered, which office at the date hereof is located at Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services, except where such office is required to be located in the State of New York, then such term shall mean the office or agency of the Trustee in the Borough of Manhattan, the City of New York, which office at the date hereof is located at c/o The Depository Trust Company, 1st Floor - TADS Department, 55 Water Street, New York, New York 10041.

"Purchase Date" shall have the meaning set forth in Section 15.01(a).

"Purchase Price" shall have the meaning set forth in Section 15.01(a).

"Redemption Price" means the Regular Redemption Price and the Special Redemption Price, as applicable.

"Regular Redemption Price" means an amount equal to 100% of the principal amount of the Debentures called for redemption, plus accrued and unpaid interest to but excluding the date of redemption.

"Responsible Officer", when used with respect to the Trustee, shall mean the chairman or any vice chairman of the board of directors, the chairman or any vice chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the cashier, any assistant cashier, the secretary, any assistant secretary, the treasurer, any assistant treasurer or senior trust officer, any trust officer or assistant trust officer, the controller or any

assistant controller or any other officer or assistant officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Security" shall mean Securities that bear or are required to bear the Securities Act legends set forth in Exhibit A hereto.

"Rule 144A" means Rule 144A under the Securities Act, as such Rule may be amended from time to time, or under any similar rule or regulation hereafter adopted by the Commission.

"Securities" means the securities issued hereunder.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Securityholder", "holder of Securities", or other similar terms, shall mean any person in whose name at the time a particular Security is registered on the register kept by the Company or the Trustee for that purpose in accordance with the terms hereof; provided, however, that, in determining whether the holders of the requisite percentage of principal amount of the Securities have given any request, notice, consent or waiver hereunder, "Holder" shall not include the Company or any Affiliate of the Company (other than Xerox Capital); and provided, further, that, in determining whether the holders of the requisite principal amount of Securities have voted on any matter provided for in this Indenture, then for purpose of such determination only (and not for any other purpose hereunder), if the Securities are held by the Property Trustee, the term "Holders" shall mean the holders of the Trust Securities, acting at the direction of the beneficial owners thereof.

"Security Register" shall mean (i) prior to a Trust Dissolution Event, the List of Holders provided to the Trustee pursuant to Section 4.01, and (ii) following a Trust Dissolution Event, any security register maintained by a security registrar for the Securities appointed by the Company following the execution of a supplemental indenture providing for transfer procedures as provided for in Section 2.07(a).

"Senior Indebtedness" shall mean, with respect to an obligor, (i) the principal, premium, if any, and interest in respect of (A) indebtedness of such obligor for money borrowed, and (B) indebtedness evidenced by securities, debentures, bonds or other similar instruments issued by such obligor, (ii) all capital lease obligations of such obligor, (iii) all obligations of such obligor issued or assumed as the deferred purchase price of property, all conditional sale obligations of such obligor and all obligations of such obligor under any title retention agreement (but excluding trade accounts payable arising in the ordinary course of business), (iv) all obligations of such obligor for the reimbursement on any letter of credit, banker's acceptance, security purchase facility or similar credit transaction, (v) all obligations of the type referred to in clauses (i) through (iv) above of other persons for the payment of which such obligor is responsible or liable as obligor, guarantor or otherwise and (vi) all obligations of the type referred to in clauses (i) through (v) above of other persons secured by any lien on any property or asset of such obligor (whether

or not such obligation is assumed by such obligor), except for any such indebtedness that is by its terms subordinated to or ranks pari passu with the Securities. Such Senior Indebtedness shall continue to be Senior Indebtedness and be entitled to the benefits of the subordination provisions irrespective of any amendment, modification or waiver of any term of such Senior Indebtedness.

"Special Redemption Price" means, with respect to the Securities, the following percentages of the principal amounts of such Securities called for redemption, and accrued and unpaid interest, if any, to but excluding the date of redemption if redeemed during the periods set forth below:

Period	Percentage
From December 4, 2004 to November 26, 2005	103.75%
From November 27, 2005 to November 26, 2006	102.50%
From November 27, 2006 to November 26, 2007	101.25%
After November 26, 2007	100.00%

"Subsidiary" shall mean with respect to any Person, (i) any corporation at least a majority of whose outstanding voting stock is owned, directly or indirectly, by such Person or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries, (ii) any general partnership, joint venture, limited liability company or similar entity, at least a majority of whose outstanding partnership, membership or similar interests shall at the time be owned by such Person, or by one or more of its Subsidiaries, or by such Person and one or more of its Subsidiaries and (iii) any limited partnership of which such Person or any of its Subsidiaries is a general partner. For the purposes of this definition, "voting stock" means shares, interests, participations or other equivalents in the equity interest (however designated) in such Person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such Person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

"Trust Dissolution Event" means the dissolution of Xerox Capital and the distribution of a Like Amount of Securities to holders of the Trust Securities.

"Trust Indenture Act" shall mean the Trust Indenture Act of 1939 as in force at the date of execution of this Indenture, except as provided in Section 9.03.

"Trust Securities" shall mean the Trust Preferred Securities and the Common Securities, collectively.

"Trust Securities Guarantee" means the Trust Securities Guarantee Agreement, dated as of November 27, 2001, between Xerox and the guarantee trustee thereto.

"Trustee" shall mean the Person identified as "Trustee" in the first paragraph hereof, and, subject to the provisions of Article VI hereof, shall also include its successors and assigns as Trustee hereunder

The term "Trustee" as used with respect to a particular series of the Securities shall mean the trustee with respect to that series.

"U.S. Government Obligations" shall mean securities that are (i) direct obligations of the United States of America for the payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case under clauses (i) or (ii) are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank or trust company as custodian with respect to any such U.S. Government Obligation or a specific payment of interest on or principal of any such U.S. Government Obligation held by such custodian for the account of the holder of a depository receipt, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of interest on or principal of the U.S. Government Obligation evidenced by such depository receipt.

"Xerox" means Xerox Corporation, a New York corporation, and its successors and assigns

"Xerox Capital" shall mean Xerox Capital Trust II, a Delaware business trust.

ARTICLE II

SECURITIES

SECTION 2.01. Forms Generally.

The Securities and the Trustee's certificate of authentication shall be substantially in the form of Exhibit A, the terms of which are incorporated in and made a part of this Indenture. The Securities may have notations, legends or endorsements required by law, stock exchange rule, agreements to which the Company is subject or usage. Each Security shall be dated the date of its authentication. The Securities shall be issued in denominations of $50 and integral multiples thereof.

SECTION 2.02. Execution and Authentication.

Any Member or Officer shall sign the Securities for the Company by manual or facsimile signature in the manner set forth in Exhibit A. If an Officer whose signature is on a Security no longer holds that office at the time the Security is authenticated, the Security shall nevertheless be valid. A Security shall not be valid until authenticated by the manual signature of an authorized officer of the Trustee. The signature of the Trustee shall be conclusive evidence that the Security has been authenticated under this Indenture. The form of Trustee's certificate of authentication to be borne by the Securities shall be substantially as set forth in Exhibit A hereto. The Trustee shall, upon a Company Order, authenticate for original issue up to, and the aggregate principal amount of Securities outstanding at any time may not exceed the sum of $1,067,010,400 aggregate principal amount of the Securities, except as provided in Sections 2.07, 2.08, 2.09 and 14.05.

SECTION 2.03. Form and Payment and Delivery.

Except as provided in Section 2.05, the Securities shall be issued in fully registered certificated form without interest coupons. Amounts due on or in respect of the Securities issued in certificated form will be payable or deliverable, the transfer of such Securities will be registrable and such Securities will be exchangeable for Securities bearing identical terms and provisions at the office or agency of the Company maintained for such purpose under Section 3.02; provided, however, that payment of interest with respect to the Securities may be made at the option of the Company (i) by check mailed to the holder at such address as shall appear in the Security Register or (ii) by transfer to an account maintained by the Person entitled thereto, provided that proper transfer instructions have been received in writing by the relevant record date. Notwithstanding the foregoing, so long as the holder of any Securities is the Property Trustee, the payment or delivery of any amounts due on or in respect of such Securities held by the Property Trustee will be made at such place and to such account as may be designated by the Property Trustee.

SECTION 2.04. Legends.

Except as otherwise determined by the Company in accordance with applicable law, each Security shall bear the applicable legends relating to restrictions on transfer pursuant to the securities laws in substantially the form set forth on Exhibit A hereto.

SECTION 2.05. Global Security.

(a) In connection with a Trust Dissolution Event,

(i) if any Trust Preferred Securities are held in book-entry form, the related certificates evidencing such securities shall be presented to the Trustee (if an arrangement with the Depositary has been maintained) by the Property Trustee in exchange for one or more Global Securities (as may be required pursuant to Section 2.07) in an aggregate principal amount equal to the aggregate liquidation amount of all outstanding Trust Preferred Securities, to be registered in the name of the Depositary, or its nominee, and delivered by the Trustee to the Depositary for crediting to the accounts of its participants pursuant to the instructions of the Property Trustee; the Company upon any such presentation shall execute one or more Global Securities in such aggregate principal amount and deliver the same to the Trustee for authentication and delivery in accordance with this Indenture; and payments on the Securities issued as a Global Security will be made to the Depositary; and

(ii) if any Trust Preferred Securities are held in certificated form, the related Definitive Securities may be presented to the Trustee by the Property Trustee and any Trust Preferred Security certificate which represents Trust Preferred Securities other than Trust Preferred Securities in book-entry form ("Non Book-Entry Trust Preferred Securities") will be deemed to represent beneficial interests in Securities presented to the Trustee by the Property Trustee having an aggregate principal amount equal to the aggregate liquidation amount of the Non Book-Entry Trust Preferred Securities until such Trust Preferred Security certificates are presented to the Security Registrar for

transfer or reissuance, at which time such Trust Preferred Security certificates will be cancelled and a Security, registered in the name of the holder of the Trust Preferred Security certificate or the transferee of the holder of such Trust Preferred Security certificate, as the case may be, with an aggregate principal amount equal to the aggregate liquidation amount of the Trust Preferred Security certificate cancelled, will be executed by the Company and delivered to the Trustee for authentication and delivery in accordance with the Indenture. Upon the issuance of such Securities, Securities with an equivalent aggregate principal amount that were presented by the Property Trustee to the Trustee will be deemed to have been cancelled.

(b) The Global Securities shall represent the aggregate amount of outstanding Securities from time to time endorsed thereon; provided, that the aggregate amount of outstanding Securities represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, conversions, purchases and redemptions. Any endorsement of a Global Security to reflect the amount of any increase or decrease in the amount of outstanding Securities represented thereby shall be made by the Trustee, in accordance with instructions given by the Company as required by this Section 2.05.

(c) The Global Securities may be transferred, in whole but not in part, only to the Depositary, another nominee of the Depositary, or to a successor Depositary selected or approved by the Company or to a nominee of such successor Depositary.

(d) If at any time the Depositary notifies the Company that it is unwilling or unable to continue as Depositary or the Depositary has ceased to be a clearing agency registered under the Exchange Act, and a successor Depositary is not appointed by the Company within 90 days after the Company receives such notice or becomes aware of such condition, as the case may be, the Company will execute, and the Trustee, upon written notice from the Company, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security. If there is an Event of Default, the Depositary shall have the right to exchange the Global Securities for Definitive Securities. In addition, the Company may at any time determine that the Securities shall no longer be represented by a Global Security. In the event of such an Event of Default or such a determination, the Company shall execute, and subject to Section 2.07, the Trustee, upon receipt of an Officers' Certificate evidencing such determination by the Company, will authenticate and make available for delivery the Definitive Securities, in authorized denominations, and in an aggregate principal amount equal to the principal amount of the Global Security in exchange for such Global Security. Upon the exchange of the Global Security for such Definitive Securities, in authorized denominations, the Global Security shall be cancelled by the Trustee. Such Definitive Securities issued in exchange for the Global Security shall be registered in such names and in such authorized denominations as the Depositary, pursuant to instructions from its direct or indirect participants or otherwise, shall instruct the Trustee. The Trustee shall deliver such Definitive Securities to the Depositary for delivery to the Persons in whose names such Definitive Securities are so registered.

SECTION 2.06. Interest.

(a) Each Security will bear interest at the rate of 7 1/2% per annum (the "Coupon Rate") from the most recent date to which interest has been paid or duly provided for or, if no interest has been paid or duly provided for, from the Issue Date, until the principal thereof becomes due and payable, and at the rate of 7 1/2% per annum on any overdue principal (and premium, if any) and (to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest, compounded quarterly, payable quarterly in arrears on February 27, May 27, August 27 and November 27 of each year (each, an "Interest Payment Date") commencing on February 27, 2002, to the Person in whose name such Security or any predecessor Security is registered, at the close of business on the regular record date for such interest installment, which shall be the Business Day or, if none of the Securities, the Xerox Debentures or the Trust Preferred Securities are being represented by global securities, the 15th calendar day, immediately preceding the relevant Interest Payment Date. The amount of interest payable on any Interest Payment Date, the applicable redemption date, the applicable Purchase Date, the Change in Control Purchase Date or the Maturity Date shall include interest accrued from and including the Issue Date or the last Interest Payment Date to which interest has been paid to but excluding such Interest Payment Date, such redemption date, such Purchase Date, such Change in Control Purchase Date or the Maturity Date, as applicable.

(b) Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months and, for any period of less than a full calendar month, the number of days lapsed in such month.

(c) During such time as Xerox Capital is the holder of any Securities, the Company shall pay any additional interest on the Securities in an amount sufficient so that the net amounts received and retained by the holder of the Securities after paying any taxes, duties, assessments or governmental charges of whatever nature, other than withholding taxes, imposed by the United States, or any other taxing authority will be equal to the amounts the holder of the Securities would have received had no such taxes, duties, assessments or other governmental charges been imposed ("Additional Interest").

(d) Notwithstanding Section 2.06(c) above, none of the Company, Xerox or Xerox Capital will be responsible for, nor will the Company, Xerox or Xerox Capital be required to compensate holders of or investors in the Trust Preferred Securities (or the Securities that may be distributed by Xerox Capital) for, any withholding taxes that are imposed on interest payments on the Securities or on distributions with respect to the Trust Preferred Securities.

(e) Notwithstanding anything to the contrary herein, for any date on which a payment on the Securities is due and payable, to the extent such payment is made or otherwise duly provided for on such date from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement, for all purposes of this Indenture, such payment shall be deemed to have been paid in full on such date.

SECTION 2.07. Transfer and Exchange.

(1) Transfer Restrictions. The Securities may not be transferred except in compliance with the legend contained in Exhibit A unless otherwise determined by the Company in accordance with applicable

law. Upon any distribution of the Securities following a Trust Dissolution Event, the Company and the Trustee shall enter into a supplemental indenture pursuant to Section 9.01 to provide for the transfer restrictions and procedures with respect to the Securities substantially similar to those contained in the Declaration to the extent applicable in the circumstances existing at such time.

(2) General Provisions Relating to Transfers and Exchanges Upon surrender for registration of transfer of any Security at the office or agency of the Company maintained for the purpose pursuant to Section 3.02, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of a like aggregate principal amount and such method shall be the only method of effecting a transfer of a Security.

At the option of the holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of a like aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the holder making the exchange is entitled to receive.

Every Security presented or surrendered for registration of transfer or exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the holder thereof or his attorney duly authorized in writing. All Definitive Securities and Global Securities issued upon any registration of transfer or exchange of Definitive Securities or Global Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Definitive Securities or Global Securities surrendered upon such registration of transfer or exchange.

No service charge shall be made to a holder for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith.

The Company shall not be required to (i) issue, register the transfer of or exchange Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Securities for redemption under Article XIV hereof and ending at the close of business on the day of such mailing; or (ii) register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unpaid portion of any Security being redeemed in part.

SECTION 2.08. Replacement Securities.

If any mutilated Security is surrendered to the Trustee, or the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Security, the Company shall issue and the Trustee shall authenticate a replacement Security if the Trustee's requirements for replacements of Securities are met. An indemnity bond must be supplied by the holder that is sufficient in the judgment of the Trustee

and the Company to protect the Company, the Trustee, any agent thereof or any authenticating agent from any loss that any of them may suffer if a Security is replaced. The Company or the Trustee may charge for its expenses in replacing a Security.

Every replacement Security is an obligation of the Company and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Securities duly issued hereunder.

SECTION 2.09. Temporary Securities.

Pending the preparation of definitive Securities, the Company may execute, and upon Company Order the Trustee shall authenticate and make available for delivery, temporary Securities that are printed, lithographed, typewritten, mimeographed or otherwise reproduced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as conclusively evidenced by their execution of such Securities.

If temporary Securities are issued, the Company shall cause definitive Securities to be prepared without unreasonable delay. The definitive Securities shall be printed, lithographed or engraved, or provided by any combination thereof, or in any other manner as the Company may elect to the extent (if such definitive Securities are listed thereon) permitted by the rules and regulations of any applicable securities exchange After the preparation of definitive Securities, the temporary Securities shall be exchangeable for definitive Securities upon surrender of the temporary Securities at the office or agency maintained by the Company for such purpose pursuant to Section 3.02 hereof, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities, the Company shall execute, and the Trustee shall authenticate and make available for delivery, in exchange therefor the same aggregate principal amount of definitive Securities of authorized denominations. Until so exchanged, the temporary Securities shall in all respects be entitled to the same benefits under this Indenture as definitive Securities.

SECTION 2.10. Cancellation.

The Company at any time may deliver Securities to the Trustee for cancellation. The Trustee and no one else shall cancel all Securities surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall retain or dispose of cancelled Securities in accordance with its normal practices (subject to the record retention requirement of the Exchange Act) unless the Company directs them to be returned to it. The Company may not issue new Securities to replace Securities that have been redeemed or paid or that have been delivered to the Trustee for cancellation.

SECTION 2.11. Defaulted Interest.

Any interest on any Security that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the holder on the relevant regular record date by virtue of having been such holder; and such Defaulted Interest shall be paid by the Company, at its

election, as provided in clause (a) or clause (b) below:

(a) The Company may make payment of any Defaulted Interest on Securities to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered at the close of business on a special record date for the payment of such Defaulted Interest, which shall be fixed in the following manner: the Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each such Security and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a special record date for the payment of such Defaulted Interest which shall not be more than 15 nor less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such special record date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the special record date therefor to be mailed, first class postage prepaid, to each Securityholder at his or her address as it appears in the Security Register, not less than 10 days prior to such special record date. Notice of the proposed payment of such Defaulted Interest and the special record date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names such Securities (or their respective Predecessor Securities) are registered on such special record date and shall be no longer payable pursuant to the following clause (b).

(b) The Company may make payment of any Defaulted Interest on any Securities in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

SECTION 2.12. CUSIP Numbers.

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of exchange, redemption, purchase and conversion as a convenience to Securityholders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of an exchange, redemption, purchase and conversion and that reliance may be placed only on the other identification numbers printed on the Securities, and any such exchange, redemption, purchase and conversion shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the CUSIP numbers.

ARTICLE III

PARTICULAR COVENANTS OF THE COMPANY

SECTION 3.01. Payment and Delivery of amounts Due.

The Company covenants and agrees for the benefit of the holders of the Securities that it will duly and punctually pay, deliver or cause to be paid or delivered all amounts due on or in respect of the Securities at the place, at the respective times and in the manner provided herein. Except as provided in Section 2.03, each installment of interest on the Securities may be paid by mailing checks for such interest payable to the order of the holder of Security entitled thereto as they appear in the Security Register.

SECTION 3.02. Offices for Notices and Payments, etc.

So long as any of the Securities remain outstanding, the Company will maintain in the Borough of Manhattan, The City of New York, an office or agency where the Securities may be presented for payment, an office or agency where the Securities may be presented for registration of transfer, for exchange, for purchase and conversion as in this Indenture provided and an office or agency where notices and demands to or upon the Company in respect of the Securities or of this Indenture may be served. The Company will give to the Trustee written notice of the location of any such office or agency and of any change of location thereof. Until otherwise designated from time to time by the Company in a notice to the Trustee, any such office or agency for all of the above purposes shall be the Principal Office of the Trustee. In case the Company shall fail to maintain any such office or agency in the Borough of Manhattan, The City of New York, or shall fail to give such notice of the location or of any change in the location thereof, presentations and demands may be made and notices may be served at the Principal Office of the Trustee.

In addition to any such office or agency, the Company may from time to time designate one or more offices or agencies outside the Borough of Manhattan, The City of New York, where the Securities may be presented for payment, registration of transfer and for exchange, for purchase and conversion in the manner provided in this Indenture, and the Company may from time to time rescind such designation, as the Company may deem desirable or expedient; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain any such office or agency in the Borough of Manhattan, The City of New York, for the purposes above mentioned. The Company will give to the Trustee prompt written notice of any such designation or rescission thereof.

SECTION 3.03. Appointments to Fill Vacancies in Trustee's Office.

The Company, whenever necessary to avoid or fill a vacancy in the office of Trustee, will appoint, in the manner provided in Section 6.10, a Trustee, so that there shall at all times be a Trustee hereunder.

SECTION 3.04. Provision as to Paying Agent.

(a) If the Company shall appoint a paying agent other than the Trustee with respect to the Securities, it will cause such paying agent to execute and deliver to the Trustee an instrument in which such agent shall agree with the Trustee, subject to the provision of this Section 3.04,

(1) that it will hold all sums held by it as such agent for the payment of the principal of and premium, if any, or interest on

the Securities (whether such sums have been paid to it by the Company or by any other obligor on the Securities of such series) in trust for the benefit of the holders of the Securities;

(2) that it will give the Trustee notice of any failure by the Company (or by any other obligor on the Securities) to make any payment of the principal of or premium (if any) or interest on the Securities when the same shall be due and payable; and

(3) that it will at any time during the continuance of any such failure, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by it as such paying agent.

(b) If the Company shall act as its own paying agent, it will, on or before each due date of the principal of and premium, if any, or interest on the Securities, set aside, segregate and hold in trust for the benefit of the holders of the Securities a sum sufficient to pay such principal, premium or interest so becoming due and will notify the Trustee of any failure to take such action and of any failure by the Company (or by any other obligor under the Securities) to make any payment of the principal of and premium, if any, or interest on the Securities when the same shall become due and payable.

(c) Anything in this Section 3.04 to the contrary notwithstanding, the Company may, at any time, for the purpose of obtaining a satisfaction and discharge with respect to the Securities hereunder, or for any other reason, pay or cause to be paid to the Trustee all sums held in trust for any such series by the Trustee or any paying agent hereunder, as required by this Section 3.04, such sums to be held by the Trustee upon the trusts herein contained.

(d) Anything in this Section 3.04 to the contrary notwithstanding, the agreement to hold sums in trust as provided in this Section 3.04 is subject to Sections 11.03 and 11.04.

(e) The Company appoints the Trustee as the initial paying agent (the "Paying Agent").

SECTION 3.05. Certificate to Trustee.

The Company will deliver to the Trustee on or before 120 days after the end of each fiscal year of the Company, commencing with the first fiscal year ending after the date hereof, so long as Securities are outstanding hereunder, an Officers' Certificate, one of the signers of which shall be the principal executive, principal financial or principal accounting officer of the Company stating that in the course of the performance by the signers of their duties as officers of the Company they would normally have knowledge of any default by the Company in the performance of any covenants contained herein, stating whether or not they have knowledge of any such default and, if so, specifying each such default of which the signers have knowledge and the nature thereof.

SECTION 3.06. Payment Upon Resignation or Removal.

Upon termination of this Indenture or the removal or resignation of the Trustee, unless otherwise stated, the Company shall pay to the Trustee all amounts accrued and owing to the date of such termination,

removal or resignation.

ARTICLE IV

SECURITYHOLDERS' LISTS AND REPORTS BY THE COMPANY AND THE TRUSTEE

SECTION 4.01. Lists of Securityholders.

(a) The Company shall provide the Trustee, unless the Trustee or one of its Affiliates is registrar for the Securities (i) within 14 days after each record date for payment of distributions on the Securities, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Securityholders ("List of Holders") as of such record date, provided that the Company shall not be obligated to provide such List of Holders at any time the List of Holders does not differ from the most recent List of Holders given to the Trustee by the Company, and (ii) at any other time, within 30 days of receipt by the Company of a written request for a List of Holders as of a date no more than 14 days before such List of Holders is given to the Trustee. The Trustee shall preserve, in as current a form as is reasonably practicable, all information contained in Lists of Holders given to it or which it receives in the capacity as paying agent for the Securities (if acting in such capacity), provided that the Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders. (b) The Trustee shall comply with its obligations under Sections 311(a), 311(b) and 312(b) of the Trust Indenture Act.

SECTION 4.02. Reports by the Trustee.

Within 60 days after December 15 of each year, commencing December 15, 2002, the Trustee shall provide to the Securityholders such reports as are required by Section 313 of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Property Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

SECTION 4.03. Periodic Reports to Trustee.

The Company shall provide to the Trustee such documents, reports and information as are required by Section 314 (if any) and the compliance certificate required by Section 314 of the Trust Indenture Act in the form, in the manner and at the times required by Section 314(a)(4) of the Trust Indenture Act, such compliance certificate to be delivered annually on or before 120 days after the end of each fiscal year of the Company.

ARTICLE V

REMEDIES OF THE TRUSTEE AND SECURITYHOLDERS ON EVENT OF DEFAULT

SECTION 5.01. Events of Default.

One or more of the following events of default shall constitute an Event of Default hereunder (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest upon any Security when it becomes due and payable, and continuance of such default for a period of 30 days, to the extent such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(b) default in the payment of all or any part of the principal of (or premium, if any), Redemption Price, Purchase Price or Change in Control Purchase Price on any Security as and when the same shall become due and payable either at maturity, upon redemption, upon purchase, by declaration of acceleration of maturity or otherwise, to the extent such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(c) the Company fails either to deliver shares of Common Stock (or to pay cash in lieu of fractional shares) or other consideration in accordance with the terms hereof when such Common Stock (or cash in lieu of fractional shares) or other consideration is required to be delivered, whether upon conversion or purchase, and such failure is not remedied for a period of 10 Business Days, to the extent any such cash payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement; or

(d) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with), and continuance of such default or breach for a period of 60 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the outstanding Securities a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(e) a court having jurisdiction in the premises shall enter a decree or order for relief in respect of the Company, Xerox or Xerox Capital (so long as the Trust Securities are outstanding) in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company, Xerox or Xerox Capital, as the case may be, or for any substantial part of their property, or ordering the winding-up or liquidation of their affairs and such decree or order shall remain unstayed and in effect for a period of 90 consecutive days;

(f) the Company, Xerox or Xerox Capital (so long as the Trust Securities are outstanding) shall commence a voluntary case under any applicable bankruptcy, insolvency, reorganization or other similar law now or hereafter in effect, shall consent to the entry of an order for relief in an involuntary case under any such law, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company, Xerox or Xerox Capital, as the case may be, or of any substantial part of their property, or shall make any general assignment for the benefit of creditors, or shall fail generally to pay their debts as they become due; or

(g) the occurrence and continuance of an Event of Default under the Xerox Indenture.

If an Event of Default with respect to Securities at the time outstanding occurs and is continuing, then in the cases specified in (e) and (f) above, the principal amount of all Securities automatically shall become immediately due and payable; in every other case specified above, the Trustee or the holders of not less than 25% in aggregate principal amount of the Securities then outstanding may declare the principal amount of all Securities to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by the holders of the outstanding Securities), and upon any such declaration the same shall become immediately due and payable.

The foregoing provisions, however, are subject to the condition that if, at any time after the principal of the Securities shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, (i) the Company shall pay or shall deposit with the Trustee a sum sufficient to pay (A) all matured installments of interest upon all the Securities and the principal of and premium, if any, on any and all Securities which shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that payment of such interest is enforceable under applicable law, on overdue installments of interest, at the same rate as the rate of interest specified in the Securities to the date of such payment or deposit) and (B) such amount as shall be sufficient to cover reasonable compensation to the Trustee and each predecessor Trustee, their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of gross negligence or bad faith, and (ii) any and all Events of Default under the Indenture, other than the non-payment of the principal of the Securities which shall have become due solely by such declaration of acceleration, shall have been cured, waived or otherwise remedied as provided herein, then, in every such case, the holders of a majority in aggregate principal amount of the Securities then outstanding, by written notice to the Company and to the Trustee, may rescind and annul such declaration and its consequences, but no such waiver or rescission and annulment shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

In case the Trustee shall have proceeded to enforce any right under this Indenture and such proceedings shall have been discontinued or abandoned because of such rescission or annulment or for any other reason or shall have been determined adversely to the Trustee, then and in every such case the Company, the Trustee and the holders of the Securities shall be restored respectively to their several positions and rights hereunder, and all rights, remedies and powers of the Company, the Trustee and the holders of the Securities shall continue as though no such proceeding had been taken.

SECTION 5.02. Payment of Securities on Default; Suit Therefor.

The Company covenants that (a) in case default shall be made in the payment of any installment of interest upon any of the Securities as and when the same shall become due and payable, and such default shall have continued for a period of 30 days, to the extent such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in

accordance with Section 5 of the Pledge Agreement, (b) in case default shall be made in the payment of the principal of or premium, if any, Redemption Price, Purchase Price or Change in Control Purchase Price on any of the Securities as and when the same shall have become due and payable, whether at maturity of the Securities or upon redemption, purchase or by declaration or otherwise, to the extent such payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement or (c) in case default shall be made in the delivery of shares of Common Stock (or to pay cash in lieu of fractional shares) or other consideration in accordance with the terms hereof when such Common Stock (or cash in lieu of fractional shares) or other consideration is required to be delivered, whether upon conversion or purchase, and such failure is not remedied for a period of 10 Business Days, to the extent any such cash payment is not made or otherwise duly provided for from proceeds from the Pledged Account in accordance with Section 5 of the Pledge Agreement, then, upon demand of the Trustee, the Company will pay or deliver to the Trustee, for the benefit of the holders of the Securities, the whole amount that then shall have become due and payable or deliverable on all such Securities including the Redemption Price, Purchase Price or Change in Control Purchase Price, with interest upon such overdue amounts, if any, and (to the extent that payment of such interest is enforceable under applicable law and, if the Securities are held by Xerox Capital, without duplication of any other amounts paid by Xerox Capital in respect thereof) upon the overdue installments of interest at the rate borne by the Securities; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including a reasonable compensation to the Trustee, its agents, attorneys and counsel, and any expenses or liabilities incurred by the Trustee hereunder other than through its gross negligence or bad faith.

In case the Company shall fail forthwith to pay such amounts upon such demand, the Trustee, in its own name and as trustee of an express trust, shall be entitled and empowered to institute any actions or proceedings at law or in equity for the collection of the sums so due and decree, and may enforce any such judgment or final decree against the Company or any other obligor on the Securities and collect in the manner provided by law out of the property of the Company or any other obligor on the Securities wherever situated the moneys adjudged or decreed to be payable.

In case there shall be pending proceedings for the bankruptcy or for the reorganization of the Company or any other obligor on the Securities under Title 11, United States Code, or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Company or such other obligor, or in the case of any other similar judicial proceedings relative to the Company or other obligor upon the Securities, or to the creditors or property of the Company or such other obligor, the Trustee, irrespective of whether the principal of the Securities shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.02, shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Securities and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and

for reimbursement of all expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee, except as a result of gross negligence or bad faith) and of the Securityholders allowed in such judicial proceedings relative to the Company or any other obligor on the Securities, or to the creditors or property of the Company or such other obligor, unless prohibited by applicable law and regulations, to vote on behalf of the holders of the Securities in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency proceedings or person performing similar functions in comparable proceedings, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute the same after the deduction of its charges and expenses; and any receiver, assignee or trustee in bankruptcy or reorganization is hereby authorized by each of the Securityholders to make such payments to the Trustee, and, in the event that the Trustee shall consent to the making of such payments directly to the Securityholders, to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of gross negligence or bad faith.

Nothing herein contained shall be construed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Securityholder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any holder thereof or to authorize the Trustee to vote in respect of the claim of any Securityholder in any such proceeding.

All rights of action and of asserting claims under this Indenture, or under any of the Securities, may be enforced by the Trustee without the possession of any of the Securities, or the production thereof on any trial or other proceeding relative thereto, and any such suit or proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be for the ratable benefit of the holders of the Securities.

In any proceedings brought by the Trustee (and also any proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party) the Trustee shall be held to represent all the holders of the Securities, and it shall not be necessary to make any holders of the Securities parties to any such proceedings.

SECTION 5.03. Application of Moneys Collected by Trustee.

Any moneys and properties collected by the Trustee shall be applied in the order following, at the date or dates fixed by the Trustee for the distribution of such moneys and properties, upon presentation of the Securities in respect of which moneys have been collected, and stamping thereon the payment, if only partially paid, and upon surrender thereof if fully paid:

First: To the payment of costs and expenses of collection applicable to the Securities and reasonable compensation to the Trustee, its agents, attorneys and counsel, and of all other expenses and liabilities incurred, and all advances made, by the Trustee except as a result of its negligence or bad faith;

Second: To the payment of all Senior Indebtedness of the Company if and to the extent required by Article XVII;

Third: To the payment or delivery of the amounts then due and unpaid upon Securities for principal of (and premium, if any), Redemption Price, Purchase Price or Change in Control Purchase Price and interest on the Securities, in respect of which or for the benefit of which money has been collected, ratably, without preference of priority of any kind, according to the amounts due on such Securities; and

Fourth: To the Company.

SECTION 5.04. Proceedings by Securityholders.

No holder of any Security shall have any right by virtue of or by availing of any provision of this Indenture to institute any suit, action or proceeding in equity or at law upon or under or with respect to this Indenture or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless such holder previously shall have given to the Trustee written notice of an Event of Default and of the continuance thereof with respect to the Securities specifying such Event of Default, as hereinbefore provided, and unless also the holders of not less than 25% in aggregate principal amount of the Securities then outstanding shall have made written request upon the Trustee to institute such action, suit or proceeding in its own name as Trustee hereunder and shall have offered to the Trustee such reasonable security or indemnity as it may require against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee for 60 days after its receipt of such notice, request and offer of indemnity shall have failed to institute any such action, suit or proceeding, it being understood and intended, and being expressly covenanted by the taker and holder of every Security with every other taker and holder and the Trustee, that no one or more holders of Securities shall have any right in any manner whatever by virtue of or by availing of any provision of this Indenture to affect, disturb or prejudice the rights of any other holder of Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities.

Notwithstanding any other provisions in this Indenture, however, the right of any holder of any Security to receive payment of the principal of (premium, if any) and interest on such Security, on or after the same shall have become due and payable, or to institute suit for the enforcement of any such payment, shall not be impaired or affected without the consent of such holder and by accepting a Security hereunder it is expressly understood, intended and covenanted by the taker and holder of every Security with every other such taker and holder and the Trustee, that no one or more holders of Securities shall have any right in any manner whatsoever by virtue or by availing itself of any provision of this Indenture to affect, disturb or prejudice the rights of the holders of any other Securities, or to obtain or seek to obtain priority over or preference to any other such holder, or to enforce any right under this Indenture, except in the manner herein provided and for the equal, ratable and common benefit of all holders of Securities. For the protection and enforcement of the provisions of this Section, each and every Securityholder and the Trustee shall be entitled to such relief as can be given either at law or in equity.

The Company and the Trustee acknowledge that so long as the Securities are held by the Property Trustee, pursuant to the Declaration, the holders of Trust Preferred Securities are entitled, in the circumstances and subject to the limitations set forth therein, to commence a Direct Action with respect to any Event of Default under this Indenture and the Securities.

SECTION 5.05. Proceedings by Trustee.

In case an Event of Default occurs with respect to Securities and is continuing, the Trustee may in its discretion proceed to protect and enforce the rights vested in it by this Indenture by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any of such rights, either by suit in equity or by action at law or by proceeding in bankruptcy or otherwise, whether for the specific enforcement of any covenant or agreement contained in this Indenture or in aid of the exercise of any power granted in this Indenture, or to enforce any other legal or equitable right vested in the Trustee by this Indenture or by law.

SECTION 5.06. Remedies Cumulative and Continuing.

All powers and remedies given by this Article V to the Trustee or to the Securityholders shall, to the extent permitted by law, be deemed cumulative and not exclusive of any other powers and remedies available to the Trustee or the holders of the Securities, by judicial proceedings or otherwise, to enforce the performance or observance of the covenants and agreements contained in this Indenture or otherwise established with respect to the Securities, and no delay or omission of the Trustee or of any holder of any of the Securities to exercise any right or power accruing upon any Event of Default occurring and continuing as aforesaid shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence therein; and, subject to the provisions of Section 5.04, every power and remedy given by this Article V or by law to the Trustee or to the Securityholders may be exercised from time to time, and as often as shall be deemed expedient, by the Trustee or by the Securityholders.

SECTION 5.07. Direction of Proceedings and Waiver of Defaults by Majority of Securityholders.

The holders of a majority in aggregate principal amount of the Securities at the time outstanding shall have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee; provided, however, that (subject to the provisions of Section 6.01) the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed would be unjustly prejudicial to the holders not taking part in such direction or if the Trustee being advised by counsel determines that the action or proceeding so directed may not lawfully be taken or if the Trustee in good faith by its board of directors or trustees, executive committee, or a trust committee of directors or trustees and/or Responsible Officers shall determine that the action or proceedings so directed would involve the Trustee in personal liability. Prior to any declaration accelerating the maturity of the Securities, the holders of a majority in aggregate principal amount of the Securities at the time outstanding may on behalf of the holders of all of the Securities waive any past default or Event of Default and its consequences

except a default (a) in the payment of principal of or premium, if any, Redemption Price, Purchase Price, Change in Control Purchase Price or interest on any of the Securities or delivery of Common Stock or other consideration upon conversion or purchase or (b) in respect of covenants or provisions hereof which cannot be modified or amended without the consent of the holder of each Security affected; provided, however, that if the Securities are held by the Property Trustee, such waiver or modification to such waiver shall not be effective until the holders of a majority in aggregate liquidation amount of Trust Securities shall have consented to such waiver or modification or amendment; provided further, that if the consent of the holder of each affected Security is required, such waiver shall not be effective until each holder of the Trust Securities shall have consented to such waiver. Upon any such waiver, the default covered thereby shall be deemed to be cured for all purposes of this Indenture and the Company, the Trustee and the holders of the Securities shall be restored to their former positions and rights hereunder, respectively; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon. Whenever any default or Event of Default hereunder shall have been waived as permitted by this Section 5.07, said default or Event of Default shall for all purposes of the Securities and this Indenture be deemed to have been cured and to be not continuing.

SECTION 5.08. Notice of Defaults.

The Trustee shall, within 90 days after the occurrence of a default with respect to the Securities mail to all Securityholders, as the names and addresses of such holders appear upon the Security Register, notice of all defaults known to the Trustee, unless such defaults shall have been cured before the giving of such notice (the term "defaults" for the purpose of this Section 5.08 being hereby defined to be the events specified in clauses (a), (b), (c), (d), (e) and (f) of Section 5.01, not including periods of grace, if any, provided for therein, and irrespective of the giving of written notice specified in clause (d) of Section 5.01); and provided that, except in the case of default in the payment or delivery of any amounts due and payable on any of the Securities, the Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interests of the Securityholders; and provided further, that in the case of any default of the character specified in Section 5.01(d) no such notice to Securityholders shall be given until at least 45 days after the occurrence thereof but shall be given within 60 days after such occurrence.

SECTION 5.09. Undertaking to Pay Costs.

All parties to this Indenture agree, and each holder of any Security by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees and expenses, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.09 shall not apply to any suit instituted by the Trustee, to any suit instituted

by any Securityholder, or group of Securityholders, holding in the aggregate more than 10% in aggregate principal amount of the Securities outstanding, or to any suit instituted by any Securityholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Security against the Company on or after the same shall have become due and payable.

ARTICLE VI

CONCERNING THE TRUSTEE

SECTION 6.01. Duties and Responsibilities of Trustee.

With respect to the holders of the Securities issued hereunder, the Trustee, prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred, undertakes to perform such duties and only such duties as are specifically set forth in this Indenture. In case an Event of Default has occurred (which has not been cured or waived) the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act or its own willful misconduct, except that

(a) prior to the occurrence of an Event of Default and after the curing or waiving of all Events of Default which may have occurred

(1) the duties and obligations of the Trustee shall be determined solely by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(2) in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; but, in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Indenture;

(b) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts; and

(c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith, in accordance with the direction of the Securityholders pursuant to Section 5.07, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture.

None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there is reasonable ground for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Indenture or adequate indemnity against such risk is not reasonably assured to it.

SECTION 6.02. Reliance on Documents, Opinions, etc.

Except as otherwise provided in Section 6.01:

(a) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, note, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request, direction, order or demand of the Company mentioned herein may be sufficiently evidenced by an Officers' Certificate (unless other evidence in respect thereof be herein specifically prescribed) certified by the Secretary or an Assistant Secretary of the Company;

(c) the Trustee may consult with counsel of its selection and any advice or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or suffered omitted by it hereunder in good faith and in accordance with such advice or Opinion of Counsel;

(d) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Securityholders, pursuant to the provisions of this Indenture, unless such Securityholders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which may be incurred therein or thereby;

(e) the Trustee shall not be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture; nothing contained herein shall, however, relieve the Trustee of the obligation, upon the occurrence of an Event of Default (that has not been cured or waived), to exercise such of the rights and powers vested in it by this Indenture, and to use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, approval, bond, debenture, coupon or other paper or document, unless requested in writing to do so by the holders of a majority in aggregate principal amount of the outstanding Securities; provided, however, that if the payment within a reasonable time to the Trustee of the costs, expenses or liabilities likely to be incurred by it in the making of such investigation is, in the opinion of the Trustee, not reasonably assured to the Trustee by the security afforded to it by the terms of this Indenture,

the Trustee may require reasonable indemnity against such expense or liability as a condition to so proceeding; and

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents (including any Authenticating Agent) or attorneys, and the Trustee shall not be responsible for any misconduct or negligence on the part of any such agent or attorney appointed by it with due care.

SECTION 6.03. No Responsibility for Recitals, etc.

The recitals contained herein and in the Securities (except in the certificate of authentication of the Trustee or the Authenticating Agent) shall be taken as the statements of the Company and the Trustee and the Authenticating Agent assume no responsibility for the correctness of the same. The Trustee and the Authenticating Agent make no representations as to the validity or sufficiency of this Indenture or of the Securities. The Trustee and the Authenticating Agent shall not be accountable for the use or application by the Company of any Securities or the proceeds of any Securities authenticated and delivered by the Trustee or the Authenticating Agent in conformity with the provisions of this Indenture.

SECTION 6.04. Trustee, Authenticating Agent, Paying Agents, Transfer Agents or Registrar May Own Securities.

The Trustee or any Authenticating Agent or any paying agent or any transfer agent or any Security registrar, in its individual or any other capacity, may become the owner or pledgee of Securities with the same rights it would have if it were not Trustee, Authenticating Agent, paying agent, transfer agent or Security registrar.

SECTION 6.05. Moneys to be Held in Trust.

Subject to the provisions of Section 11.04, all moneys received by the Trustee or any paying agent shall, until used or applied as herein provided, be held in trust for the purpose for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee and any paying agent shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company. So long as no Event of Default shall have occurred and be continuing, all interest allowed on any such moneys shall be paid from time to time upon the written order of the Company, signed by an Officer of the Company.

SECTION 6.06. Compensation and Expenses of Trustee.

The Company, as borrower, covenants and agrees to pay to the Trustee from time to time, and the Trustee shall be entitled to, such compensation as shall be agreed to in writing between the Company and the Trustee (which shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust), and the Company will pay or reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any of the provisions of this Indenture (including the reasonable compensation and the expenses and disbursements of its counsel and of all persons not regularly in its employ) except any such expense, disbursement or advance as may arise from its gross negligence or bad faith. The Company

also covenants to indemnify each of the Trustee or any predecessor Trustee (and its officers, agents, directors and employees) for, and to hold it harmless against, any and all loss, damage, claim, liability or expense including taxes (other than taxes based on the income of the Trustee) incurred without gross negligence or bad faith on the part of the Trustee and arising out of or in connection with the acceptance or administration of this trust, including the costs and expenses of defending itself against any claim of liability in the premises. The obligations of the Company under this Section 6.06 to compensate and indemnify the Trustee and to pay or reimburse the Trustee for expenses, disbursements and advances shall constitute additional indebtedness hereunder. Such additional indebtedness shall be secured by a lien prior to that of the Securities upon all property and funds held or collected by the Trustee as such, except funds held in trust for the benefit of the holders of particular Securities.

Without prejudice to any other rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 5.01(e) or Section 5.01(f), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable federal or state bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture and the resignation or removal of the Trustee.

SECTION 6.07. Officers' Certificate as Evidence.

Except as otherwise provided in Sections 6.01 and 6.02, whenever in the administration of the provisions of this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or omitting any action hereunder, such matter (unless other evidence in respect thereof is herein specifically prescribed) may, in the absence of gross negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by an Officers' Certificate delivered to the Trustee, and such certificate, in the absence of negligence or bad faith on the part of the Trustee, shall be full warrant to the Trustee for any action taken or omitted by it under the provisions of this Indenture upon the faith thereof.

SECTION 6.08. Conflicting Interest of Trustee.

If the Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Trustee and the Company shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act. The Declaration and Indenture shall be deemed to be specifically described in this Indenture for the purposes of clause (i) of the first proviso contained in Section 310(b) of the Trust Indenture Act.

SECTION 6.09. Eligibility of Trustee.

The Trustee hereunder shall at all times be a corporation organized and doing business under the laws of the United States of America or any state or territory thereof or of the District of Columbia or a corporation or other Person permitted to act as trustee by the Commission authorized under such laws to exercise corporate trust powers, having a

combined capital and surplus of at least 50 million U.S. dollars ($50,000,000)and subject to supervision or examination by federal, state, territorial, or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.09 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. The Company may not, nor may any Person directly or indirectly controlling, controlled by, or under common control with the Company, serve as Trustee. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.09, the Trustee shall resign immediately in the manner and with the effect specified in Section 6.10.

SECTION 6.10. Resignation or Removal of Trustee.

(a) The Trustee, or any trustee or trustees hereafter appointed, may at any time resign by giving written notice of such resignation to the Company and by mailing notice thereof to the holders of the Securities at their addresses as they shall appear on the Security Register. Upon receiving such notice of resignation, the Company shall promptly appoint a successor trustee or trustees by written instrument, in duplicate, one copy of which instrument shall be delivered to the resigning Trustee and one copy to the successor trustee. If no successor trustee shall have been so appointed and have accepted appointment within 60 days after the mailing of such notice of resignation to the Securityholders, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Securityholder who has been a bona fide holder of a Security for at least six months may, subject to the provisions of Section 5.09, on behalf of himself and all others similarly situated, petition any such court for the appointment of a successor trustee Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor trustee.

(b) In case at any time any of the following shall occur:

(1) the Trustee shall fail to comply with the provisions of Section 6.08 after written request therefor by the Company or Securities for at least six months, or

(2) the Trustee shall cease to be eligible in accordance with the provisions of Section 6.09 and shall fail to resign after written request therefor by the Company or by any such Securityholder, or

(3) the Trustee shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Company may remove the Trustee and appoint a successor trustee by written instrument, in duplicate, one copy of which instrument shall be delivered to the Trustee so removed and one copy to the successor trustee, or, subject to the provisions of Section 5.09, any Securityholder who has been a bona fide holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal

of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, remove the Trustee and appoint a successor trustee.

(c) The holders of a majority in aggregate principal amount of the Securities at the time outstanding may at any time remove the Trustee and nominate a successor trustee, which shall be deemed appointed as successor trustee unless within 10 days after such nomination the Company objects thereto or if no successor trustee shall have been so appointed and shall have accepted appointment within 30 days after such removal, in which case the Trustee so removed or any Securityholder, upon the terms and conditions and otherwise as in subsection (a) of this Section 6.10 provided, may petition any court of competent jurisdiction for an appointment of a successor trustee.

(d) Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of this Section 6.10 shall become effective upon acceptance of appointment by the successor trustee as provided in Section 6.11.

SECTION 6.11. Acceptance by Successor Trustee.

Any successor trustee appointed as provided in Section 6.10 shall execute, acknowledge and deliver to the Company and to its predecessor trustee an instrument accepting such appointment hereunder, and thereupon the resignation or removal of the retiring trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, duties and obligations of its predecessor hereunder, with like effect as if originally named as trustee herein; but, nevertheless, on the written request of the Company or of the successor trustee, the trustee ceasing to act shall, upon payment of any amounts then due it pursuant to the provisions of Section 6.06, execute and deliver an instrument transferring to such successor trustee all the rights and powers of the trustee so ceasing to act and shall duly assign, transfer and deliver to such successor trustee all property and money held by such retiring trustee thereunder. Upon request of any such successor trustee, the Company shall execute any and all instruments in writing for more fully and certainly vesting in and confirming to such successor trustee all such rights and powers. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure any amounts then due it pursuant to the provisions of Section 6.06.

No successor trustee shall accept appointment as provided in this Section 6.11 unless at the time of such acceptance such successor trustee shall be qualified under the provisions of Section 6.08 and eligible under the provisions of Section 6.09.

Upon acceptance of appointment by a successor trustee as provided in this Section 6.11, the Company shall mail notice of the succession of such trustee hereunder to the holders of Securities at their addresses as they shall appear on the Security Register. If the Company fails to mail such notice within 10 days after the acceptance of appointment by the successor trustee, the successor trustee shall cause such notice to be mailed at the expense of the Company.

SECTION 6.12. Succession by Merger, etc.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder without the execution or filing of any paper or any further act on the part of any of the parties hereto.

In case at the time such successor to the Trustee shall succeed to the trusts created by this Indenture any Securities shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Securities so authenticated; and in case at that time any of the Securities shall not have been authenticated, any successor to the Trustee may authenticate such Securities either in the name of any predecessor hereunder or in the name of the successor trustee; and in all such cases such certificates shall have the full force which the Securities or this Indenture elsewhere provides that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or authenticate Securities in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

SECTION 6.13. Limitation on Rights of Trustee as a Creditor.

The Trustee shall comply with Section 311(a) of the Trust Indenture Act, excluding any creditor relationship described in Section 311(b) of the Trust Indenture Act. A Trustee who has resigned or been removed shall be subject to Section 311(a) of the Trust Indenture Act to the extent included therein.

SECTION 6.14. Authenticating Agents.

There may be one or more Authenticating Agents appointed by the Trustee upon the request of the Company with power to act on its behalf and subject to its direction in the authentication and delivery of Securities issued upon exchange or transfer thereof as fully to all intents and purposes as though any such Authenticating Agent had been expressly authorized to authenticate and deliver Securities; provided, that the Trustee shall have no liability to the Company for any acts or omissions of the Authenticating Agent with respect to the authentication and delivery of Securities.

Any such Authenticating Agent shall at all times be a corporation organized and doing business under the laws of the United States or of any state or territory thereof or of the District of Columbia authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of at least $5,000,000 and being subject to supervision or examination by federal, state, territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section 6.14 the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and

with the effect herein specified in this Section. Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section 6.14 without the execution or filing of any paper or any further act on the part of the parties hereto or such Authenticating Agent. Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and to the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section 6.14, the Trustee may, and upon the request of the Company shall, promptly appoint a successor Authenticating Agent eligible under this Section 6.14, shall give written notice of such appointment to the Company and shall mail notice of such appointment to all Securityholders as the names and addresses of such holders appear on the Security Register. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all rights, powers, duties and responsibilities of its predecessor hereunder, with like effect as if originally named as Authenticating Agent herein.

The Company, as borrower, agrees to pay to any Authenticating Agent from time to time reasonable compensation for its services. Any Authenticating Agent shall have no responsibility or liability for any action taken by it as such in accordance with the directions of the Trustee.

SECTION 6.15. Appointment of Conversion Agent. The Company shall maintain in the Borough of Manhattan, The City of New York, an office or agency where Securities may be presented for conversion (the "Conversion Agent"). The Company may appoint the Conversion Agent and may appoint one or more additional conversion agents in such other locations as it shall determine. The term "Conversion Agent" includes any additional conversion agent. The Company may change any Conversion Agent without prior notice to any holder. The Conversion Agent shall be permitted to resign as Conversion Agent upon 30 days' written notice to the Company. Upon such resignation, the Company shall notify the holders of the name and address of any Conversion Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Conversion Agent, the Trustee or any Affiliate thereof designated by the Trustee which meets the requirements of Section 6.09 hereof shall act as such. The Company or any of its Affiliates may act as Conversion Agent.

The Trust initially appoints Wells Fargo Bank Minnesota, National Association as Conversion Agent for the Securities.

ARTICLE VII

CONCERNING THE SECURITYHOLDERS

SECTION 7.01. Action by Securityholders.

Whenever in this Indenture it is provided that the holders

of a specified percentage in aggregate principal amount of the Securities may take any action (including the making of any demand or request, the giving of any notice, consent or waiver or the taking of any other action) the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced (a) by any instrument or any number of instruments of similar tenor executed by such Securityholders in person or by agent or proxy appointed in writing, or (b) by the record of such holders of Securities voting in favor thereof at any meeting of such Securityholders duly called and held in accordance with the provisions of Article VIII, or (c) by a combination of such instrument or instruments and any such record of such a meeting of such Securityholders.

If the Company shall solicit from the Securityholders any request, demand, authorization, direction, notice, consent, waiver or other action, the Company may, at its option, as evidenced by an Officers' Certificate, fix in advance a record date for the determination of Securityholders entitled to give such request, demand, authorization, direction, notice, consent, waiver or other action or to revoke any such action, but the Company shall have no obligation to do so. If such a record date is fixed, such request, demand, authorization, direction, notice, consent, waiver or other action or revocation may be given before or after the record date, but only the Securityholders of record at the close of business on the record date shall be deemed to be Securityholders for the purposes of determining whether Securityholders of the requisite proportion of outstanding Securities have authorized or agreed or consented to such request, demand, authorization, direction, notice, consent, waiver or other action, and for that purpose the outstanding Securities shall be computed as of the record date; provided, however, that no such authorization, agreement or consent by such Securityholders on the record date shall be deemed effective unless it shall become effective pursuant to the provisions of this Indenture not later than six months after the record date.

SECTION 7.02. Proof of Execution by Securityholders.

Subject to the provisions of Section 6.01, 6.02 and 8.05, proof of the execution of any instrument by a Securityholder or his agent or proxy shall be sufficient if made in accordance with such reasonable rules and regulations as may be prescribed by the Trustee or in such manner as shall be satisfactory to the Trustee. The ownership of Securities shall be proved by the Security Register or by a certificate of the Security registrar. The Trustee may require such additional proof of any matter referred to in this Section as it shall deem necessary.

The record of any Securityholders' meeting shall be proved in the manner provided in Section 8.06.

SECTION 7.03. Who Are Deemed Absolute Owners.

Prior to due presentment for registration of transfer of any Security, the Company, the Trustee, any Authenticating Agent, any paying agent, any transfer agent and any Security registrar may deem the person in whose name such Security shall be registered upon the Security Register to be, and may treat him as, the absolute owner of such Security (whether or not such Security shall be overdue) for the purpose of receiving payment of or on account of the principal of and premium, if any, Redemption Price, Purchase Price and Change in Control Purchase Price and (subject to Section 2.06) interest on such Security and for all other

purposes; and neither the Company nor the Trustee nor any Authenticating Agent nor any paying agent nor any transfer agent nor any Security registrar shall be affected by any notice to the contrary. All such payments so made to any holder for the time being or upon his order shall be valid, and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Security.

SECTION 7.04. Securities Owned by Company Deemed Not Outstanding.

In determining whether the holders of the requisite aggregate principal amount of Securities have concurred in any direction, consent or waiver under this Indenture, Securities which are owned by the Company or any other obligor on the Securities or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (other than Xerox Capital) or any other obligor on the Securities shall be disregarded and deemed not to be outstanding for the purpose of any such determination; provided that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Securities which the Trustee actually knows are so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this Section 7.04 if the pledgee shall establish to the satisfaction of the Trustee the pledgee's right to vote such Securities and that the pledgee is not the Company or any such other obligor or person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company or any such other obligor. In the case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

SECTION 7.05. Revocation of Consents; Future Holders Bound

At any time prior to (but not after) the evidencing to the Trustee, as provided in Section 7.01, of the taking of any action by the holders of the percentage in aggregate principal amount of the Securities specified in this Indenture in connection with such action, any holder of a Security (or any Security issued in whole or in part in exchange or substitution therefor), subject to Section 7.01, the serial number of which is shown by the evidence to be included in the Securities the holders of which have consented to such action may, by filing written notice with the Trustee at its principal office and upon proof of holding as provided in Section 7.02, revoke such action so far as concerns such Security (or so far as concerns the principal amount represented by any exchanged or substituted Security). Except as aforesaid any such action taken by the holder of any Security shall be conclusive and binding upon such holder and upon all future holders and owners of such Security, and of any Security issued in exchange or substitution therefor, irrespective of whether or not any notation in regard thereto is made upon such Security or any Security issued in exchange or substitution therefor.

ARTICLE VIII

SECURITYHOLDERS' MEETINGS

SECTION 8.01. Purposes of Meetings.

A meeting of Securityholders may be called at any time and

from time to time pursuant to the provisions of this Article VIII for any of the following purposes:

(a) to give any notice to the Company or to the Trustee, or to give any directions to the Trustee, or to consent to the waiving of any default hereunder and its consequences, or to take any other action authorized to be taken by Securityholders pursuant to any of the provisions of Article V;

(b) to remove the Trustee and nominate a successor trustee pursuant to the provisions of Article VI;

(c) to consent to the execution of an indenture or indentures supplemental hereto pursuant to the provisions of Section 9.02; or

(d) to take any other action authorized to be taken by or on behalf of the holders of any specified aggregate principal amount of such Securities under any other provision of this Indenture or under applicable law.

SECTION 8.02. Call of Meetings by Trustee.

The Trustee may at any time call a meeting of Securityholders to take any action specified in Section 8.01, to be held at such time and at such place in the Borough of Manhattan, The City of New York, as the Trustee shall determine. Notice of every meeting of the Securityholders, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be mailed to holders of Securities at their addresses as they shall appear on the Securities Register. Such notice shall be mailed not less than 20 nor more than 180 days prior to the date fixed for the meeting.

SECTION 8.03. Call of Meetings by Company or Securityholders.

In case at any time the Company or the holders of at least 10% in aggregate principal amount of the Securities then outstanding, shall have requested the Trustee to call a meeting of Securityholders, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, and the Trustee shall not have mailed the notice of such meeting within 20 days after receipt of such request, then the Company or such Securityholders may determine the time and the place in said Borough of Manhattan for such meeting and may call such meeting to take any action authorized in Section 8.01, by mailing notice thereof as provided in Section 8.02.

SECTION 8.04. Qualifications for Voting.

To be entitled to vote at any meeting of Securityholders a person shall (a) be a holder of one or more Securities or (b) a person appointed by an instrument in writing as proxy by a holder of one or more Securities. The only persons who shall be entitled to be present or to speak at any meeting of Securityholders shall be the persons entitled to vote at such meeting and their counsel and any representatives of the Trustee and its counsel and any representatives of the Company and its counsel.

SECTION 8.05. Regulations.

Notwithstanding any other provisions of this Indenture, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of Securityholders, in regard to proof of the holding of Securities and of the appointment of proxies, and in regard to the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall think fit.

The Trustee shall, by an instrument in writing, appoint a temporary chairman of the meeting, unless the meeting shall have been called by the Company or by Securityholders as provided in Section 8.03, in which case the Company or the Securityholders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman. A permanent chairman and a permanent secretary of the meeting shall be elected by majority vote of the meeting.

Subject to the provisions of Section 8.04, at any meeting each holder of Securities or proxy therefor shall be entitled to one vote for each $50 principal amount of Securities held or represented by him; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not outstanding and ruled by the chairman of the meeting to be not outstanding. The chairman of the meeting shall have no right to vote other than by virtue of Securities held by him or instruments in writing as aforesaid duly designating him as the person to vote on behalf of other Securityholders. Any meeting of Securityholders duly called pursuant to the provisions of Section 8.02 or 8.03 may be adjourned from time to time by a majority of those present, whether or not constituting a quorum, and the meeting may be held as so adjourned without further notice

SECTION 8.06. Voting.

The vote upon any resolution submitted to any meeting of holders of Securities shall be by written ballots on which shall be subscribed the signatures of such holders or of their representatives by proxy and the serial number or numbers of the Securities held or represented by them. The permanent chairman of the meeting shall appoint two inspectors of votes who shall count all votes cast at the meeting for or against any resolution and who shall make and file with the secretary of the meeting their verified written reports in triplicate of all votes cast at the meeting. A record in duplicate of the proceedings of each meeting of Securityholders shall be prepared by the secretary of the meeting and there shall be attached to said record the original reports of the inspectors of votes on any vote by ballot taken thereat and affidavits by one or more persons having knowledge of the facts setting forth a copy of the notice of the meeting and showing that said notice was mailed as provided in Section 8.02. The record shall show the serial numbers of the Securities voting in favor of or against any resolution. The record shall be signed and verified by the affidavits of the permanent chairman and secretary of the meeting and one of the duplicates shall be delivered to the Company and the other to the Trustee to be preserved by the Trustee, the latter to have attached thereto the ballots voted at the meeting.

Any record so signed and verified shall be conclusive evidence of the matters therein stated.

ARTICLE IX

AMENDMENTS

SECTION 9.01. Without Consent of Securityholders.

The Company and the Trustee may from time to time and at any time amend the Indenture, without the consent of the Securityholders, for one or more of the following purposes:

(a) to evidence the succession of another corporation to the Company, or successive successions, and the assumption by the successor corporation of the covenants, agreements and obligations of the Company pursuant to Article X hereof;

(b) to add to the covenants of the Company such further covenants, restrictions or conditions for the protection of the Securityholders as the Company and the Trustee shall consider to be for the protection of the Securityholders, and to make the occurrence, or the occurrence and continuance, of a default in any of such additional covenants, restrictions or conditions a default or an Event of Default permitting the enforcement of all or any of the remedies provided in this Indenture as herein set forth; provided, however, that in respect of any such additional covenant, restriction or condition such amendment may provide for a particular period of grace after default (which period may be shorter or longer than that allowed in the case of other defaults) or may provide for an immediate enforcement upon such default or may limit the remedies available to the Trustee upon such default;

(c) to provide for the issuance under this Indenture of Securities in coupon form (including Securities registrable as to principal only) and to provide for exchangeability of such Securities with the Securities issued hereunder in fully registered form and to make all appropriate changes for such purpose;

(d) to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture; provided that any such action shall not materially adversely affect the interests of the holders of the Securities;

(e) to evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the Securities;

(f) to make provision for transfer procedures, certification, book-entry provisions, the form of restricted securities legends, if any, to be placed on Securities, minimum denominations and all other matters required pursuant to Section 2.07 or otherwise necessary, desirable or appropriate in connection with the issuance of Securities to holders of Trust Preferred Securities in the event of a distribution of Securities by the Company following a Trust Dissolution Event;

(g) to qualify or maintain qualification of this Indenture under the Trust Indenture Act; or

(h) to make any change that does not adversely affect the

rights of any Securityholder in any material respect.

The Trustee is hereby authorized to join with the Company in the execution of any supplemental indenture to effect such amendment, to make any further appropriate agreements and stipulations which may be therein contained and to accept the conveyance, transfer and assignment of any property thereunder, but the Trustee shall not be obligated to, but may in its discretion, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise

Any amendment to the Indenture authorized by the provisions of this Section 9.01 may be executed by the Company and the Trustee without the consent of the holders of any of the Securities at the time outstanding, notwithstanding any of the provisions of Section 9.02.

SECTION 9.02. With Consent of Securityholders.

With the consent (evidenced as provided in Section 7.01) of the holders of a majority in aggregate principal amount of the Securities at the time outstanding, the Company and the Trustee may from time to time and at any time amend the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the holders of the Securities; provided, however, that no such amendment or modification shall without the consent of the holders of each Security then outstanding and affected thereby (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, reduce the Redemption Price, Purchase Price or Change in Control Purchase Price, make any change that adversely affects the right to convert any Security, make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and of this Indenture, modify the provisions of this Indenture relating to the subordination of the Securities or the right to commence a Direct Action in a manner adverse to Securityholders, or make the principal thereof or any interest or premium thereon payable in any coin or currency other than that provided in the Securities, or impair or affect the right of any Securityholder to institute suit for payment thereof, or (ii) reduce the aforesaid percentage of Securities the holders of which are required to consent to any such amendment to the Indenture or waive compliance by the Company with any covenant or waive any past default; provided, however, that if the Securities are held solely by the Property Trustee, such modification or amendment shall not be effective until the holders of a majority in liquidation amount of Trust Securities shall have consented to such amendment; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment shall not be effective until each holder of the Trust Securities shall have consented to such amendment.

Upon the request of the Company accompanied by an Officer's Certificate certified by its Secretary or Assistant Secretary authorizing the execution of any supplemental indenture affecting such amendment, and upon the filing with the Trustee of evidence of the consent of Securityholders as aforesaid, the Trustee shall join with the Company in the execution of such supplemental indenture unless such supplemental indenture affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of this Section, the Trustee shall transmit by mail, first class postage prepaid, a notice, prepared by the Company, setting forth in general terms the substance of such supplemental indenture, to the Securityholders as their names and addresses appear upon the Security Register. Any failure of the Trustee to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

It shall not be necessary for the consent of the Securityholders under this Section 9.02 to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof.

SECTION 9.03. Compliance with Trust Indenture Act; Effect of Supplemental Indentures.

Any supplemental indenture executed pursuant to the provisions of this Article IX shall comply with the Trust Indenture Act. Upon the execution of any supplemental indenture pursuant to the provisions of this Article IX, this Indenture shall be and be deemed to be modified and amended in accordance therewith and the respective rights, limitations of rights, obligations, duties and immunities under this Indenture of the Trustee, the Company and the holders of Securities shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments and all the terms and conditions of any such supplemental indenture shall be and be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

SECTION 9.04. Notation on Securities.

Securities authenticated and delivered after the execution of any supplemental indenture affecting such series pursuant to the provisions of this Article IX may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company or the Trustee shall so determine, new Securities so modified as to conform, in the opinion of the Trustee and the Company, to any modification of this Indenture contained in any such supplemental indenture may be prepared and executed by the Company, authenticated by the Trustee or the Authenticating Agent and delivered in exchange for the Securities then outstanding.

SECTION 9.05. Evidence of Compliance of Supplemental Indenture to be Furnished to Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, may receive an Officers' Certificate and an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant hereto complies with the requirements of this Article IX.

The Trustee may receive an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to this Article is authorized or permitted by, and conforms to, the terms of this Article and that it is proper for the Trustee under the provisions of this Article to join in the execution thereof.

ARTICLE X

CONSOLIDATION, MERGER, SALE, CONVEYANCE AND LEASE

SECTION 10.01. Company May Merge, Consolidate or Sell Assets.

(a) The Company may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any Person, except as described in Section 10.01(b).

(b) So long as the Company holds the Xerox Debentures, the Company may merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, a trust, limited liability company or similar entity organized as such under the laws of any State; provided, that, if the Company is not the successor entity:

(i) such successor entity (the "Successor Entity") either:

(A) expressly assumes all of the obligations of the Company under the Securities; or

(B) substitutes for the Securities other securities having substantially the same terms as the Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Securities rank with respect to payments upon liquidation, redemption and otherwise;

(ii) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization;

(iii) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including any Successor Securities) in any material respect (other than with respect to any dilution of such Holders' interests in the new entity);

(iv) such Successor Entity has a purpose substantially identical to that of the Company;

(v) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Company has received an opinion of an independent counsel to the Company experienced in such matters to the effect that:

(A) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including any Successor Securities) in any material respect;

(B) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the

Company (or the Successor Entity) will not be required to register as an investment company under the Investment Company Act; and

(C) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Company (or the Successor Entity) will not be treated as an association or a publicly traded partnership taxable as a corporation for United States federal income tax purposes; and

(vi) Xerox or any permitted successor or assignee owns all of the common securities of such Successor Entity and guarantees the obligations of such Successor Entity under the Successor Securities at least to the extent provided by the Debenture Guarantee.

SECTION 10.02. Opinion of Counsel to be Given Trustee.

The Trustee, subject to the provisions of Sections 6.01 and 6.02, may receive an Opinion of Counsel as conclusive evidence that any consolidation, merger, sale, conveyance, transfer or lease, and any assumption, permitted or required by the terms of this Article X complies with the provisions of this Article X.

ARTICLE XI

SATISFACTION AND DISCHARGE OF INDENTURE

SECTION 11.01. Discharge of Indenture.

When (a) the Company shall deliver to the Trustee for cancellation all Securities theretofore authenticated (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced or paid as provided in Section 2.08) and not theretofore cancelled, or (b) all the Securities not theretofore cancelled or delivered to the Trustee for cancellation shall have become due and payable, or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption, and the Company shall deposit or cause to be deposited with the Trustee, in trust, money, U.S. Government Obligations or a combination thereof sufficient to pay on the Maturity Date or upon redemption all of the Securities (other than any Securities which shall have been destroyed, lost or stolen and which shall have been replaced as provided in Section 2.08) not theretofore cancelled or delivered to the Trustee for cancellation, including principal and premium, if any, and interest due or to become due to the Maturity Date or the applicable redemption date, as the case may be, but excluding, however, the amount of any moneys for the payment of principal of or premium, if any, Redemption Price or Purchase Price or interest on the Securities (1) theretofore repaid to the Company in accordance with the provisions of Section 11.04, or (2) paid to any State or to the District of Columbia pursuant to its unclaimed property or similar laws, and if in either case the Company shall also pay or cause to be paid all other sums payable hereunder by the Company, then this Indenture shall cease to be of further effect except for the provisions of Sections 2.02, 2.07, 2.08, 3.01, 3.02, 3.04, 6.06, 6.10, 11.04 and 15.01 and Article XVI hereof, which shall survive until such Securities shall mature and be paid. Thereafter, Sections 6.06, 6.10 and 11.04 and Article XVI shall survive, and the Trustee, on demand of the Company accompanied by any Officers'

Certificate and an Opinion of Counsel and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Indenture, the Company, however, hereby agrees to reimburse the Trustee for any costs or expenses thereafter reasonably and properly incurred by the Trustee in connection with this Indenture or the Securities.

SECTION 11.02. Deposited Moneys to be Held in Trust by Trustee.

Subject to the provisions of Section 11.04, all moneys and U.S. Government Obligations deposited with the Trustee pursuant to Section 11.01 shall be held in trust and applied by it to the payment, either directly or through any paying agent (including the Company if acting as its own paying agent), to the holders of the particular Securities for the payment of which such moneys or U.S. Government Obligations have been deposited with the Trustee, of all sums due and to become due thereon for principal, premium, if any, Redemption Price or Purchase Price and interest.

SECTION 11.03. Paying Agent to Repay Moneys Held.

Upon the satisfaction and discharge of this Indenture all moneys then held by any paying agent of the Securities (other than the Trustee) shall, upon written demand of the Company, be repaid to it or paid to the Trustee, and thereupon such paying agent shall be released from all further liability with respect to such moneys.

SECTION 11.04. Return of Unclaimed Moneys.

Any moneys or U.S. Government Obligations deposited with or paid to the Trustee or any paying agent for payment of the principal of or premium, if any, Redemption Price or Purchase Price or interest on Securities and not applied but remaining unclaimed by the holders of Securities for two years after the date upon which the principal of or premium, if any, Redemption Price or Purchase Price or interest on such Securities, as the case may be, shall have become due and payable, shall be repaid to the Company by the Trustee or such paying agent on Company Request; and the holder of any of the Securities shall thereafter look only to the Company for any payment which such holder may be entitled to collect and all liability of the Trustee or such paying agent with respect to such moneys shall thereupon cease.

SECTION 11.05. Defeasance Upon Deposit of Moneys or U.S. Government Obligations.

(a) The Company shall be deemed to have been Discharged (as defined below) from its respective obligations with respect to the Securities upon satisfaction of the applicable conditions set forth below with respect to such Securities:

(i) The Company shall have deposited or caused to be deposited irrevocably with the Trustee or the Defeasance Agent as trust funds in trust, specifically pledged as security for, and dedicated solely to, the benefit of the holders of the Securities of such series (A) money in an amount, or (B) U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination of (A) and

(B), sufficient, in the opinion (with respect to (B) and (C)) of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee and the Defeasance Agent, if any, to pay and discharge each installment of principal of, and interest and premium, if any, Purchase Price or Redemption Price on the outstanding Securities on the dates such amounts are due;

(ii) no Event of Default or event which with notice or lapse of time would become an Event of Default with respect to the Securities shall have occurred and be continuing on the date of such deposit; and

(iii) the Company shall have delivered to the Trustee and the Defeasance Agent, if any, an Opinion of Counsel to the effect that holders of the Securities of such series will not recognize income, gain or loss for United States Federal income tax purposes as a result of the exercise of the option under this Section 11.05 and will be subject to United States federal income tax on the same amount and in the same manner and at the same times as would have been the case if such option had not been exercised.

(b) "Discharged" means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by, and obligations under, the Securities and to have satisfied all the obligations under this Indenture relating to the Securities (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), except (A) the rights of holders of Securities of such series to receive, from the trust fund described in clause (1) above, payment of all amounts due and payable on such Securities when such payments are due; (B) the Company's obligations with respect to such Securities under Sections 2.07, 2.08, 3.08, 3.09, 5.03, 11.04 and 15.01 and Article XVI hereof; and (C) the rights, powers, trusts, duties and immunities of the Trustee hereunder.

(c) "Defeasance Agent" means another financial institution which is eligible to act as Trustee hereunder and which assumes all of the obligations of the Trustee necessary to enable the Trustee to act hereunder. In the event such a Defeasance Agent is appointed pursuant to this section, the following conditions shall apply:

(i) The Trustee shall have approval rights over the document appointing such Defeasance Agent and the document setting forth such Defeasance Agent's rights and responsibilities;

(ii) The Defeasance Agent shall provide verification to the Trustee acknowledging receipt of sufficient money and/or U.S. Government Obligations to meet the applicable conditions set forth in this Section 11.05.

ARTICLE XII

IMMUNITY OF MEMBERS AND OFFICERS

SECTION 12.01. Indenture and Securities Solely Corporate Obligations.

No recourse for the payment of the principal of or premium,

if any, Redemption Price, Purchase Price or Change in Control Purchase Price or interest on any Security, or for any claim based thereon or otherwise in respect thereof, and no recourse under or upon any obligation, covenant or agreement of the Company in this Indenture, or in any Security, or because of the creation of any indebtedness represented thereby, shall be had against any member, officer or director, as such, past, present or future, of the Company or of any successor Person to the Company, either directly or through the Company or any successor Person to the Company, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that all such liability is hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of the Securities.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

SECTION 13.01. Successors.

All the covenants, stipulations, promises and agreements of the Company contained in this Indenture shall bind the Company's successors and assigns whether so expressed or not.

SECTION 13.02. Official Acts by Successor Entity or Person.

Any act or proceeding by any provision of this Indenture authorized or required to be done or performed by any member, board, committee or Officer of the Company shall and may be done and performed with like force and effect by the like member, board, committee or Officer of any corporation that shall at the time be the lawful sole successor of the Company.

SECTION 13.03. Surrender of Company Powers.

The Company by instrument in writing delivered to the Trustee may surrender any of the powers reserved to the Company, and thereupon such power so surrendered shall terminate both as to the Company, as the case may be, and as to any successor Person.

SECTION 13.04. Addresses for Notices, etc.

Any notice or demand which by any provision of this Indenture is required or permitted to be given or served by the Trustee or by the holders of Securities on the Company may be given or served by being deposited postage prepaid by registered or certified mail in a post office letter box addressed (until another address is filed by the Company with the Trustee for the purpose) to the Company, c/o Xerox Corporation, 800 Long Ridge Road, P.O. Box 1600, Stamford, CT 06904-1600, Attention: Vice President, Treasurer and Secretary. Any notice, direction, request or demand by any Securityholder to or upon the Trustee shall be deemed to have been sufficiently given or made, for all purposes, if given or made in writing at the office of the Trustee, Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services (unless another address is provided by the Trustee to the Company for the purpose). Any notice or communication to a Holder shall be mailed by first class mail to his or her address shown on the register kept by the Registrar. Failure to mail a notice

or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

SECTION 13.05. Governing Law.

This Indenture and each Security shall be deemed to be a contract made under the laws of the State of New York, and for all purposes shall be governed by and construed in accordance with the laws of said State, without regard to conflicts of laws principles thereof.

SECTION 13.06. Evidence of Compliance with Conditions Precedent.

Upon any application or demand by the Company to the Trustee to take any action under any of the provisions of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that in the opinion of the signers all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with and an Opinion of Counsel stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Each certificate or opinion provided for in this Indenture and delivered to the Trustee with respect to compliance with a condition or covenant provided for in this Indenture (except pursuant to Section 3.05) shall include (1) a statement that the person making such certificate or opinion has read such covenant or condition; (2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based; (3) a statement that, in the opinion of such person, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and (4) a statement as to whether or not, in the opinion of such person, such condition or covenant has been complied with.

SECTION 13.07. Business Days.

In any case where the date of payment of principal of or premium, if any, or interest on the Securities will not be a Business Day, the payment of such principal of or premium, if any, Redemption Price, Purchase Price or Change in Control Purchase Price or interest on the Securities need not be made on such date but may be made on the next succeeding Business Day (except that if such next succeeding Business Day falls in a subsequent calendar year, such payment shall be made on the Business Day next preceding such date of payment), with the same force and effect as if made on such date payment was originally payable, and no interest shall accrue for the period from and after such date.

SECTION 13.08. Trust Indenture Act to Control.

If and to the extent that any provision of this Indenture limits, qualifies or conflicts with the duties imposed by Sections 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

SECTION 13.09. Table of Contents, Headings, etc.

The table of contents and the titles and headings of the

articles and sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part hereof, and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 13.10. Execution in Counterparts.

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

SECTION 13.11. Separability.

In case any one or more of the provisions contained in this Indenture or in the Securities shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Indenture or of the Securities, but this Indenture and the Securities shall be construed as if such invalid or illegal or unenforceable provision had never been contained herein or therein.

SECTION 13.12. Assignment.

The Company will have the right at all times to assign any of its respective rights or obligations under this Indenture to a direct or indirect wholly owned Subsidiary of the Company, provided that, in the event of any such assignment, the Company will remain primarily liable for all its obligations. Subject to the foregoing, the Indenture is binding upon and inures to the benefit of the parties thereto and their respective successors and assigns. This Indenture may not otherwise be assigned by the parties thereto.

SECTION 13.13. Acknowledgement of Rights.

The Company acknowledges that, with respect to any Securities held by Xerox Capital or a trustee of such trust, so long as the Securities are held by Xerox Capital, if the Property Trustee fails to enforce its rights under this Indenture as the holder of the Securities held as the assets of Xerox Capital any holder of Trust Preferred Securities may institute legal proceedings directly against the Company to enforce such Property Trustee's rights under this Indenture without first instituting any legal proceedings against such Property Trustee or any other person or entity. Notwithstanding the foregoing, if an Event of Default has occurred and is continuing and such event is attributable to the failure of the Company to pay principal of or premium, if any, Redemption Price, Purchase Price or Change in Control Purchase Price or interest on the Securities when due, the Company acknowledges that a holder of Trust Preferred Securities may directly institute a proceeding for enforcement of payment to such holder of the principal of or premium, if any, Redemption Price, Purchase Price or Change in Control Purchase Price or interest on the Securities having a principal amount equal to the aggregate liquidation amount of the Trust Preferred Securities of such holder on or after the respective due date specified in the Securities.

ARTICLE XIV

REDEMPTION

SECTION 14.01. Optional Redemption by Company.

Upon the repayment of the Xerox Debentures in whole or in part, at maturity or upon early redemption (either at the option of Xerox or pursuant to a Special Event), the proceeds from such repayment by Xerox shall be simultaneously applied by the Trustee (subject to, prior to the occurrence of a Trust Dissolution Event, the Property Trustee having received notice no later than 45 days prior to such repayment) to redeem a Like Amount of the Securities at a redemption price equal to (i) in the case of the repayment of the Xerox Debentures at maturity or the optional redemption of the Xerox Debentures prior to December 4, 2004 upon the occurrence and continuation of a Special Event, the Regular Redemption Price and (ii) in the case of the optional redemption of the Xerox Debentures on or after December 4, 2004, the Special Redemption Price.

If the Securities are only partially redeemed pursuant to this Section 14.01, the Securities will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption the Securities are registered as a Global Security, the Depositary shall determine, in accordance with its procedures, the principal amount of such Securities held for the account of its participants to be redeemed. The applicable Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or at such earlier time as the Company determines, provided that the Company shall deposit with the Trustee an amount sufficient to pay the applicable Redemption Price by 10:00 a.m., New York time, on the date such Redemption Price is to be paid.

SECTION 14.02. No Sinking Fund.

The Securities are not entitled to the benefit of any sinking fund.

SECTION 14.03. Notice of Redemption; Selection of Securities.

In the event Xerox shall desire to exercise the right to redeem all, or, as the case may be, any part of the Xerox Debentures in accordance with their terms, the date fixed for redemption for the Securities shall be the date for redemption of the Xerox Debentures.

The Company shall forward the notice of such redemption at least 30 and not more than 60 days prior to the date fixed for redemption to the holders of Securities so to be redeemed as a whole or in part at their last addresses as the same appear on the Security Register. Such mailing shall be by first class mail. The notice if mailed in the manner herein provided shall be conclusively presumed to have been duly given, whether or not the holder receives such notice. In any case, failure to give such notice by mail or any defect in the notice to the holder of any Security designated for redemption as a whole or in part shall not affect the validity of the proceedings for the redemption of any other Security.

Each such notice of redemption shall specify the CUSIP number of the Securities to be redeemed, the date fixed for redemption, the Redemption Price at which the Securities are to be redeemed (or the method by which such Redemption Price is to be calculated), the place or places of payment, that payment will be made upon presentation and surrender of the Securities, that interest accrued to but excluding the date fixed for

redemption will be paid as specified in said notice, and that on and after said date interest thereon or on the portions thereof to be redeemed will cease to accrue. If less than all the Securities are to be redeemed the notice of redemption shall specify the numbers of the Securities to be redeemed. In case any Security is to be redeemed in part only, the notice of redemption shall state the portion of the principal amount thereof to be redeemed and shall state that on and after the date fixed for redemption, upon surrender of such Security, a new Security or Securities in principal amount equal to the unpaid portion thereof will be issued.

By 10:00 a.m. New York time on the redemption date specified in the notice of redemption given as provided in this Section, the Company will deposit with the Trustee or with one or more paying agents an amount of money sufficient to prepay on the redemption date all the Securities so called for redemption.

The Company will give the Trustee notice not less than 45 days prior to the redemption date (unless a shorter time shall be satisfactory to the Trustee) as to the aggregate principal amount of Securities to be redeemed and the Trustee shall select, in such manner as in its sole discretion it shall deem appropriate and fair, the Securities or portions thereof (in integral multiples of $50, except as otherwise set forth in the applicable form of Security) to be redeemed.

SECTION 14.04. Payment of Securities Called for Redemption.

If notice of redemption has been given as provided in Section 14.03, the Securities or portions of Securities with respect to which such notice has been given shall become due and payable on the date and at the place or places stated in such notice at the applicable Redemption Price (subject to the rights of holders of Securities on the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the redemption date), and on and after said date (unless the Company shall default in the payment of such Securities at the applicable Redemption Price) interest on the Securities or portions of Securities so called for redemption shall cease to accrue. On presentation and surrender of such Securities at a place of payment specified in said notice, the said Securities or the specified portions thereof shall be redeemed by the Company at the applicable Redemption Price (subject to the rights of holders of Securities on the close of business on a regular record date in respect of an Interest Payment Date occurring on or prior to the redemption date).

Upon presentation of any Security redeemed in part only, the Company shall execute and the Trustee shall authenticate and make available for delivery to the holder thereof, at the expense of the Company, a new Security or Securities of authorized denominations, in principal amount equal to the remaining portion of the Security so presented.

SECTION 14.05. Conversion Arrangement on Call for Redemption. In connection with any redemption of Securities, the Company may arrange for the purchase and conversion of any Securities called for redemption by an agreement with one or more investment banking institutions or other purchasers to purchase such Securities by paying to the Trustee in trust for the Securityholders, on or prior to 10:00 a.m. New York City time on the applicable date fixed for redemption, an amount that, together with any amounts deposited with the Trustee by the Company for the redemption of

such Securities, is not less than the Redemption Price of such Securities Notwithstanding anything to the contrary contained in this Article XIV, the obligation of the Company to pay the Redemption Prices of such Securities shall be deemed to be satisfied and discharged to the extent such amount is so paid by such purchasers. If such an agreement is entered into, any Securities not duly surrendered for conversion by the holders thereof may, at the option of the Company, be deemed, to the fullest extent permitted by law, acquired by such purchasers from such holders and (notwithstanding anything to the contrary contained in Article XVI) surrendered by such purchasers for conversion, all as of immediately prior to the close of business on the second Business Day prior to the date fixed for redemption, subject to payment of the above amount as aforesaid. The Trustee shall hold and pay to the Holders whose Securities are selected for redemption any such amount paid to it for purchase and conversion in the same manner as it would moneys deposited with it by the Company for the redemption of Securities. Without the Trustee's prior written consent, no arrangement between the Company and such purchasers for the purchase and conversion of any Securities shall increase or otherwise affect any of the powers, duties, responsibilities or obligations of the Trustee as set forth in this Indenture, and the Company agrees to indemnify the Trustee from, and hold it harmless against, any loss, liability or expense arising out of or in connection with any such arrangement for the purchase and conversion of any Securities between the Company and such purchasers, including the costs and expenses incurred by the Trustee in the defense of any claim or liability arising out of or in connection with the exercise or performance of any of its powers, duties, responsibilities or obligations under this Indenture.

ARTICLE XV

PURCHASE

SECTION 15.01. Purchase of Securities at Option of the Holder.

(a) The Company shall purchase, at the option of the Holder, the Securities held by such Holder on December 4, 2004, November 27, 2006, November 27, 2008, November 27, 2011 and November 27, 2016 (each, a "Purchase Date"), at the principal amount thereof, plus accrued and unpaid interest thereon to but excluding the applicable Purchase Date (the "Purchase Price"), upon satisfaction of the conditions, and in the manner specified in Article XV of the Xerox Indenture.

So long as the Securities are held by the Property Trustee, if holders of the Trust Securities require Xerox Capital to purchase all or a portion of their Trust Securities on a Purchase Date, Xerox will be required, in accordance with Article XV of the Xerox Indenture, to purchase an equivalent principal amount of the Xerox Debentures then held by the Company at such Purchase Price. The Company will be obligated to use the same consideration received in connection with any such purchase to purchase a Like Amount of Securities on the applicable Purchase Date.

(b) After a Trust Dissolution Event, the Securities shall be purchased by the Company on any Purchase Date at the Purchase Price, at the option of the Holder thereof, upon satisfaction of the conditions, and in the manner specified in Article XV of the Xerox Indenture.

SECTION 15.02. Purchase of Securities at Option of the

Holder upon a Change in Control.

(a) If on or prior to December 4, 2004 there shall have occurred a Change in Control, each holder of Securities may require the Company to purchase all or a portion of such Securities, at the option of the Holder, at a price equal to the principal amount thereof, plus accrued and unpaid interest thereon to but excluding the applicable purchase date (the "Change in Control Purchase Price"), upon satisfaction of the conditions, and in the manner specified in Article XV of the Xerox Indenture.

So long as the Securities are held by the Property Trustee, if holders of the Trust Securities require Xerox Capital to purchase all or a portion of their Trust Securities on a Change in Control Purchase Date, Xerox will be required, in accordance with Article XV of the Xerox Indenture, to purchase an equivalent principal amount of the Xerox Debentures then held by the Company at such Change in Control Purchase Price. The Company will be obligated to use the same consideration received in connection with any such purchase to purchase a Like Amount of Securities on the applicable purchase date.

(b) After a Trust Dissolution Event, the Securities shall be purchased by the Company on the applicable purchase date specified in Article XV of the Xerox Indenture at the Change in Control Purchase Price, at the option of the Holder thereof, upon satisfaction of the conditions, and in the manner specified in Article XV of the Xerox Indenture.

ARTICLE XVI

CONVERSION

The Securities will be convertible into fully paid and nonassessable shares of Common Stock at an initial rate of 5.4795 shares of Common Stock per $50 principal amount, subject to certain adjustments set forth in Article XVI of the Xerox Indenture (as so adjusted, the "Conversion Rate"), in accordance with the conditions and procedures set forth in Article XVI of the Xerox Indenture.

So long as the Securities are held by the Property Trustee, if holders of the Trust Securities elect to convert all or a portion of such Trust Securities, the Company, as holder of the Xerox Debentures, shall, upon receipt of notice from the conversion agent under the Declaration of a notice of conversion thereunder, elect to convert a Like Amount of the Xerox Debentures then held by it into shares of Common Stock at the Conversion Rate by delivering to the conversion agent under the Xerox Indenture a notice of conversion thereunder. The Company will be obligated to deliver the shares of Common Stock received from Xerox in connection with any such conversion to holders of such converted Trust Securities. Upon any such conversion, a Like Amount of Securities shall be deemed to have been paid in full in the manner provided for in the eighth paragraph of Section 16.02 of the Xerox Indenture

On and after the date on which Trust Securities are no longer outstanding, in order to convert Securities into Common Stock, a Holder, or its authorized agent, shall submit to the Conversion Agent an irrevocable Notice of Conversion to direct the Company to, (i) elect to convert a Like Amount of Xerox Debentures then held by the Company into

shares of Common Stock by delivering to the conversion agent under the Xerox Indenture an irrevocable Notice of Conversion setting forth the number of Securities to be converted and the name or names in which the shares of Common Stock are to be issued and (ii) deliver such Common Stock to the Trustee for distribution to such Holder. The Company will be obligated to deliver the shares of Common Stock received from Xerox in connection with any such conversion to holders of such converted Securities. Upon such delivery, the Conversion Agent shall notify the Trustee of such conversion whereupon a Like Amount of Securities shall be deemed to have been paid in full in the manner provided for in the eighth paragraph of Section 16.02 of the Xerox Indenture.

The Company hereby agrees not to convert any Xerox Debentures held by it except pursuant to, (i) so long as the Securities are held by the Property Trustee, a notice of conversion delivered to the conversion agent by a holder of Trust Securities and (ii) on and after the date on which the Trust Securities are no longer outstanding, a Notice of Conversion delivered to the Conversion Agent by a Holder. If any Trust Securities are outstanding, the Holder agrees that it will not elect to convert any of its Securities other than as provided in this Section.

Upon surrender of a Security that is converted in part, the Company shall execute, and the Trust shall authenticate and deliver to the Holder, a new Security in an authorized denomination equal in principal amount to the unconverted portion of the Security so surrendered.

ARTICLE XVII

SUBORDINATION OF SECURITIES

SECTION 17.01. Agreement to Subordinate.

The Securities issued hereunder will be subordinate and junior in right of payment to all Senior Indebtedness. No payment of principal (including upon redemption), premium, if any, or interest on the Securities may be made at any time when (i) any Senior Indebtedness is not paid when due, (ii) any applicable grace period with respect to such default has ended and such default has not been cured or waived or ceased to exist, or (iii) the maturity of any Senior Indebtedness has been accelerated because of a default.

No provision of this Article XVII shall prevent the occurrence of any Default or Event of Default hereunder.

SECTION 17.02. Default on Senior Indebtedness.

In the event that, any payment shall be received by the Trustee when such payment is prohibited by Section 17.01, such payment shall be held in trust for the benefit of, and shall be paid over or delivered to, the holders of Senior Indebtedness or their respective representatives, or to the trustee or trustees under any indenture pursuant to which any of such Senior Indebtedness may have been issued, as their respective interests may appear, but only to the extent that the holders of the Senior Indebtedness (or their representative or representatives or a trustee) notify the Trustee in writing, within 90 days of such payment of the amounts then due and owing on such Senior Indebtedness and only the amounts specified in such notice to the Trustee shall be paid to the holders of such Senior Indebtedness.

SECTION 17.03. Liquidation; Dissolution; Bankruptcy.

Upon any distribution of assets to creditors upon any liquidation, dissolution, winding up, reorganization, assignment for the benefit of creditors, marshaling of assets or any bankruptcy, insolvency, debt restructuring or similar proceedings in connection with any insolvency or bankruptcy proceeding of the Company, all Senior Indebtedness must be paid in full before the holders of the Securities are entitled to receive or retain any payment in respect thereof; and upon any such dissolution or winding-up or liquidation or reorganization or assignment, any payment by the Company, or distribution of assets of the Company of any kind or character, whether in cash, property or securities, to which the Securityholders or the Trustee would be entitled to receive from the Company, except for the provisions of this Article XVII, shall be paid by the Company or by any receiver, trustee in bankruptcy, liquidating trustee, agent or other Person making such payment or distribution, or by the Securityholders or by the Trustee under the Indenture if received by them or it, directly to the holders of Senior Indebtedness of the Company (pro rata to such holders on the basis of the respective amounts of Senior Indebtedness held by such holders, as calculated by the Company) or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, to the extent necessary to pay all such Senior Indebtedness in full, in money or money's worth, after giving effect to any concurrent payment or distribution to or for the holders of such Senior Indebtedness, before any payment or distribution is made to the Securityholders or to the Trustee.

In the event that, notwithstanding the foregoing, any payment or distribution of assets of the Company of any kind or character, whether in cash, property or securities, prohibited by the foregoing, shall be received by the Trustee before all Senior Indebtedness is paid in full, or provision is made for such payment in money in accordance with its terms, such payment or distribution shall be held in trust for the benefit of and shall be paid over or delivered to the holders of such Senior Indebtedness or their representative or representatives, or to the trustee or trustees under any indenture pursuant to which any instruments evidencing such Senior Indebtedness may have been issued, as their respective interests may appear, as calculated by the Company, for application to the payment of all Senior Indebtedness remaining unpaid to the extent necessary to pay all such Senior Indebtedness in full in money in accordance with its terms, after giving effect to any concurrent payment or distribution to or for the benefit of the holders of such Senior Indebtedness.

For purposes of this Article XVII, the words "cash, property or securities" shall not be deemed to include shares of stock of the Company as reorganized or readjusted, or securities of the Company or any other corporation provided for by a plan of reorganization or readjustment, the payment of which is subordinated at least to the extent provided in this Article XVII with respect to the Securities to the payment of Senior Indebtedness that may at the time be outstanding, provided that (i) such Senior Indebtedness is assumed by the new corporation, if any, resulting from any such reorganization or readjustment, and (ii) the rights of the holders of such Senior Indebtedness are not, without the consent of such holders, altered by such reorganization or readjustment. The consolidation of the Company with, or the merger of the Company into, another Person or the

liquidation or dissolution of the Company following the sale, conveyance, transfer or lease of its property as an entirety, or substantially as an entirety, to another Person upon the terms and conditions provided for in Article X of this Indenture shall not be deemed a dissolution, winding-up, liquidation or reorganization for the purposes of this Section 17.03 if such other Person shall, as a part of such consolidation, merger, sale, conveyance, transfer or lease, comply with the conditions stated in Article X of this Indenture.

SECTION 17.04. Subrogation.

Subject to the payment in full of all Senior Indebtedness, the rights of the Securityholders shall be subrogated to the rights of the holders of such Senior Indebtedness to receive payments or distributions of cash, property or securities of the Company, as the case may be, applicable to such Senior Indebtedness until the principal of (and premium, if any) and interest on the Securities shall be paid in full; and, for the purposes of such subrogation, no payments or distributions to the holders of such Senior Indebtedness of any cash, property or securities to which the Securityholders or the Trustee would be entitled except for the provisions of this Article XVII, and no payment over pursuant to the provisions of this Article XVII to or for the benefit of the holders of such Senior Indebtedness by Securityholders or the Trustee, shall, as between the Company, its creditors other than holders of Senior Indebtedness of the Company, and the holders of the Securities, be deemed to be a payment by the Company to or on account of such Senior Indebtedness. It is understood that the provisions of this Article XVII are and are intended solely for the purposes of defining the relative rights of the holders of the Securities, on the one hand, and the holders of such Senior Indebtedness on the other hand.

Nothing contained in this Article XVII or elsewhere in this Indenture or in the Securities is intended to or shall impair, as between the Company, its creditors other than the holders of Senior Indebtedness of the Company, and the holders of the Securities, the obligation of the Company, which is absolute and unconditional, to pay to the holders of the Securities the principal of (and premium, if any) and interest on the Securities as and when the same shall become due and payable in accordance with their terms, or is intended to or shall affect the relative rights of the holders of the Securities and creditors of the Company, as the case may be, other than the holders of Senior Indebtedness of the Company, as the case may be, nor shall anything herein or therein prevent the Trustee or the holder of any Security from exercising all remedies otherwise permitted by applicable law upon default under the Indenture, subject to the rights, if any, under this Article XVII of the holders of such Senior Indebtedness in respect of cash, property or securities of the Company, as the case may be, received upon the exercise of any such remedy.

SECTION 17.05. Trustee to Effectuate Subordination.

Each Securityholder by such Securityholder's acceptance thereof authorizes and directs the Trustee on such Securityholder's behalf to take such action as may be necessary or appropriate to effectuate the subordination provided in this Article XVII and appoints the Trustee such Securityholder's attorney-in-fact for any and all such purposes.

SECTION 17.06. Notice by the Company.

The Company shall give prompt written notice to a Responsible Officer of the Trustee of any fact known to the Company that would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions of this Article XVII. Notwithstanding the provisions of this Article XVII or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment of monies to or by the Trustee in respect of the Securities pursuant to the provisions of this Article XVII, unless and until a Responsible Officer of the Trustee assigned to the Principal Office of the Trustee shall have received written notice thereof from the Company or a holder or holders of Senior Indebtedness or from any trustee therefor; and before the receipt of any such written notice, the Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled in all respects to assume that no such facts exist; provided, however, that if the Trustee shall not have received the notice provided for in this Section 17.06 at least two Business Days prior to the date (i) upon which by the terms hereof any money may become payable for any purpose (including, without limitation, the payment of the principal of (or premium, if any) or interest on any Security), or (ii) moneys are deposited in trust pursuant to Article XI, then anything herein contained to the contrary notwithstanding, the Trustee shall have full power and authority to receive such money and to apply the same to the purposes for which they were received, and shall not be affected by any notice to the contrary that may be received by it within two Business Days prior to such date.

The Trustee, subject to the provisions of Article VI of this Indenture, shall be entitled to conclusively rely on the delivery to it of a written notice by a Person representing himself to be a holder of Senior Indebtedness of the Company (or a trustee or representative on behalf of such holder), as the case may be, to establish that such notice has been given by a holder of such Senior Indebtedness or a trustee or representative on behalf of any such holder or holders. In the event that the Trustee determines in good faith that further evidence is required with respect to the right of any Person as a holder of such Senior Indebtedness to participate in any payment or distribution pursuant to this Article XVII, the Trustee may request such Person to furnish evidence to the reasonable satisfaction of the Trustee as to the amount of such Senior Indebtedness held by such Person, the extent to which such Person is entitled to participate in such payment or distribution and any other facts pertinent to the rights of such Person under this Article XVII, and, if such evidence is not furnished, the Trustee may defer any payment to such Person pending judicial determination as to the right of such Person to receive such payment.

Upon any payment or distribution of assets of the Company referred to in this Article XVII, the Trustee and the Securityholders shall be entitled to rely upon any order or decree entered by any court of competent jurisdiction in which such insolvency, bankruptcy, receivership, liquidation, reorganization, dissolution, winding up or similar case or proceeding is pending, or a certificate of the trustee in bankruptcy, liquidating trustee, custodian, receiver, assignee for the benefit of creditors, agent or other person making such payment or distribution, delivered to the Trustee or to the Securityholders, for the purpose of ascertaining the persons entitled to participate in such payment or distribution, the holders of Senior Indebtedness and other indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to

this Article XVII.

SECTION 17.07. Rights of the Trustee; Holders of Senior Indebtedness.

The Trustee in its individual capacity shall be entitled to all the rights set forth in this Article XVII in respect of any Senior Indebtedness at any time held by it, to the same extent as any other holder of Senior Indebtedness, and nothing in this Indenture shall deprive the Trustee of any of its rights as such holder.

With respect to the holders of Senior Indebtedness, the Trustee undertakes to perform or to observe only such of its covenants and obligations as are specifically set forth in this Article XVII, and no implied covenants or obligations with respect to the holders of Senior Indebtedness shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Indebtedness and, subject to the provisions of Article VI of this Indenture, the Trustee shall not be liable to any holder of Senior Indebtedness if it shall pay over or deliver to Securityholders, the Company or any other Person money or assets to which any holder of Senior Indebtedness shall be entitled by virtue of this Article XVII or otherwise.

Nothing in this Article XVII shall apply to claims of, or payments to, the Trustee under or pursuant to Section 6.06.

SECTION 17.08. Subordination May Not Be Impaired.

(a) No right of any present or future holder of any Senior Indebtedness to enforce subordination as herein provided shall at any time in any way be prejudiced or impaired by any act or failure to act on the part of the Company or by any act or failure to act, in good faith, by any such holder, or by any noncompliance by the Company with the terms, provisions and covenants of this Indenture, regardless of any knowledge thereof that any such holder may have or otherwise be charged with.

(b) Without in any way limiting the generality of the foregoing paragraph, the holders of Senior Indebtedness may, at any time and from time to time, without the consent of or notice to the Trustee or the Securityholders, without incurring responsibility to the Securityholders and without impairing or releasing the subordination provided in this Article XVII or the obligations hereunder of the holders of the Securities to the holders of Senior Indebtedness, do any one or more of the following: (i) change the manner, place or terms of payment or extend the time of payment of, or renew or alter, such Senior Indebtedness, or otherwise amend or supplement in any manner such Senior Indebtedness or any instrument evidencing the same or any agreement under which such Senior Indebtedness is outstanding; (ii) sell, exchange, release or otherwise deal with any property pledged, mortgaged or otherwise securing such Senior Indebtedness; (iii) release any Person liable in any manner for the collection of such Senior Indebtedness; and (iv) exercise or refrain from exercising any rights against the Company and any other Person.

Wells Fargo Bank Minnesota, National Association hereby accepts the trusts in this Indenture declared and provided, upon the terms and conditions hereinabove set forth.

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

XEROX FUNDING LLC II

By:

Name:
Title:

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
as Trustee

By:

Name:
Title:

EXHIBIT A

(FORM OF FACE OF SECURITY)

[IF THE SECURITY IS A GLOBAL SECURITY, INSERT: - THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE OF A DEPOSITARY. THIS SECURITY IS EXCHANGEABLE FOR SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE DEPOSITARY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE, AND NO TRANSFER OF THIS SECURITY (OTHER THAN A TRANSFER OF THIS SECURITY AS A WHOLE BY THE DEPOSITARY TO A NOMINEE OF THE DEPOSITARY OR BY A NOMINEE OF THE DEPOSITARY TO THE DEPOSITARY OR ANOTHER NOMINEE OF THE DEPOSITARY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT HEREON IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAWS

OR ANY OTHER APPLICABLE SECURITIES LAW. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

No. CUSIP No. 98414X AA9

XEROX FUNDING LLC II

7 1/2% CONVERTIBLE JUNIOR SUBORDINATED DEBENTURE DUE 2021

Xerox Corporation, a New York corporation (the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to or registered assigns, the principal sum of Dollars on November 27, 2021 (the "Maturity Date"), unless previously paid, and to pay interest on the outstanding principal amount hereof from November 27, 2001, or from the most recent interest payment date (each such date, an "Interest Payment Date") to which interest has been paid or duly provided for, quarterly in arrears on February 27, May 27, August 27 and November 27 of each year, commencing February 27, 2002 at the rate of 7 1/2% per annum until the principal hereof shall have become due and payable, and at the rate of 7 1/2% per annum on any overdue principal and premium, if any, and (without duplication and to the extent that payment of such interest is enforceable under applicable law) on any overdue installment of interest at the rate of 7 1/2% per annum compounded quarterly. The amount of interest payable on any Interest Payment Date shall be computed on the basis of a 360-day year of twelve 30-day months and, for any period less than a full calendar month, the number of days elapsed in such month. In the event that any date on which the principal of (or premium, if any), Purchase Price, Redemption Price, Change in Control Purchase Price, or interest on this Security is payable is not a Business Day, then the payment payable on such date will be made on the next succeeding day that is a Business Day (except that if such next succeeding Business Day falls in a subsequent calendar year, such payment shall be made on the Business Day next preceding such date of payment), with the same force and effect as if made on such date payment was originally payable, and no interest shall accrue for the period from and after such date. The amount of interest payable on any Interest Payment Date, the applicable redemption date, the applicable Purchase Date, the Change in Control Purchase Date or the Maturity Date shall include interest accrued from and including the Issue Date or the last Interest Payment Date to which interest has been paid to but excluding such Interest Payment Date, such redemption date, such Purchase Date, such Change in Control Purchase Date or the Maturity Date, as applicable.

The interest installment so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the person in whose name this Security (or one or more Predecessor Securities, as defined in said Indenture) is registered at the close of business on the regular record date for such interest installment, which shall be the Business Day or, if none of the Securities, the Xerox Debentures or the Trust Preferred Securities are being represented by global securities, the 15th calendar day immediately preceding the relevant interest

payment date. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the holders on such regular record date and may be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the holders of Securities not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The principal of (and premium, if any), Purchase Price, Redemption Price and Change in Control Purchase Price and interest on this Security shall be payable at the office or agency of the Trustee maintained for that purpose in any coin or currency of the United States of America that at the time of payment is legal tender for payment of public and private debts; provided, however, that, payment of interest may be made at the option of the Company by (i) check mailed to the holder at such address as shall appear in the Security Register or (ii) by transfer to an account maintained by the Person entitled thereto, provided that proper written transfer instructions have been received by the relevant record date. Notwithstanding the foregoing, so long as the Holder of this Security is the Property Trustee, the payment of the principal of (and premium, if any), Purchase Price, Redemption Price and Change in Control Purchase Price and interest on this Security will be made at such place and to such account as may be designated by the Property Trustee.

The indebtedness evidenced by this Security is, to the extent provided in the Indenture, subordinate and junior in right of payment to the prior payment in full of all Senior Indebtedness, and this Security is issued subject to the provisions of the Indenture with respect thereto. Each holder of this Security, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee on his or her behalf to take such action as may be necessary or appropriate to acknowledge or effectuate the subordination so provided and (c) appoints the Trustee his or her attorney-in-fact for any and all such purposes. Each holder hereof, by his or her acceptance hereof, hereby waives all notice of the acceptance of the subordination provisions contained herein and in the Indenture by each holder of Senior Indebtedness, whether now outstanding or hereafter incurred, and waives reliance by each such holder upon said provisions.

This Security shall not be entitled to any benefit under the Indenture hereinafter referred to, or be valid or become obligatory for any purpose until the Certificate of Authentication hereon shall have been signed by or on behalf of the Trustee.

The provisions of this Security are continued on the reverse side hereof and such provisions shall for all purposes have the same effect as though fully set forth at this place.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed.

XEROX FUNDING LLC II

By:

Name:
Title

Attest:

By:

Name:
Title:

CERTIFICATE OF AUTHENTICATION

This is one of the Securities referred to in the within-mentioned Indenture.

Dated November 27, 2001

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION
as Trustee

By

Authorized Officer

(FORM OF REVERSE OF SECURITY)

This Security is one of the Securities of the Company (herein sometimes referred to as the "Securities"), specified in the Indenture, all issued or to be issued under and pursuant to an Indenture, dated as of November 27, 2001 (the "Indenture"), duly executed and delivered between the Company and Wells Fargo Bank Minnesota, National Association, as Trustee (the "Trustee"), to which Indenture reference is hereby made for a description of the rights, limitations of rights, obligations, duties and immunities thereunder of the Trustee, the Company and the holders of the Securities.

Subject to the provisions of Article XIV of the Indenture, the Company may at its option (i) on and after the Initial Optional Redemption Date, redeem the Securities in whole or in part, at the applicable Special Redemption Price and (ii) if a Special Event shall occur and be continuing, redeem the Securities in whole (but not in part) at any time prior to the Initial Optional Redemption Date and within 90 days of the occurrence of such Special Event, at the Regular Redemption Price.

If the Securities are only partially redeemed pursuant to Article XIV of the Indenture, the Securities will be redeemed pro rata or by lot or by any other method utilized by the Trustee; provided, that if at the time of redemption the Securities are registered as a Global Security, the Depositary shall determine, in accordance with its procedures, the principal amount of such Securities held for the account of its participants to be redeemed. The applicable Redemption Price shall be paid prior to 12:00 noon, New York time, on the date of such redemption or at such earlier time as the Company determines, provided that the Company shall deposit with the Trustee an amount sufficient to pay the applicable Redemption Price by 10:00 a.m., New York time, on the date such Redemption Price is to be paid.

In the event of redemption of this Security in part only, a new Security or Securities for the unpaid portion hereof will be issued in the name of the holder hereof upon the cancellation hereof.

The Securities are convertible into Common Stock of Xerox Corporation and subject to purchase at the option of the holders hereof as described in the Indenture.

The Securities may be exchanged for a Like Amount of Xerox Debentures upon the occurrence of an Exchange Event as described in the LLC Agreement.

In case an Event of Default, as defined in the Indenture, shall have occurred and be continuing, the principal of all of the Securities may be declared, and upon such declaration shall become, due and payable, in the manner, with the effect and subject to the conditions provided in the Indenture.

The Indenture contains provisions permitting the Company and the Trustee, with the consent of the holders of a majority in aggregate principal amount of the Securities at the time outstanding, as defined in the Indenture, to execute supplemental indentures for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of modifying in any manner the rights of the holders of the Securities; provided, however, that no such supplemental indenture shall, without the consent of each holder of Securities then outstanding and affected thereby, (i) change the Maturity Date of any Security, or reduce the rate or extend the time of payment of interest thereon, or reduce the principal amount thereof, reduce the Redemption Price, Purchase Price or Change in Control Purchase Price, make any change that adversely affects the right to convert any Security, make any change that adversely affects the right to require the Company to purchase the Securities in accordance with the terms thereof and of this Indenture, modify the provisions of this Indenture relating to the subordination of the Securities or the right to commence a Direct Action, or (ii) reduce the aforesaid percentage of Securities, the holders of which are required to consent to any such supplemental indenture; provided, however, that if the Securities are held solely by the Property Trustee, such amendment or modification shall not be effective until the holders of a majority in liquidation amount of Trust Securities shall have consented to such amendment or modification; provided, further, that if the consent of the holder of each outstanding Security is required, such amendment or modification shall not be effective until each holder of the Trust Securities shall have consented to such amendment or modification. The Indenture also contains provisions permitting the holders

of a majority in aggregate principal amount of the Securities at the time outstanding, on behalf of all of the holders of the Securities, to waive any past default in the performance of any of the covenants contained in the Indenture, or established pursuant to the Indenture, and its consequences, except a default in the payment of the principal of or premium, if any, Redemption Price, Purchase Price, Change in Control Purchase Price or interest on any of the Securities or a default in respect of any covenant or provision under which the Indenture cannot be modified or amended without the consent of each holder of Securities then outstanding. Any such consent or waiver by the holder of this Security (unless revoked as provided in the Indenture) shall be conclusive and binding upon such Holder and upon all future holders and owners of this Security and of any Security issued in exchange herefor or in place hereof (whether by registration of transfer or otherwise), irrespective of whether or not any notation of such consent or waiver is made upon this Security.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and premium, if any, and interest on this Security at the time and place and at the rate and in the money herein prescribed.

The Securities are issuable only in registered form without coupons in denominations of $50.00 and any integral multiple thereof. As provided in the Indenture and subject to the transfer restrictions limitations as may be contained herein and therein from time to time, this Security is transferable by the holder hereof on the Security Register of the Company, upon surrender of this Security for registration of transfer at the office or agency of the Company in the City and State of New York accompanied by a written instrument or instruments of transfer in form satisfactory to the Company or the Security registrar duly executed by the holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of authorized denominations and for the same aggregate principal amount and series will be issued to the designated transferee or transferees. No service charge will be made for any such transfer, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in relation thereto.

Prior to due presentment for registration of transfer of this Security, the Company, the Trustee, any authenticating agent, any paying agent, any transfer agent and the registrar may deem and treat the holder hereof as the absolute owner hereof (whether or not this Security shall be overdue and notwithstanding any notice of ownership or writing hereon made by anyone other than the Security Registrar) for the purpose of receiving payment of or on account of the principal hereof and premium, if any, and (subject to the Indenture) interest due hereon and for all other purposes, and neither the Company nor the Trustee nor any authenticating agent nor any paying agent nor any transfer agent nor any registrar shall be affected by any notice to the contrary.

No recourse shall be had for the payment of the principal of or premium, if any, or interest on this Security, or for any claim based hereon, or otherwise in respect hereof, or based on or in respect of the Indenture, against any incorporator, stockholder, officer or director, past, present or future, as such, of the Company or of any predecessor or successor Person, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability

being, by the acceptance hereof and as part of the consideration for the issuance hereof, expressly waived and released.

All terms used in this Security that are defined in the Indenture shall have the meanings assigned to them in the Indenture.

THE INDENTURE AND THE SECURITIES SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO CONFLICT OF LAW PROVISIONS THEREOF.

NOTICE OF CONVERSION

To: Wells Fargo Bank Minnesota, National Association
Conversion Agent for Xerox Funding LLC II

The undersigned owner of this Security or Securities hereby irrevocably exercises the option to convert this Security or Securities, or the portion designated below, into Common Stock, par value $1.00 per share (the "Common Stock"), of Xerox Corporation or its successor, ("Xerox") in accordance with the terms of the Indenture (as amended from time to time, the "Indenture"), dated as of November 27, 2001, between Xerox Funding LLC II (the "Company") and Wells Fargo Bank Minnesota, National Association, as Trustee. Pursuant to the aforementioned exercise of the option to convert the Security or Securities, the undersigned hereby directs the Conversion Agent (as that term is defined in the Indenture) to (a) direct the Company to convert immediately an equivalent aggregate principal amount of Xerox Debentures then held by the Company on behalf of such Holders, into Common Stock and, if applicable, other securities, cash or property (at the conversion rate specified in the Indenture), and (b) to direct the Company to direct Xerox to deliver such property to the Trustee for delivery to the undersigned.

The undersigned also hereby directs the Conversion Agent that the shares of Common Stock issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Date:

in whole

in part

Number of Securities to be converted
($50 principal amount or
integral multiples thereof):

Exhibit 4(g)(3)

AMENDED AND RESTATED DECLARATION OF TRUST

OF

XEROX CAPITAL TRUST II

Dated as of November 27, 2001

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AMENDED AND RESTATED
DECLARATION OF TRUST OF
XEROX CAPITAL TRUST II

November 27, 2001

AMENDED AND RESTATED DECLARATION OF TRUST ("Declaration") dated and effective as of November 27, 2001, by the Trustees (as defined herein), the Sponsor (as defined herein) and by the holders, from time to time, of undivided beneficial interests in the Trust to be issued pursuant to this Declaration;

WHEREAS, certain of the Trustees and the Sponsor established Xerox Capital Trust II (the "Trust"), a trust formed under the Delaware Business Trust Act pursuant to a Declaration of Trust dated as of November 19, 2001 (the "Original Declaration"), and a Certificate of Trust filed with the Secretary of State of the State of Delaware on November 19, 2001, for the sole purpose of issuing and selling certain securities representing undivided beneficial interests in the assets of the Trust and investing the proceeds thereof in certain Debentures of the Debenture Issuer (each as hereinafter defined);

WHEREAS, as of the date hereof, no interests in the Trust have been issued; and

WHEREAS, all of the Trustees and the Sponsor, by this Declaration, amend and restate each and every term and provision of the Original Declaration.

NOW, THEREFORE, it being the intention of the parties hereto to continue the Trust as a business trust under the Business Trust Act and that this Declaration constitute the governing instrument of such business trust, the Trustees declare that all assets contributed to the Trust will be held in trust for the benefit of the holders, from time to time, of the securities representing undivided beneficial interests in the assets of the Trust issued hereunder, subject to the provisions of this Declaration.

ARTICLE I
INTERPRETATION AND DEFINITIONS

SECTION 1.1 Definitions.

Unless the context otherwise requires:

(a) each capitalized terms used in this Declaration but not defined in the Preamble above has the meaning assigned to it in this Section 1.1;

(b) a term defined anywhere in this Declaration has the same meaning throughout;

(c) all references to "the Declaration" or "this Declaration" are to this Declaration and each Annex and Exhibit hereto, as modified, supplemented or amended from time to time;

(d) all references in this Declaration to Articles and Sections and Annexes and Exhibits are to Articles and Sections of and Annexes and Exhibits to this Declaration unless otherwise specified;

(e) a term defined in the Trust Indenture Act has the same meaning when used in this Declaration unless otherwise defined in this Declaration or unless the context otherwise requires; and

(f) a reference to the singular includes the plural and vice versa.

"Administrative Action" has the meaning set forth in Annex I.

"Administrative Trustee" has the meaning set forth in Section 5.1.

"Affiliate" has the same meaning as given to that term in Rule 405 under the Securities Act or any successor rule thereunder.

"Agent" means any Paying Agent, Registrar, Conversion Agent or Exchange Agent.

"Authorized Officer" of a Person means any other Person that is authorized to legally bind such former Person.

"Book Entry Interest" means a beneficial interest in a Global Certificate registered in the name of a Clearing Agency or its nominee, ownership and transfers of which shall be maintained and made through book entries by a Clearing Agency as described in Section 9.4.

"Business Day" means any day other than a Saturday or a Sunday or a day on which banking institutions in The City of New York are permitted or required by applicable law or executive order to close.

"Business Trust Act" means Chapter 38 of Title 12 of the Delaware Code, 12 Del. C. Section 3801 et seq., as it may be amended from time to time, or any successor legislation.

"cash" has the meaning set forth in Annex I.

"Change in Control Purchase Date" has the meaning set forth in Annex I.

"Change in Control Purchase Notice" has the meaning set forth in Annex I.

"Change in Control Purchase Price" has the meaning set forth in Annex I.

"Change in Control Sponsor Notice" has the meaning set forth in Annex I.

"Clearing Agency" means an organization registered as a "Clearing Agency" pursuant to Section 17A of the Exchange Act that is acting as depositary for the Trust Preferred Securities and in whose name or in the name of a nominee of that organization shall be registered a Global Certificate and which shall undertake to effect book entry transfers and pledges of the Trust Preferred Securities.

"Clearing Agency Participant" means a broker, dealer, bank, other financial institution or other Person for whom from time to time the Clearing Agency effects book entry transfers and pledges of securities deposited with the Clearing Agency.

"Closing Time" has the meaning specified under the Purchase Agreement.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor legislation.

"Commission" means the United States Securities and Exchange Commission as from time to time constituted, or if at any time after the execution of this Declaration such Commission is not existing and performing the duties now assigned to it under applicable Federal securities laws, then the body performing such duties at such time.

"Common Securities" has the meaning specified in Section 7.1(a).

"Company Indemnified Person" means (a) any Administrative Trustee; (b) any Affiliate of any Administrative Trustee; (c) any officers, directors, shareholders, members, partners, employees, representatives or agents of any Administrative Trustee; or (d) any officer, employee or agent of the Trust or its Affiliates.

"Conversion Agent" has the meaning set forth in Section 7.4.

"Conversion Date" has the meaning set forth in Annex I.

"Conversion Rate" has the meaning set forth in Annex I.

"Corporate Trust Office" means the principal corporate trust office of the Property Trustee at which at any particular time, its corporate trust business shall be administered, which office at the date hereof is located at Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services, except where such office is required to be located in the State of New York, then such term shall mean the office or agency of the Property Trustee in the Borough of Manhattan, The City of New York, which office at the date hereof is located at c/o The Depository Trust Company, 1st Floor - TADS Department, 55 Water Street, New York, New York 10041.

"Covered Person" means: (a) any officer, director, shareholder, partner, member, representative, employee or agent of (i) the Trust or (ii) the Trust's Affiliates; and (b) any Holder of Securities.

"Debenture Issuer" means either Xerox Funding or the Sponsor, as the case may be, or any successor entity resulting from any consolidation, amalgamation, merger or other business combination, in its respective capacity as issuer of the related Debentures under the related Indenture.

"Debenture Trustee" means Wells Fargo Bank Minnesota, National Association, a national banking association, as trustee under the Indentures until a successor is appointed thereunder, and thereafter means such successor trustee.

"Debentures" means, collectively, the Xerox Funding Debentures and the Xerox Debentures.

"Default" means an event, act or condition that with notice of lapse of time, or both, would constitute an Event of Default.

"Definitive Trust Preferred Securities" shall have the meaning set forth in Section 7.3(c).

"Delaware Trustee" has the meaning set forth in Section 5.2.

"Direct Action" shall have the meaning set forth in Section 3.8(e).

"Distribution" means a distribution payable to Holders in accordance with Section 6.1.

"DTC" means The Depository Trust Company, the initial Clearing Agency.

"Event of Default" in respect of the Securities means an Event of Default (as defined in each of the Indentures) that has occurred and is continuing in respect of the Debentures.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, or any successor legislation.

"Fiduciary Indemnified Person" has the meaning set forth in Section 10.4(b).

"Fiscal Year" has the meaning set forth in Section 11.1.

"Global Trust Preferred Security" has the meaning set forth in Section 7.3(a).

"Holder" means a Person in whose name a Security is registered, such Person being a beneficial owner within the meaning of the Business Trust Act.

"Indemnified Person" means a Company Indemnified Person or a Fiduciary Indemnified Person.

"Indentures" means the Xerox Funding Indenture and the Xerox Indenture.

"Investment Company" means an investment company as defined in the Investment Company Act.

"Investment Company Act" has the meaning set forth in Annex I.

"Legal Action" has the meaning set forth in Section 3.6(g).

"Liquidation Amount" means an amount with respect to the assets of the Trust equal to $50 per Trust Security.

"Majority in liquidation amount" means, with respect to the Trust Securities, except as provided in the terms of the Trust Preferred Securities or by the Trust Indenture Act, Holder(s) of outstanding Trust Securities voting together as a single class or, as the context may require, Holders of outstanding Trust Preferred Securities or Holders of outstanding Common Securities voting separately as a class, who are the record owners of more than 50% of the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accrued and unpaid Distributions to the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

"Ministerial Action" has the meaning set forth in Annex I hereto.

"Notice of Conversion" means the notice given by a Holder of Trust Securities to the Conversion Agent directing the Conversion Agent to instruct

Xerox Funding to convert immediately an equivalent principal amount of Xerox Debentures into Common Stock of the Sponsor on behalf of such Holder. The form of such notice is included in the Trust Common Securities Certificate and Trust Preferred Securities Certificate.

"Offering Memorandum" has the meaning set forth in Section 3.6(b).

"Officers' Certificate" means, with respect to any Person, a certificate signed by the Chairman, a Vice Chairman, the Chief Executive Officer, the President, the Chief Financial Officer, a Vice President, the Controller, an Assistant Controller, the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary of such Person. Any Officers' Certificate delivered with respect to compliance with a condition or covenant provided for in this Declaration shall include:

(a) a statement that each officer signing the Certificate has read the covenant or condition and the definitions relating thereto;

(b) a brief statement of the nature and scope of the examination or investigation undertaken by each officer in rendering the Certificate;

(c) a statement that each such officer has made such examination or investigation as, in such officer's opinion, is necessary to enable such officer to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether, in the opinion of each such officer, such condition or covenant has been complied with.

"Opinion of Counsel" shall mean a written opinion of counsel, who may be an employee of the Sponsor, and who shall be acceptable to the Property Trustee.

"Paying Agent" has the meaning specified in Section 7.4.

"Person" means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint stock company, limited liability company, trust, unincorporated association, or government or any agency or political subdivision thereof, or any other entity of whatever nature.

"Property Trustee" has the meaning set forth in Section 5.3(a).

"Property Trustee Account" has the meaning set forth in Section 3.8(c).

"Purchase Agreement" means the Purchase Agreement for the initial offering and sale of Trust Preferred Securities in the form of Exhibit E.

"Purchase Date" has the meaning set forth in Annex I.

"Purchase Notice" has the meaning set forth in Annex I.

"Purchase Price" has the meaning set forth in Annex I.

"QIBs" shall mean qualified institutional buyers as defined in Rule 144A.

"Quorum" means a majority of the Administrative Trustees or, if there are only two Administrative Trustees, both of them.

"Redemption Price" has the meaning set forth in Annex I.

"Registrar" has the meaning set forth in Section 7.4.

"Regular Redemption Price" has the meaning set forth in Annex I.

"Related Party" means, with respect to the Sponsor, any direct or indirect wholly owned subsidiary of the Sponsor or any other Person that owns, directly or indirectly, 100% of the outstanding voting securities of the Sponsor.

"Responsible Officer" means, with respect to the Property Trustee, any officer within the Corporate Trust Office of the Property Trustee, including any vice-president, any assistant vice-president, any assistant secretary, the treasurer, any assistant treasurer or other officer of the Corporate Trust Office of the Property Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of that officer's knowledge of and familiarity with the particular subject.

"Restricted Definitive Trust Preferred Securities" has the meaning set forth in Section 7.3(c).

"Restricted Global Trust Preferred Security" has the meaning set forth in Section 7.3(a).

"Restricted Securities Legend" has the meaning set forth in Section 7.3.

"Restricted Trust Preferred Security" means a Trust Preferred Security required by Section 9.2 to contain a Restricted Securities Legend.

"Rule 3a-5" means Rule 3a-5 under the Investment Company Act, or any successor rule or regulation.

"Rule 144" means Rule 144 under the Securities Act, as such rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission.

"Rule 144A" means Rule 144A under the Securities Act, as such rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission.

"Securities" or "Trust Securities" means the Common Securities and the Trust Preferred Securities.

"Securities Act" means the Securities Act of 1933, as amended from time to time, or any successor legislation.

"Special Event" has the meaning set forth in Annex I.

"Special Redemption Price" has the meaning set forth in Annex I.

"Sponsor" means Xerox Corporation, a New York corporation, or any

successor entity resulting from any merger, consolidation, amalgamation or other business combination, in its capacity as sponsor of the Trust.

"Sponsor Notice Date" has the meaning set forth in Annex I.

"Super Majority" has the meaning set forth in Section 2.6(b)(ii).

"Tax Event" has the meaning set forth in Annex I.

"10% in liquidation amount" means, with respect to the Trust Securities, except as provided in the terms of the Trust Preferred Securities or by the Trust Indenture Act, Holder(s) of outstanding Trust Securities voting together as a single class or, as the context may require, Holders of outstanding Trust Preferred Securities or Holders of outstanding Common Securities voting separately as a class, who are the record owners of 10% or more of the aggregate liquidation amount (including the stated amount that would be paid on redemption, liquidation or otherwise, plus accrued and unpaid Distributions to the date upon which the voting percentages are determined) of all outstanding Securities of the relevant class.

"Treasury Regulations" means the income tax regulations, including temporary and proposed regulations, promulgated under the Code by the United States Treasury, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Trustee" or "Trustees" means each Person who has signed this Declaration as a trustee, so long as such Person shall continue in office in accordance with the terms hereof, and all other Persons who may from time to time be duly appointed, qualified and serving as Trustees in accordance with the provisions hereof, and references herein to a Trustee or the Trustees shall refer to such Person or Persons solely in their capacity as trustees hereunder.

"Trust Indenture Act" means the Trust Indenture Act of 1939, as amended from time to time, or any successor legislation.

"Trust Preferred Securities" has the meaning specified in Section 7.1(a).

"Trust Preferred Security Beneficial Owner" means, with respect to a Book Entry Interest, a Person who is the beneficial owner of such Book Entry Interest, as reflected on the books of the Clearing Agency, or on the books of a Person maintaining an account with such Clearing Agency (directly as a Clearing Agency Participant or as an indirect participant, in each case in accordance with the rules of such Clearing Agency).

"Trust Securities Guarantee" means the guarantee agreement, dated as of November 27, 2001, between the Sponsor and Wells Fargo Bank Minnesota, National Association, as guarantee trustee, in respect of the Trust Securities.

"Xerox Debentures" means the 7 1/2% Convertible Junior Subordinated Debentures due 2021 of the Sponsor issued pursuant to the Xerox Indenture.

"Xerox Funding" means Xerox Funding LLC II, a Delaware limited liability company, and issuer of the Xerox Funding Debentures, and any successor thereto.

"Xerox Funding Debentures" means the 7 1/2% Convertible Junior Subordinated Debentures due 2021 of Xerox Funding issued pursuant to the Xerox Funding Indenture.

"Xerox Funding Indenture" means the Indenture, dated as of November 27, 2001, between Xerox Funding and the Debenture Trustee, as amended from time to time.

"Xerox Indenture" means the Indenture, dated as of November 27, 2001, between the Sponsor and the Debenture Trustee, as amended from time to time.

ARTICLE II
TRUST INDENTURE ACT

SECTION 2.1 Trust Indenture Act; Application.

(a) This Declaration is subject to the provisions of the Trust Indenture Act that are required to be part of this Declaration and shall, to the extent applicable, be governed by such provisions.

(b) The Property Trustee shall be the only Trustee which is a Trustee for the purposes of the Trust Indenture Act.

(c) If and to the extent that any provision of this Declaration limits, qualifies or conflicts with the duties imposed by Section 310 to 317, inclusive, of the Trust Indenture Act, such imposed duties shall control.

(d) The application of the Trust Indenture Act to this Declaration shall not affect the nature of the Securities as equity securities representing undivided beneficial interests in the assets of the Trust.

SECTION 2.2 Lists of Holders of Securities.

(a) The Sponsor and the Administrative Trustees on behalf of the Trust shall provide the Property Trustee, unless the Property Trustee is Registrar for the Securities (i) within 14 days after each record date for payment of Distributions, a list, in such form as the Property Trustee may reasonably require, of the names and addresses of the Holders ("List of Holders") as of such record date, provided that neither the Sponsor nor the Administrative Trustees on behalf of the Trust shall be obligated to provide such List of Holders at any time the List of Holders does not differ from the most recent List of Holders given to the Property Trustee by the Sponsor and the Administrative Trustees on behalf of the Trust, and (ii) at any other time, within 30 days of receipt by the Trust of a written request for a List of Holders as of a date no more than 14 days before such List of Holders is given to the Property Trustee. The Property Trustee shall preserve, in as current a form as is reasonably practicable, all information contained in Lists of Holders given to it or which it receives in the capacity as Paying Agent (if acting in such capacity), provided that the Property Trustee may destroy any List of Holders previously given to it on receipt of a new List of Holders.

(b) The Property Trustee shall comply with its obligations under Sections 311(a), 311(b) and 312(b) of the Trust Indenture Act.

SECTION 2.3 Reports by the Property Trustee.

Within 60 days after December 15 of each year, commencing December 15, 2002, the Property Trustee shall provide to the Holders of the Trust Preferred Securities such reports as are required by Section 313 of the Trust Indenture Act, if any, in the form and in the manner provided by Section 313 of the Trust Indenture Act. The Property Trustee shall also comply with the requirements of Section 313(d) of the Trust Indenture Act.

SECTION 2.4 Periodic Reports to Property Trustee.

Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such documents, reports and information as are required by Section 314 (if any) and the compliance certificate required by Section 314 of the Trust Indenture Act in the form, in the manner and at the times required by Section 314(a)(4) of the Trust Indenture Act.

SECTION 2.5 Evidence of Compliance with Conditions Precedent.

Each of the Sponsor and the Administrative Trustees on behalf of the Trust shall provide to the Property Trustee such evidence of compliance with any conditions precedent provided for in this Declaration that relate to any of the matters set forth in Section 314(c) of the Trust Indenture Act. Any certificate or opinion required to be given by an officer pursuant to Section 314(c)(1) of the Trust Indenture Act may be given in the form of an Officers' Certificate.

SECTION 2.6 Events of Default; Waiver.

(a) An Event of Default under either of the Indentures shall constitute an Event of Default under this Declaration. As described below, so long as any Trust Preferred Securities are outstanding, Holders of a Majority in liquidation amount of the Trust Preferred Securities may direct the Property Trustee (i) to exercise the remedies available to it as the sole holder of the Xerox Funding Debentures and (ii) to direct Xerox Funding to exercise remedies available to Xerox Funding as the sole holder of the Xerox Debentures.

(b) The Holders of a Majority in liquidation amount of Trust Preferred Securities may, by vote, on behalf of the Holders of all of the Trust Preferred Securities, waive any past Event of Default in respect of the Trust Preferred Securities and its consequences, provided that, if the underlying Event of Default under the applicable Indenture:

(i) is not waivable under such Indenture, the Event of Default under the Declaration shall also not be waivable; or

(ii) requires the consent or vote of greater than a majority in aggregate principal amount of the holders of the Debentures (a "Super Majority") to be waived under such Indenture, the Event of Default under the Declaration may only be waived by the vote of the Holders of at least the proportion in aggregate liquidation amount of the Trust Preferred Securities that the relevant Super Majority represents of the aggregate principal amount of the Xerox Funding Debentures or Xerox Debentures as the case may be, outstanding.

The foregoing provisions of this Section 2.6(b) shall be in lieu of Section

316(a)(1)(B) of the Trust Indenture Act and such Section 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act. Upon such waiver, any such default shall cease to exist, and any Event of Default with respect to the Trust Preferred Securities arising therefrom shall be deemed to have been cured, for every purpose of this Declaration, but no such waiver shall extend to any subsequent or other default or an Event of Default with respect to the Trust Preferred Securities or impair any right consequent thereon. Any waiver by the Holders of the Trust Preferred Securities of an Event of Default with respect to the Trust Preferred Securities shall also be deemed to constitute a waiver by the Holders of the Common Securities of any such Event of Default with respect to the Common Securities for all purposes of this Declaration without any further act, vote, or consent of the Holders of the Common Securities.

The Holders of a Majority in liquidation amount of the Trust Preferred Securities shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Property Trustee or to direct the exercise of any trust or power conferred upon the Property Trustee, including (x) the right to direct the Property Trustee to exercise the remedies available to it as holder of the Xerox Funding Debentures and (y) the right to direct the Property Trustee to direct Xerox Funding to exercise the remedies available to Xerox Funding as a holder of the Xerox Debentures and, in each case, the Property Trustee shall be protected in acting in accordance with such directions; provided, however, that (subject to the provisions of Section 3.9) the Property Trustee shall have the right to decline to follow any such direction if the Property Trustee shall determine that the action so directed would be unjustly prejudicial to the Holders not taking part in such direction or if the Property Trustee, being advised by counsel, determines that the action or proceeding so directed may not lawfully be taken or if the Property Trustee, in good faith, by its board of directors or trustees, executive committee, or a trust committee of directors or trustees and/or Responsible Officers, shall determine that the action or proceedings so directed would involve the Property Trustee in personal liability.

(c) The Holders of a Majority in liquidation amount of the Common Securities may, by vote, on behalf of the Holders of all of the Common Securities, waive any past Event of Default with respect to the Common Securities and its consequences, provided that, if the underlying Event of Default under the applicable Indenture:

(i) is not waivable under such Indenture, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Declaration as provided below in this Section 2.6(c), the Event of Default under the Declaration shall also not be waivable; or

(ii) requires the consent or vote of a Super Majority to be waived, except where the Holders of the Common Securities are deemed to have waived such Event of Default under the Declaration as provided below in this Section 2.6(c), the Event of Default under the Declaration may only be waived by the vote of the Holders of at least the proportion in aggregate liquidation amount of the Common Securities that the relevant Super Majority represents of the aggregate principal amount of the Xerox Funding Debentures or Xerox Debentures, as the case may be, outstanding;

provided further, each Holder of Common Securities will be deemed to have

waived any such Event of Default and all Events of Default with respect to the Common Securities and its consequences if all Events of Default with respect to the Trust Preferred Securities have been cured, waived or otherwise eliminated, and until such Events of Default have been so cured, waived or otherwise eliminated, the Property Trustee will be deemed to be acting solely on behalf of the Holders of the Trust Preferred Securities and only the Holders of the Trust Preferred Securities will have the right to direct the Property Trustee in accordance with the terms of the Securities. The foregoing provisions of this Section 2.6(c) shall be in lieu of Sections 316(a)(1)(A) and 316(a)(1)(B) of the Trust Indenture Act and such Sections 316(a)(1)(A) and 316(a)(1)(B) of the Trust Indenture Act are hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act. Subject to the foregoing provisions of this Section 2.6(c), upon such waiver, any such default shall cease to exist and any Event of Default with respect to the Common Securities arising therefrom shall be deemed to have been cured for every purpose of this Declaration, but no such waiver shall extend to any subsequent or other default or Event of Default with respect to the Common Securities or impair any right consequent thereon.

(d) A waiver of an Event of Default under the Xerox Funding Indenture by the Property Trustee and under the Xerox Indenture, by Xerox Funding, acting at the direction of the Property Trustee, in each case, at the direction of the Holders of the Trust Preferred Securities, constitutes a waiver of the corresponding Event of Default under this Declaration. The foregoing provisions of this Section 2.6(d) shall be in lieu of Section 316(a)(1)(B) of the Trust Indenture Act and such Section 316(a)(1)(B) of the Trust Indenture Act is hereby expressly excluded from this Declaration and the Securities, as permitted by the Trust Indenture Act.

SECTION 2.7 Event of Default; Notice.

(a) The Property Trustee shall, within 90 days after the occurrence of an Event of Default actually known to a Responsible Officer of the Property Trustee, transmit by mail, first class postage prepaid, to the Holders a notice of such default with respect to the Securities, unless such default has been cured before the giving of such notice (the term "defaults" for the purposes of this Section 2.7(a) being hereby defined to be an Event of Default as defined in each of the Indentures, not including any periods of grace provided for therein and irrespective of the giving of any notice provided therein); provided that, except for a default in the payment or delivery of amounts due on or in respect of any of the Debentures, the Property Trustee shall be protected in withholding such notice if and so long as a Responsible Officer of the Property Trustee in good faith determines that the withholding of such notice is in the interests of the Holders.

(b) The Property Trustee shall not be deemed to have knowledge of any default except:

(i) a default under Sections 5.01(a), 5.01(b) or 5.01(c) of each of the Indentures; or

(ii) any default as to which the Property Trustee shall have received written notice or of which a Responsible Officer of the Property Trustee charged with the administration of the Declaration shall have actual knowledge.

(c) Within five Business Days after the occurrence of any Event of

Default actually known to the Property Trustee, the Property Trustee shall transmit notice of such Event of Default to the holders of the Trust Preferred Securities, the Administrative Trustees and the Sponsor, unless such Event of Default shall have been cured or waived. The Sponsor and the Administrative Trustees shall file annually with the Property Trustee a certification as to whether or not they are in compliance with all the conditions and covenants applicable to them under this Declaration.

ARTICLE III
ORGANIZATION

SECTION 3.1 Name.

The Trust is named "Xerox Capital Trust II" as such name may be modified from time to time by the Administrative Trustees following written notice to the Holders of Securities. The Trust's activities may be conducted under the name of the Trust or any other name deemed advisable by the Administrative Trustees.

SECTION 3.2 Office.

The address of the principal office of the Trust is c/o Xerox Corporation, P.O. Box 1600, 800 Long Ridge Road, Stamford, Connecticut 06904. On 10 Business Days written notice to the Holders of Securities, the Administrative Trustees may designate another principal office.

SECTION 3.3 Purpose.

The exclusive purposes and functions of the Trust are (a) to issue and sell Securities, (b) use the proceeds from the sale of the Securities to acquire the Xerox Funding Debentures, and (c) except as otherwise limited herein, to engage in only those other activities necessary, advisable or incidental thereto. The Trust shall not borrow money, issue debt or reinvest proceeds derived from investments, mortgage or pledge any of its assets, or otherwise undertake (or permit to be undertaken) any activity that would cause the Trust not to be classified as a grantor trust, or in a manner that would have the same consequences as classification as a grantor trust, for United States federal income tax purposes.

SECTION 3.4 Authority.

Subject to the limitations provided in this Declaration and to the specific duties of the Property Trustee, the Administrative Trustees shall have exclusive and complete authority to carry out the purposes of the Trust. An action taken by the Administrative Trustees in accordance with their powers shall constitute the act of and serve to bind the Trust and an action taken by the Property Trustee on behalf of the Trust in accordance with its powers shall constitute the act of and serve to bind the Trust. In dealing with the Trustees acting on behalf of the Trust, no person shall be required to inquire into the authority of the Trustees to bind the Trust. Persons dealing with the Trust are entitled to rely conclusively on the power and authority of the Trustees as set forth in this Declaration.

SECTION 3.5 Title to Property of the Trust.

Except as provided in Section 3.8 with respect to the Xerox Funding Debentures and the Property Trustee Account or as otherwise provided in this

Declaration, legal title to all assets of the Trust shall be vested in the Trust. The Holders shall not have legal title to any part of the assets of the Trust, but shall have an undivided beneficial interest in the assets of the Trust.

SECTION 3.6 Powers and Duties of the Administrative Trustees.

The Administrative Trustees shall have the exclusive power, duty and authority to cause the Trust to engage in the following activities:

(a) to execute, issue, deliver and sell the Securities in accordance with this Declaration; provided, however, that (i) the Trust may issue no more than one series of Trust Preferred Securities and no more than one series of Common Securities, (ii) there shall be no interests in the Trust other than the Securities, and (iii) the issuance of Securities shall be limited to a simultaneous issuance of both Trust Preferred Securities and Common Securities at the Closing Time;

(b) in connection with the issue and sale of the Trust Preferred Securities, at the direction of the Sponsor, to:

(i) prepare and execute, if necessary, an offering memorandum (the "Offering Memorandum") in preliminary and final form prepared by the Sponsor, in relation to the offering and sale of Trust Preferred Securities to qualified institutional buyers in reliance on Rule 144A under the Securities Act;

(ii) execute and file any documents prepared by the Sponsor, or take any acts as determined by the Sponsor to be necessary in order to qualify or register all or part of the Trust Preferred Securities in any State in which the Sponsor has determined to qualify or register such Trust Preferred Securities for sale;

(iii) execute and deliver letters, documents, or instruments with DTC and other Clearing Agencies relating to the Trust Preferred Securities;

(iv) execute and enter into the Purchase Agreement providing for the sale of the Trust Preferred Securities;

(v) execute and enter into one or more purchase agreements providing for the sale of the Common Securities; and

(vi) execute and enter into one or more purchase agreements providing for the purchase of the Xerox Funding Debentures;

(c) to acquire the Xerox Funding Debentures with the proceeds of the sale of the Securities; provided, however, that the Administrative Trustees shall cause legal title to the Xerox Funding Debentures to be held of record in the name of the Property Trustee for the benefit of the Holders;

(d) to give the Sponsor and the Property Trustee prompt written notice of the occurrence of a Special Event; provided, that the Administrative Trustees shall consult with the Sponsor before taking or refraining from taking any Ministerial Act in relation to a Special Event;

(e) to establish a record date with respect to all actions to be taken

hereunder that require a record date to be established, including and with respect to, for the purposes of Section 316(c) of the Trust Indenture Act, Distributions, voting rights, redemptions, exchanges, and to issue relevant notices to the Holders of Trust Preferred Securities and Holders of Common Securities as to such actions and applicable record dates;

(f) to take all actions and perform such duties as may be required of the Administrative Trustees pursuant to the terms of the Securities;

(g) to bring or defend, pay, collect, compromise, arbitrate, resort to legal action, or otherwise adjust claims or demands of or against the Trust ("Legal Action"), unless pursuant to Section 3.8(e), the Property Trustee has the exclusive power to bring such Legal Action;

(h) to employ or otherwise engage employees and agents (who may be designated as officers with titles) and managers, contractors, advisors, and consultants and pay reasonable compensation for such services;

(i) to cause the Trust, consistent with the provisions hereof, to comply with the Trust's obligations under the Trust Indenture Act;

(j) to give the certificate required by Section 314(a)(4) of the Trust Indenture Act to the Property Trustee, which certificate may be executed by any Administrative Trustee;

(k) to incur expenses that are necessary or incidental to carry out any of the purposes of the Trust;

(l) to act as, or appoint another Person to act as, Registrar, Exchange Agent and Conversion Agent for the Securities or to appoint a Paying Agent for the Securities as provided in Section 7.4 except for such time as such power to appoint a Paying Agent is vested in the Property Trustee;

(m) to execute all documents or instruments, perform all duties and powers, and do all things for and on behalf of the Trust in all matters necessary or incidental to the foregoing;

(n) to take all action that may be necessary or appropriate for the preservation and the continuation of the Trust's valid existence, rights, franchises and privileges as a statutory business trust under the laws of the State of Delaware and of each other jurisdiction in which such existence is necessary to protect the limited liability of the Holders of the Trust Preferred Securities or to enable the Trust to effect the purposes for which the Trust was created;

(o) to take any action, not inconsistent with this Declaration or with applicable law, that the Administrative Trustees determine in their discretion to be necessary or desirable in carrying out the activities of the Trust as set out in this Section 3.6, including, but not limited to:

(i) causing the Trust not to be deemed to be an Investment Company required to be registered under the Investment Company Act;

(ii) causing the Trust to be classified for United States federal income tax purposes as a grantor trust or in a manner that will have the same consequences as classification as a grantor trust; and

(iii) cooperating with the Debenture Issuers to ensure that the Xerox Funding Debentures will be treated as indebtedness of Xerox Funding and the Xerox Debentures will be treated as indebtedness of the Sponsor for United States federal income tax purposes; and

(p) to take all action necessary to cause all applicable tax returns and tax information reports that are required to be filed with respect to the Trust to be duly prepared and filed by the Administrative Trustees, on behalf of the Trust.

The Administrative Trustees must exercise the powers set forth in this Section 3.6 in a manner that is consistent with the purposes and functions of the Trust set out in Section 3.3, and the Administrative Trustees shall not take any action that is inconsistent with the purposes and functions of the Trust set forth in Section 3.3.

Subject to this Section 3.6, the Administrative Trustees shall have none of the powers or the authority of the Property Trustee set forth in Section 3.8.

Any expenses incurred by the Administrative Trustees pursuant to this Section 3.6 shall be paid by the Sponsor.

SECTION 3.7 Prohibition of Actions by the Trust and the Trustees.

The Trust shall not, and the Trustees (including the Property Trustee) shall cause the Trust not to engage in any activity other than as required or authorized by this Declaration. The Trust shall not:

(i) invest any proceeds received by the Trust from holding the Xerox Funding Debentures, but shall distribute all such proceeds to Holders pursuant to the terms of this Declaration and of the Securities;

(ii) acquire any assets other than as expressly provided herein;

(iii) possess Trust property for other than a Trust purpose;

(iv) make any loans or incur any indebtedness other than loans represented by the Xerox Funding Debentures;

(v) possess any power or otherwise act in such a way as to vary the Trust assets or the terms of the Securities in any way whatsoever;

(vi) issue any securities or other evidences of beneficial ownership of, or beneficial interest in, the Trust other than the Securities;

(vii) other than as provided in this Declaration or Annex I, (A) direct the time, method and place of conducting any proceeding with respect to any remedy available to the Debenture Trustee under the Indentures, or exercising any trust or power conferred upon the Debenture Trustee with respect to the respective Debentures, (B) waive any past default that is waivable under the Indentures, (C) exercise any right to rescind or annul any declaration that the principal of all the Debentures shall be due and payable;

(viii) consent to any amendment, modification or termination of the Indentures or the Debentures where such consent shall be required unless the Trust shall have received an opinion of a nationally recognized independent

tax counsel experienced in such matters to the effect that, under then current law and assuming full compliance with the terms of this Declaration and the Indentures, the Trust will, for United States federal income tax purposes, be classified as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust, and will not be classified as an association taxable as a corporation; or

(ix) other than in connection with the liquidation of the Trust pursuant to a Special Event or upon conversion, redemption or purchase of all outstanding Trust Securities, file a certificate of cancellation of the Trust.

SECTION 3.8 Powers and Duties of the Property Trustee.

(a) The legal title to the Xerox Funding Debentures shall be owned by and held of record in the name of the Property Trustee in trust for the benefit of the Trust and the Holders. The right, title and interest of the Property Trustee to the Xerox Funding Debentures shall vest automatically in each Person who may hereafter be appointed as Property Trustee in accordance with Section 5.7. Such vesting and cessation of title shall be effective whether or not conveyancing documents with regard to the Xerox Funding Debentures have been executed and delivered.

(b) The Property Trustee shall not transfer its right, title and interest in the Xerox Funding Debentures to the Administrative Trustees or to the Delaware Trustee (if the Property Trustee does not also act as Delaware Trustee).

(c) The Property Trustee shall:

(i) establish and maintain a segregated non-interest bearing trust account (the "Property Trustee Account") in the name of and under the exclusive control of the Property Trustee on behalf of the Holders and, upon the receipt of payments of funds made on or in respect of the Xerox Funding Debentures held by the Property Trustee, deposit such funds into the Property Trustee Account and make payments to the Holders of the Trust Preferred Securities and Holders of the Common Securities from the Property Trustee Account in accordance with Section 6.1. Funds in the Property Trustee Account shall be held uninvested until disbursed in accordance with this Declaration;

(ii) engage in such ministerial activities as shall be necessary or appropriate to effect the redemption or repurchase of the Securities to the extent the Xerox Funding Debentures are redeemed, are repurchased or mature; and

(iii) upon written notice of distribution issued by the Administrative Trustees in accordance with the terms of the Securities, engage in such ministerial activities as shall be necessary or appropriate to effect the distribution of the Debentures to Holders of Securities upon the occurrence of certain events.

(d) The Property Trustee shall take all actions and perform such duties as may be specifically required of the Property Trustee pursuant to the terms of the Securities.

(e) Subject to Section 3.9(a), the Property Trustee shall take any

Legal Action which arises out of or in connection with an Event of Default of which a Responsible Officer of the Property Trustee has actual knowledge or the Property Trustee's duties and obligations under this Declaration or the Trust Indenture Act and if such Property Trustee shall have failed to take such Legal Action, the Holders of the Trust Preferred Securities may take such Legal Action, to the same extent as if such Holders of Trust Preferred Securities held an aggregate principal amount of Xerox Funding Debentures or Xerox Debentures equal to the aggregate liquidation amount of such Trust Preferred Securities, without first proceeding against the Property Trustee or the Trust; provided however, that if an Event of Default has occurred and is continuing and such event is attributable to the failure of either Debenture Issuer to pay or deliver any amounts due on or in respect of the related Debentures on the date such amounts are otherwise payable or deliverable (or in the case of redemption, on the redemption date, or in the case of any purchase by the Trust, the purchase date), then a Holder of Trust Preferred Securities may directly institute a proceeding against such Debenture Issuer for enforcement of such payment or delivery to such Holder on or in respect of such Debentures having a principal amount equal to the aggregate liquidation amount of the Trust Preferred Securities of such Holder (a "Direct Action") on or after the respective due date specified in the respective Debentures. In connection with such Direct Action, the rights of the Holders of the Common Securities will be subrogated to the rights of such Holder of Trust Preferred Securities to the extent of any payment made by a Debenture Issuer to such Holder of Trust Preferred Securities in such Direct Action. Except as provided in the preceding sentences of this Section 3.8(e), the Holders of Trust Preferred Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

(f) The Property Trustee shall continue to serve as a Trustee until either:

(i) the Trust has been completely liquidated and the proceeds of the liquidation distributed to the Holders pursuant to the terms of the Securities; or

(ii) a successor Property Trustee has been appointed and has accepted that appointment in accordance with Section 5.7 (a "Successor Property Trustee").

(g) The Property Trustee shall have the legal power to (i) exercise all of the rights, powers and privileges of a holder of Xerox Funding Debentures under the Xerox Funding Indenture and (ii) direct Xerox Funding to exercise all of the rights, powers and privileges of a holder of Xerox Debentures at the direction and for the benefit of the Holders, and, in each case, if an Event of Default actually known to a Responsible Officer of the Property Trustee occurs and is continuing, the Property Trustee shall, for the benefit of Holders, enforce such rights subject to the rights of the Holders pursuant to the terms of the Securities.

(h) The Property Trustee shall be authorized to undertake any actions set forth in Section 317(a) of the Trust Indenture Act.

(i) For such time as the Property Trustee is the Paying Agent, the Property Trustee may authorize one or more Persons to act as additional Paying Agents and to pay Distributions, redemption payments, payments in respect of Purchase Price or Change in Control Purchase Price or liquidation payments on behalf of the Trust with respect to all Securities and any such

Paying Agent shall comply with Section 317(b) of the Trust Indenture Act. Any such additional Paying Agent may be removed by the Property Trustee at any time the Property Trustee remains as Paying Agent and a successor Paying Agent or additional Paying Agents may be (but are not required to be) appointed at any time by the Property Trustee while the Property Trustee is so acting as Paying Agent.

(j) Subject to this Section 3.8, the Property Trustee shall have none of the duties, liabilities, powers or the authority of the Administrative Trustees set forth in Section 3.6.

The Property Trustee must exercise the powers set forth in this Section 3.8 in a manner that is consistent with the purposes and functions of the Trust set out in Section 3.3, and the Property Trustee shall not take any action that is inconsistent with the purposes and functions of the Trust set out in Section 3.3.

SECTION 3.9 Certain Duties and Responsibilities of the Property Trustee.

(a) The Property Trustee, before the occurrence of any Event of Default and after the curing of all Events of Default that may have occurred, shall undertake to perform only such duties as are specifically set forth in this Declaration and in the Securities and no implied covenants shall be read into this Declaration against the Property Trustee. In case an Event of Default has occurred (that has not been cured or waived pursuant to Section 2.6) of which a Responsible Officer of the Property Trustee has actual knowledge, the Property Trustee shall exercise such of the rights and powers vested in it by this Declaration, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(b) No provision of this Declaration shall be construed to relieve the Property Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) prior to the occurrence of an Event of Default and after the curing or waiving of all such Events of Default that may have occurred:

(A) the duties and obligations of the Property Trustee shall be determined solely by the express provisions of this Declaration and in the Securities and the Property Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Declaration and in the Securities, and no implied covenants or obligations shall be read into this Declaration or the Securities against the Property Trustee; and

(B) in the absence of bad faith on the part of the Property Trustee, the Property Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificates or opinions furnished to the Property Trustee and conforming to the requirements of this Declaration; provided, however, that in the case of any such certificates or opinions that by any provision hereof are Property Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of this Declaration;

(ii) the Property Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer of the Property Trustee, unless it shall be proved that the Property Trustee was negligent in ascertaining the pertinent facts;

(iii) the Property Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of not less than a Majority in liquidation amount of the Trust Preferred Securities relating to the time, method and place of conducting any proceeding for any remedy available to the Property Trustee, or exercising any trust or power conferred upon the Property Trustee under this Declaration;

(iv) no provision of this Declaration shall require the Property Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it under the terms of this Declaration or indemnity reasonably satisfactory to the Property Trustee against such risk or liability is not reasonably assured to it;

(v) the Property Trustee's sole duty with respect to the custody, safe keeping and physical preservation of the Xerox Funding Debentures and the Property Trustee Account shall be to deal with such property in a similar manner as the Property Trustee deals with similar property for its own account, subject to the protections and limitations on liability afforded to the Property Trustee under this Declaration and the Trust Indenture Act;

(vi) the Property Trustee shall have no duty or liability for or with respect to the value, genuineness, existence or sufficiency of the Xerox Funding Debentures or the Xerox Debentures or the payment of any taxes or assessments levied thereon or in connection therewith;

(vii) the Property Trustee shall not be liable for any interest on any money received by it except as it may otherwise agree in writing with the Sponsor. Money held by the Property Trustee need not be segregated from other funds held by it except in relation to the Property Trustee Account maintained by the Property Trustee pursuant to Section 3.8(c)(i) and except to the extent otherwise required by law; and

(viii) the Property Trustee shall not be responsible for monitoring the compliance by the Administrative Trustees or the Sponsor with their respective duties under this Declaration, nor shall the Property Trustee be liable for any default or misconduct of the Administrative Trustees or the Sponsor.

SECTION 3.10 Certain Rights of Property Trustee.

(a) Subject to the provisions of Section 3.9:

(i) the Property Trustee may conclusively rely on and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request,

direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed, sent or presented by the proper party or parties;

(ii) any direction or act of the Sponsor or the Administrative Trustees contemplated by this Declaration may be sufficiently evidenced by an Officers' Certificate;

(iii) whenever in the administration of this Declaration, the Property Trustee shall deem it desirable that a matter be proved or established before taking, suffering or omitting any action hereunder, the Property Trustee (unless other evidence is herein specifically prescribed) may, in the absence of bad faith on its part, request and conclusively rely upon an Officers' Certificate which, upon receipt of such request, shall be promptly delivered by the Sponsor or the Administrative Trustees;

(iv) the Property Trustee shall have no duty to see to any recording, filing or registration of any instrument (including any financing or continuation statement or any filing under tax or securities laws) or any re-recording, refiling or registration thereof;

(v) the Property Trustee may consult with counsel or other experts of its selection and the advice or opinion of such counsel and experts with respect to legal matters or advice within the scope of such experts' area of expertise shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in accordance with such advice or opinion, such counsel may be counsel to the Sponsor or any of its Affiliates, and may include any of its employees. The Property Trustee shall have the right at any time to seek instructions concerning the administration of this Declaration from any court of competent jurisdiction;

(vi) the Property Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Declaration at the request or direction of any Holder, unless such Holder shall have provided to the Property Trustee security and indemnity, reasonably satisfactory to the Property Trustee, against the costs, expenses (including reasonable attorneys' fees and expenses and the expenses of the Property Trustee's agents, nominees or custodians) and liabilities that might be incurred by it in complying with such request or direction, including such reasonable advances as may be requested by the Property Trustee provided, that, nothing contained in this Section 3.10(a)(vi) shall be taken to relieve the Property Trustee, upon the occurrence of an Event of Default, of its obligation to exercise the rights and powers vested in it by this Declaration;

(vii) the Property Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Property Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit;

(viii) the Property Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or

through agents, custodians, nominees or attorneys and the Property Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(ix) any authorized or required action taken by the Property Trustee or its agents hereunder shall bind the Trust and the Holders of the Securities, and the signature of the Property Trustee or its agents alone shall be sufficient and effective to perform any such action and no third party shall be required to inquire as to the authority of the Property Trustee to so act or as to its compliance with any of the terms and provisions of this Declaration, both of which shall be conclusively evidenced by the Property Trustee's or its agent's taking such action;

(x) whenever in the administration of this Declaration the Property Trustee shall deem it desirable to receive instructions with respect to enforcing any remedy or right or taking any other action hereunder, the Property Trustee (i) may request instructions from the Holders which ' instructions may only be given by the Holders of the same proportion in liquidation amount of the Securities as would be entitled to direct the Property Trustee under the terms of the Securities in respect of such remedy, right or action, (ii) may refrain from enforcing such remedy or right or taking such other action until such instructions are received, and (iii) shall be protected in conclusively relying on or acting in or accordance with such instructions;

(xi) except as otherwise expressly provided by this Declaration, the Property Trustee shall not be under any obligation to take any action that is discretionary under the provisions of this Declaration; and

(xii) the Property Trustee shall not be liable for any action taken, suffered, or omitted to be taken by it in good faith, without negligence, and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Declaration.

(b) No provision of this Declaration shall be deemed to impose any duty or obligation on the Property Trustee to perform any act or acts or exercise any right, power, duty or obligation conferred or imposed on it, in any jurisdiction in which it shall be illegal, or in which the Property Trustee shall be unqualified or incompetent in accordance with applicable law, to perform any such act or acts, or to exercise any such right, power, duty or obligation. No permissive power or authority available to the Property Trustee shall be construed to be a duty.

SECTION 3.11. Delaware Trustee.

Notwithstanding any other provision of this Declaration other than Section 5.2, the Delaware Trustee shall not be entitled to exercise any powers, nor shall the Delaware Trustee have any of the duties and responsibilities of the Administrative Trustees, the Property Trustee or the Trustees generally (except as may be required by the Business Trust Act) described in this Declaration. Except as set forth in Section 5.2, the Delaware Trustee shall be a Trustee for the sole and limited purpose of fulfilling the requirements of Section 3807 of the Business Trust Act.

SECTION 3.12 Execution of Documents.

Unless otherwise required by applicable law, each Administrative Trustee

is authorized to execute and deliver on behalf of the Trust any documents that the Administrative Trustees have the power and authority to execute pursuant to Section 3.6.

SECTION 3.13 Not Responsible for Recitals or Issuance of Securities.

The recitals contained in this Declaration and the Securities shall be taken as the statements of the Sponsor, and the Trustees do not assume any responsibility for their correctness. The Trustees make no representations as to the value or condition of the property of the Trust or any part thereof. The Trustees make no representations as to the validity or sufficiency of this Declaration or the Securities.

SECTION 3.14 Duration of Trust.

The Trust, unless terminated pursuant to the provisions of Article VIII hereof, shall have existence up to November 27, 2041.

SECTION 3.15 Mergers.

(a) The Trust may not merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets substantially as an entirety to any Person, except as described in Section 3.15(b) and (c).

(b) The Trust may, at the request of the Sponsor, with the consent of the Administrative Trustees or, if there are more than two, a majority of the Administrative Trustees and without the consent of the Holders, the Delaware Trustee or the Property Trustee, merge with or into, consolidate, amalgamate, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, a trust organized as such under the laws of any State; provided that:

(i) such successor entity (the "Successor Entity") either:

(A) expressly assumes all of the obligations of the Trust under the Securities; or

(B) substitutes for the Securities other securities having substantially the same terms as the Securities (the "Successor Securities") so long as the Successor Securities rank the same as the Securities rank with respect to Distributions and payments upon liquidation, redemption and otherwise;

(ii) the Sponsor expressly appoints a trustee of the Successor Entity that possesses the same powers and duties as the Property Trustee as the Holder of the Xerox Funding Debentures;

(iii) the Successor Securities are listed, or any Successor Securities will be listed upon notification of issuance, on any national securities exchange or with another organization on which the Trust Preferred Securities are then listed or quoted;

(iv) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not cause the Trust Preferred Securities (including any Successor Securities) to be downgraded by any nationally recognized statistical rating organization;

(v) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including any Successor Securities) in any material respect (other than with respect to any dilution of such Holders' interests in the new entity);

(vi) such Successor Entity has a purpose substantially identical to that of the Trust;

(vii) prior to such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Sponsor has received an opinion of an independent counsel to the Trust experienced in such matters to the effect that:

(A) such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease does not adversely affect the rights, preferences and privileges of the Holders (including any Successor Securities) in any material respect (other than with respect to any dilution of the Holders' interest in the new entity);

(B) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, neither the Trust nor the Successor Entity will be required to register as an Investment Company under the Investment Company Act; and

(C) following such merger, consolidation, amalgamation, replacement, conveyance, transfer or lease, the Trust (or the Successor Entity, as the case may be) will be treated as a grantor trust for United States federal income tax purposes; and

(viii) the Sponsor or any permitted successor or assignee owns all of the common securities of such Successor Entity and guarantees the obligations of such Successor Entity under the Successor Securities at least to the extent provided by the Trust Preferred Securities Guarantee and the Common Securities Guarantee.

(c) Notwithstanding Section 3.15(b), the Trust shall not, except with the consent of Holders of 100% in liquidation amount of the Securities, consolidate, amalgamate, merge with or into, or be replaced by, or convey, transfer or lease its properties and assets as an entirety or substantially as an entirety to, any other entity or permit any other entity to consolidate, amalgamate, merge with or into, or replace it if such consolidation, amalgamation, merger, replacement, conveyance, transfer or lease would cause the Trust or the Successor Entity not to be classified as a grantor trust or in a manner that has the same consequences as classification as a grantor trust, for United States federal income tax purposes.

SECTION 3.16 Compensation.

(a) The Sponsor agrees:

(i) to pay each of the Trustees from time to time such compensation for all services rendered by such Trustee hereunder as the Sponsor and such Trustee may agree upon from time to time (which compensation shall not be limited by any provision of law in regard to the compensation of

a trustee of an express trust). To the fullest extent possible the parties intend that Section 3561 of Title 12 of the Delaware Code shall not apply to the Trust and that compensation paid pursuant to this Section 3.16(a) not be subject to review by any court under Section 3560 of Title 12 of the Delaware Code;

(ii) except as otherwise expressly provided herein, to reimburse the Trustees upon request for all reasonable expenses, disbursements and advances incurred or made by the Trustees in accordance with any provision of this Declaration (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expenses, disbursement or advance as may be attributable to its gross negligence or bad faith; and

(b) Each of the Trustees hereby agrees that it shall not claim any lien or charge on any trust property as a result of any amount due pursuant to this Section 3.16. The provisions of this Section 3.16 shall survive the dissolution of the Trust and the termination of this Declaration and the removal or resignation of any Trustee.

ARTICLE IV
SPONSOR

SECTION 4.1. Sponsor's Purchase of Common Securities.

At the Closing Time, the Sponsor will purchase all of the Common Securities then issued by the Trust, in an amount at least equal to 3% of the capital of the Trust (as determined as of the Closing Time), at the same time as the Trust Preferred Securities are issued and sold.

SECTION 4.2. Responsibilities of the Sponsor.

In connection with the issue and sale of the Trust Preferred Securities, the Sponsor shall have the exclusive right and responsibility to engage in the following activities:

(a) to prepare the Offering Memorandum;

(b) to determine the States in which to take appropriate action to qualify or register for sale all or part of the Trust Preferred Securities and to do any and all such acts, other than actions which must be taken by the Trust, and advise the Trust of actions it must take, and prepare for execution and filing any documents to be executed and filed by the Trust, as the Sponsor deems necessary or advisable in order to comply with the applicable laws of any such States;

(c) to negotiate the terms of the Purchase Agreement providing for the sale of the Trust Preferred Securities;

(d) to negotiate the terms of one or more purchase agreements providing for the sale of the Common Securities; and

(e) to negotiate the terms of one or more purchase agreements providing for the purchase of the Xerox Funding Debentures.

SECTION 4.3 Right to Proceed.

The Sponsor acknowledges the rights of the Holders of Trust Preferred Securities, in the event that a failure of the Trust to pay Distributions on the Trust Preferred Securities is attributable to the failure of the Sponsor to pay interest or principal on the Xerox Debentures, to institute a proceeding directly against the Sponsor for enforcement of its payment obligations on the Xerox Debentures.

ARTICLE V
TRUSTEES

Section 5.1 Number of Trustees: Appointment of Co-Trustee.

The number of Trustees initially shall be five (5), and:

(a) at any time before the issuance of any Securities, the Sponsor may, by written instrument, increase or decrease the number of Trustees; and

(b) after the issuance of any Securities, the number of Trustees may be increased or decreased by vote of the Holders of a majority in liquidation amount of the Common Securities voting as a class at a meeting of the Holders of the Common Securities;

provided, however, that, the number of Trustees shall in no event be less than two (2); provided further that (1) one Trustee, in the case of a natural person, shall be a person who is a resident of the State of Delaware or that, if not a natural person, is an entity which has its principal place of business in the State of Delaware (the "Delaware Trustee"); (2) there shall be at least one Trustee who is an employee or officer of, or is affiliated with the Sponsor (an "Administrative Trustee"); and (3) one Trustee shall be the Property Trustee for so long as this Declaration is required to qualify as an indenture under the Trust Indenture Act, and such Trustee may also serve as Delaware Trustee if it meets the applicable requirements. Notwithstanding the above, unless an Event of Default shall have occurred and be continuing, at any time or times, for the purpose of meeting the legal requirements of the Trust Indenture Act or of any jurisdiction in which any part of the Trust's property may at the time be located, the Holders of a Majority in liquidation amount of the Common Securities acting as a class at a meeting of the Holders of the Common Securities, and the Administrative Trustees shall have power to appoint one or more persons either to act as a co-trustee, jointly with the Property Trustee, of all or any part of the Trust's property, or to act as separate trustee of any such property, in either case with such powers as may be provided in the instrument of appointment, and to vest in such person or persons in such capacity any property, title, right or power deemed necessary or desirable, subject to the provisions of this Declaration. In case an Event of Default has occurred and is continuing, the Property Trustee alone shall have power to make any such appointment of a co-trustee.

SECTION 5.2 Delaware Trustee.

If required by the Business Trust Act, one Trustee (the "Delaware Trustee") shall be:

(a) a natural person who is a resident of the State of Delaware; or

(b) if not a natural person, an entity which has its principal place of business in the State of Delaware, and otherwise meets the requirements of

applicable law, provided that, if the Property Trustee has its principal place of business in the State of Delaware and otherwise meets the requirements of applicable law, then the Property Trustee shall also be the Delaware Trustee and Section 3.11 shall have no application.

SECTION 5.3 Property Trustee; Eligibility.

(a) There shall at all times be one Trustee (the "Property Trustee") which shall act as Property Trustee which shall:

(i) not be an Affiliate of the Sponsor; and

(ii) be a corporation organized and doing business under the laws of the United States of America or any State or Territory thereof or of the District of Columbia, or a corporation or Person permitted by the Commission to act as an institutional trustee under the Trust Indenture Act, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least 50 million U.S. dollars ($50,000,000), and subject to supervision or examination by Federal, State, Territorial or District of Columbia authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the supervising or examining authority referred to above, then for the purposes of this Section 5.3(a)(ii), the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

(b) If at any time the Property Trustee shall cease to be eligible to so act under Section 5.3(a), the Property Trustee shall immediately resign in the manner and with the effect set forth in Section 5.7(c).

(c) If the Property Trustee has or shall acquire any "conflicting interest" within the meaning of Section 310(b) of the Trust Indenture Act, the Property Trustee and the Holder of the Common Securities (as if it were the obligor referred to in Section 310(b) of the Trust Indenture Act) shall in all respects comply with the provisions of Section 310(b) of the Trust Indenture Act.

(d) The Trust Securities Guarantee shall be deemed to be specifically described in this Declaration for purposes of clause (i) of the first provision contained in Section 310(b) of the Trust Indenture Act.

(e) The initial Property Trustee shall be:

Wells Fargo Bank Minnesota, National Association
Sixth and Marquette
MAC N9303-120
Minneapolis, Minnesota 55479
Attention: Corporate Trust Services

SECTION 5.4 Certain Qualifications of Administrative Trustees and Delaware Trustee Generally.

Each Administrative Trustee and the Delaware Trustee (unless the Property Trustee also acts as Delaware Trustee) shall be either a natural person who is at least 21 years of age or a legal entity that shall act through one or more Authorized Officers.

SECTION 5.5 Administrative Trustees.

The initial Administrative Trustees shall be:

Gregory B. Tayler
Timothy MacCarrick
Navin M. Chheda

(a) Except as expressly set forth in this Declaration and except if a meeting of the Administrative Trustees is called with respect to any matter over which the Administrative Trustees have power to act, any power of the Administrative Trustees may be exercised by, or with the consent of, any one such Administrative Trustee.

(b) Unless otherwise determined by the Administrative Trustees, and except as otherwise required by the Business Trust Act or applicable law, any Administrative Trustee is authorized to execute on behalf of the Trust any documents which the Administrative Trustees have the power and authority to cause the Trust to execute pursuant to Section 3.6; and

(c) An Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purposes of signing any documents which the Administrative Trustees have power and authority to cause the Trust to execute pursuant to Section 3.6.

SECTION 5.6 Delaware Trustee.

The initial Delaware Trustee shall be:

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890
Attention: Corporate Trust Administration
Fax: (302) 651-8882

SECTION 5.7 Appointment, Removal and Resignation of Trustees.

(a) Subject to Section 5.7(b) of this Declaration and to Section 9(b) of Annex I hereto, Trustees may be appointed or removed without cause at any time:

(i) until the issuance of any Securities, by written instrument executed by the Sponsor;

(ii) unless an Event of Default shall have occurred and be continuing after the issuance of any Securities, by vote of the Holders of a Majority in liquidation amount of the Common Securities voting as a class at a meeting of the Holders of the Common Securities; and

(iii) if an Event of Default shall have occurred and be continuing after the issuance of the Securities, with respect to the Property Trustee or the Delaware Trustee, by vote of Holders of a Majority in liquidation amount of the Trust Preferred Securities voting as a class at a meeting of Holders of the Trust Preferred Securities.

(b) (i) The Trustee that acts as Property Trustee shall not be removed in accordance with Section 5.7(a) until a Successor Property Trustee has been appointed and has accepted such appointment by written instrument executed by such Successor Property Trustee and delivered to the Administrative Trustees and the Sponsor; and

(ii) the Trustee that acts as Delaware Trustee shall not be removed in accordance with this Section 5.7(a) until a successor Trustee possessing the qualifications to act as Delaware Trustee under Sections 5.2 and 5.4 (a "Successor Delaware Trustee") has been appointed and has accepted such appointment by written instrument executed by such Successor Delaware Trustee and delivered to the Administrative Trustees and the Sponsor.

(c) A Trustee appointed to office shall hold office until his successor shall have been appointed or until his death, removal or resignation. Any Trustee may resign from office (without need for prior or subsequent accounting) by an instrument in writing signed by the Trustee and delivered to the Sponsor and the Trust, which resignation shall take effect upon such delivery or upon such later date as is specified therein; provided, however, that:

(i) No such resignation of the Trustee that acts as the Property Trustee shall be effective:

(A) until a Successor Property Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Property Trustee and delivered to the Trust, the Sponsor and the resigning Property Trustee; or

(B) until the assets of the Trust have been completely liquidated and the proceeds thereof distributed to the holders of the Securities; and

(ii) no such resignation of the Trustee that acts as the Delaware Trustee shall be effective until a Successor Delaware Trustee has been appointed and has accepted such appointment by instrument executed by such Successor Delaware Trustee and delivered to the Trust, the Sponsor and the resigning Delaware Trustee.

(d) The Holders of the Common Securities shall use their best efforts to promptly appoint a Successor Delaware Trustee or Successor Property Trustee, as the case may be, if the Property Trustee or the Delaware Trustee delivers an instrument of resignation in accordance with this Section 5.7.

(e) If no Successor Property Trustee or Successor Delaware Trustee shall have been appointed and accepted appointment as provided in this Section 5.7 within 60 days after delivery of an instrument of resignation or removal, the Property Trustee or Delaware Trustee resigning or being removed, as applicable, may petition any court of competent jurisdiction for appointment of a Successor Property Trustee or Successor Delaware Trustee. Such court may thereupon, after prescribing such notice, if any, as it may deem proper and prescribe, appoint a Successor Property Trustee or Successor Delaware Trustee, as the case may be.

(f) No Property Trustee or Delaware Trustee shall be liable for the

acts or omissions to act of any Successor Property Trustee or successor Delaware Trustee, as the case may be.

SECTION 5.8 Vacancies among Trustees.

If a Trustee ceases to hold office for any reason and the number of Trustees is not reduced pursuant to Section 5.1, or if the number of Trustees is increased pursuant to Section 5.1, a vacancy shall occur. A resolution certifying the existence of such vacancy by the Administrative Trustees or, if there are more than two, a majority of the Administrative Trustees shall be conclusive evidence of the existence of such vacancy. The vacancy shall be filled with a Trustee appointed in accordance with Section 5.7.

SECTION 5.9 Effect of Vacancies.

The death, resignation, retirement, removal, bankruptcy, dissolution, liquidation, incompetence or incapacity to perform the duties of a Trustee shall not operate to dissolve, terminate or annul the Trust. Whenever a vacancy in the number of Administrative Trustees shall occur, until such vacancy is filled by the appointment of an Administrative Trustee in accordance with Section 5.7, the Administrative Trustees in office, regardless of their number, shall have all the powers granted to the Administrative Trustees and shall discharge all the duties imposed upon the Administrative Trustees by this Declaration.

SECTION 5.10 Meetings.

If there is more than one Administrative Trustee, meetings of the Administrative Trustees shall be held from time to time upon the call of any Administrative Trustee. Regular meetings of the Administrative Trustees may be held at a time and place fixed by resolution of the Administrative Trustees. Notice of any in-person meetings of the Administrative Trustees shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 24 hours before such meeting. Notice of any telephonic meetings of the Administrative Trustees or any committee thereof shall be hand delivered or otherwise delivered in writing (including by facsimile, with a hard copy by overnight courier) not less than 24 hours before a meeting. Notices shall contain a brief statement of the time, place and anticipated purposes of the meeting. The presence (whether in person or by telephone) of an Administrative Trustee at a meeting shall constitute a waiver of notice of such meeting except where an Administrative Trustee attends a meeting for the express purpose of objecting to the transaction of any activity on the ground that the meeting has not been lawfully called or convened. Unless provided otherwise in this Declaration, any action of the Administrative Trustees may be taken at a meeting by vote of a majority of the Administrative Trustees present (whether in person or by telephone) and eligible to vote with respect to such matter, provided that a Quorum is present, or without a meeting by the unanimous written consent of the Administrative Trustees. In the event there is only one Administrative Trustee, any and all action of such Administrative Trustee shall be evidenced by a written consent of such Administrative Trustee.

SECTION 5.11 Delegation of Power.

(a) Any Administrative Trustee may, by power of attorney consistent with applicable law, delegate to any other natural person over the age of 21 his or her power for the purpose of executing any documents contemplated in

Section 3.6, or making any other governmental filing; and

(b) the Administrative Trustees shall have power to delegate from time to time to such of their number or to officers of the Trust the doing of such things and the execution of such instruments either in the name of the Trust or the names of the Administrative Trustees or otherwise as the Administrative Trustees may deem expedient, to the extent such delegation is not prohibited by applicable law or contrary to the provisions of the Trust, as set forth herein.

SECTION 5.12 Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Property Trustee or the Delaware Trustee or any Administrative Trustee that is not a natural person, as the case may be, may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Property Trustee or the Delaware Trustee, as the case may be, shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Property Trustee, the Delaware Trustee, or the Administrative Trustee, as the case may be, shall be the successor of the Property Trustee or the Delaware Trustee, as the case may be, hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto.

ARTICLE VI
DISTRIBUTIONS

SECTION 6.1 Distributions.

Holders shall receive Distributions in accordance with the applicable terms of the relevant Holder's Securities. If and to the extent that Xerox Funding makes a payment of interest (including Additional Interest (as defined in the Xerox Funding Indenture)), premium and/or principal or delivers Common Stock (and any payment of cash in respect of any fractional share thereof) on or in respect of the Xerox Funding Debentures held by the Property Trustee (the amount of any such payment being a "Payment Amount"), the Property Trustee shall and is directed, to the extent funds or Common Stock are available for that purpose, to make a distribution (a "Distribution") of the Payment Amount to Holders.

ARTICLE VII
ISSUANCE OF SECURITIES

SECTION 7.1 General Provisions Regarding Securities.

(a) The Administrative Trustees shall on behalf of the Trust issue one class of preferred securities representing undivided beneficial interests in the assets of the Trust having such terms as are set forth in Annex I (the "Trust Preferred Securities") and one class of common securities representing undivided beneficial interests in the assets of the Trust having such terms as are set forth in Annex I (the "Common Securities"). The Trust shall issue no securities or other interests in the assets of the Trust other than the Securities.

(b) The consideration received by the Trust for the issuance of the

Securities shall constitute a contribution to the capital of the Trust and shall not constitute a loan to the Trust.

(c) Upon issuance of the Securities as provided in this Declaration, the Securities so issued shall be deemed to be validly issued, fully paid and non-assessable undivided beneficial interests in the assets of the Trust.

(d) Every Person, by virtue of having become a Holder or a Trust Preferred Security Beneficial Owner in accordance with the terms of this Declaration, shall be deemed to have expressly assented and agreed to the terms of, and shall be bound by, this Declaration.

SECTION 7.2 Execution and Authentication.

(a) The Securities shall be signed on behalf of the Trust by an Administrative Trustee. In case any Administrative Trustee of the Trust who shall have signed any of the Securities shall cease to be such Administrative Trustee before the Securities so signed shall be delivered by the Trust, such Securities nevertheless may be delivered as though the person who signed such Securities had not ceased to be such Administrative Trustee; and any Securities may be signed on behalf of the Trust by such persons who, at the actual date of execution of such Security, shall be the Administrative Trustees of the Trust, although at the date of the execution and delivery of the Declaration any such person was not such a Administrative Trustee.

(b) One Administrative Trustee shall sign the Trust Preferred Securities for the Trust by manual or facsimile signature. Unless otherwise determined by the Trust, such signature shall, in the case of Common Securities, be a manual signature.

A Trust Preferred Security shall not be valid until authenticated by the manual signature of an authorized signatory of the Property Trustee. The signature shall be conclusive evidence that the Trust Preferred Security has been authenticated under this Declaration.

Upon a written order of the Trust signed by one Administrative Trustee, the Property Trustee shall authenticate the Trust Preferred Securities for original issue. The aggregate number of Trust Preferred Securities outstanding at any time shall not exceed the number set forth in the terms in Annex I hereto except as provided in Section 7.6.

The Property Trustee may appoint an authenticating agent acceptable to the Trust to authenticate Trust Preferred Securities. An authenticating agent may authenticate Trust Preferred Securities whenever the Property Trustee may do so. Each reference in this Declaration to authentication by the Property Trustee includes authentication by such agent. An authenticating agent has the same rights as the Property Trustee to deal with the Sponsor or an Affiliate.

SECTION 7.3 Form and Dating.

The Trust Preferred Securities and the Property Trustee's certificate of authentication shall be substantially in the form of Exhibit A-1 and the Common Securities shall be substantially in the form of Exhibit A-2, each of which is hereby incorporated in and expressly made a part of this Declaration. Certificates representing the Securities may be printed, lithographed or engraved or may be produced in any other manner as is

reasonably acceptable to the Administrative Trustees, as evidenced by their execution thereof. The Securities may have letters, CUSIP or other numbers, notations or other marks of identification or designation and such legends or endorsements required by law, stock exchange rule, agreements to which the Trust is subject, if any, or usage (provided that any such notation, legend or endorsement is in a form acceptable to the Trust). The Trust at the direction of the Sponsor shall furnish any such legend not contained in Exhibit A-1 to the Property Trustee in writing. Each Trust Preferred Security shall be dated the date of its authentication. The terms and provisions of the Securities set forth in Annex I and the forms of Securities set forth in Exhibits A-1 and A-2 are part of the terms of this Declaration and to the extent applicable, the Property Trustee and the Sponsor, by their execution and delivery of this Declaration, expressly agree to such terms and provisions and to be bound thereby.

(a) Global Securities. The Securities shall be issued in the form of one or more, permanent global Securities in definitive, fully registered form without distribution coupons, with the global legend and the Restricted Securities Legend set forth in Exhibit A-1 hereto (a "Restricted Global Trust Preferred Security") unless removed in accordance with Section 9.2, and shall be deposited on behalf of the purchasers of the Trust Preferred Securities represented thereby with the Property Trustee, as custodian for the Clearing Agency, and registered in the name of the Clearing Agency or a nominee of the Clearing Agency, duly executed by the Trust and authenticated by the Property Trustee as hereinafter provided. The number of Trust Preferred Securities represented by the Global Trust Preferred Security may from time to time be increased or decreased by adjustments made on the records of the Property Trustee and the Clearing Agency or its nominee as hereinafter provided.

(b) Book-Entry Provisions. This Section 7.3(b) shall apply only to the Global Trust Preferred Security and such other Trust Preferred Securities in global form as may be authorized by the Trust to be deposited with or on behalf of the Clearing Agency.

The Trust shall execute and the Property Trustee shall, in accordance with this Section 7.3, authenticate and make available for delivery initially one or more Global Trust Preferred Securities that (i) shall be registered in the name of Cede & Co. or other nominee of such Clearing Agency and (ii) shall be delivered by the Trustee to such Clearing Agency or pursuant to such Clearing Agency's written instructions or held by the Property Trustee as custodian for the Clearing Agency.

Members of, or participants in, the Clearing Agency ("Participants") shall have no rights under this Declaration with respect to any Global Trust Preferred Security held on their behalf by the Clearing Agency or by the Property Trustee as the custodian of the Clearing Agency or under such Global Trust Preferred Security, and the Clearing Agency may be treated by the Trust, the Property Trustee and any agent of the Trust or the Property Trustee as the absolute owner of such Global Trust Preferred Security for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Trust, the Property Trustee or any agent of the Trust or the Property Trustee from giving effect to any written certification, proxy or other authorization furnished by the Clearing Agency or impair, as between the Clearing Agency and its Participants, the operation of customary practices of such Clearing Agency governing the exercise of the rights of a holder of a beneficial interest in any Global Trust Preferred Security.

(c) Definitive Trust Preferred Securities. Except as provided in Section 7.9, owners of beneficial interests in a Global Trust Preferred Security will not be entitled to receive physical delivery of certificated Trust Preferred Securities ("Definitive Trust Preferred Securities"). Definitive Trust Preferred Securities will bear the Restricted Securities Legend ("Restricted Definitive Trust Preferred Securities") set forth on Exhibit A-1 unless removed in accordance with Section 9.2.

(d) Authorized Denominations. The Trust Preferred Securities are issuable only in denominations of $50 and any integral multiple in excess thereof.

SECTION 7.4 Registrar, Paying Agent, Exchange Agent and the Conversion Agent.

The Trust shall maintain in the Borough of Manhattan, The City of New York, (i) an office or agency where Trust Preferred Securities may be presented for registration of transfer ("Registrar"), (ii) an office or agency where Trust Preferred Securities may be presented for payment ("Paying Agent"), (iii) an office or agency where Securities may be presented for exchange ("Exchange Agent") and (iv) an office or agency where Securities may be presented for conversion (the "Conversion Agent"). The Registrar shall keep a register of the Trust Preferred Securities and of their transfer. The Trust may appoint the Registrar, the Paying Agent, the Exchange Agent and the Conversion Agent and may appoint one or more co-registrars, one or more additional paying agents, one or more additional exchange agents and one or more additional conversion agents in such other locations as it shall determine. The term "Registrar" includes any additional registrar, "Paying Agent" includes any additional paying agent, the term "Exchange Agent" includes any additional exchange agent and the term "Conversion Agent" includes any additional conversion agent. The Trust may change any Paying Agent, Registrar, co-registrar, Exchange Agent or Conversion Agent without prior notice to any Holder. The Paying Agent shall be permitted to resign as Paying Agent upon 30 days' written notice to the Administrative Trustees. The Trust shall notify the Property Trustee of the name and address of any Agent not a party to this Declaration. If the Trust fails to appoint or maintain another entity as Registrar, Paying Agent, Exchange Agent or Conversion Agent, the Property Trustee or any Affiliate thereof designated by the Property Trustee which meets the requirements of Section 5.3 hereof shall act as such. The Trust or any of its Affiliates may act as Paying Agent, Registrar, Exchange Agent or Conversion Agent. The Trust shall act as Paying Agent, Registrar, co-registrar, Exchange Agent and Conversion Agent for the Common Securities.

The Trust initially appoints Wells Fargo Bank Minnesota, National Association as Registrar, Paying Agent, Exchange Agent and Conversion Agent for the Trust Preferred Securities.

SECTION 7.5 Paying Agent to Hold Money in Trust.

The Trust shall require each Paying Agent other than the Property Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Property Trustee all money held by the Paying Agent for the payment of liquidation amounts or Distributions on the Securities, and will notify the Property Trustee if there are insufficient funds for such purpose. While any such insufficiency continues, the Property Trustee may require a Paying Agent to pay all money held by it to the Property Trustee.

The Trust at any time may require a Paying Agent to pay all money held by it to the Property Trustee and to account for any money disbursed by it. Upon payment over to the Property Trustee, the Paying Agent (if other than the Trust or an Affiliate of the Trust) shall have no further liability for the money. If the Trust or the Sponsor or an Affiliate of the Trust or the Sponsor acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent.

SECTION 7.6 Replacement Securities.

If a Holder claims that a Security owned by it has been lost, destroyed or wrongfully taken or if such Security is mutilated and is surrendered to the Trust or in the case of the Trust Preferred Securities to the Property Trustee, the Trust shall issue and the Property Trustee shall authenticate a replacement Security if the Property Trustee's and the Trust's requirements, as the case may be, are met. An indemnity bond must be provided by the Holder which, in the judgment of the Property Trustee, is sufficient to protect the Trustees, the Sponsor or any authenticating agent from any loss which any of them may suffer if a Security is replaced. The Trust may charge such Holder for its expenses in replacing a Security.

Every replacement Security is an additional beneficial interest in the Trust.

SECTION 7.7 Outstanding Trust Preferred Securities.

The Trust Preferred Securities outstanding at any time are all the Trust Preferred Securities authenticated by the Property Trustee except for those cancelled by it, those delivered to it for cancellation, and those described in this Section as not outstanding.

If a Trust Preferred Security is replaced, paid or purchased pursuant to Section 7.6 hereof, it ceases to be outstanding unless the Property Trustee receives proof satisfactory to it that the replaced, paid or purchased Trust Preferred Security is held by a bona fide purchaser.

If Trust Preferred Securities are considered paid in accordance with the terms of this Declaration, they cease to be outstanding and Distributions on them shall cease to accumulate.

A Trust Preferred Security does not cease to be outstanding because one of the Trust, the Sponsor or an Affiliate of the Sponsor holds the Security.

SECTION 7.8 Trust Preferred Securities in Treasury.

In determining whether the Holders of the required amount of Securities have concurred in any direction, waiver or consent, Trust Preferred Securities owned by the Trust, the Sponsor or an Affiliate of the Sponsor, as the case may be, shall be disregarded and deemed not to be outstanding, except that for the purposes of determining whether the Property Trustee shall be fully protected in relying on any such direction, waiver or consent, only Securities which the Property Trustee actually knows are so owned shall be so disregarded.

SECTION 7.9 Temporary Securities.

(a) Until Definitive Securities are ready for delivery, the Trust may

prepare and, in the case of the Trust Preferred Securities, the Property Trustee shall authenticate temporary Securities. Temporary Securities shall be substantially in the form of Definitive Securities but may have variations that the Trust considers appropriate for temporary Securities. Without unreasonable delay, the Trust shall prepare and, in the case of the Trust Preferred Securities, the Property Trustee shall authenticate Definitive Securities in exchange for temporary Securities.

(b) A Global Trust Preferred Security deposited with the Clearing Agency or with the Property Trustee as custodian for the Clearing Agency pursuant to Section 7.3 shall be transferred to the beneficial owners thereof in the form of Definitive Trust Preferred Securities only if such transfer complies with Section 9.2 and (i) the Clearing Agency notifies the Sponsor or the Trust that it is unwilling or unable to continue as Clearing Agency for such Global Trust Preferred Security or if at any time such Clearing Agency ceases to be a "clearing agency" registered under the Exchange Act and a clearing agency is not appointed by the Sponsor within 90 days of such notice, (ii) a Default or an Event of Default has occurred and is continuing or (iii) the Trust at its sole discretion elects to cause the issuance of certificated Trust Preferred Securities.

(c) Any Global Trust Preferred Security that is transferable to the beneficial owners thereof in the form of Definitive Trust Preferred Securities pursuant to this Section 7.9 shall be surrendered by the Clearing Agency to the Registrar located in the Borough of Manhattan, The City of New York, to be so transferred, in whole or from time to time in part, without charge, and the Property Trustee shall authenticate and make available for delivery, upon such transfer of each portion of such Global Trust Preferred Security, an equal aggregate liquidation amount of Securities of authorized denominations in the form of Definitive Trust Preferred Securities. Any portion of a Global Trust Preferred Security transferred pursuant to this Section shall be registered in such names as the Clearing Agency shall direct. Any Trust Preferred Security in the form of Definitive Trust Preferred Securities delivered in exchange for an interest in the Restricted Global Trust Preferred Security shall, except as otherwise provided by Section 9.1, bear the Restricted Securities Legend set forth in Exhibit A-1 hereto.

(d) The Holder of a Global Trust Preferred Security may grant proxies and otherwise authorize any person, including Participants and persons that may hold interests through Participants, to take any action which such Holder is entitled to take under this Declaration or the Securities.

(e) In the event of the occurrence of any of the events specified in Section 7.9(b), the Trust will promptly make available to the Property Trustee a reasonable supply of Definitive Trust Preferred Securities in fully registered form without distribution coupons.

SECTION 7.10 Cancellation.

The Trust at any time may deliver Trust Preferred Securities to the Property Trustee for cancellation. The Registrar, Paying Agent, Conversion Agent and Exchange Agent shall forward to the Property Trustee any Trust Preferred Securities surrendered to them for registration of transfer, redemption, exchange, repurchase, conversion or payment. The Property Trustee shall promptly cancel all Trust Preferred Securities, surrendered for registration of transfer, redemption, exchange, repurchase, conversion,

payment, replacement or cancellation and shall dispose of cancelled Trust Preferred Securities as the Trust directs, provided that the Property Trustee shall not be obligated to destroy Trust Preferred Securities. The Trust may not issue new Trust Preferred Securities to replace Trust Preferred Securities that it has paid or that have been delivered to the Property Trustee for cancellation or that any holder has exchanged or converted.

SECTION 7.11 CUSIP Numbers.

The Trust in issuing the Trust Preferred Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Property Trustee shall use "CUSIP" numbers in notices of redemption or repurchase as a convenience to Holders of Trust Preferred Securities; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Trust Preferred Securities or as contained in any notice of a redemption or repurchase and that reliance may be placed only on the other identification numbers printed on the Trust Preferred Securities, and any such redemption shall not be affected by any defect in or omission of such numbers. The Sponsor will promptly notify the Property Trustee of any change in the CUSIP numbers.

ARTICLE VIII
TERMINATION OF TRUST

SECTION 8.1 Termination of Trust.

(a) The Trust shall automatically terminate:

(i) upon the insolvency or bankruptcy of the Sponsor;

(ii) upon the filing of a certificate of dissolution or liquidation or its equivalent with respect to the Sponsor; or the revocation of the Sponsor's charter and the expiration of 90 days after the date of revocation without a reinstatement thereof;

(iii) following the distribution of a Like Amount of the Xerox Funding Debentures (or, in the case of an exchange by Xerox Funding, Xerox Debentures) to the Holders, provided that, the Sponsor has given written direction to the Property Trustee to terminate the Trust (which direction is optional, and except as otherwise expressly provided below, within the discretion of the Sponsor);

(iv) upon the entry of a decree of dissolution of the Trust by a court of competent jurisdiction;

(v) upon obtaining the consent of at least a Majority in liquidation amount of the Trust Securities, voting together as a single class, to dissolve the Trust;

(vi) when all of the Securities shall have been called for redemption and the amounts necessary for redemption thereof shall have been paid to the Holders in accordance with the terms of the Securities;

(vii) before the issuance of any Trust Securities, with the consent of all the Administrative Trustees and the Sponsor;

(viii) upon the conversion of all the Trust Securities in accordance

with Annex I;

(ix) upon the repayment or purchase of all of the Debentures by the related Debenture Issuer thereof or at such time as no Debentures are outstanding; or

(x) the expiration of the term of the Trust provided in Section 3.14.

(b) As soon as is practicable after the occurrence of an event referred to in Section 8.1(a), the Administrative Trustees shall file a certificate of cancellation with the Secretary of State of the State of Delaware.

(c) The provisions of Section 3.9 and Article X shall survive the termination of the Trust.

ARTICLE IX
TRANSFER OF INTERESTS

SECTION 9.1 Transfer of Securities.

(a) Securities may only be transferred, in whole or in part, in accordance with the terms and conditions set forth in this Declaration and in the terms of the Securities. Any transfer or purported transfer of any Security not made in accordance with this Declaration shall be null and void.

(b) The Common Securities may not be transferred except to the Sponsor or an Affiliate of the Sponsor.

(c) The Administrative Trustees shall provide for the registration of Trust Preferred Securities and of the transfer of Securities, which will be effected without charge but only upon payment (with such indemnity as the Administrative Trustees may require) in respect of any tax or other governmental charges that may be imposed in relation to it. Upon surrender for registration of transfer of any Trust Preferred Securities, the Administrative Trustees shall cause one or more new Securities to be issued in the name of the designated transferee or transferees. Every Trust Preferred Security surrendered for registration of transfer shall be accompanied by a written instrument of transfer in form satisfactory to the Administrative Trustees and the Registrar duly executed by the Holder or such Holder's attorney duly authorized in writing. Each Trust Preferred Security surrendered for registration of transfer shall be canceled by the Property Trustees. A transferee of a Trust Preferred Security shall be entitled to the rights and subject to the obligations of a Holder hereunder upon the receipt by such transferee of a Trust Preferred Security. By acceptance of a Security or any interest therein, each transferee shall be deemed to have agreed to be bound by this Declaration.

SECTION 9.2 Transfer Procedures and Restrictions

(a) General. If Trust Preferred Securities are issued upon the transfer, exchange, redemption, repurchase, conversion or replacement of Trust Preferred Securities bearing the Restricted Securities Legend set forth in Exhibit A-1 hereto, or if a request is made to remove such Restricted Securities Legend on Trust Preferred Securities, the Trust Preferred Securities so issued shall bear the Restricted Securities Legend, or the Restricted Securities Legend shall not be removed, as the case may be, unless

there is delivered to the Trust and the Property Trustee such satisfactory evidence, which shall include an Opinion of Counsel licensed to practice law in the State of New York, as may be reasonably required by the Sponsor and the Property Trustee, that neither the legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof are made pursuant to an exception from the registration requirements of the Securities Act or, with respect to Restricted Securities, that such Securities are not "restricted" within the meaning of Rule 144. Upon provision of such satisfactory evidence, the Property Trustee, at the written direction of the Trust, shall authenticate and deliver Trust Preferred Securities that do not bear the legend.

(b) Transfer and Exchange of Definitive Trust Preferred Securities. When Definitive Trust Preferred Securities are presented to the Registrar (x) to register the transfer of such Definitive Trust Preferred Securities; or (y) to exchange such Definitive Trust Preferred Securities for an equal number of Definitive Trust Preferred Securities, the Registrar or co- registrar shall register the transfer or make the exchange as requested if its reasonable requirements for such transaction are met; provided, however, that the Definitive Trust Preferred Securities surrendered for transfer or exchange:

(i) shall be duly endorsed or accompanied by a written instrument of transfer in form reasonably satisfactory to the Trust and the Registrar or co-registrar, duly executed by the Holder thereof or his attorney duly authorized in writing; and

(ii) in the case of Definitive Trust Preferred Securities that are Restricted Definitive Trust Preferred Securities:

(A) if such Restricted Trust Preferred Securities are being delivered to the Registrar by a Holder for registration in the name of such Holder, without transfer, a certification from such Holder to that effect; or

(B) if such Restricted Trust Preferred Securities are being transferred: (i) a certification from the transferor in a form substantially similar to that attached hereto as the "Form of Assignment" in Exhibit A-1, and (ii) if the Trust or Registrar so requests, evidence reasonably satisfactory to them as to the compliance with the restrictions set forth in the Restricted Securities Legend.

(c) Restrictions on Transfer of a Definitive Trust Preferred Security for a Beneficial Interest in a Global Trust Preferred Security. A Definitive Trust Preferred Security may not be exchanged for a beneficial interest in a Global Trust Preferred Security except upon satisfaction of the requirements set forth below. Upon receipt by the Property Trustee of a Definitive Trust Preferred Security, duly endorsed or accompanied by appropriate instruments of transfer, in form satisfactory to the Property Trustee and the Administrative Trustees, together with:

(i) if such Definitive Trust Preferred Security is a Restricted Trust Preferred Security, certification (in a form substantially similar to that attached hereto as the "Form of Assignment" in Exhibit A-1); and

(ii) whether or not such Definitive Trust Preferred Security is a

Restricted Trust Preferred Security, written instructions directing the Property Trustee to make, or to direct the Clearing Agency to make, an adjustment on its books and records with respect to the appropriate Global Trust Preferred Security to reflect an increase in the number of the Trust Preferred Securities represented by such Global Trust Preferred Security,

then the Property Trustee shall cancel such Definitive Trust Preferred Security and cause, or direct the Clearing Agency to cause, the aggregate number of Trust Preferred Securities represented by the appropriate Global Trust Preferred Security to be increased accordingly. If no Global Trust Preferred Securities are then outstanding, the Trust shall issue and the Property Trustee shall authenticate, upon written order of any Administrative Trustee, an appropriate number of Trust Preferred Securities in global form.

(d) Transfer and Exchange of Global Trust Preferred Securities. Subject to Section 9.02(e), the transfer and exchange of Global Trust Preferred Securities or beneficial interests therein shall be effected through the Clearing Agency, in accordance with this Declaration (including applicable restrictions on transfer set forth herein, if any) and the procedures of the Clearing Agency therefor.

(e) Restrictions on Transfer and Exchange of Global Trust Preferred Securities. Notwithstanding any other provisions of this Declaration (other than the provisions set forth in subsection (f) of this Section 9.2), a Global Trust Preferred Security may not be transferred as a whole except by the Clearing Agency to a nominee of the Clearing Agency or another nominee of the Clearing Agency or by the Clearing Agency or any such nominee to a successor Clearing Agency or a nominee of such successor Clearing Agency.

(f) Authentication of Definitive Trust Preferred Securities. If at any time:

(i) the Clearing Agency notifies the Sponsor or the Trust that it is unwilling or unable to continue as Clearing Agency for the outstanding Global Trust Preferred Securities or if at any time such Clearing Agency ceases to be a "clearing agency" registered under the Exchange Act and a clearing agency is not appointed by the Sponsor within 90 days of such notice;

(ii) there occurs a Default or an Event of Default which is continuing, or

(iii) the Administrative Trustees, in their sole discretion, notify the Property Trustee in writing that they elect to cause the issuance of Definitive Trust Preferred Securities under this Declaration, then the Administrative Trustees will execute, and the Property Trustee, upon receipt of a written order signed by one Administrative Trustee requesting the authentication and delivery of Definitive Trust Preferred Securities to the Persons designated in such notice, will authenticate and make available for delivery Definitive Trust Preferred Securities, equal in number to the number of Trust Preferred Securities represented by the Global Trust Preferred Securities, in exchange for such Global Trust Preferred Securities.

(g) Legend.

(i) Except as permitted by the following paragraph (ii), each Trust Preferred Security certificate evidencing the Global Trust Preferred Securities and the Definitive Trust Preferred Securities (and all Trust Preferred Securities issued in exchange therefor or substitution thereof) shall bear a legend (the "Restricted Securities Legend") in substantially the following form:

THIS SECURITY AND THE UNDERLYING SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF UNDERLYING COMMON STOCK ISSUABLE UPON CONVERSION OR PURCHASE OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF, THE ISSUANCE OF THE SECURITIES UPON AN EXERCISE OF THE OVERALLOTMENT OPTION GRANTED TO THE INITIAL PURCHASERS IN CONNECTION WITH THE ORIGINAL SALE OF THE SECURITIES AND THE LAST DATE ON WHICH XEROX CORPORATION ("XEROX") OR ANY AFFILIATE OF XEROX WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO XEROX OR ANY AFFILIATE THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE 1N RELIANCE ON RULE 144A, (C) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO XEROX'S AND THE PROPERTY TRUSTEE'S AND/OR TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE PROPERTY TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

(ii) Upon any sale or transfer of a Restricted Trust Preferred Security (including any Restricted Trust Preferred Security represented by a Global Trust Preferred Security) pursuant to an effective registration statement under the Securities Act or pursuant to Rule 144 under the Securities Act:

(A) in the case of any Restricted Trust Preferred Security that is a Definitive Trust Preferred Security, the Registrar shall permit the Holder thereof to exchange such Restricted Trust Preferred Security for a Definitive Trust Preferred Security that does not bear the Restricted Securities Legend and rescind any restriction on the transfer of such Restricted Trust Preferred Security;

(B) in the case of any Restricted Trust Preferred Security that is represented by a Global Trust Preferred Security, the

Registrar shall permit the Holder of such Global Trust Preferred Security to exchange such Global Trust Preferred Security for another Global Trust Preferred Security that does not bear the Restricted Securities Legend; and

(C) in the case of clause (A) and (B) above, the Administrative Trustees will execute, and the Property Trustee, upon receipt of a written order signed by one Administrative Trustee requesting the authentication and delivery of Trust Preferred Securities that do not bear the Restricted Securities Legend to the Persons designated in such notice, will authenticate and make available for delivery an equivalent liquidation amount of such Trust Preferred Securities as are specified in such notice.

(h) Cancellation or Adjustment of Global Trust Preferred Security. At such time as all beneficial interests in a Global Trust Preferred Security have either been exchanged for Definitive Trust Preferred Securities to the extent permitted by this Declaration or redeemed, repurchased or canceled in accordance with the terms of this Declaration, such Global Trust Preferred Security shall be returned to the Property Trustee for cancellation or retained and canceled by the Property Trustee. At any time prior to such cancellation, if any beneficial interest in a Global Trust Preferred Security is exchanged for Definitive Trust Preferred Securities, Trust Preferred Securities represented by such Global Trust Preferred Security shall be reduced and an adjustment shall be made on the books and records of the Property Trustee (if it is then the custodian for such Global Trust Preferred Security) with respect to such Global Trust Preferred Security, by the Property Trustee or the Securities Custodian, to reflect such reduction.

(i) Obligations with Respect to Transfers and Exchanges of Trust Preferred Securities.

(i) To permit registrations of transfers and exchanges, the Trust shall execute and the Property Trustee shall authenticate Definitive Trust Preferred Securities and Global Trust Preferred Securities at the Registrar's or co-Registrar's request in accordance with the terms of this Declaration.

(ii) Registrations of transfers or exchanges will be effected without charge, but only upon payment (with such indemnity as the Trust or the Sponsor may require) in respect of any tax or other governmental charge that may be imposed in relation to it.

(iii) The Registrar or co-registrar shall not be required to register the transfer of or exchange of (a) Trust Preferred Securities during a period beginning at the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Trust Preferred Securities for redemption and ending at the close of business on the day of such mailing; or (b) any Trust Preferred Security so selected for redemption in whole or in part, except the unredeemed portion of any Trust Preferred Security being redeemed in part.

(iv) Prior to the due presentation for registrations of transfer of any Trust Preferred Security, the Trust, the Property Trustee, the Paying Agent, the Registrar or any co-registrar may deem and treat the person in whose name a Trust Preferred Security is registered as the absolute owner of such Trust Preferred Security for the purpose of

receiving Distributions on such Trust Preferred Security and for all other purposes whatsoever, and none of the Trust, the Property Trustee, the Paying Agent, the Registrar or any co-registrar shall be affected by notice to the contrary.

(v) All Trust Preferred Securities issued upon any transfer or exchange pursuant to the terms of this Declaration shall evidence the same security and shall be entitled to the same benefits under this Declaration as the Trust Preferred Securities surrendered upon such transfer or exchange.

(j) No Obligation of the Property Trustee.

(i) The Property Trustee shall have no responsibility or obligation to any beneficial owner of a Global Trust Preferred Security, a Participant in the Clearing Agency or other Person with respect to the accuracy of the records of the Clearing Agency or its nominee or of any Participant thereof, with respect to any ownership interest in the Trust Preferred Securities or with respect to the delivery to any Participant, beneficial owner or other Person (other than the Clearing Agency) of any notice (including any notice of redemption) or the payment of any amount, under or with respect to such Trust Preferred Securities. All notices and communications to be given to the Holders and all payments to be made to Holders under the Trust Preferred Securities shall be given or made only to or upon the order of the registered Holders (which shall be the Clearing Agency or its nominee in the case of a Global Trust Preferred Security). The rights of beneficial owners in any Global Trust Preferred Security shall be exercised only through the Clearing Agency subject to the applicable rules and procedures of the Clearing Agency. The Property Trustee may conclusively rely and shall be fully protected in relying upon information furnished by the Clearing Agency or any agent thereof with respect to its Participants and any beneficial owners.

(ii) The Property Trustee and Registrar shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Declaration or under applicable law with respect to any transfer of any interest in any Trust Preferred Security (including any transfers between or among Clearing Agency Participants or beneficial owners in any Global Trust Preferred Security) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the terms of this Declaration, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 9.3 Deemed Security Holders.

The Trustees may treat the Person in whose name any Security shall be registered on the books and records of the Trust as the sole owner of such Security for purposes of receiving Distributions and for all other purposes whatsoever and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such Security on the part of any Person, whether or not the Trust shall have actual or other notice thereof.

SECTION 9.4 Book Entry Interests.

Global Trust Preferred Securities shall initially be registered on the books and records of the Trust in the name of Cede & Co., the nominee of the Clearing Agency, and no Trust Preferred Security Beneficial Owner will receive a definitive Trust Preferred Security Certificate representing such Trust Preferred Security Beneficial Owner's interests in such Global Trust Preferred Securities, except as provided in Section 9.2 and Section 7.9. Unless and until Definitive Trust Preferred Securities have been issued to the Trust Preferred Security Beneficial Owners pursuant to Section 9.2 or Section 7.9:

(a) the provisions of this Section 9.4 shall be in full force and effect;

(b) the Trust and the Trustees shall be entitled to deal with the Clearing Agency for all purposes of this Declaration (including the payment of Distributions on the Global Trust Preferred Securities and receiving approvals, votes or consents hereunder) as the Holder of the Trust Preferred Securities and the sole holder of the Global Certificates and shall have no obligation to the Trust Preferred Security Beneficial Owners;

(c) to the extent that the provisions of this Section 9.4 conflict with any other provisions of this Declaration, the provisions of this Section 9.4 shall control; and

(d) the rights of the Trust Preferred Security Beneficial Owners shall be exercised only through the Clearing Agency and shall be limited to those established by law and agreements between such Trust Preferred Security Beneficial Owners and the Clearing Agency and/or the Clearing Agency Participants and receive and transmit payments of Distributions on the Global Certificates to such Clearing Agency Participants. DTC will make book entry transfers among the Clearing Agency Participants, provided, that solely for the purposes of determining whether the Holders of the requisite amount of Trust Preferred Securities have voted on any matter provided for in this Declaration, so long as Definitive Trust Preferred Security Certificates have not been issued, the Trustees may conclusively rely on, and shall be protected in relying on, any written instrument (including a proxy) delivered to the Trustees by the Clearing Agency setting forth the Trust Preferred Security Beneficial Owners' votes or assigning the right to vote on any matter to any other Persons either in whole or in part.

SECTION 9.5 Notices to Clearing Agency.

Whenever a notice or other communication to the Trust Preferred Security Holders is required under this Declaration, the Trustees shall give all such notices and communications specified herein to be given to the Holders of Global Trust Preferred Securities to the Clearing Agency, and shall have no notice obligations to the Trust Preferred Security Beneficial Owners.

SECTION 9.6 Appointment of Successor Clearing Agency.

If any Clearing Agency elects to discontinue its services as securities depositary with respect to the Trust Preferred Securities, the Administrative Trustees may, in their sole discretion, appoint a successor Clearing Agency with respect to such Trust Preferred Securities.

ARTICLE X
LIMITATION OF LIABILITY OF

HOLDERS OF SECURITIES, TRUSTEES OR OTHERS

SECTION 10.1 Liability.

(a) Except as expressly set forth in this Declaration, the Trust Securities Guarantee and the terms of the Securities, the Sponsor shall not be:

(i) personally liable for the return of any portion of the capital contributions (or any return thereon) of the Holders of the Securities which shall be made solely from assets of the Trust; and

(ii) be required to pay to the Trust or to any Holder of Securities any deficit upon dissolution of the Trust or otherwise.

(b) The Sponsor shall be liable for all of the debts and obligations of the Trust (other than with respect to the payment or delivery of amounts due, if any, on the Securities) to the extent not satisfied out of the Trust's assets.

(c) Pursuant to Section 3803(a) of the Business Trust Act, the Holders of the Trust Preferred Securities shall be entitled to the same limitation of personal liability extended to stockholders of private corporations for profit organized under the General Corporation Law of the State of Delaware.

SECTION 10.2 Exculpation.

(a) No Indemnified Person shall be liable, responsible or accountable in damages or otherwise to the Trust or any Covered Person for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Indemnified Person in good faith on behalf of the Trust and in a manner such Indemnified Person reasonably believed to be within the scope of the authority conferred on such Indemnified Person by this Declaration or by law, except that an Indemnified Person shall be liable for any such loss, damage or claim incurred by reason of such Indemnified Person's gross negligence or willful misconduct with respect to such acts or omissions.

(b) An Indemnified Person shall be fully protected in relying in good faith upon the records of the Trust and upon such information, opinions, reports or statements presented to the Trust by any Person as to matters the Indemnified Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Trust, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses, or any other facts pertinent to the existence and amount of assets from which Distributions to Holders of Securities might properly be paid.

SECTION 10.3 Fiduciary Duty.

(a) To the extent that, at law or in equity, an Indemnified Person has duties (including fiduciary duties) and liabilities relating thereto to the Trust or to any other Covered Person, an Indemnified Person acting under this Declaration shall not be liable to the Trust or to any other Covered Person for its good faith reliance on the provisions of this Declaration. The provisions of this Declaration, to the extent that they restrict the duties and liabilities of an Indemnified Person otherwise existing at law or in

equity (other than the duties imposed on the Property Trustee under the Trust Indenture Act), are agreed by the parties hereto to replace such other duties and liabilities of such Indemnified Person.

(b) Unless otherwise expressly provided herein:

(i) whenever a conflict of interest exists or arises between any Covered Persons; or

(ii) whenever this Declaration or any other agreement contemplated herein or therein provides that an Indemnified Person shall act in a manner that is, or provides terms that are, fair and reasonable to the Trust or any Holder of Securities,

the Indemnified Person shall resolve such conflict of interest, take such action or provide such terms, considering in each case the relative interest of each party (including its own interest) to such conflict, agreement, transaction or situation and the benefits and burdens relating to such interests, any customary or accepted industry practices, and any applicable generally accepted accounting practices or principles. In the absence of bad faith by the Indemnified Person, the resolution, action or term so made, taken or provided by the Indemnified Person shall not constitute a breach of this Declaration or any other agreement contemplated herein or of any duty or obligation of the Indemnified Person at law or in equity or otherwise.

(c) Whenever in this Declaration an Indemnified Person is permitted or required to make a decision:

(i) in its "discretion" or under a grant of similar authority, the Indemnified Person shall be entitled to consider such interests and factors as it desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Trust or any other Person; or

(ii) in its "good faith" or under another express standard, the Indemnified Person shall act under such express standard and shall not be subject to any other or different standard imposed by this Declaration or by applicable law.

SECTION 10.4 Indemnification.

(a) (i) The Sponsor shall indemnify, to the fullest extent permitted by law, any Company Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Trust) by reason of the fact that he is or was a Company Indemnified Person against expenses (including reasonable attorneys' fees and expenses), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, in and of itself, create a presumption that the Company Indemnified Person did not act in good

faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Trust, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(ii) The Sponsor shall indemnify, to the fullest extent permitted by law, any Company Indemnified Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Trust to procure a judgment in its favor by reason of the fact that he is or was a Company Indemnified Person against expenses (including reasonable attorneys' fees and expenses) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Trust and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such Company Indemnified Person shall have been adjudged to be liable to the Trust unless and only to the extent that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which such Court of Chancery or such other court shall deem proper.

(iii) Any indemnification under paragraphs (i) and (ii) of this Section 10.4(a) (unless ordered by a court) shall be made by the Sponsor only as authorized in the specific case upon a determination that indemnification of the Company Indemnified Person is proper in the circumstances because he has met the applicable standard of conduct set forth in paragraphs (i) and (ii). Such determination shall be made (1) by the Administrative Trustees by a majority vote of a quorum consisting of such Administrative Trustees who were not parties to such action, suit or proceeding, (2) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested Administrative Trustees so directs, by independent legal counsel in a written opinion, or (3) by the Common Security Holder of the Trust.

(iv) Expenses (including reasonable attorneys' fees and expenses) incurred by a Company Indemnified Person in defending a civil, criminal, administrative or investigative action, suit or proceeding referred to in paragraphs (i) and (ii) of this Section 10.4(a) shall be paid by the Sponsor in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Company Indemnified Person to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Sponsor as authorized in this Section 10.4(a). Notwithstanding the foregoing, no advance shall be made by the Sponsor if a determination is reasonably and promptly made (i) by the Administrative Trustees by a majority vote of a quorum of disinterested Administrative Trustees, (ii) if such a quorum is not obtainable, or, even if obtainable, if a quorum of disinterested Administrative Trustees so directs, by independent legal counsel in a written opinion or (iii) the Common Security Holder of the Trust, that, based upon the facts known to the Administrative Trustees, counsel or the Common Security Holder at the time such determination is made, such Company Indemnified Person acted in bad faith or in a manner that such person did not believe to be in or not opposed to the best interests of the Trust, or, with respect to any criminal proceeding,

that such Company Indemnified Person believed or had reasonable cause to believe his conduct was unlawful. In no event shall any advance be made in instances where the Administrative Trustees, independent legal counsel or Common Security Holder reasonably determine that such person deliberately breached his duty to the Trust or its Common or Trust Preferred Security Holders.

(v) The indemnification and advancement of expenses provided by, or granted pursuant to, the other paragraphs of this Section 10.4(a) shall not be deemed exclusive of any other rights to which those seeking indemnification and advancement of expenses may be entitled under any agreement, vote of stockholders or disinterested directors of the Sponsor or Trust Preferred Security Holders of the Trust or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office. All rights to indemnification under this Section 10.4(a) shall be deemed to be provided by a contract between the Sponsor and each Company Indemnified Person who serves in such capacity at any time while this Section 10.4(a) is in effect. Any repeal or modification of this Section 10.4(a) shall not affect any rights or obligations then existing.

(vi) The Sponsor or the Trust may purchase and maintain insurance on behalf of any person who is or was a Company Indemnified Person against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Sponsor would have the power to indemnify him against such liability under the provisions of this Section 10.4(a).

(vii) For purposes of this Section 10.4(a), references to "the Trust" shall include, in addition to the resulting or surviving entity, any constituent entity (including any constituent of a constituent) absorbed in a consolidation or merger, so that any person who is or was a director, trustee, officer or employee of such constituent entity, or is or was serving at the request of such constituent entity as a director, trustee, officer, employee or agent of another entity, shall stand in the same position under the provisions of this Section 10.4(a) with respect to the resulting or surviving entity as he would have with respect to such constituent entity if its separate existence had continued.

(viii) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 10.4(a) shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Company Indemnified Person and shall inure to the benefit of the heirs, executors and administrators of such a person.

(b) The Sponsor agrees to indemnify the (i) Property Trustee, (ii) the Delaware Trustee, (iii) any Affiliate of the Property Trustee and the Delaware Trustee, and (iv) any officers, directors, shareholders, members, partners, employees, representatives, custodians, nominees or agents of the Property Trustee and the Delaware Trustee (each of the Persons in (i) through (iv) being referred to as a "Fiduciary Indemnified Person") for, and to hold each Fiduciary Indemnified Person harmless against, any and all loss, liability, damage, claim or expense including taxes (other than taxes based on the income of such Fiduciary Indemnified Person) incurred without gross negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the

costs and expenses (including reasonable legal fees and expenses) of defending itself against or investigating any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder. The obligation to indemnify as set forth in this Section 10.4(b) shall survive the satisfaction and discharge of this Declaration and the removal or resignation of the Property Trustee or the Delaware Trustee, as the case may be.

SECTION 10.5 Outside Businesses.

Any Covered Person, the Sponsor, the Delaware Trustee and the Property Trustee may engage in or possess an interest in other business ventures of any nature or description, independently or with others, similar or dissimilar to the business of the Trust, and the Trust and the Holders shall have no rights by virtue of this Declaration in and to such independent ventures or the income or profits derived therefrom, and the pursuit of any such venture, even if competitive with the business of the Trust, shall not be deemed wrongful or improper. No Covered Person, and none of the Sponsor, the Delaware Trustee, or the Property Trustee shall be obligated to present any particular investment or other opportunity to the Trust even if such opportunity is of a character that, if presented to the Trust, could be taken by the Trust, and any Covered Person, the Sponsor, the Delaware Trustee and the Property Trustee shall have the right to take for its own account (individually or as a partner or fiduciary) or to recommend to others any such particular investment or other opportunity. Any Covered Person, the Delaware Trustee and the Property Trustee may engage or be interested in any financial or other transaction with the Sponsor or any Affiliate of the Sponsor, or may act as depositary for, trustee or agent for, or act on any committee or body of holders of, securities or other obligations of the Sponsor or its Affiliates.

ARTICLE XI
ACCOUNTING

SECTION 11.1 Fiscal Year.

The fiscal year ("Fiscal Year") of the Trust shall be the calendar year, or such other year as is required by the Code.

SECTION 11.2 Certain Accounting Matters.

(a) At all times during the existence of the Trust, the Administrative Trustees shall keep, or cause to be kept, full books of account, records and supporting documents, which shall reflect in reasonable detail, each transaction of the Trust. The books of account shall be maintained on the accrual method of accounting, in accordance with generally accepted accounting principles, consistently applied. The Trust shall use the accrual method of accounting for United States federal income tax purposes. The books of account and the records of the Trust shall be examined by and reported upon as of the end of each Fiscal Year of the Trust by a firm of independent certified public accountants selected by the Administrative Trustees.

(b) The Administrative Trustees shall cause to be duly prepared and delivered to each of the Holders, any annual United States federal income tax information statement, required by the Code, containing such information with regard to the Securities held by each Holder as is required by the Code and the Treasury Regulations. Notwithstanding any right under the Code to deliver

any such statement at a later date, the Administrative Trustees shall endeavor to deliver all such information statements within 30 days after the end of each Fiscal Year of the Trust.

(c) The Administrative Trustees shall cause to be duly prepared and filed with the appropriate taxing authority, an annual United States federal income tax return, on a Form 1041 or such other form required by United States federal income tax law, and any other annual income tax returns required to be filed by the Administrative Trustees on behalf of the Trust with any state or local taxing authority.

SECTION 11.3 Banking.

The Trust shall maintain one or more bank accounts in the name and for the sole benefit of the Trust; provided, however, that all payments of funds in respect of the Debentures held by the Property Trustee shall be made directly to the Property Trustee Account and no other funds of the Trust shall be deposited in the Property Trustee Account. The sole signatories for such accounts shall be designated by the Administrative Trustees; provided, however, that the Property Trustee shall designate the signatories for the Property Trustee Account.

SECTION 11.4 Withholding.

The Trust and the Administrative Trustees shall comply with all withholding requirements under United States federal, state and local law. The Trust shall request, and the Holders shall provide to the Trust, such forms or certificates as are necessary to establish an exemption from withholding with respect to each Holder, and any representations and forms as shall reasonably be requested by the Trust to assist it in determining the extent of, and in fulfilling, its withholding obligations. The Administrative Trustees shall file required forms with applicable jurisdictions and, unless an exemption from withholding is properly established by a Holder, shall remit amounts withheld with respect to the Holder to applicable jurisdictions. To the extent that the Trust is required to withhold and pay over any amounts to any authority with respect to Distributions or allocations to any Holder, the amount withheld shall be deemed to be a Distribution in the amount of the withholding to the Holder. In the event of any claimed over withholding, Holders shall be limited to an action against the applicable jurisdiction. If the amount required to be withheld was not withheld from actual Distributions made, the Trust may reduce subsequent Distributions by the amount of such withholding.

ARTICLE XII
AMENDMENTS AND MEETINGS

SECTION 12.1 Amendments.

(a) Except as otherwise provided in this Declaration or by any applicable terms of the Securities, this Declaration may only be amended by a written instrument approved and executed by the Administrative Trustees (or if there are more than two Administrative Trustees a majority of the Administrative Trustees); and

(i) if the amendment affects the rights, powers, duties, obligations or immunities of the Property Trustee, also by the Property Trustee; and

(ii) if the amendment affects the rights, powers, duties, obligations or immunities of the Delaware Trustee, also by the Delaware Trustee.

(b) No amendment shall be made, and any such purported amendment shall be void and ineffective:

(i) unless, in the case of any proposed amendment, the Property Trustee shall have first received an Officers' Certificate from each of the Trust and the Sponsor that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities);

(ii) unless, in the case of any proposed amendment which affects the rights, powers, duties, obligations or immunities of the Property Trustee, the Property Trustee shall have first received:

(A) an Officers' Certificate from each of the Trust and the Sponsor that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities); and

(B) an opinion of counsel (who may be counsel to the Sponsor or the Trust) that such amendment is permitted by, and conforms to, the terms of this Declaration (including the terms of the Securities), provided, however, that the Property Trustee shall not be required to sign any such amendment, and

(iii) to the extent the result of such amendment would be to:

(A) cause the Trust to fail to continue to be classified for purposes of United States federal income taxation as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust;

(B) reduce or otherwise adversely affect the powers of the Property Trustee in contravention of the Trust Indenture Act; or

(C) cause the Trust to be deemed to be an Investment Company required to be registered under the Investment Company Act;

(c) At such time after the Trust has issued any Securities that remain outstanding, any amendment that would adversely affect the rights, privileges or preferences of any Holder of Securities may be effected only with such additional requirements as may be set forth in the terms of such Securities;

(d) Section 9.1(b) and this Section 12.1 shall not be amended without the consent of all of the Holders of the Securities;

(e) Article Four shall not be amended without the consent of the Holders of a Majority in liquidation amount of the Common Securities and;

(f) The rights of the holders of the Common Securities under Article Five to increase or decrease the number of, and appoint and remove Trustees shall not be amended without the consent of the Holders of a Majority in liquidation amount of the Common Securities; and

(g) Notwithstanding Section 12.1(c), this Declaration may be amended without the consent of the Holders of the Securities to:

(i) cure any ambiguity, correct or supplement any provision in this Declaration that may be inconsistent with any other provision of this Declaration or to make any other provisions with respect to matters or questions arising under this Declaration which shall not be inconsistent with the other provisions of the Declaration; and

(ii) to modify, eliminate or add to any provisions of the Declaration to such extent as shall be necessary to ensure that the Trust will be classified for United States federal income tax purposes as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust, at all times that any Securities are outstanding or to ensure that the Trust will not be required to register as an Investment Company under the Investment Company Act.

provided, however, such action shall not adversely affect in any material respect the interests of the Holders, and any amendments of this Declaration shall become effective when notice thereof is given to the Holders.

SECTION 12.2 Meetings of the Holders; Action by Written Consent.

(a) Meetings of the Holders of any class of Securities may be called at any time by the Administrative Trustees (or as provided in the terms of the Securities) to consider and act on any matter on which Holders of such class of Securities are entitled to act under the terms of this Declaration, the terms of the Securities or the rules of any stock exchange on which the Trust Preferred Securities are listed or admitted for trading. The Administrative Trustees shall call a meeting of the Holders of such class if directed to do so by the Holders of at least 10% in liquidation amount of such class of Securities. Such direction shall be given by delivering to the Administrative Trustees one or more notice in a writing stating that the signing Holders of Securities wish to call a meeting and indicating the general or specific purpose for which the meeting is to be called. Any Holders calling a meeting shall specify in writing the Security Certificates held by the Holders exercising the right to call a meeting and only those Securities specified shall be counted for purposes of determining whether the required percentage set forth in the second sentence of this paragraph has been met.

(b) Except to the extent otherwise provided in the terms of the Securities, the following provisions shall apply to meetings of Holders of Securities:

(i) notice of any such meeting shall be given to all the Holders of Securities having a right to vote thereat at least seven days and not more than 60 days before the date of such meeting. Whenever a vote, consent or approval of the Holders is permitted or required under this Declaration or the rules of any stock exchange on which the Trust Preferred Securities are listed or admitted for trading, such vote, consent or approval may be given at a meeting of the Holders. Any action that may be taken at a meeting of the Holders of Securities may be taken without a meeting if a consent in writing setting forth the action so taken is signed by the Holders of Securities owning not less than the minimum amount of Securities in liquidation amount that would be necessary to authorize or take such action at a meeting at which all

Holders having a right to vote thereon were present and voting. Prompt notice of the taking of action without a meeting shall be given to the Holders entitled to vote who have not consented in writing. The Administrative Trustees may specify that any written ballot submitted to the Security Holder for the purpose of taking any action without a meeting shall be returned to the Trust within the time specified by the Administrative Trustees;

(ii) each Holder may authorize any Person to act for it by proxy on all matters in which a Holder is entitled to participate, including waiving notice of any meeting, or voting or participating at a meeting. No proxy shall be valid after the expiration of 11 months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the Holder of Securities executing it. Except as otherwise provided herein, all matters relating to the giving, voting or validity of proxies shall be governed by the General Corporation Law of the State of Delaware relating to proxies, and judicial interpretations thereunder, as if the Trust were a Delaware corporation and the Holders were stockholders of a Delaware corporation;

(iii) each meeting of the Holders shall be conducted by the Administrative Trustees or by such other Person that the Administrative Trustees may designate; and

(iv) unless the Business Trust Act, this Declaration, the terms of the Securities, the Trust Indenture Act or the listing rules of any stock exchange on which the Trust Preferred Securities are then listed or trading, otherwise provides, the Administrative Trustees, in their sole discretion, shall establish all other provisions relating to meetings of Holders, including notice of the time, place or purpose of any meeting at which any matter is to be voted on by any Holders of Securities, waiver of any such notice, action by consent without a meeting, the establishment of a record date, quorum requirements, voting in person or by proxy or any other matter with respect to the exercise of any such right to vote.

ARTICLE XII
REPRESENTATIONS OF PROPERTY TRUSTEE AND DELAWARE TRUSTEE

SECTION 13.1 Representations and Warranties of Property Trustee.

The Trustee that acts as initial Property Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Property Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Property Trustee's acceptance of its appointment as Property Trustee that:

(a) The Property Trustee is a national banking association with trust powers and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(b) The execution, delivery and performance by the Property Trustee of the Declaration has been duly authorized by all necessary corporate action on the part of the Property Trustee. The Declaration has been duly executed and delivered by the Property Trustee and constitutes a legal, valid and binding obligation of the Property Trustee, enforceable against it in accordance with

its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) The execution, delivery and performance of this Declaration by the Property Trustee does not conflict with or constitute a breach of the charter or by-laws of the Property Trustee; and

(d) No consent, approval or authorization of, or registration with or notice to, any federal banking authority is required for the execution, delivery or performance by the Property Trustee of this Declaration.

SECTION 13.2 Representations and Warranties of Delaware Trustee.

The Trustee that acts as initial Delaware Trustee represents and warrants to the Trust and to the Sponsor at the date of this Declaration, and each Successor Delaware Trustee represents and warrants to the Trust and the Sponsor at the time of the Successor Delaware Trustee's acceptance of its appointment as Delaware Trustee that:

(a) The Delaware Trustee, if an entity, is duly organized, validly existing and in good standing under the laws of the State of Delaware, with corporate power and authority to execute and deliver, and to carry out and perform its obligations under the terms of, this Declaration;

(b) The execution, delivery and performance by the Delaware Trustee of this Declaration has been duly authorized by all necessary corporate action on the part of the Delaware Trustee. This Declaration has been duly executed and delivered by the Delaware Trustee and constitutes a legal, valid and binding obligation of the Delaware Trustee, enforceable against it in accordance with its terms, subject to applicable bankruptcy, reorganization, moratorium, insolvency, and other similar laws affecting creditors' rights generally and to general principles of equity and the discretion of the court (regardless of whether the enforcement of such remedies is considered in a proceeding in equity or at law);

(c) No consent, approval or authorization of, or registration with or notice to, any federal banking authority is required for the execution, delivery or performance by the Delaware Trustee of this Declaration; and

(d) The Delaware Trustee is a natural person who is a resident of the State of Delaware or, if not a natural person, an entity which has its principal place of business in the State of Delaware.

ARTICLE XIV
MISCELLANEOUS

SECTION 14.1 Notices.

All notices provided for in this Declaration shall be in writing, duly signed by the party giving such notice, and shall be delivered, telecopied or mailed by first class mail, as follows:

(a) if given to the Trust, in care of the Administrative Trustees at the Trust's mailing address set forth below (or such other address as the

Trust may give notice of to the Holders):

Xerox Capital Trust I
c/o Xerox Corporation
P.O. Box 1600
800 Long Ridge Road
Stamford, Connecticut 06904
Attention: Treasurer

(b) if given to the Delaware Trustee, at the mailing address set forth below (or such other address as Delaware Trustee may give notice of to the Holders):

Wilmington Trust Company
Rodney Square North
1100 North Market Street
Wilmington, Delaware 19890
Attention: Corporate Trust Administration
Fax: (302) 651-8882

(c) if given to the Property Trustee, at the Property Trustee's mailing address set forth below (or such other address as the Property Trustee may give notice of to the Holders):

Wells Fargo Bank Minnesota, National Association
Sixth and Marquette
MAC N9303-120
Minneapolis, Minnesota 55479
Attention: Corporate Trust Services
Fax: (612) 667-9825

(d) if given to the Holder of the Common Securities, at the mailing address of the Sponsor set forth below (or such other address as the Holder of the Common Securities may give notice to the Trust):

Xerox Corporation
P.O. Box 1600
800 Long Ridge Road
Stamford, Connecticut 06904
Attention: Treasurer

(e) if given to any other Holder, at the address set forth on the books and records of the Trust.

All such notices shall be deemed to have been given when received in person, telecopied with receipt confirmed, or mailed by first class mail, postage prepaid except that if a notice or other document is refused delivery or cannot be delivered because of a changed address of which no notice was given, such notice or other document shall be deemed to have been delivered on the date of such refusal or inability to deliver.

SECTION 14.2 Governing Law.

This Declaration and the rights of the parties hereunder shall be governed by and interpreted in accordance with the laws of the State of Delaware and all rights and remedies shall be governed by such laws without regard to principles of conflict of laws.

SECTION 14.3 Intention of the Parties.

It is the intention of the parties hereto that the Trust be classified for United States federal income tax purposes as a grantor trust. The provisions of this Declaration shall be interpreted to further this intention of the parties.

SECTION 14.4 Headings.

Headings contained in this Declaration are inserted for convenience of reference only and do not affect the interpretation of this Declaration or any provision hereof.

SECTION 14.5 Successors and Assigns.

Whenever in this Declaration any of the parties hereto is named or referred to, the successors and assigns of such party shall be deemed to be included, and all covenants and agreements in this Declaration by the Sponsor and the Trustees shall bind and inure to the benefit of their respective successors and assigns, whether so expressed.

SECTION 14.6 Partial Enforceability.

If any provision of this Declaration, or the application of such provision to any Person or circumstance, shall be held invalid, the remainder of this Declaration, or the application of such provision to persons or circumstances other than those to which it is held invalid, shall not be affected thereby.

SECTION 14.7 Counterparts.

This Declaration may contain more than one counterpart of the signature page and this Declaration may be executed by the affixing of the signature of each of the Trustees to one of such counterpart signature pages. All of such counterpart signature pages shall be read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

IN WITNESS WHEREOF, the undersigned has caused these presents to be executed as of the day and year first above written.

Gregory B. Tayler, as Administrative Trustee

Timothy MacCarrick, as Administrative Trustee

Navin M. Chheda, as Administrative Trustee

WILMINGTON TRUST COMPANY,
as Delaware Trustee

By:

Name:
Title:

WELLS FARGO BANK MINNESOTA, NATIONAL
ASSOCIATION,

as Property Trustee

By:

Name:
Title:

XEROX CORPORATION,
as Sponsor

By:

Name:
Title:

ANNEX I
TERMS OF
7 1/2% CONVERTIBLE TRUST PREFERRED SECURITIES
7 1/2% CONVERTIBLE COMMON SECURITIES

Pursuant to Section 7.1 of the Amended and Restated Declaration of Trust, dated as of November 27, 2001 (as amended from time to time, the "Declaration"), the designation, rights, privileges, restrictions, preferences and other terms and provisions of the Securities are set out below (each capitalized term used but not defined herein has the meaning set forth in the Declaration or, if not defined in such Declaration, as defined in the Offering Memorandum referred to below in Section 2(c) of this Annex I):

1. Designation and Number.

(a) Trust Preferred Securities. 20,700,000 Trust Preferred Securities of the Trust with an aggregate liquidation amount with respect to the assets of the Trust of up to one billion thirty-five million dollars ($1,035,000,000), and each with a liquidation amount with respect to the assets of the Trust of $50 per security, are hereby designated for the purposes of identification only as "7 1/2% Convertible Trust Preferred Securities" (the "Trust Preferred Securities"). The certificates evidencing the Trust Preferred Securities shall be substantially in the form of Exhibit A-1 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice or to conform to the rules of any stock exchange on which the Trust Preferred Securities are listed.

(b) Common Securities. 640,208 Common Securities of the Trust with an aggregate liquidation amount with respect to the assets of the Trust of thirty-two million ten thousand and four hundred dollars ($32,010,400) and a liquidation amount with respect to the assets of the Trust of $50 per security, are hereby designated for the purposes of identification only as "7 1/2% Convertible Common Securities" (the "Common Securities"). The certificates evidencing the Common Securities shall be substantially in the form of Exhibit A-2 to the Declaration, with such changes and additions thereto or deletions therefrom as may be required by ordinary usage, custom or practice.

2. Distributions.

(a) Distributions payable on each Security will be fixed at a rate per annum of 7 1/2% (the "Coupon Rate") of the liquidation amount of $50 per Security (the "Liquidation Amount"), such rate being the rate of interest payable on the Debentures to be held by the Property Trustee. Distributions in arrears for more than one quarterly period will bear additional distributions thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law). A Distribution is payable only to the extent that payments are made in respect of the Debentures held by the Property Trustee and to the extent the Property Trustee has funds on hand legally available therefor.

(b) Distributions on the Securities will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 27, 2001, and will be payable quarterly in arrears on February 27, May 27, August 27 and November 27 of each year, commencing on February 27, 2002 (each, a "Distribution Date"), except as otherwise described below. Distributions will be computed on the basis of a 360-day year consisting of twelve 30-day months and for any period less than a full calendar month on the basis of the actual number of days elapsed in such month.

(c) Distributions on the Securities will be payable to the Holders thereof as they appear on the books and records of the Trust on the Business Day or, if the Trust Preferred Securities are no longer represented by Global Trust Preferred Securities, the 15th calendar day, immediately preceding the relevant Distribution Date, which Distribution Dates correspond to the interest payment dates on the Debentures. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment in respect of the Trust Preferred Securities will be made as described under the heading "Description of the Trust Preferred Securities -- Book-Entry Only Issuance -- The Depository Trust Company" in the Offering Memorandum, dated November 19, 2001, of the Sponsor and the Trust relating to the Securities and the Debentures. Payments in respect of Definitive Trust Preferred Securities will be made by check mailed to the Holder entitled thereto. The relevant record dates for the Common Securities shall be the same as the record dates for the Trust Preferred Securities. Distributions payable on any Securities that are not punctually paid on any Distribution Date, as a result of the Debenture Issuers having failed to make a payment under the respective Debentures, will cease to be payable to the Holder on the relevant record date, and such defaulted Distribution will instead be payable to the Person in whose name such Securities are registered on the special record date or other specified date determined in accordance with the related Indenture. If any date on which Distributions are payable on the Securities is not a Business Day, then payment of the Distribution payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. The amount of any Distribution payable on any Distribution Date, the applicable redemption date, the applicable Purchase Date or the Change in Control Purchase Date shall include Distributions accrued from and including the Issue Date or the last Distribution Date to which Distributions have been paid to but excluding such Distribution Date, such redemption date, such Purchase Date or such Change in Control Purchase Date, as applicable.

(d) In the event that there is any money or other property held by

or for the Trust that is not accounted for hereunder, such property shall be distributed Pro Rata (as defined herein) among the Holders of the Securities.

3. Liquidation Distribution Upon Dissolution.

If a termination occurs as described in Sections 8.1(a)(i), (ii), (iv) and (v) of the Declaration, the Trust shall be liquidated by the Trustees as expeditiously as the Trustees determine to be possible by distributing, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, to the holders of the Trust Securities a Like Amount of the Xerox Funding Debentures (or, in the case of an exchange by Xerox Funding, Xerox Debentures) then held by the Property Trustee, unless such distribution is determined by the Property Trustee not to be practicable, in which event such holders will be entitled to receive out of the assets of the Trust legally available for distribution to holders, after satisfaction of liabilities to creditors of the Trust as provided by applicable law, an amount equal to the aggregate of the Liquidation Amount plus accumulated and unpaid Distributions thereon to the date of payment (such amount being the "Liquidation Distribution"). If such Liquidation Distribution can be paid only in part because the Trust has insufficient assets on hand legally available to pay in full the aggregate Liquidation Distribution, then the amounts payable directly by the Trust on the Trust Preferred Securities and the Common Securities shall be paid on a Pro Rata basis.

"Like Amount" means (i) with respect to a redemption of the Securities, Securities having a Liquidation Amount equal to the principal amount of Debentures to be paid in accordance with their terms, (ii) with respect to a distribution of Debentures upon the liquidation of the Trust, Debentures having a principal amount equal to the Liquidation Amount of the Securities of the Holder to whom such Debentures are distributed.

4. Conversion.

The Holders of Trust Securities, subject to the limitations set forth in this Section 4 and the Securities, shall have the right at any time following the Closing Time and ending on the second Business Day immediately preceding November 27, 2021, at their option, to cause the Conversion Agent to convert Trust Securities, on behalf of the converting Holders, into shares of Common Stock of the Sponsor in the manner described herein and subject to the following terms and conditions described in this Section.

(a) The Trust Securities will be convertible into fully paid and nonassessable shares of Common Stock of the Sponsor pursuant to the Holder's direction to the Conversion Agent to direct Xerox Funding or its authorized agent to immediately convert an equivalent aggregate principal amount of Xerox Debentures then held by Xerox Funding into fully paid and nonassessable shares of Common Stock of the Sponsor at an initial rate of 5.4795 shares of Common Stock for each Trust Security, subject to certain adjustments set forth in the Xerox Indenture (as so adjusted, the "Conversion Rate").

(b) In order to convert Trust Securities into Common Stock, the Holder of such Trust Securities shall submit to the Conversion Agent an irrevocable Notice of Conversion to convert Trust Securities on behalf of such Holder, together, if the Trust Securities are in certificated form, with such certificates. The Notice of Conversion shall (i) set forth the number of Trust Securities to be converted and the name or names, if other than the Holder, in which the shares of Company Common Stock should be issued and (ii)

direct the Conversion Agent (a) to direct Xerox Funding to immediately convert an equivalent aggregate principal amount of Xerox Debentures into Common Stock and, if applicable, other securities, cash or property (at the Conversion Rate specified in the preceding paragraph), and (b) to direct Xerox Funding to direct the Sponsor to deliver such property to the Property Trustee for delivery to such Holder. The Conversion Agent shall notify the Property Trustee of the Holder's election to convert Trust Securities. The Conversion Agent shall thereupon notify Xerox Funding of the Holder's election to convert the Debentures into shares of Common Stock. Upon receipt of such notice, Xerox Funding, or its authorized agent, will elect to convert an equivalent aggregate principal amount of the Xerox Debentures then held by it into shares of Common Stock and deliver such Common Stock to the Property Trustee for distribution to the Holders of the Trust Securities so converted. The Trust shall be obligated to deliver the shares of Common Stock received in connection with such conversion to the Holders of such Trust Securities. Upon any such conversion, an equivalent aggregate principal amount of Xerox Funding Debentures shall be deemed to have been paid in full in accordance with the provisions of the Xerox Funding Indenture. None of the Trust, Xerox Funding or the Sponsor will make, or be required to make, any payment, allowance or adjustment upon any conversion on account of any unpaid Distributions, whether or not in arrears, accrued on the Trust Securities surrendered for conversion, or on account of any accrued and unpaid dividends on the shares of Common Stock issued upon such conversion. Trust Securities shall be deemed to have been converted immediately prior to the close of business on the day on which an irrevocable Notice of Conversion relating to such Trust Securities is received by the Conversion Agent in accordance with the foregoing provisions (the "Conversion Date"). The Person or Persons entitled to receive the Common Stock issuable upon conversion of the Xerox Debentures shall be treated for all purposes as the record holder or holders of such Common Stock on the Conversion Date. As promptly as practicable on or after the Conversion Date, the Sponsor shall issue and deliver (or cause the transfer agent for the Common Stock to deliver) at the office of the Conversion Agent a certificate or certificates for the number of full shares of Common Stock issuable upon such conversion, together with the cash payment, if any, in lieu of any fraction of any share to the Person or Persons entitled to receive the same, unless otherwise directed by the Holder in the Notice of Conversion, and the Conversion Agent shall distribute such certificate or certificates to such Person or Persons. The Trust agrees not to convert any Debentures then held by it except pursuant to a Notice of Conversion delivered to the Conversion Agent.

(c) In effecting the conversion and transactions described in this Section 4, the Conversion Agent shall be acting as agent of the Holders of Trust Securities directing it to effect such conversion transactions. The Conversion Agent is hereby authorized to cause Xerox Funding or its authorized agent to convert immediately all or a portion of the Xerox Debentures so exchanged into Common Stock and thereupon to deliver such shares of Common Stock in accordance with the provisions of this Section and to deliver to the Property Trustee any new Xerox Funding Debenture or Xerox Funding Debentures for any resulting unconverted principal amount delivered to the Conversion Agent by the applicable Debenture Trustee, or if such Debentures are represented by a Global Security, to cause the applicable Debenture Trustee to make appropriate notations thereon.

(d) No fractional shares of the Common Stock will be issued as a result of conversion, but, in lieu thereof, such fractional interest will be paid in cash by the Sponsor to the Conversion Agent in an amount equal to the

Sale Price (as determined under the Xerox Indenture) of such fractional share on the Conversion Date, and the Conversion Agent will in turn make such payment to the Holder or Holders of Trust Securities so converted.

(e) Nothing in this Section 4 shall limit the requirement of the Trust to withhold taxes pursuant to the terms of the Trust Securities or as set forth in this Declaration or otherwise require the Property Trustee or the Trust to pay any amounts on account of such withholdings.

(f) In the event of the conversion of any Trust Securities in part only in connection with a conversion pursuant to this Section 4, a new Trust Security or Trust Securities for the unconverted portion thereof will be issued in the name of the Holder thereof upon the cancellation of the Trust Security converted in part in accordance with Section 7.10 of the Declaration or if such Trust Security is represented by a Global Trust Preferred Security, the Property Trustee shall note thereon the reduction in the number of Trust Securities evidenced thereby as a result of such exchange.

5. Redemption and Distribution.

(a) Upon the repayment of the Xerox Debentures in whole or in part, at maturity or upon early redemption (either at the option of Sponsor or pursuant to a Special Event, as described below), an equivalent principal amount of the Xerox Funding Debentures shall be repaid in accordance with the terms of the Xerox Funding Indenture and the proceeds from such repayment by Xerox Funding shall be simultaneously applied by the Property Trustee (subject to the Property Trustee having received notice no later than 45 days prior to such repayment) to redeem a Like Amount of the Securities at a redemption price equal to (i) in the case of the repayment of the Xerox Debentures at maturity or the optional prepayment of the Xerox Debentures prior to December 4, 2004 upon the occurrence and continuation of a Special Event, the Regular Redemption Price (as defined below) and (ii) in the case of the optional prepayment of the Xerox Debentures on or after December 4, 2004 (the "Initial Optional Redemption Date"), the Special Redemption Price (as defined below). The Regular Redemption Price and the Special Redemption Price are referred to collectively as the "Redemption Price". Holders will be given not less than 30 nor more than 60 days notice of such redemption.

(b) (i) The "Regular Redemption Price", with respect to a redemption of Securities, shall mean an amount per Security equal to the principal of and accrued and unpaid interest on $50 principal amount of the Xerox Debentures to but excluding the maturity date or the date fixed for redemption thereof.

(ii) In the case of an optional redemption, if fewer than all the outstanding Securities are to be so redeemed, the Trust Preferred Securities will be redeemed Pro Rata and the Trust Preferred Securities to be redeemed will be determined as described in Section 5(f)(ii) below.

(iii) The Sponsor shall have the right (subject to the conditions in the Xerox Indenture) to elect to redeem the Xerox Debentures in whole or in part at any time on or after the Initial Optional Redemption Date, upon not less than 30 days and not more than 60 days notice, at the Special Redemption Price and, simultaneous with such redemption, to cause an equivalent principal amount of the Xerox Funding Debentures to be redeemed by Xerox Funding at the Special

Redemption Price and to cause a Like Amount of the Securities to be redeemed by the Trust at the Special Redemption Price on a Pro Rata basis. "Special Redemption Price" shall mean a price equal to the percentage of the liquidation amount of Securities to be redeemed plus accumulated and unpaid Distributions thereon, if any, to but excluding the date of such redemption if redeemed during the periods indicated below:

Period	Percentage
From December 4, 2004 to November 26, 2005	103.75%
From November 27, 2005 to November 26, 2006	102.50%
From November 27, 2006 to November 26, 2007	101.25%
After November 26, 2007	100%

(c) If a Special Event shall occur and be continuing, the Sponsor may at its option prepay the Xerox Debentures in whole (but not in part) at any time prior to the Initial Optional Redemption Date, within the 90 days of the occurrence of such Special Event (the "90 Day Period") at the Regular Redemption Price, and, simultaneous with such redemption, cause an equivalent principal amount of the Xerox Funding Debentures to be redeemed by Xerox Funding at the Regular Redemption Price and cause a Like Amount of the Securities to be redeemed by the Trust at the Regular Redemption Price on a Pro Rata basis.

"Special Event" means a Tax Event or an Investment Company Event.

"Tax Event" means that the Administrative Trustees shall have received an opinion of a nationally recognized independent tax counsel experienced in such matters to the effect that, as a result of (a) any amendment to, or change (including any announced prospective change) in, the laws or any regulations thereunder of the United States or any political subdivision or taxing authority thereof or therein; (b) any judicial decision or official administrative pronouncement, ruling, regulatory procedure, notice or announcement, including any notice or announcement of intent to adopt such procedures or regulations (an "Administrative Action"); or (c) any amendment to or change in the administrative position or interpretation of any Administrative Action or judicial decision that differs from the theretofore generally accepted position, in each case, by any legislative body, court, governmental agency or regulatory body, irrespective of the manner in which such amendment or change is made known, which amendment or change is effective or such Administrative Action or decision is announced, in each case, on or after the date of original issuance of the Debentures or the initial issue date of the Trust Preferred Securities, there is more than an insubstantial risk that (i) either the Trust or Xerox Funding is, or will be within 90 days of the date of such opinion, subject to United States federal income tax with respect to income received or accrued on the Debentures, (ii) interest payable on the Xerox Debentures is not, or within 90 days of the date thereof will not be, deductible by the Sponsor, in whole or in part, for United States federal income tax purposes or (iii) the Trust or Xerox Funding is, or will be within 90 days of the date thereof, subject to more than a de minimis amount of other taxes, duties or other governmental charges.

"Investment Company Event" means that the Sponsor shall have received an

opinion of independent legal counsel experienced in such matters to the effect that, as a result of the occurrence of a change in law or regulation or a change in interpretation or application of law or regulation by any legislative body, courts, governmental agency or regulatory authority on or after the date of initial issuance of the Trust Preferred Securities by the Trust, either the Trust or Xerox Funding is or will be considered an "Investment Company" that is required to be registered under the Investment Company Act.

(d) On and from the date fixed by the Administrative Trustees for any distribution of Debentures and liquidation of the Trust: (i) the Securities will no longer be deemed to be outstanding, (ii) the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee), as the Holder of the Trust Preferred Securities, will receive a registered global certificate or certificates representing the Debentures to be delivered upon such distribution and any certificates representing Securities not held by the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee) will be deemed to represent beneficial interests in a Like Amount of Debentures until such certificates are presented to the applicable Debenture Issuer or its agent for transfer or reissue.

(e) The Trust may not redeem any outstanding Securities unless all accumulated and unpaid Distributions have been paid on all Securities for all quarterly Distribution periods terminating on or before the date of redemption.

(f) The procedure with respect to redemptions or distributions of Debentures shall be as follows:

(i) Notice of any redemption of, or notice of distribution of Debentures in exchange for, the Securities (a "Redemption/Distribution Notice") will be given by the Trust by mail to each Holder to be redeemed or exchanged not fewer than 30 nor more than 60 days before the date fixed for redemption or exchange thereof which, in the case of a redemption, will be the date fixed for redemption of the Debentures. For purposes of the calculation of the date of redemption or exchange and the dates on which notices are given pursuant to this Section 5(f)(i), a Redemption/ Distribution Notice shall be deemed to be given on the day such notice is first mailed by first-class mail, postage prepaid, to Holders. Each Redemption/Distribution Notice shall be addressed to the Holders of Securities at the address of each such Holder appearing in the books and records of the Trust. No defect in the Redemption/Distribution Notice or in the mailing of either thereof with respect to any Holder shall affect the validity of the redemption or exchange proceedings with respect to any other Holder.

(ii) In the event that fewer than all the outstanding Securities are to be redeemed, the Securities to be redeemed shall be redeemed Pro Rata from each Holder of Trust Preferred Securities, it being understood that, in respect of Trust Preferred Securities registered in the name of and held of record by the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee) or any nominee, the distribution of the proceeds of such redemption will be made to the Clearing Agency and disbursed by such Clearing Agency in accordance with the procedures applied by such agency or nominee.

(iii) If Securities are to be redeemed and the Trust gives a

Redemption/Distribution Notice, (which notice will be irrevocable), then (A) with respect to Trust Preferred Securities issued in book-entry form, by 12:00 noon, New York City time, on the redemption date, provided that the Debenture Issuer has paid the Property Trustee a sufficient amount of cash in connection with the related redemption or maturity of the Debentures by 10:00 a.m., New York City time, on the maturity date or the date of redemption, as the case requires, the Property Trustee will deposit irrevocably with the Clearing Agency or its nominee (or successor Clearing Agency or its nominee) funds sufficient to pay the applicable Redemption Price with respect to such Trust Preferred Securities and will give the Clearing Agency irrevocable instructions and authority to pay the Redemption Price to the relevant Clearing Agency Participants, and (B) with respect to Trust Preferred Securities issued in certificated form and Common Securities, provided that the Debenture Issuer has paid the Property Trustee a sufficient amount of cash in connection with the related redemption or maturity of the Debentures, the Property Trustee will pay the relevant Redemption Price to the Holders by check mailed to the address of the relevant Holder appearing on the books and records of the Trust on the redemption date. If a Redemption/Distribution Notice shall have been given and funds deposited as required, if applicable, then immediately prior to the close of business on the date of such deposit, or on the redemption date, as applicable, Distributions will cease to accumulate on the Securities so called for redemption and all rights of Holders so called for redemption will cease, except the right of the Holders of such Securities to receive the Redemption Price, but without interest on such Redemption Price, and such Securities shall cease to be outstanding.

(iv) Payment of accrued and unpaid Distributions on the Redemption Date of the Securities will be subject to the rights of Holders of Securities on the close of business on a regular record date in respect of a Distribution Date occurring on or prior to such Redemption Date.

Neither the Administrative Trustees nor the Trust shall be required to register or cause to be registered the transfer of (i) any Securities beginning on the opening of business 15 days before the day of mailing of a notice of redemption or any notice of selection of Securities for redemption or (ii) any Securities selected for redemption except the unredeemed portion of any Security being redeemed. If any date fixed for redemption of Securities is not a Business Day, then payment of the Redemption Price payable on such date will be made on the next succeeding day that is a Business Day (except that if such next succeeding day which is a Business Day falls in a subsequent calendar year, such payment shall be payable on the Business Day next preceding such date) (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date fixed for redemption. If payment of the Redemption Price in respect of any Securities is improperly withheld or refused and not paid either by the Property Trustee or by the Sponsor as guarantor pursuant to the Trust Securities Guarantee, Distributions on such Securities will continue to accumulate from the original redemption date to the actual date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the Redemption Price.

(v) Redemption/Distribution Notices shall be sent by the

Property Trustee on behalf of the Trust to (A) in respect of the Trust Preferred Securities, the Clearing Agency or its nominee (or any successor Clearing Agency or its nominee) if the Global Certificates have been issued or, if Definitive Trust Preferred Security Certificates have been issued, to the Holder thereof, and (B) in respect of the Common Securities to the Holder thereof.

(vi) Subject to the foregoing and applicable law (including, without limitation, United States federal securities laws and banking laws), provided the acquiror is not the Holder of the Common Securities or the obligor under the Xerox Funding Indenture, the Sponsor or any of its subsidiaries may at any time and from time to time purchase outstanding Trust Preferred Securities by tender, in the open market or by private agreement. Any Trust Preferred Securities so acquired will not be resold.

6. Purchase of Trust Securities at Option of the Holder.

(a) General. Subject to the terms and conditions of the Xerox Indenture and this Section, the Trust may become obligated to purchase, at the option of the Holder, all or a portion of the Trust Securities held by such Holder on December 4, 2004, November 27, 2006, November 27, 2008, November 27, 2011 and November 27, 2016 (each, a "Purchase Date"), at a purchase price of $50 per Trust Security, plus accrued and unpaid Distributions thereon to but excluding the applicable Purchase Date (the "Purchase Price"). If Holders require the Trust to purchase all or a portion of their Trust Securities on a Purchase Date, (x) Xerox Funding will be required to purchase a Like Amount of the Xerox Funding Debentures at the Purchase Price and (y) the Sponsor will be required to purchase an equivalent aggregate principal amount of the Xerox Debentures at such Purchase Price in the manner described below. The Trust will be obligated to use the same consideration received in connection with any such purchase to purchase the applicable Trust Securities on the applicable Purchase Date. The Trust will be required to purchase a Holder's Trust Securities upon:

(1) delivery to the Paying Agent, by the Holder of a written notice of purchase (a "Purchase Notice") at any time from the opening of business on the date that is at least 20 Business Days prior to a Purchase Date until the close of business on the second Business Day immediately preceding such Purchase Date substantially in the form set forth in the Xerox Indenture; the Purchase Notice shall, in addition to the information set forth in the Xerox Indenture, (i) set forth the number of Trust Securities to be purchased and (ii) direct the Paying Agent (a) to direct the Property Trustee to immediately deliver a notice of purchase of a portion of the Xerox Funding Debentures having an aggregate principal amount equal to the Liquidation Amount of the Trust Securities that are the subject of the Purchase Notice to the applicable trustee, (b) to direct Xerox Funding to elect to submit a notice of purchase to the Sponsor of an equivalent aggregate principal amount of Xerox Debentures, and (c) to direct Xerox Funding to direct the Sponsor to deliver the Purchase Price to the Paying Agent for delivery to such Holder; and

(2) delivery of such Trust Security to the Paying Agent prior to, on or after the Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent, such delivery being a condition to receipt by the Holder of the Purchase Price therefor;

provided, however, that such Purchase Price shall be so paid pursuant to this Section 6, the Xerox Funding Indenture and the Xerox Indenture only if the Trust Security so delivered to the Paying Agent shall conform in all respects to the description thereof in the related Purchase Notice, as determined by the Sponsor, and such Purchase Notice shall not be validly withdrawn by the Holder.

Any purchase by the Sponsor contemplated pursuant to the provisions of this Section shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Purchase Date and the time of delivery of the Trust Security to the Paying Agent.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Purchase Notice contemplated by this Section 6(a) shall have the right to withdraw such Purchase Notice at any time prior to the close of business on the Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with the Xerox Indenture.

The Paying Agent shall promptly notify Xerox Funding and the Sponsor of the receipt by it of any Purchase Notice or written notice of withdrawal thereof.

(b) Sponsor's Right to Elect Manner of Payment of Purchase Price. The Trust Securities to be purchased pursuant to Section 6(a) may be paid for, at the election of the Sponsor, in U.S. legal tender ("cash") or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in the Xerox Indenture in respect of the simultaneous purchase of the Xerox Debentures.

Upon a payment by Common Stock pursuant to the terms hereof, that portion of unpaid and accumulated Distributions attributable to the period from the Issue Date to the Purchase Date with respect to the purchased Trust Security shall not be cancelled, extinguished or forfeited but rather shall be deemed paid in full to the Holder through the delivery of the Common Stock in exchange for the Trust Security being purchased pursuant to the terms hereof, and the fair market value of such Common Stock (together with any cash payments in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for the Distributions accumulated through the Purchase Date, and the balance, if any, of the fair market value of such shares of Common Stock shall be treated as issued in exchange for the Liquidation Amount of the Trust Security being purchased pursuant to the provisions hereof.

(c) Notice of Election. The Sponsor's notice of election to purchase with cash or Common Stock or any combination thereof (the "Sponsor Notice") shall be sent to the Holders (and to beneficial owners as required by applicable law) not less than 20 Business Days prior to the applicable Purchase Date (the "Sponsor Notice Date"). Any such Sponsor Notice shall state the manner of payment elected and shall contain the information set forth in the Xerox Indenture.

(d) Effect of Purchase Notice; Withdrawal. Upon receipt by the Paying Agent of the Purchase Notice specified in Section 6(a), the Holder of the Trust Security in respect of which such Purchase Notice was given shall (unless such Purchase Notice is withdrawn as specified below) thereafter be

entitled to receive solely the Purchase Price with respect to such Trust Security to but excluding the Purchase Date. Such Purchase Price shall be paid to such Holder, subject to receipts of funds and/or other property by the Paying Agent, promptly following the later of (x) the Purchase Date with respect to such Trust Security (provided the conditions in the Xerox Indenture have been satisfied) and (y) the time of delivery of such Trust Security to the Paying Agent by the Holder thereof in the manner required by the Xerox Indenture. Trust Securities in respect of which a Purchase Notice has been given by the Holder thereof may not be converted pursuant to Section 4 hereof on or after the date of the delivery of such Purchase Notice unless such Purchase Notice has first been validly withdrawn as specified below.

A Purchase Notice may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent at any time prior to the close of business on the applicable Purchase Date.

(e) No Purchase Upon Event of Default. There shall be no purchase of any Trust Securities pursuant to this Section 6 (other than through the delivery of Common Stock in payment of the Purchase Price, including cash in lieu of fractional shares) if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Trust Securities, of the required Purchase Notice) and is continuing an Event of Default (other than a default in the payment of the Purchase Price with respect to such Trust Securities). The Paying Agent will promptly return to the respective Holders thereof any Trust Securities (x) with respect to which a Purchase Notice has been withdrawn in compliance with the Xerox Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Purchase Price with respect to such Trust Securities or if the Sponsor has elected, in accordance with the provisions hereof, to pay the Purchase Price through the delivery of Common Stock, including cash in lieu of fractional shares) in which case, upon such return, the Purchase Notice with respect thereto shall be deemed to have been withdrawn.

(f) Covenants of the Sponsor. All shares of Common Stock delivered upon purchase of the Trust Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim and subject to no restriction on transfer other than those that may be applicable at that time to the Trust Securities.

(g) Procedure upon Purchase. The Sponsor shall deposit cash (in respect of a cash purchase or for fractional interests) or shares of Common Stock, or a combination thereof, as applicable, at the time and in the manner as provided in the Xerox Indenture, sufficient to pay the aggregate Purchase Price of all Trust Securities to be purchased pursuant to this Section 6 and the Xerox Indenture. As soon as practicable after the Purchase Date, the Sponsor shall deliver to each Holder entitled to receive Common Stock through the Paying Agent, a certificate (or other evidence of ownership) for the number of full shares of Common Stock issuable in payment of the Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of shares of Common Stock on the Business Day following the Purchase Date. No payment or adjustment will be made for dividends on the Common Stock the record date for which occurred on or prior to the Purchase Date.

(h) Taxes. If a Holder of a Trust Security is paid in Common Stock,

the Sponsor shall pay any documentary, stamp or similar issue or transfer tax due on such issue of shares of Common Stock. However, the Holder shall pay any such tax which is due if the Holder requests the shares of Common Stock to be issued in a name other than the Holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the Holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations being deducted by the Sponsor.

7. Purchase of Trust Securities at Option of the Holder upon a Change in Control.

(a) If on or prior to December 4, 2004, there shall have occurred a Change in Control (as defined in the Xerox Indenture), the Trust may become obligated to purchase Trust Securities, at the option of the Holder, at a purchase price of $50 per Trust Security, plus accrued and unpaid Distributions to but excluding the date of such purchase (the "Change in Control Purchase Price"), as of the date that is no later than 45 Business Days after the occurrence of the applicable Change in Control (the "Change in Control Purchase Date"), subject to satisfaction by or on behalf of the Holder of the requirements set forth in the Xerox Indenture. If Holders require the Trust to purchase all or a portion of their Trust Securities on a Change in Control Purchase Date, (x) Xerox Funding will be required to purchase a Like Amount of the Xerox Funding Debentures at the Change in Control Purchase Price and (y) the Sponsor will be required to purchase an equivalent principal amount of the Xerox Debentures at such Change in Control Purchase Price. The Trust will be obligated to use the same consideration received in connection with any such purchase to purchase the applicable Trust Securities on the Change in Control Purchase Date.

(b) Within 30 Business Days after the occurrence of a Change in Control, the Sponsor shall mail a written notice of such Change in Control by first-class mail to the Trustee and to each Holder (and to beneficial owners as required by applicable law). The notice shall include a form of Change in Control Purchase Notice to be completed by the Trust Securityholder substantially in the form specified in the Xerox Indenture.

(c) A Holder may exercise its rights specified in Section 7(a) upon delivery of a written notice of purchase (a "Change in Control Purchase Notice") to the Paying Agent at any time prior to the close of business on the Business Day immediately preceding the Change in Control Purchase Date as specified in the Xerox Indenture. The Change in Control Purchase Notice shall, in addition to the information set forth in the Xerox Indenture, (i) set forth the number of Trust Securities to be purchased and (ii) direct the Paying Agent (a) to direct the Property Trustee to immediately deliver a notice of purchase of a portion of the Xerox Funding Debentures having an aggregate principal amount equal to the Liquidation Amount of the Trust Securities that are the subject of the Change in Control Purchase Notice to the applicable trustee, (b) to direct Xerox Funding to elect to submit a notice of purchase to the Sponsor of an equivalent aggregate principal amount of Xerox Debentures, and (c) to direct Xerox Funding to direct the Sponsor to deliver the Change in Control Purchase Price to the Paying Agent for delivery to such Holder.

The delivery of such Trust Security to the Paying Agent prior

to, on or after the Change in Control Purchase Date (together with all necessary endorsements) at the offices of the Paying Agent shall be a condition to the receipt by the Holder of the Change in Control Purchase Price therefor; provided, however, that such Change in Control Purchase Price shall be so paid pursuant to this Section, the Xerox Funding Indenture and the Xerox Indenture only if the Trust Security so delivered to the Paying Agent shall conform in all respects to the description thereof set forth in the related Change in Control Purchase Notice, as determined by the Sponsor, and such Change in Control Purchase Notice shall not be validly withdrawn by the Holder.

Any purchase by the Sponsor contemplated pursuant to the provisions of this Section 7 shall be consummated by the delivery of the consideration to be received by the Holder promptly following the later of the Change in Control Purchase Date and the time of delivery of the Trust Security to the Paying Agent.

Notwithstanding anything herein to the contrary, any Holder delivering to the Paying Agent the Change in Control Purchase Notice contemplated by this Section 7 shall have the right to withdraw such Change in Control Purchase Notice at any time prior to the close of business on the Change in Control Purchase Date by delivery of a written notice of withdrawal to the Paying Agent in accordance with the Xerox Indenture.

The Paying Agent shall promptly notify Xerox Funding and the Sponsor of the receipt by it of any Change in Control Purchase Notice or written withdrawal thereof.

The Sponsor shall not be required to comply with this Section 7 if a third party mails a written notice of Change in Control in the manner, at the times and otherwise in compliance with this Section 7 and repurchases all Trust Securities for which a Change in Control Purchase Notice shall be delivered and not withdrawn.

(d) Sponsor's Right to Elect Manner of Payment of Change in Control Purchase Price. The Trust Securities to be purchased pursuant to Section 7(a) may be paid for, at the election of the Sponsor, in cash or Common Stock, or in any combination of cash and Common Stock, subject to the conditions set forth in the Xerox Indenture in respect of the simultaneous purchase of the Xerox Debentures.

Upon a payment by Common Stock pursuant to the terms hereof, that portion of unpaid and accumulated Distributions attributable to the period from the Issue Date to the Change in Control Purchase Date with respect to the purchased Trust Security shall not be cancelled, extinguished or forfeited but rather shall be deemed paid in full to the Holder through the delivery of the Common Stock in exchange for the Trust Security being purchased pursuant to the terms hereof, and the fair market value of such Common Stock (together with any cash payments in lieu of fractional shares of Common Stock) shall be treated as issued, to the extent thereof, first in exchange for the Distributions accumulated through the Change in Control Purchase Date, and the balance, if any, of the fair market value of such shares of Common Stock shall be treated as issued in exchange for the Liquidation Amount of the Trust Security being purchased pursuant to the provisions hereof.

(e) Notice of Election. The Sponsor's notice of election to

purchase with cash or Common Stock or any combination thereof (the "Change in Control Sponsor Notice") shall be sent to the Holders (and to beneficial owners as required by applicable law) not less than 30 Business Days prior to the applicable Change in Control Purchase Date (the "Change in Control Sponsor Notice Date"). Any such Change in Control Sponsor Notice shall state the manner of payment elected and shall contain the information set forth in the Xerox Indenture.

(f) Effect of Change in Control Purchase Notice; Withdrawal. Upon receipt by the Paying Agent of the Change in Control Purchase Notice specified in Section 7(a), the Holder of the Trust Security in respect of which such Change in Control Purchase Notice was given shall (unless such Change in Control Purchase Notice is withdrawn as specified below) thereafter be entitled to receive solely the Change in Control Purchase Price with respect to such Trust Security to but excluding the Change in Control Purchase Date. Such Change in Control Purchase Price shall be paid to such Holder, subject to receipts of funds and/or other property by the Paying Agent, promptly following the later of (x) the Change in Control Purchase Date with respect to such Trust Security (provided the conditions in the Xerox Indenture have been satisfied) and (y) the time of delivery of such Trust Security to the Paying Agent by the Holder thereof in the manner required by the Xerox Indenture. Trust Securities in respect of which a Change in Control Purchase Notice has been given by the Holder thereof may not be converted pursuant to Section 4 hereof on or after the date of the delivery of such Change in Control Purchase Notice unless such Change in Control Purchase Notice has first been validly withdrawn as specified below.

A Change in Control Purchase Notice may be withdrawn by means of a written notice of withdrawal delivered to the office of the Paying Agent at any time prior to the close of business on the Change in Control Purchase Date.

(g) No Purchase Upon Event of Default. There shall be no purchase of any Trust Securities pursuant to this Section 7 (other than through the issuance of Common Stock in payment of the Change in Control Purchase Price, including cash in lieu of fractional shares) if there has occurred (prior to, on or after, as the case may be, the giving, by the Holders of such Trust Securities, of the required Change in Control Purchase Notice) and is continuing an Event of Default (other than a default in the payment of the Change in Control Purchase Price with respect to such Trust Securities). The Paying Agent will promptly return to the respective Holders thereof any Trust Securities (x) with respect to which a Purchase Notice has been withdrawn in compliance with the Xerox Indenture, or (y) held by it during the continuance of an Event of Default (other than a default in the payment of the Change in Control Purchase Price with respect to such Trust Securities or if the Sponsor has elected, in accordance with the provisions hereof, to pay the Change in Control Purchase Price through the delivery of Common Stock, including cash in lieu of fractional shares) in which case, upon such return, the Change in Control Purchase Notice with respect thereto shall be deemed to have been withdrawn.

(h) Covenants of the Sponsor. All shares of Common Stock delivered upon purchase of the Trust Securities shall be newly issued shares or treasury shares, shall be duly authorized, validly issued, fully paid and nonassessable and shall be free from preemptive rights and free of any lien or adverse claim and subject to no restriction on transfer other than those that may be applicable at that time to the Trust Securities.

(i) Procedure upon Purchase. The Sponsor shall deposit cash (in respect of a cash purchase or for fractional interests) or shares of Common Stock, or a combination thereof, as applicable, at the time and in the manner as provided in the Xerox Indenture, sufficient to pay the aggregate Change in Control Purchase Price of all Trust Securities to be purchased pursuant to this Section 7. As soon as practicable after the Change in Control Purchase Date, the Sponsor shall deliver to each Holder entitled to receive Common Stock through the Paying Agent, a certificate (or other evidence of ownership) for the number of full shares of Common Stock issuable in payment of the Change in Control Purchase Price and cash in lieu of any fractional interests. The person in whose name the certificate for Common Stock is registered shall be treated as a holder of record of shares of Common Stock on the Business Day following the Change in Control Purchase Date. No payment or adjustment will be made for dividends on the Common Stock the record date for which occurred on or prior to the Change in Control Purchase Date.

(j) Taxes. If a Holder of a Trust Security is paid in Common Stock, the Sponsor shall pay any documentary, stamp or similar issue or transfer tax due on such issue of shares of Common Stock. However, the Holder shall pay any such tax which is due if the Holder requests the shares of Common Stock to be issued in a name other than the Holder's name. The Paying Agent may refuse to deliver the certificates representing the Common Stock being issued in a name other than the Holder's name until the Paying Agent receives a sum sufficient to pay any tax which will be due because the shares of Common Stock are to be issued in a name other than the Holder's name. Nothing herein shall preclude any income tax withholding required by law or regulations being deducted by the Sponsor.

8. Voting Rights -- Trust Preferred Securities.

(a) Except as provided in this Annex I and as otherwise required by law and the Declaration, the Holders of the Trust Preferred Securities will have no voting rights.

(b) So long as any Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on such Debenture Trustee with respect to the Debentures, (ii) waive any past default that is waivable under Section 5.07 of each Indenture, (iii) exercise any right to rescind or annul a declaration of acceleration of the maturity of the principal of the Debentures or (iv) consent to any amendment, modification or termination of the Indentures or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of a majority in liquidation amount of all outstanding Trust Preferred Securities; provided, however, that where a consent under the Indentures would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior approval of each Holder of the Trust Preferred Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of the Trust Preferred Securities except by subsequent vote of such Holders. The Property Trustee shall notify each Holder of Trust Preferred Securities of any notice of default with respect to the Debentures. In addition to obtaining the foregoing approvals of such Holders of the Trust Preferred Securities, prior to taking any of the foregoing actions, the Trustees shall obtain an opinion of counsel experienced in such matters to the effect that, under then current

law and assuming full compliance with the terms of this Declaration and the Indentures, the Trust will, for United States federal income tax purposes, be classified as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust, and will not be classified as an association taxable as a corporation.

If an Event of Default under the Declaration has occurred and is continuing and such event is attributable to the failure of a Debenture Issuer to pay or deliver any amounts due on the Debentures on the due date (or in the case of redemption, on the redemption date, or in the case of purchase, the Purchase Date or Change in Control Purchase Date), then a Holder of Trust Preferred Securities may directly institute a proceeding for enforcement of payment to such Holder of such amounts on a Like Amount of Xerox Funding Debentures and Xerox Debentures (a "Direct Action") on or after the respective due date specified in the Debentures. In connection with such Direct Action, the rights of the Common Securities Holder will be subrogated to the rights of such Holder of Trust Preferred Securities to the extent of any payment made by the Debenture Issuer to such Holder of Trust Preferred Securities in such Direct Action. Except as provided in the second preceding sentence, the Holders of Trust Preferred Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

Any approval or direction of Holders of Trust Preferred Securities may be given at a separate meeting of Holders of Trust Preferred Securities convened for such purpose, at a meeting of all of the Holders of Securities in the Trust or pursuant to written consent. The Property Trustees will cause a notice of any meeting at which Holders of Trust Preferred Securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of record of Trust Preferred Securities. Each such notice will include a statement setting forth (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought and (iii) instructions for the delivery of proxies or consents.

No vote or consent of the Holders of the Trust Preferred Securities will be required for the Trust to redeem and cancel Trust Preferred Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

Notwithstanding that Holders of Trust Preferred Securities are entitled to vote or consent under any of the circumstances described above, any of the Trust Preferred Securities that are owned by the Sponsor or any Affiliate of the Sponsor shall not be entitled to vote or consent and shall, for purposes of such vote or consent, be treated as if they were not outstanding.

9. Voting Rights -- Common Securities.

(a) Except as provided under Sections 9(b) and 10 and as otherwise required by law and the Declaration, the Holders of the Common Securities will have no voting rights.

(b) Unless a Debenture Event of Default shall have occurred and be continuing, any Trustee may be removed at any time by the holder of the

Common Securities. If a Debenture Event of Default has occurred and is continuing, the Property Trustee and the Delaware Trustee may be removed at such time by the holders of a majority in liquidation amount of the outstanding Trust Preferred Securities. In no event will the holders of the Trust Preferred Securities have the right to vote to appoint, remove or replace the Administrative Trustees, which voting rights are vested exclusively in the Sponsor as the holder of the Common Securities. No resignation or removal of a Trustee and no appointment of a successor trustee shall be effective until the acceptance of appointment by the successor trustee in accordance with the provisions of the Declaration.

(c) So long as any Xerox Funding Debentures or Xerox Debentures are held by the Property Trustee, the Trustees shall not (i) direct the time, method and place of conducting any proceeding for any remedy available to the Debenture Trustee, or executing any trust or power conferred on such Debenture Trustee with respect to the Debentures, (ii) waive any past default that is waivable under Section 5.07 of each Indenture, (iii) exercise any right to rescind or annul a declaration of acceleration of the maturity of the principal of the Debentures or (iv) consent to any amendment, modification or termination of the Indentures or the Debentures, where such consent shall be required, without, in each case, obtaining the prior approval of the Holders of a majority in liquidation amount of all outstanding Common Securities; provided, however, that where a consent under the Indentures would require the consent of each holder of Debentures affected thereby, no such consent shall be given by the Property Trustee without the prior approval of each Holder of the Common Securities. The Trustees shall not revoke any action previously authorized or approved by a vote of the Holders of the Common Securities except by subsequent vote of such Holders. The Property Trustee shall notify each Holder of Common Securities of any notice of default with respect to the Debentures. In addition to obtaining the foregoing approvals of such Holders of the Common Securities, prior to taking any of the foregoing actions, the Trustees shall obtain an opinion of counsel experienced in such matters to the effect that, under then current law and assuming full compliance with the terms of this Declaration and the Indentures, the Trust will, for United States federal income tax purposes, be classified as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust, and will not be classified as an association taxable as a corporation.

If an Event of Default under the Declaration has occurred and is continuing and such event is attributable to the failure of a Debenture Issuer to pay or deliver any amounts due on the Debentures on the due date (or in the case of redemption, on the redemption date or in the case of purchase, the Purchase Date or the Change in Control Purchase Date), then a Holder of Common Securities may institute a Direct Action for enforcement of payment to such Holder of the principal of or premium, if any, or interest on a Like Amount of Xerox Funding Debentures, or the Xerox Debentures, on or after the respective due date specified in the Debentures. In connection with Direct Action, the rights of the Common Securities Holder will be subordinated to the rights of such Holder of Trust Preferred Securities to the extent of any payment made by the Debenture Issuer to such Holder of Common Securities in such Direct Action. Except as provided in the second preceding sentence, the Holders of Common Securities will not be able to exercise directly any other remedy available to the holders of the Debentures.

Any approval or direction of Holders of Common Securities may

be given at a separate meeting of Holders of Common Securities convened for such purpose, at a meeting of all of the Holders of Securities in the Trust or pursuant to written consent. The Administrative Trustees will cause a notice of any meeting at which Holders of Common Securities are entitled to vote, or of any matter upon which action by written consent of such Holders is to be taken, to be mailed to each Holder of record of Common Securities. Each such notice will include a statement setting forth (i) the date of such meeting or the date by which such action is to be taken, (ii) a description of any resolution proposed for adoption at such meeting on which such Holders are entitled to vote or of such matter upon which written consent is sought and (iii) instructions for the delivery of proxies or consents.

No vote or consent of the Holders of the Common Securities will be required for the Trust to redeem and cancel Common Securities or to distribute the Debentures in accordance with the Declaration and the terms of the Securities.

10. Amendments to Declaration and Xerox Funding Indenture.

In addition to the requirements set out in Section 12.1 of the Declaration, the Declaration may be amended from time to time by the Sponsor, the Property Trustee and the Administrative Trustees, without the consent of the Holders of the Securities (i) to cure any ambiguity, correct or supplement any provisions in the Declaration that may be inconsistent with any other provisions, or to make any other provisions with respect to matters or questions arising under the Declaration which shall not be inconsistent with the other provisions of the Declaration, or (ii) to modify, eliminate or add to any provisions of the Declaration to such extent as shall be necessary to ensure that the Trust will be classified for United States federal income tax purposes as a grantor trust, or in a manner that will have the same consequences as classification as a grantor trust, at all times that any Securities are outstanding or to ensure that the Trust will not be required to register as an "Investment Company" under the Investment Company Act; provided, however, such action shall not adversely affect in any material respect the interests of any Holder of Securities, and any amendments of the Declaration shall become effective when notice thereof is given to the holders of the Securities. The Declaration may be amended by the Trustees and the Sponsor with (i) the consent of Holders representing a majority in liquidation amount of all outstanding Securities, and (ii) receipt by the Trustees of an Opinion of Counsel to the effect that such amendment or the exercise of any power granted to the Trustees in accordance with such amendment will not affect the Trust's status as a grantor trust, or being classified in a manner that will have the same consequences as classification as a grantor trust, for United States federal income tax purposes (under then current law and assuming full compliance with the terms of the Indentures (and certain other documents), and based on certain facts contained therein), or the Trust's exemption from status as an Investment Company under the Investment Company Act, provided that, without the consent of each Holder of Trust Securities, the Declaration may not be amended to (i) change the amount or timing of any Distribution on the Trust Securities, reduce the Redemption Price, Purchase Price or Change in Control Purchase Price, make any change that adversely affects the right to convert any Security, make any change that adversely affects the right to require the Trust to purchase the Securities in accordance with the terms thereof and this Declaration or otherwise adversely affect the amount of any Distribution required to be made in respect of the Trust Securities as of a specified date or (ii) restrict the right of a holder of Trust Securities to institute suit for the

enforcement of any such payment on or after such date.

11. Pro Rata.

A reference in these terms of the Securities to any payment, distribution or treatment as being "Pro Rata" shall mean pro rata to each Holder according to the aggregate liquidation amount of the Securities held by the relevant Holder in relation to the aggregate liquidation amount of all Securities outstanding unless, in relation to a payment, an Event of Default under the Declaration has occurred and is continuing, in which case any funds available to make such payment shall be paid first to each Holder of the Trust Preferred Securities pro rata according to the aggregate liquidation amount of Trust Preferred Securities held by the relevant Holder relative to the aggregate liquidation amount of all Trust Preferred Securities outstanding, and only after satisfaction of all amounts owed to the Holders of the Trust Preferred Securities, to each Holder of Common Securities pro rata according to the aggregate liquidation amount of Common Securities held by the relevant Holder relative to the aggregate liquidation amount of all Common Securities outstanding.

12. Ranking.

The Trust Preferred Securities rank pari passu with the Common Securities and payment thereon shall be made Pro Rata with the Common Securities, except that, if an Event of Default under the Declaration occurs and is continuing, no payments in respect of Distributions on, or payments upon liquidation, redemption or otherwise with respect to, the Common Securities shall be made until the Holders of the Trust Preferred Securities shall be paid in full the Distributions, Redemption Price, Purchase Price, Change in Control Purchase Price and other payments to which they are entitled at such time.

13. Acceptance of Trust Securities Guarantee and Indentures.

Each Holder of Trust Preferred Securities and Common Securities, by the acceptance thereof, agrees to the provisions of the Trust Securities Guarantee including the subordination provisions therein and to the provisions of the Indentures.

14. No Preemptive Rights.

The Holders of the Securities shall have no preemptive rights to subscribe for any additional securities.

15. Miscellaneous.

These terms constitute a part of the Declaration.

The Sponsor will provide a copy of the Declaration, the Trust Securities Guarantee and the Indentures (including any supplemental indenture) to a Holder without charge on written request to the Sponsor at its principal place of business.

EXHIBIT A-1

FORM OF TRUST PREFERRED SECURITY CERTIFICATE

[FORM OF SECURITY]

[IF THIS GLOBAL SECURITY IS A GLOBAL TRUST PREFERRED SECURITY, INSERT: THIS TRUST PREFERRED SECURITY IS A GLOBAL TRUST PREFERRED SECURITY WITHIN THE MEANING OF THE DECLARATION HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF THE DEPOSITORY TRUST COMPANY (THE "CLEARING AGENCY") OR A NOMINEE OF THE CLEARING AGENCY. THIS TRUST PREFERRED SECURITY IS EXCHANGEABLE FOR TRUST PREFERRED SECURITIES REGISTERED IN THE NAME OF A PERSON OTHER THAN THE CLEARING AGENCY OR ITS NOMINEE ONLY IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE DECLARATION AND NO TRANSFER OF THIS TRUST PREFERRED SECURITY (OTHER THAN A TRANSFER OF THIS TRUST PREFERRED SECURITY AS A WHOLE BY THE CLEARING AGENCY TO A NOMINEE OF THE CLEARING AGENCY OR BY A NOMINEE OF THE CLEARING AGENCY TO THE CLEARING AGENCY OR ANOTHER NOMINEE OF THE CLEARING AGENCY) MAY BE REGISTERED EXCEPT IN LIMITED CIRCUMSTANCES.

UNLESS THIS TRUST PREFERRED SECURITY IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) TO THE TRUST OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY TRUST PREFERRED SECURITY ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY AND ANY PAYMENT HEREON IS MADE TO CEDE & CO., ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY A PERSON IS WRONGFUL SINCE THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.]

[IF THIS SECURITY IS A RESTRICTED TRUST PREFERRED SECURITY, INSERT: THIS SECURITY AND THE UNDERLYING SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF UNDERLYING COMMON STOCK ISSUABLE UPON CONVERSION OR PURCHASE OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF, THE ISSUANCE OF THE SECURITIES UPON AN EXERCISE OF THE OVERALLOTMENT OPTION GRANTED TO THE INITIAL PURCHASERS IN CONNECTION WITH THE ORIGINAL SALE OF THE SECURITIES AND THE LAST DATE ON WHICH XEROX CORPORATION ("XEROX") OR ANY AFFILIATE OF XEROX WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO XEROX OR ANY AFFILIATE THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE 1N RELIANCE ON RULE 144A, (C) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO XEROX'S AND THE PROPERTY TRUSTEE'S AND/OR TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE

DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE PROPERTY TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.]

Certificate Number: Aggregate Liquidation Amount of Trust Preferred Securities
CUSIP NO. 98411F 202

Certificate Evidencing Trust Preferred Securities
of
Xerox Capital Trust II

7 1/2% Convertible Trust Preferred Securities
(liquidation amount $50 per Trust Preferred Security)

Xerox Capital Trust II, a statutory business trust created under the laws of the State of Delaware (the "Trust"), hereby certifies that ----------

(the "Holder") is the registered owner of [$ in aggregate - ---------- --------
liquidation amount of Trust Preferred Securities of the Trust] [the aggregate liquidation amount of Trust Preferred Securities of the Trust specified in Schedule A hereto] representing undivided beneficial interests in the assets of the Trust designated the 7 1/2% Convertible Trust Preferred Securities (liquidation amount $50 per Trust Preferred Security) (the "Trust Preferred Securities"). The Trust Preferred Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer. The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Trust Preferred Securities represented hereby are issued and shall in all respects be subject to the provisions of the Amended and Restated Declaration of Trust of the Trust, dated as of November 27, 2001, as the same may be amended from time to time (the "Declaration"), including the designation of the terms of the Trust Preferred Securities as set forth in Annex I to the Declaration. Capitalized terms used but not defined herein shall have the meaning given them in the Declaration. The Sponsor will provide a copy of the Declaration, the Trust Securities Guarantee and the Indentures to a Holder without charge upon written request to the Trust at its principal place of business.

Upon receipt of this certificate, the Holder is bound by the Declaration and is entitled to the benefits thereunder and to the benefits of the Trust Securities Guarantee to the extent provided therein.

By acceptance, the Holder agrees to treat, for United States federal income tax purposes, the Xerox Funding Debentures and the Xerox Debentures as indebtedness and the Trust Preferred Securities as evidence of indirect beneficial ownership in the Xerox Funding Debentures and the Xerox Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate this 27th day of November, 2001.

XEROX CAPITAL TRUST II

By:

Name:
Administrative Trustee

PROPERTY TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This is one of the Trust Preferred Securities referred to in the within-mentioned Declaration.

Dated: November 27, 2001

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION,
as Property Trustee

By:

Authorized Signatory

[FORM OF REVERSE OF SECURITY]

Distributions payable on each Trust Preferred Security will be fixed at a rate per annum of 7 1/2% (the "Coupon Rate") of the liquidation amount of $50 per Security (the "Liquidation Amount"), such rate being the rate of interest payable on the Xerox Funding Debentures to be held by the Property Trustee. Distributions in arrears for more than one quarterly period will bear additional distributions thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law). A Distribution is payable only to the extent that payments are made in respect of the Xerox Funding Debentures held by the Property Trustee and to the extent the Property Trustee has funds on hand legally available therefor.

Distributions on the Trust Preferred Securities will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 27, 2001, and will be payable quarterly in arrears on February 27, May 27, August 27 and November 27 of each year, commencing on February 27, 2002 (each, a "Distribution Date"), except as otherwise described below. Distributions will be computed on the basis of a 360-day year consisting of twelve 30-day months and for any period less than a full calendar month on the basis of the actual number of days elapsed in such month.

Distributions on the Trust Preferred Securities will be payable to the Holders thereof as they appear on the books and records of the Trust on the Business Day or, if the Trust Preferred Securities are no longer represented by Global Trust Preferred Securities, the 15th calendar day, immediately preceding the relevant Distribution Date, which Distribution Dates correspond to the interest payment dates on the Debentures. Subject to any applicable laws and regulations and the provisions of the Declaration, each such payment

in respect of the Trust Preferred Securities will be made as described under the heading "Description of the Trust Preferred Securities -- Book-Entry Only Issuance -- The Depository Trust Company" in the Offering Memorandum, dated November 19, 2001, of the Sponsor and the Trust relating to the Securities and the Debentures. Payments in respect of Definitive Trust Preferred Securities will be made by check mailed to the Holder entitled thereto. Distributions payable on any Trust Preferred Securities that are not punctually paid on any Distribution Date, as a result of the Debenture Issuers having failed to make a payment under the respective Debentures, will cease to be payable to the Holder on the relevant record date, and such defaulted Distribution will instead be payable to the Person in whose name such Trust Preferred Securities are registered on the special record date or other specified date determined in accordance with the related Indenture. If any date on which Distributions are payable on the Trust Preferred Securities is not a Business Day, then payment of the Distribution payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date. The amount of any Distribution payable on any Distribution Date, the applicable redemption date, the applicable Purchase Date or the Change in Control Purchase Date shall include Distributions accrued from and including the Issue Date or the last Distribution Date to which Distributions have been paid to but excluding such Distribution Date, such redemption date, such Purchase Date or such Change in Control Purchase Date, as applicable.

In the event that there is any money or other property held by or for the Trust that is not accounted for hereunder, such property shall be distributed Pro Rata (as defined herein) among the Holders of the Trust Securities.

Subject to certain conditions set forth in the Declaration and the Xerox Funding Indenture, the Property Trustee may, at the direction of the Sponsor, at any time liquidate the Trust and cause the Xerox Funding Debentures or the Xerox Debentures to be distributed to the holders of the Securities in liquidation of the Trust or, simultaneous with any redemption of the Xerox Funding Debentures or the Xerox Debentures, cause a Like Amount of the Securities to be redeemed by the Trust.

Subject to the terms and conditions of the Xerox Indenture and the Declaration, the Trust may become obligated to purchase, at the option of the Holder, the Trust Preferred Securities held by such Holder on December 4, 2004, November 27, 2006, November 27, 2008, November 27, 2011 and November 27, 2016 (each, a "Purchase Date"), at a purchase price of $50 per Trust Security, plus accrued and unpaid Distributions thereon to but excluding the applicable Purchase Date (the "Purchase Price"). In addition, if on or prior to December 4, 2004, there shall have occurred a Change in Control, Trust Preferred Securities shall be purchased by the Trust, at the option of the Holder thereof, at the purchase price of $50 per Trust Security, plus accrued and unpaid Distributions thereon to but excluding the Change in Control Purchase Date (the "Change in Control Purchase Price"), as of the date that is no later than 45 Business Days after the occurrence of the applicable Change in Control (the "Change in Control Purchase Date").

The Trust Preferred Securities shall be redeemable as provided in the Declaration.

The Trust Preferred Securities are convertible into shares of common

stock of the Sponsor as provided in the Declaration.

NOTICE OF CONVERSION

To: Wells Fargo Bank Minnesota, National Association Conversion Agent for Xerox Capital Trust II

The undersigned owner of this Trust Security or Trust Securities hereby irrevocably exercises the option to convert this Trust Security or Trust Securities, or the portion designated below, into Common Stock, par value $1.00 per share (the "Common Stock"), of Xerox Corporation or its successor, ("Xerox") in accordance with the terms of the Amended and Restated Declaration of Trust (as amended from time to time, the "Declaration" dated as of November 27, 2001, among Gregory B. Tayler, Timothy MacCarrick and Navin M. Chheda, as Administrative Trustees, Wilmington Trust Company, as Delaware Trustee, Wells Fargo Bank Minnesota, National Association, as Property Trustee, Xerox, as Sponsor, and the Holders, from time to time, of undivided beneficial interests in the Trust to be issued pursuant to the Declaration). Pursuant to the aforementioned exercise of the option to convert the Trust Security or Trust Securities, the undersigned hereby directs the Conversion Agent (as that term is defined in the Declaration) to (a) direct Xerox Funding to convert immediately an equivalent aggregate principal amount of Xerox Debentures then held by Xerox Funding into Common Stock and, if applicable, other securities, cash or property (at the conversion rate specified in the Declaration), and (b) to direct Xerox Funding to direct Xerox to deliver such property to the Property Trustee for delivery to the undersigned.

The undersigned also hereby directs the Conversion Agent that the shares of Common Stock issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Date:

in whole

in part

Number of Trust Preferred Securities to be converted ($50 Liquidation Amount or integral multiples thereof):

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned assigns and transfers this Trust Preferred Security Certificate to:

(Insert assignee's social security or tax identification number)

(Insert address and zip code of assignee)

and irrevocably appoints

agent to transfer

this Trust Preferred Security Certificate on the books of the Trust. The agent may substitute another to act for him or her.

Date:

Signature:

(Sign exactly as your name appears on the other side of this Trust Preferred Security Certificate)

Signature Guarantee/*/:

[Include the following if the Trust Preferred Security bears a Restricted Trust Preferred Securities Legend -

In connection with any transfer of any of the Trust Preferred Securities evidenced by this certificate, the undersigned confirms that such Trust Preferred Securities are being:

CHECK ONE BOX BELOW

(1) [_] exchanged for the undersigned's own account without transfer; or

(2) [_] transferred pursuant to and in compliance with Rule 144A under the Securities Act of 1933; or

(3) [_] transferred pursuant to another available exemption from the registration requirements of the Securities Act of 1933; or

(4) [_] transferred pursuant to an effective registration statement.

Unless one of the boxes is checked, the Registrar will refuse to register any of the Trust Preferred Securities evidenced by this certificate in the name of any person other than the registered Holder thereof; provided, however, that if box (3) is checked, the Registrar may require, prior to registering any such transfer of the Trust Preferred Securities such legal opinions, certifications and other information as the Trust has reasonably requested to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act of 1933, such as the exemption provided by Rule 144 under such Act;

provided, further, that after the date that a registration statement has been filed and so long as such registration statement continues to be effective, the Registrar may only permit transfers for which box (4) has been checked.

Signature

* Signature must be guaranteed by an "eligible guarantor institution" that is a bank, stockbroker, savings and loan association or credit union meeting the requirements of the Registrar, which requirements include membership or participation in the Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Securities and Exchange Act of 1934, as amended.

SCHEDULE A/*/

The initial aggregate liquidation amount of Trust Preferred Securities evidenced by the Certificate to which this Schedule is attached is $ ----------
(equivalent to ---------- Trust Preferred Securities). The notations on the following table evidence decreases and increases in the number of Trust Preferred Securities evidenced by such Certificate.

Decrease in Liquidation Amount of Trust Preferred Securities	Increase in Liquidation Amount of Capital Securities	Liquidation Amount of Trust Preferred Securities Remaining After Such Decrease or Increase	Not Reg

* Append to Global Trust Preferred Securities only.

EXHIBIT A-2
FORM OF COMMON SECURITY CERTIFICATE

THIS SECURITY AND THE UNDERLYING SHARES OF COMMON STOCK HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY, THE SHARES OF UNDERLYING COMMON STOCK ISSUABLE UPON CONVERSION OR PURCHASE OF THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN OR THEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE"), WHICH IS TWO YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF, THE ISSUANCE OF THE SECURITIES UPON AN EXERCISE OF THE OVERALLOTMENT OPTION GRANTED TO THE INITIAL PURCHASERS IN CONNECTION

WITH THE ORIGINAL SALE OF THE SECURITIES AND THE LAST DATE ON WHICH XEROX CORPORATION ("XEROX") OR ANY AFFILIATE OF XEROX WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO XEROX OR ANY AFFILIATE THEREOF, (B) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER" AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHICH NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE 1N RELIANCE ON RULE 144A, (C) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, OR (D) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO XEROX'S AND THE PROPERTY TRUSTEE'S AND/OR TRANSFER AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THE OTHER SIDE OF THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE PROPERTY TRUSTEE. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

Certificate Number: Number of Common Securities

Certificate Evidencing Common Securities
of
Xerox Capital Trust II
7 1/2% Convertible Common Securities
(liquidation amount $50 per Common Security)

Xerox Capital Trust II, a statutory business trust formed under the laws of the State of Delaware (the "Trust"), hereby certifies that Xerox Corporation (the "Holder") is the registered owner of common securities of the Trust representing undivided beneficial interests in the assets of the Trust designated the 7 1/2% Convertible Common Securities (liquidation amount $50 per Common Security) (the "Common Securities"). The Common Securities are transferable on the books and records of the Trust, in person or by a duly authorized attorney, upon surrender of this certificate duly endorsed and in proper form for transfer. The designation, rights, privileges, restrictions, preferences and other terms and provisions of the Common Securities represented hereby are issued and shall in all respects be subject to the provisions of the Amended and Restated Declaration of Trust of the Trust, dated as of November 27, 2001, as the same may be amended from time to time (the "Declaration"), including the designation of the terms of the Common Securities as set forth in Annex I to the Declaration. Capitalized terms used but not defined herein shall have the meaning given them in the Declaration. The Sponsor will provide a copy of the Declaration, the Trust Securities Guarantee and the Indentures (including any supplemental indenture) to a Holder without charge upon written request to the Sponsor at its principal place of business.

Upon receipt of this certificate, the Sponsor is bound by the Declaration and is entitled to the benefits thereunder and to the benefits of the Trust Securities Guarantee to the extent provided therein.

By acceptance, the Holder agrees to treat, for United States federal income tax purposes, the Xerox Funding Debentures and the Xerox Debentures as indebtedness and the Common Securities as evidence of indirect beneficial ownership in the Xerox Funding Debentures and the Xerox Debentures.

IN WITNESS WHEREOF, the Trust has executed this certificate this 27th day of November, 2001.

XEROX CAPITAL TRUST II

By:

Name:
Administrative Trustee

[FORM OF REVERSE OF SECURITY]

Distributions payable on each Common Security will be fixed at a rate per annum of 7 1/2% (the "Coupon Rate") of the liquidation amount of $50 per Security (the "Liquidation Amount"), such rate being the rate of interest payable on the Xerox Funding Debentures to be held by the Property Trustee. Distributions in arrears for more than one quarterly period will bear additional distributions thereon compounded quarterly at the Coupon Rate (to the extent permitted by applicable law). A Distribution is payable only to the extent that payments are made in respect of the Xerox Funding Debentures held by the Property Trustee and to the extent the Property Trustee has funds on hand legally available therefor.

Distributions on the Common Securities will be cumulative, will accumulate from the most recent date to which Distributions have been paid or, if no Distributions have been paid, from November 27, 2001, and will be payable quarterly in arrears on February 27, May 27, August 27 and November 27 of each year, commencing on February 27, 2002 (each, a "Distribution Date"), except as otherwise described below. Distributions will be computed on the basis of a 360-day year consisting of twelve 30-day months and for any period less than a full calendar month on the basis of the actual number of days elapsed in such month. The amount of any Distribution payable on any Distribution Date, the applicable redemption date, the applicable Purchase Date or the Change in Control Purchase Date shall include Distributions accrued from and including the Issue Date or the last Distribution Date to which Distributions have been paid to but excluding such Distribution Date, such redemption date, such Purchase Date or such Change in Control Purchase Date, as applicable.

Distributions on the Common Securities will be payable to the Holders thereof as they appear on the books and records of the Trust on the 15th calendar day immediately preceding the relevant Distribution Date, which Distribution Dates correspond to the interest payment dates on the Debentures. Distributions payable on any Common Securities that are not punctually paid on any Distribution Date, as a result of the Debenture Issuers having failed to make a payment under the Debentures, will cease to be payable to the Holder on the relevant record date, and such defaulted

Distribution will instead be payable to the Person in whose name such Common Securities are registered on the special record date or other specified date determined in accordance with the respective Indentures. If any date on which Distributions are payable on the Common Securities is not a Business Day, then payment of the Distribution payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay), with the same force and effect as if made on such date.

In the event that there is any money or other property held by or for the Trust that is not accounted for hereunder, such property shall be distributed Pro Rata (as defined herein) among the Holders of the Trust Securities.

Subject to certain other conditions set forth in the Declaration and the Xerox Funding Indenture, the Property Trustee may, at the direction of the Sponsor, at any time liquidate the Trust and cause the Xerox Funding Debentures to be distributed to the holders to the Securities in liquidation of the Trust or, simultaneous with any redemption of the Xerox Funding Debentures, cause a Like Amount of the Securities to be redeemed by the Trust.

Subject to the terms and conditions of the Xerox Indenture and the Declaration, the Trust may become obligated to purchase, at the option of the Holder, the Common Securities held by such Holder on December 4, 2004, November 27, 2006, November 27, 2008, November 27, 2011 and November 27, 2016 (each, a "Purchase Date"), at a purchase price of $50 per Trust Security, plus accrued and unpaid Distributions thereon to but excluding the applicable Purchase Date (the "Purchase Price"). In addition, if on or prior to December 4, 2004, there shall have occurred a Change in Control, Common Securities shall be purchased by the Trust, at the option of the Holder thereof, at the purchase price of $50 per Trust Security, plus accrued and unpaid Distributions thereon to but excluding the Change in Control Purchase Date (the "Change in Control Purchase Price"), as of the date that is no later than 45 Business Days after the occurrence of the applicable Change in Control (the "Change in Control Purchase Date").

The Common Securities shall be redeemable as provided in the Declaration.

The Common Securities are convertible into shares of common stock of the Sponsor as provided in the Declaration.

NOTICE OF CONVERSION

To: Wells Fargo Bank Minnesota, National Association
Conversion Agent for Xerox Capital Trust II

The undersigned owner of this Trust Security or Trust Securities hereby irrevocably exercises the option to convert this Trust Security or Trust Securities, or the portion designated below, into Common Stock, par value $1.00 per share (the "Common Stock"), of Xerox Corporation or its successor,

("Xerox") in accordance with the terms of the Amended and Restated Declaration of Trust (as amended from time to time, the "Declaration" dated as of November 27, 2001, among Gregory B. Tayler, Timothy MacCarrick and Navin M. Chheda, as Administrative Trustees, Wilmington Trust Company, as Delaware Trustee, Wells Fargo Bank Minnesota, National Association, as Property Trustee, Xerox, as Sponsor, and the Holders, from time to time, of undivided beneficial interests in the Trust to be issued pursuant to the Declaration). Pursuant to the aforementioned exercise of the option to convert the Trust Security or Trust Securities, the undersigned hereby directs the Conversion Agent (as that term is defined in the Declaration) to (a) direct Xerox Funding to convert immediately an equivalent aggregate principal amount of Xerox Debentures then held by Xerox Funding on behalf of such Holders, into Common Stock and, if applicable, other securities, cash or property (at the conversion rate specified in the Declaration), and (b) to direct Xerox Funding to direct Xerox to deliver such property to the Property Trustee for delivery to the undersigned.

The undersigned also hereby directs the Conversion Agent that the shares of Common Stock issuable and deliverable upon conversion, together with any check in payment for fractional shares, be issued in the name of and delivered to the undersigned, unless a different name has been indicated in the assignment below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto.

Date:

in whole

in part
Number of Common
Securities to be converted
($50 Liquidation Amount or
integral multiples thereof):

PLEDGE AGREEMENT

This PLEDGE AGREEMENT (the "Pledge Agreement") is made and entered into as of November 27, 2001 by Xerox Funding LLC II, a Delaware limited liability company (the "Pledgor"), having its principal office at 800 Long Ridge Road, Stamford, CT 06904, in favor of Wells Fargo Bank Minnesota National Association, a national association with trust power ("Wells Fargo"), in its capacity as trustee (the "Trustee") for the holders from time to time, (the "Holders") of the Xerox Funding Debentures (as defined herein), issued by the Pledgor under the Xerox Funding Indenture referred to below. Capitalized terms used and not defined in this Pledge Agreement have the meanings set forth or referred to in the Xerox Funding Indenture.

W I T N E S S E T H

WHEREAS, the Pledgor and Xerox Capital Trust II, a Delaware statutory business trust ("Xerox Capital"), are parties to a Subscription Agreement dated November 27, 2001 (the "Xerox Funding Debenture Subscription Agreement"), pursuant to which the Pledgor will issue and sell to Xerox Capital $1,067,010,400 aggregate principal amount of 7 1/2% Convertible Junior Subordinated Debentures due 2021 (the "Xerox Funding Debentures");

WHEREAS, the Pledgor and the Trustee have entered into that certain indenture dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, the "Xerox Funding Indenture"), pursuant to which the Pledgor is issuing the Xerox Funding Debentures on the date hereof;

WHEREAS, the Pledgor is the beneficial owner of security entitlements (the "Pledged Security Entitlements") with respect to (i) the United States Treasury securities identified by CUSIP number in Schedule I hereto, and credited to the Pledgor's securities account with Wells Fargo Bank Minnesota, National Association (Wells Fargo Bank Minnesota, National Association, in its capacity as a "securities intermediary" and a "depositary bank" (each as defined under the Uniform Commercial Code), being referred to herein as the "Account Holder"), ABA No.091000019, Account No.11919001 at its office at Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services, in the name of "Xerox Funding LLC II, subject to the security interest of Wells Fargo Bank Minnesota, National Association", as Trustee for the benefit of the holder of the 7 1/2% Convertible Junior Subordinated Debentures due 2021 of Xerox Funding LLC Collateral Pledge Account" (the "Pledged Account") and (ii) all other financial assets credited from time to time to the Pledged Account (collectively with the assets described in clause (i)above, the "Pledged Financial Assets");

WHEREAS, to secure the obligation of the Pledgor under the Xerox Funding Indenture and the Xerox Funding Debentures to pay in full each of the first twelve scheduled interest payments on the Xerox Funding Debentures when due and to secure repayment of any portion of the principal, premium (if any) and interest on the Xerox Funding Debentures that becomes due and payable prior to such time as the first twelve scheduled interest payments thereon shall have been paid in full

(collectively, the "Obligations"), the Pledgor has agreed (i) to pledge to the Trustee for its benefit and the ratable benefit of the Holder of the Xerox Funding Debentures, a security interest in the Collateral (as defined herein) securing the payment and performance by the Pledgor of all of the Obligations and (ii) to execute and deliver this Pledge Agreement;

WHEREAS, it is a condition precedent to the initial purchase of the Xerox Funding Debentures by the initial Holder thereof that the Pledgor shall have executed and delivered this Pledge Agreement and delivered the Pledged Financial Assets; and

WHEREAS, unless otherwise defined herein or in the Xerox Funding Indenture, terms used in Article 8 or 9 of the Uniform Commercial Code as in effect in the State of New York ("UCC") and/or in the Federal Book Entry Regulations (as defined below) are used in this Pledge Agreement as such terms are defined in such Article 8 or 9 and/or the Federal Book Entry Regulations. The term "Federal Book Entry Regulations" means (a) the federal regulations contained in Subpart B ("Treasury/Reserve Automated Debt Entry System (TRADES)") governing book-entry securities consisting of U.S. Treasury bonds, notes and bills and Subpart D ("Additional Provisions") of 31 C.F.R. Part 357, 31 C.F.R. ss. 357.2, ss. 357.10 through ss. 357.14 and ss. 357.41 through ss. 357.44 and (b) to the extent substantially identical to the federal regulations referred to in clause(a) above (as in effect from time to time), the federal regulations governing other book-entry securities.

AGREEMENT

NOW, THEREFORE, in consideration of the premises herein contained, and in order to induce the initial Holder of the Xerox Funding Debentures to purchase the Xerox Funding Debentures, the Pledgor hereby agrees with the Trustee, for the benefit of the Trustee and for the ratable benefit of the Holder of the Xerox Funding Debentures, as follows:

SECTION 1. Pledge and Grant of Security Interest. The Pledgor hereby pledges to the Trustee, for its benefit and for the ratable benefit of the Holder of the Xerox Funding Debentures, and hereby grants to the Trustee, a security interest and continuing lien in, the Pledgor's right, title and interest in and to the following, in each case, whether now owned or hereafter acquired by the Pledgor, wherever located and whether now or hereafter existing or arising (hereinafter collectively referred to as the "Collateral"):

(a) the Pledged Financial Assets and the certificates, if any, representing the Pledged Financial Assets, and all dividends, interest, money (as defined in the UCC), instruments (as defined in the UCC, the "Instruments") and other property from time to time received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such Pledged Financial Assets;

(b) the Pledged Account and all security entitlements with respect thereto, all Pledged Security Entitlements with respect to all Pledged Financial Assets from time to time credited to the Pledged Account, any and all securities accounts in which the Pledged Security Entitlements are carried, and all dividends, interest, cash, instruments and other property from time to time

received, receivable or otherwise distributed or distributable in respect of or in exchange for any or all of such Pledged Security Entitlements;

(c) all other securities, securities entitlements and other financial assets hereafter acquired by the Pledgor pursuant to the Xerox Funding Indenture; and

(d) all proceeds of any and all of the foregoing Collateral (including, without limitation, proceeds that constitute property of the types described in clauses (a), (b) and (c) of this Section 1).

SECTION 2. Security for the Obligations. This Pledge Agreement secures, and the Collateral is collateral security for, the prompt and complete payment and performance when due (whether at stated maturity, by acceleration or otherwise) of the Obligations or other obligations of the Pledgor, whether for principal, premium, if any; interest, fees or otherwise, now or hereafter existing, under this Pledge Agreement, the Xerox Funding Debentures or the Xerox Funding Indenture (all such obligations being the "Secured Obligations"). Without limiting the generality of the foregoing, this Pledge Agreement secures, and the Collateral is collateral security for, the payment of all amounts that constitute part of the Secured Obligations and would be owed by the Pledgor to the Trustee or the Holder under the Xerox Funding Debentures or the Xerox Funding Indenture but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Pledgor.

SECTION 3. Maintaining the Pledged Account. So long as any Secured Obligations shall remain outstanding:

(a) The Pledgor will maintain separately the Pledged Account with Wells Fargo Bank Minnesota, National Association.

(b) It shall be a term and condition of the Pledge Agreement, notwithstanding any term or condition to the contrary in any other agreement relating to the Pledged Account, and except as otherwise provided by the provisions of Section 5 and Section 18 hereof, that no funds shall be paid or released to or for the account of, or withdrawn by or for the account of, the Pledgor or any other Person from the Pledged Account.

The Pledged Account shall be subject to such applicable laws, and such applicable regulations of the Board of Governors of the Federal Reserve System and of any other appropriate banking or governmental authority, as may now or hereafter be in effect.

SECTION 4. Delivery of Collateral. (a) All United States Treasury securities underlying any Pledged Securities Entitlements shall be delivered by either (i) causing such United States Treasury securities to be credited to a securities account of the Account Holder at a Federal Reserve Bank and causing the Account Holder to credit such United States Treasury securities to the Pledged Account or (ii) causing such United States Treasury securities to be credited to a securities account at a Federal Reserve Bank of another securities intermediary with whom the Account Holder maintains a securities account (such other securities

intermediary, the "Clearing Bank") and causing the Clearing Bank to credit such United States Treasury securities to the account of the Account Holder and causing the Account Holder to credit such United States Treasury securities to the Pledged Account. All cash, certificated securities or instruments constituting or representing or evidencing the Pledged Financial Assets shall be delivered to the Account Holder in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, and in each case shall be credited by the Account Holder to the Pledged Account.

(b) With respect to any Collateral in which the Pledgor has any right, title or interest and that constitutes a security entitlement, the Pledgor shall cause the securities intermediary with respect to such security entitlement to agree in writing with the Pledgor and the Trustee that such securities intermediary will comply with entitlement orders (that is, notifications communicated to such securities intermediary directing transfer or redemption of the financial asset to which the Pledgor has a security entitlement) originated by the Trustee without further consent of the Pledgor, such agreement to be in substantially the form of Annex A hereto or otherwise in form and substance satisfactory to the Trustee.

(c) With respect to any Collateral that constitutes a securities account, the Pledgor will comply with subsection (b) of this Section 4 with respect to all security entitlements carried in such securities account.

(d) Prior to or concurrently with the execution and delivery hereof and prior to the transfer to the Trustee of the Pledged Security Entitlements, as provided in subsections (a) through (c) of this Section 4, the Pledgor shall establish the Pledged Account with Wells Fargo Bank Minnesota, National Association. Upon transfer of the Pledged Financial Assets to the Trustee, as confirmed to the Trustee by the securities intermediary, the Trustee shall make appropriate book entries indicating that the Pledged Financial Assets have been credited to and are held in the Pledged Account. Subject to the other terms and conditions of this Pledge Agreement, all funds or other property held by the Trustee pursuant to this Pledge Agreement shall be held in the Pledged Account (except as expressly provided in Sections 5(a), (b) and (c) hereof) for the ratable benefit of the Holder of the Xerox Funding Debentures and segregated from all other funds or other property otherwise held by the Trustee.

(e) All Collateral shall be retained in the Pledged Account pending disbursement pursuant to the terms hereof.

(f) Concurrently with the execution and delivery of this Pledge Agreement, the Trustee is delivering to the Pledgor a duly executed Control Agreement (the "Control Agreement"), in the form of Annex A hereto.

(g) To the extent required to perfect the security interest in the Collateral granted hereunder; concurrently with the execution and delivery of this Pledge Agreement, the Pledgor is delivering to the Trustee acknowledgment copies or stamped receipt copies of proper financing statements, duly filed on or before November 27, 2001 under the UCC, covering the Collateral described in this Pledge Agreement.

SECTION 5. Disbursements. (a) Three business days prior to the due date of any of the first twelve scheduled interest payments on the Xerox Funding Debentures, the Pledgor may, pursuant to written instructions given by the Pledgor to the Trustee (an "Issuer Order"), direct the Trustee to release from the Pledged Account and pay to the Holder of the Xerox Funding Debentures proceeds sufficient to provide for payment in full of such interest then due on the Xerox Funding Debentures. Upon receipt of an Issuer Order, the Trustee will (i) issue a Payment Order (as defined in the Control Agreement) to the Account Holder for the release from the Pledged Account of funds to the Trustee in an amount sufficient to provide for the payment of the interest on the Xerox Funding Debentures in accordance with such Issuer Order and (ii) pay such funds to the Holder of the Xerox Funding Debentures in accordance with the Xerox Funding Indenture and the Xerox Funding Debentures. Nothing in this Section 5 shall affect the Trustee's rights to apply the Collateral to the payments of amounts due on the Xerox Funding Debentures upon acceleration thereof.

(b) If the Pledgor makes any of the first twelve scheduled interest payments on the Xerox Funding Debentures or portion of such an interest payment from a source of funds other than the Pledged Account ("Pledgor Funds"), the Pledgor may, after payment in full of such interest payment, direct the Trustee pursuant to an Issuer Order to issue a Payment Order (as defined in the Control Agreement) to the Account Holder for the release to the Pledgor or to another party at the direction of the Pledgor (the "Pledgor's Designee") of proceeds from the Pledged Account in an amount less than or equal to the amount of Pledgor Funds applied to such interest payment. Upon receipt by the Trustee of such Issuer Order and provided the Trustee has received such interest payment, the Trustee shall direct the Account Holder pursuant to a Payment Order to pay over to the Pledgor or the Pledgor's Designee, as the case may be, the requested amount from proceeds in the Pledged Account as soon as practicable.

(c) At least three Business Days prior to the due date of each of the first twelve scheduled interest payments on the Xerox Funding Debentures, the Pledgor shall give the Trustee notice (by Issuer Order) as to whether such interest payment will be made pursuant to Section 5(a) or 5(b) above and the respective amounts of interest that will be paid from the Pledged Account and from Pledgor Funds. Any Pledgor Funds to be used to make any interest payment shall be delivered to the Trustee, in immediately available funds, prior to 10:00 a.m. (New York City time) on such interest payment date. If no such notice is given or such Pledgor Funds have not been so delivered, the Trustee will act pursuant to Section 5(a) above as if it had received an Issuer Order pursuant thereto for the payment in full of the interest then due from the Pledged Account.

(d) The Trustee shall instruct the Account Holder to liquidate Collateral in the Pledged Account (pursuant to written instructions from Pledgor) in order to make any of the scheduled payments of interest on the Xerox Funding Debentures, unless there are sufficient funds in the Pledged Account on such interest payment date. The Trustee shall be entitled to instruct the Account Holder to sell any Collateral as contemplated hereunder prior to the maturity of such Collateral and shall not be responsible for any costs and expenses of such sale.

(e) Nothing contained in this Pledge Agreement shall (i) afford the Pledgor any right to issue entitlement orders with respect to any of the Pledged Security Entitlements or any securities account in which

any such security entitlement may be carried, or otherwise afford the Pledgor control of any Pledged Security Entitlement or (ii) otherwise give rise to any rights of Pledgor with respect to the Pledged Financial Assets or any securities account in which any such security entitlement may be carried, other than the Pledgor's rights under this Pledge Agreement as the beneficial owner of collateral pledged to (except as expressly provided in Sections 5(a) and (b) hereof) the Trustee in its capacity as such (and not as a securities intermediary) before the payment in full, when due, of the first twelve scheduled interest payments on the Xerox Funding Debentures. The Pledgor acknowledges, confirms and agrees that the Trustee is an entitlement holder of the Pledged Security Entitlements solely as Trustee for the Holder of the Xerox Funding Debentures and not as a securities intermediary.

SECTION 6. Investing of Amounts in the Pledged Account. If requested and as directed by the Pledgor, the Trustee will, subject to the provisions of Sections 3, 5 and 13 of this Pledge Agreement, from time to time, instruct the Account Holder to invest interest paid on the Pledged Financial Assets and reinvest other proceeds of any Pledged Financial Assets that may mature or be sold, in each case, in (i) identified United States Treasury securities or (ii) selected shares of a money market fund registered under the Investment Company Act of 1940, as amended, the portfolio of which consists of United States Treasury securities, in each case credited to the Pledged Account. The Pledgor may, at any time, so long as no Event of Default has occurred and is continuing, substitute other United States Treasury securities, having an equivalent value, for all (but not less than all) of the Pledged Financial Assets.

SECTION 7. Representations and Warranties. The Pledgor hereby represents and warrants that:

(a) This Pledge Agreement has been duly authorized, validly executed and delivered by the Pledgor and constitutes a valid and binding agreement of the Pledgor, enforceable against the Pledgor in accordance with its terms, except as (i) the enforceability hereof may be limited by bankruptcy, insolvency, fraudulent conveyance, preference, reorganization, moratorium or similar laws now or hereafter in effect relating to or affecting creditors' rights or remedies generally, (ii) the availability of equitable remedies may be limited by equitable principles of general applicability, (iii) the exculpation provisions and rights to indemnification hereunder may be limited by U.S. federal and state securities laws and public policy considerations and (iv) the waiver of rights and defenses contained in Section 13(d), Section 19.8 and Section 19.12 hereof may be limited by applicable law.

(b) The Pledgor's exact legal name, as defined in Section 9-503(a) of the UCC, is Xerox Funding LLC II. The Pledgor is located (within the meaning of Section 9-307 of the UCC) in the State of Delaware.

(c) The Pledgor is the legal and beneficial owner of the Collateral free and clear of any lien, claim, option or right of others (except for the security interests created by this Pledge Agreement). No effective financing statement or instrument similar in effect covering all or any part of the Collateral or listing the Pledgor or any trade name of the Pledgor is on file in any public or recording office, other than the financing statements filed pursuant to this Pledge Agreement, if any.

(d) All filings and other actions (including, without limitation, (A) actions necessary to obtain control of the Collateral as provided in Section 9-106 of the UCC and (B) actions necessary to perfect the Trustee's security interest with respect to the Collateral evidenced by a certificate of ownership) necessary to perfect the security interest in the Collateral created under this Pledge Agreement have been duly made or taken and are in full force and effect, and this Pledge Agreement creates in favor of the Trustee for its benefit and the ratable benefit of the Holder of the Xerox Funding Debentures a valid and, together with such filings and other actions, perfected first priority security interest in the Collateral, securing the payment of the Secured Obligations.

(e) The execution and delivery by the Pledgor of, and the performance by the Pledgor of its obligations under, this Pledge Agreement will not contravene any provision of applicable law or the Certificate of Incorporation of the Pledgor or any material agreement or other material instrument binding upon the Pledgor or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Pledgor, or result in the creation or imposition of any lien on any assets of the Pledgor, except for the security interests granted under this Pledge Agreement.

(f) No consent of any other person and no approval, authorization, order of, action by notice to, filing or qualification with, any governmental authority, regulatory body, agency or other third party is required for (i) the grant by the Pledgor of the assignment, pledge and security interest granted under this Pledge Agreement, (ii) the execution or delivery by the Pledgor of, or the performance by the Pledgor of its obligations under, this Pledge Agreement, (iii) the perfection or maintenance of the assignment, pledge and security interest created hereunder (including the first priority nature of such assignment, pledge or security interest), except for the filing of financing and contribution statements under the UCC, which financing statements have been duly filed and are in full force and effect, or (iv) for the exercise by the Trustee of its voting or other rights provided for in this Pledge Agreement or the remedies in respect of the Collateral pursuant to this Pledge Agreement, except as may be required in connection with the disposition of any portion of the Collateral by laws affecting the offering and sale of securities generally.

(g) There are no legal or governmental proceedings pending or, to the best of the Pledgor's knowledge, threatened to which the Pledgor is a party or to which any of the properties of the Pledgor is subject that would materially adversely affect the power or ability of the Pledgor to perform its obligations under this Pledge Agreement or to consummate the transactions contemplated hereby.

(h) The pledge of the Collateral pursuant to this Pledge Agreement is not prohibited by law or governmental regulation (including, without limitation, Regulations G, T, U and X of the Board of Governors of the Federal Reserve System) applicable to the Pledgor.

(i) No Event of Default (as defined below) exists.

(j) The jurisdiction (for purposes of Section 8-110(e) of the UCC) of the securities intermediary that maintains the Pledged Account and all securities accounts carrying the Pledged Securities Entitlements is New York.

SECTION 8. Further Assurances. (a) The Pledgor agrees that from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action, that may be necessary or desirable, or that the Trustee may reasonably request, in order to perfect and protect any pledge or security interest granted or purported to be granted hereunder or to enable the Trustee to exercise and enforce its rights and remedies hereunder with respect to any Collateral. Without limiting the generality of the foregoing, the Pledgor will: (i) if any Collateral shall be evidenced by a promissory note or other instrument, deliver and pledge to the Trustee hereunder such note or instrument, duly indorsed and accompanied by duly executed instruments of transfer or assignment, all in form and substance satisfactory to the Trustee; (ii) execute and file such financing or continuation statements, or amendments thereto, and such other instruments or notices, as may be necessary or desirable, or as the Trustee may reasonably request, in order to perfect and preserve the pledge and security interest granted or purported to be granted hereby; (iii) deliver and pledge to the Trustee, for its benefit and the ratable benefit of the Holder of the Xerox Funding Debentures, certificates representing Collateral that constitute certificated securities, accompanied by undated stock or bond powers executed in blank; and (iv) deliver to the Trustee evidence that all other action that the Trustee may deem reasonably necessary or desirable in order to perfect and protect the security interest created by Pledgor under this Pledge Agreement has been taken.

(b) The Pledgor hereby authorizes the Trustee to file one or more financing or continuation statements, and amendments thereto, including, without limitation, one or more financing statements indicating that such financing statements cover all assets or all personal property (or words of similar effect), in each case without the signature of the Pledgor, and regardless of whether any particular asset described in such financing statements falls within the scope of UCC or the granting clause of this Pledge Agreement. A photocopy or other reproduction of this Pledge Agreement or any financing statement covering the Collateral or any part thereof shall be sufficient as a financing statement where permitted by law. The Pledgor ratifies its authorization for the Trustee to have filed such financing statements, continuation statements or amendments filed prior to the date hereof.

(c) The Pledgor will furnish to the Trustee from time to time statements and schedules further identifying and describing the Collateral and such other reports in connection with the Collateral as the Trustee may reasonably request, all in reasonable detail.

(d) The Pledgor will promptly pay all reasonable costs incurred in connection with any of the foregoing within 45 days of receipt of an invoice therefor. The Pledgor also agrees, whether or not requested by the Trustee, to take all actions that are necessary to perfect or continue the perfection of, or to protect the first priority of, the Trustee's security interest in and to the Collateral, including the filing of all necessary financing and continuation statements, and to protect the Collateral against the rights, claims or interests of third persons (other than any such rights, claims or interests created by or arising through the Trustee).

SECTION 9. Covenants. (a) The Pledgor covenants and

agrees with the Trustee and the Holder of the Xerox Funding Debentures that from and after the date of this Pledge Agreement until the earlier of payment in full in cash of (x) each of the first twelve scheduled interest payments on the Xerox Funding Debentures when due under the terms of the Xerox Funding Indenture or (y) all obligations due and owing under the Xerox Funding Indenture and the Xerox Funding Debentures in the event such obligations become due and payable prior to the payment of the first twelve scheduled interest payments on the Xerox Funding Debentures:

(i) that (A) it will not (and will not purport to) sell, assign or otherwise dispose of, or grant any option or warrant with respect to, any of the Collateral or its beneficial interest therein, and (B) it will not create or suffer to exist any lien or other adverse interest upon or with respect to any of the Collateral or its beneficial interest therein (except for the security interests granted under this Pledge Agreement); and

(ii) that it will not (A) enter into any agreement or understanding that restricts or inhibits or purports to restrict or inhibit the Trustee's rights or remedies hereunder, including, without limitation, the Trustee's right to sell or otherwise dispose of the Collateral or (B) fail to pay or discharge any tax, assessment or levy of any nature with respect to its beneficial interest in the Collateral not later than five days prior to the date of any proposed sale under any judgment, writ or warrant of attachment with respect to such beneficial interest; and

(iii) that it will not change its name, type of organization, jurisdiction of organization, organizational identification number or location from those set forth in Section 7(b) hereof without first giving at least 30 days' prior written notice to the Trustee and taking all action required by the Trustee for the purpose of perfecting or protecting the security interest granted by this Pledge Agreement.

SECTION 10. Power of Attorney. In addition to all of the powers granted to the Trustee pursuant to the Xerox Funding Indenture, the Pledgor hereby irrevocably appoints the Trustee as the Pledgor's attorney-in-fact (with full power of substitution), with full authority in the place and stead of the Pledgor and in the name of the Pledgor or otherwise, from time to time in the Trustee's discretion, to take any action and to execute any instrument that is necessary or advisable or as the Trustee may deem necessary or advisable to accomplish the purposes of this Pledge Agreement, including, without limitation:

(a) to ask for, demand, collect, sue for, recover, compromise, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral,

(b) to receive, indorse and collect any drafts or other instruments, documents and chattel paper, in connection with clause (a) above,

(c) to file any claims or take any action or institute any proceedings that the Trustee may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of the Trustee with respect to any of the Collateral, and

(d) to pay or discharge taxes or liens levied or placed upon the Collateral that the Pledgor has failed to pay or discharge in accordance herewith, the legality or validity thereof and the amounts necessary to discharge the same to be determined by the Trustee in its sole reasonable discretion, and such payments made by the Trustee to become part of the Obligations of the Pledgor to the Trustee, due and payable immediately upon demand;

provided, however, that the Trustee shall have no obligation to perform any of the foregoing actions. The Trustee's authority under this Section 10 shall include, without limitation, the authority to endorse and negotiate any checks or instruments representing proceeds of Collateral in the name of the Pledgor, execute and give receipt for any certificate of ownership or any document constituting Collateral, transfer title to any item of Collateral, sign the Pledgor's name on all financing statements (to the extent permitted by applicable law) or any other documents deemed necessary or appropriate by the Trustee to preserve, protect or perfect the security interest in the Collateral granted hereunder and to file the same, prepare, file and sign the Pledgor's name on any notice of lien, and to take any other actions arising from or incident to the powers granted to the Trustee in this Pledge Agreement. This power of attorney is coupled with an interest and is irrevocable by the Pledgor.

SECTION 11. No Assumption of Duties; Reasonable Care; Resignation of Pledge Trustee. (a) The powers conferred on the Trustee hereunder are solely to protect the security interest of the Trustee for its benefit and the ratable benefit of the Holder of the Xerox Funding Debentures in the Collateral and shall not impose any duty on the Trustee to exercise any such powers. Except for the safe custody of any Collateral in its possession and the accounting for moneys actually received by it hereunder, the Trustee shall have no duty as to any Collateral as to (i) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Trustee has or is deemed to have knowledge of such matters, (ii) taking of any necessary steps to preserve rights against any parties or any other rights pertaining to any Collateral or (iii) investing or reinvesting any of the Collateral or any loss on any investment. The Trustee shall be deemed to have exercised reasonable care in the custody and preservation of any Collateral in its possession if such Collateral is accorded treatment substantially equal to that which it accords its own property. The Trustee shall be entitled to all the rights, benefits, privileges and immunities accorded to it under the Xerox Funding Indenture.

(b) Subject to the appointment and acceptance of a successor Trustee as provided below, (a) the Trustee may resign at any time by giving not less than 20 days prior notice thereof to the Pledgor and the Holders, (b) if the Trustee fails to perform any of its material obligations hereunder in any material respect for a period of not less than 20 days after receiving written notice of such failure by the Holders and such failure shall be continuing, the Trustee may be removed by the Holders. Upon any such resignation or removal, the Pledgor shall have the right to appoint a successor Trustee. If no successor Trustee shall have been so appointed and shall have accepted such appointment within 30 days after the retiring Trustee's giving of notice of resignation or such removal, then the retiring Trustee, may, at the expense of the Pledgor, petition any court of competent jurisdiction for the appointment of a

successor Trustee. The Trustee shall be a bank or other financial institution which has an office in New York, New York with a combined capital and surplus of at least $50,000,000. Upon the acceptance of any appointment as Trustee hereunder by a successor Trustee, such successor shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Trustee and the retiring Trustee shall take all appropriate action to transfer any money and property held by it hereunder (including the Collateral) to such successor. The retiring Trustee shall, upon such succession, be discharged from its duties and obligations as Trustee. After any retiring Trustee's resignation hereunder as Trustee, the provisions of Section 11(a) and 12 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as the Trustee.

SECTION 12. Indemnity and Expenses. (a) The Pledgor agrees to indemnify, defend and save and hold harmless the Trustee and its officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against, and shall pay on demand, any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or resulting from this Pledge Agreement (including, without limitation, enforcement of this Pledge Agreement), except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(b) The Pledgor will upon demand pay to the Trustee the amount of any and all reasonable fees and expenses, including, without limitation, the reasonable fees and expenses of its counsel and of any experts and agents, that the Trustee may incur in connection with (i) the review, negotiation and administration of this Pledge Agreement, (ii) the custody or preservation of, or the sale of, collection from or other realization upon, any of the Collateral, (iii) the exercise or enforcement of any of the rights of the Trustee or the Holder of the Xerox Funding Debentures hereunder or (iv) the failure by the Pledgor to perform or observe any of the provisions hereof.

SECTION 13. Remedies. If any Event of Default under the Xerox Funding Indenture or default hereunder (any such Event of Default or default being referred to in this Pledge Agreement as an "Event of Default") shall have occurred and be continuing:

(a) The Trustee and the Holder of the Xerox Funding Debentures may exercise in respect of the Collateral, in addition to all other rights and remedies given by law or by this Pledge Agreement or the Xerox Funding Indenture, all of the rights and remedies of a secured party under the UCC (whether or not the UCC applies to the affected Collateral) and also may: (i) require the Pledgor to, and the Pledgor hereby agrees that it will at its expense and upon request of the Trustee forthwith, assemble all or part of the Collateral as directed by the Trustee and make it available to the Trustee at a place and time to be designated by the Trustee that is reasonably convenient to both parties and (ii) without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at any broker's board or at public or private sale, in one or more sales or lots, at any of the Trustee's offices or elsewhere, for cash, on

credit or for future delivery, and upon such other terms as the Trustee may deem commercially reasonable. The Pledgor agrees that, to the extent notice of sale shall be required by law, at least ten days' notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. The Trustee shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Trustee may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The purchaser of any or all Collateral so sold shall thereafter hold the same absolutely, free from any claim, encumbrance or right of any kind whatsoever created by or through the Pledgor. Any sale of the Collateral conducted in conformity with reasonable commercial practices of banks, insurance companies, commercial finance companies, or other financial institutions disposing of property similar to the Collateral shall be deemed to be commercially reasonable. The Trustee or the Holder of Xerox Funding Debentures may, in its own name or in the name of a designee or nominee, buy any of the Collateral at any public sale and, if permitted by applicable law, at any private sale. All expenses (including court costs and reasonable attorneys' fees, expenses and disbursements) of, or incident to, the enforcement of any of the provisions hereof shall be recoverable from the proceeds of the sale or other disposition of the Collateral.

(b) Any cash held by or on behalf of the Trustee and all cash proceeds received by or on behalf of the Trustee in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Trustee, be held by the Trustee as collateral for, and/or then or at any time thereafter applied (after payment of any amounts payable to the Trustee pursuant to Section 12(b) of this Pledge Agreement) in whole or in part by the Trustee for the ratable benefit of the Holder of the Xerox Funding Debentures against, all or any part of the Secured Obligations in such order as the Trustee shall elect. Any surplus of such cash or cash proceeds held by or on behalf of the Trustee and remaining after payment in full of all the Secured Obligations shall be paid over to the Pledgor.

(c) The Trustee may, without notice to the Pledgor except as required by law and at any time or from time to time, charge, set-off and otherwise apply all or any part of the Secured Obligations against the Pledged Account or any part thereof.

(d) The Pledgor agrees to (i) provide the Trustee with such information as may be necessary, or in the opinion of the Trustee, advisable to enable the Trustee to effect the sale of the Collateral and (ii) use its reasonable best efforts to do or cause to be done all such other acts and things as may be necessary to make such sale or sales of all or any portion of the Collateral pursuant to this Section 13 valid and binding and in compliance with any and all other applicable requirements of law. The Pledgor further agrees that a breach of any of the covenants contained in this Section 13(d) will cause irreparable injury to the Trustee and the Holder of the Xerox Funding Debentures, that the Trustee and the Holder of the Xerox Funding Debentures have no adequate remedy at law in respect of such breach and, as a consequence, that each and every covenant contained in this Section 13(d) shall be specifically enforceable against the Pledgor, and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred and is continuing.

(e) The Pledgor acknowledges the impossibility of ascertaining the amount of damages that would be suffered by the Trustee or the Holder of the Xerox Funding Debentures by reason of the failure by the Pledgor to perform any of the covenants contained in Section 13(d) above and, consequently, agrees that, if the Pledgor shall fail to perform any of such covenants, it will pay, as liquidated damages and not as a penalty, an amount equal to the value of the Collateral on the date the Trustee shall demand compliance with Section 13(d) above.

SECTION 14. Security Interest Absolute. All rights of the Trustee and the Holder of the Xerox Funding Debentures and the pledges, assignments and security interests hereunder, and all obligations of the Pledgor hereunder, shall be irrevocable, absolute and unconditional irrespective of, and the Pledgor hereby irrevocably waives (to the maximum extent permitted by applicable law) any defenses it may now have or may hereafter acquire in any way relating to, any or all of the following:

(a) any lack of validity or enforceability of the Xerox Funding Indenture or Xerox Funding Debentures or any other agreement or instrument relating thereto;

(b) any change in the time, manner or place of payment of, or in any other term of, all or any of the Secured Obligations, or any other amendment or waiver of or any consent to any departure from the Xerox Funding Indenture or Xerox Funding Debentures or any other agreement or instrument relating thereto;

(c) any taking, exchange or release of, or non-perfection of any liens on, any Collateral or any other collateral for all or any of the Secured Obligations;

(d) any manner of application of any Collateral or any other collateral, or proceeds thereof, to all or any of the Secured Obligations, or any manner of sale or other disposition of any Collateral or any other collateral for all or any of the Secured Obligations or any other assets of the Pledgor;

(e) any change, restructuring or termination of the corporate structure or existence of the Pledgor; or

(f) to the extent permitted by applicable law, any other circumstance (including, without limitation, any statute of limitations) or any existence of or reliance on any representation by the Trustee or the Holder of the Xerox Funding Debentures, which might otherwise constitute a defense available to, or a discharge of, the Pledgor in respect of the Secured Obligations or of this Pledge Agreement.

This Pledge Agreement shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Secured Obligations is rescinded or must otherwise be returned by the Trustee or the Holder of the Xerox Funding Debentures or by any other Person upon the insolvency, bankruptcy or reorganization of the Pledgor or otherwise, all as though such payment had not been made.

SECTION 15. Amendments, Waivers and Consents. (a) No amendment or waiver of any provision of this Pledge Agreement, and no consent

to any departure by the Pledgor from any provision of this Pledge Agreement, shall in any event be effective unless the same shall be in writing and signed by the Trustee and the Pledgor, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. No failure on the part of the Trustee or the Holder of the Xerox Funding Debentures to exercise, and no delay in exercising any right hereunder, shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right.

SECTION 16. Notices. Any notice or communication given hereunder shall be sufficiently given if in writing and delivered in person or mailed by first class mail, commercial courier service or telecopier communication, addressed as follows; or, as to any party, at such other address as shall be designated by such party in a written notice to the other parties:

if to the Pledgor:

Xerox Funding LLC II
800 Long Ridge Road
Stamford, CT 06904
Fax: (203) 968-4373
Attention: Treasurer

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036
Fax: (212) 735-2000
Attention: Phyllis Korff

if to the Trustee:

Wells Fargo Bank Minnesota, National Association
Sixth and Marquette
MAC N9303-120
Minneapolis, Minnesota 55479
Attn: Corporate Trust Services
Fax: (612) 667-9825

All such notices and other communications shall, when mailed, delivered or telecopied, respectively, be effective when deposited in the mails, delivered or telecopied, respectively, addressed as aforesaid.

SECTION 17. Continuing Security Interest. This Pledge Agreement shall create a continuing security interest in the Collateral and (a) shall, unless otherwise provided in this Pledge Agreement, remain in full force and effect until the payment in full in cash of the Secured Obligations, (b) be binding upon the Pledgor, its successors and assigns and (c) inure, together with the rights and remedies of the Trustee hereunder, to the benefit of the Trustee and the Holder of the Xerox Funding Debentures and their respective successors, transferees and assigns.

SECTION 18. Termination. So long as no Event of Default

shall have occurred and be continuing, this Pledge Agreement (other than Pledgor's obligations under Section 12 hereof) shall terminate upon the earlier of (i) the redemption, purchase by the Pledgor or conversion of the Xerox Funding Debentures in whole, (ii) the payment in full of each of the first twelve scheduled interest payments on the Xerox Funding Debentures when due, or (iii) the discharge of the Xerox Funding Indenture. Upon any such termination, without any necessary action on the part of the Pledgor, (i) the Control Agreement(s) will terminate and control of the Pledged Account and the Pledged Security Entitlements shall revert to the Pledgor, (ii) the Trustee shall promptly obtain from the Account Holder and deliver to the Pledgor all certificates and instruments representing any portion of the Pledged Financial Assets constituting certificated securities and (iii) the Trustee shall no longer have any rights in any of the Collateral.

SECTION 19. Miscellaneous Provisions.

SECTION 19.1. No Adverse Interpretation of Other Agreements. This Pledge Agreement may not be used to interpret another pledge, security or debt agreement of the Pledgor or any subsidiary thereof. No such pledge, security or debt agreement (other than the Xerox Funding Indenture) may be used to interpret this Pledge Agreement.

SECTION 19.2. Severability. The provisions of this Pledge Agreement are severable, and if any clause or provision shall be held invalid, illegal or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect in that jurisdiction only such clause or provision, or part thereof, and shall not in any manner affect such clause or provision in any other jurisdiction or any other clause or provision of this Pledge Agreement in any jurisdiction.

SECTION 19.3. Headings. The headings in this Pledge Agreement have been inserted for convenience of reference only, are not to be considered a part hereof and shall in no way modify or restrict any of the terms or provisions hereof.

SECTION 19.4. Counterpart Originals. This Pledge Agreement may be signed in two or more counterparts, each of which shall be deemed an original, but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Pledge Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Pledge Agreement.

SECTION 19.5. Benefits of Pledge Agreement. Nothing in this Pledge Agreement, express or implied, shall give to any person, other than the parties hereto and their successors hereunder, and the Holder of the Xerox Funding Debentures and the Account Holder, any benefit or any legal or equitable right, remedy or claim under this Pledge Agreement.

SECTION 19.6. Interpretation of Agreement. To the extent a term or provision of this Pledge Agreement conflicts with the Xerox Funding Indenture, the Xerox Funding Indenture shall control with respect to the subject matter of such term or provision. Acceptance of or acquiescence in a course of performance rendered under this Pledge Agreement shall not be relevant to determine the meaning of this Pledge Agreement even though the accepting or acquiescing party had knowledge of the nature of the performance and opportunity for objection.

SECTION 19.7. Survival of Representations and Covenants. All representations, warranties and covenants of the Pledgor contained herein shall survive the execution and delivery of this Pledge Agreement, and shall terminate only upon the termination of this Pledge Agreement, except as otherwise specified in such representatives, warranties and covenants.

SECTION 19.8. Waivers. The Pledgor waives presentment and demand for payment of any of the Obligations, protest and notice of dishonor or default with respect to any of the Obligations, and all other notices to which the Pledgor might otherwise be entitled, except as otherwise expressly provided herein or in the Xerox Funding Indenture.

SECTION 19.9. Authority of the Trustee. (a) The Trustee shall have and be entitled to exercise all powers hereunder that are specifically granted to the Trustee by the terms hereof, together with such powers as are reasonably incident thereto. The Trustee may perform any of its duties hereunder or in connection with the Collateral by or through agents or employees and shall be entitled to retain counsel and to act in reliance upon the advice of counsel concerning all such matters. Except as otherwise expressly provided in this Pledge Agreement or the Xerox Funding Indenture, neither the Trustee nor any director, officer, employee, attorney or agent of the Trustee shall be liable to the Pledgor for any action taken or omitted to be taken by the Trustee, in its capacity as Trustee, hereunder, except for its own bad faith, gross negligence or willful misconduct, and the Trustee shall not be responsible for the validity, effectiveness or sufficiency hereof or of any document or security furnished pursuant hereto. The Trustee and its directors, officers, employees, attorneys and agents shall be entitled to rely on any communication, instrument or document believed by it or them to be genuine and correct and to have been signed or sent by the proper person or persons.

(b) The Pledgor acknowledges that the rights and responsibilities of the Trustee under this Pledge Agreement with respect to any action taken by the Trustee or the exercise or non-exercise by the Trustee of any option, right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Pledge Agreement shall, as between the Trustee and the Holder of the Xerox Funding Debentures, be governed by the Xerox Funding Indenture and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Trustee and the Pledgor, the Trustee shall be conclusively presumed to be acting as agent for the Holder of the Xerox Funding Debentures with full and valid authority so to act or refrain from acting, and the Pledgor shall not be obligated or entitled to make any inquiry respecting such authority.

SECTION 19.10. Final Expression. This Pledge Agreement, together with the Xerox Funding Indenture and any other agreement executed in connection herewith, is intended by the parties as a final expression of this Pledge Agreement and is intended as a complete and exclusive statement of the terms and conditions thereof.

SECTION 19.11. Rights of the Holder of the Xerox Funding Debentures. No Holder of Xerox Funding Debentures shall have any independent rights hereunder other than those rights granted to an individual Holder of the Xerox Funding Debentures pursuant to the Xerox Funding Indenture;

provided that nothing in this subsection shall limit any rights granted to the Trustee under the Xerox Funding Debentures or the Xerox Funding Indenture.

SECTION 19.12. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial; Waiver of Damages. (a) This Pledge Agreement shall be governed by, and construed in accordance with, the laws of the State of New York.

(b) The Pledgor agrees that the Trustee shall, in its capacity as trustee or in the name and on behalf of the Holder of Xerox Funding Debentures, have the right, to the extent permitted by applicable law, to proceed against the Pledgor or the Collateral in a court in any location reasonably selected in good faith (and having personal or in rem jurisdiction over the Pledgor or the Collateral, as the case may be) to enable the Trustee to realize on the Collateral, or to enforce a judgment or other court order entered in favor of the Trustee. The Pledgor agrees that it will not assert any counterclaims, setoffs or crossclaims in any proceeding brought by the Trustee to realize on such property or to enforce a judgment or other court order in favor of the Trustee, except for such counterclaims, setoffs or crossclaims which, if not asserted in any such proceeding, could not otherwise be brought or asserted. The Pledgor waives any objection that it may have to the location of the court in The City of New York once the Trustee has commenced a proceeding described in this paragraph including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens.

(c) The Pledgor agrees that neither the Holder of Xerox Funding Debentures nor (except as otherwise provided in this Pledge Agreement or the Xerox Funding Indenture) the Trustee in its capacity as trustee shall have any liability to the Pledgor (whether arising in tort, contract or otherwise) for losses suffered by the Pledgor in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by this Pledge Agreement, or any act, omission or event occurring in connection therewith, unless it is determined by a final and nonappealable judgment of a court that is binding on the Trustee or such Holder of Xerox Funding Debentures, as the case may be, that such losses were the result of acts or omissions on the part of the Trustee or such Holder of Xerox Funding Debentures, as the case may be, constituting bad faith, gross negligence or willful misconduct.

(d) To the extent permitted by applicable law, the Pledgor waives the posting of any bond otherwise required of the Trustee or the Holder of Xerox Funding Debentures in connection with any judicial process or proceeding to enforce any judgment or other court order pertaining to this Pledge Agreement or any related agreement or document entered in favor of the Trustee or the Holder of Xerox Funding Debentures, or to enforce by specific performance, temporary restraining order or preliminary or permanent injunction, this Pledge Agreement or any related agreement or document between the Pledgor on the one hand and the Trustee and/or the Holder of the Xerox Funding Debentures on the other hand.

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IN WITNESS WHEREOF, the Pledgor and the Trustee have each caused this Pledge Agreement to be duly executed and delivered as of the date first above written.

Pledgor:

XEROX FUNDING LLC II

By:

Name:
Title:

Trustee:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Trustee

By:

Name:
Title:

SCHEDULE I

Pledged Financial Assets

Security	Maturity Date	CUSIP No.
Treasury bill	02/7/2002	912795JF9
Coupon	05/15/2002	912827F49
Strip	08/15/2002	912820BE6
Coupon	11/15/2002	912810DA3
Strip	02/15/2003	912820BF3
Coupon	05/15/2003	912810DD7
Strip	08/15/2003	912820BG1
Coupon	11/15/2003	912810DG0
Strip	02/15/2004	912810BH9
Coupon	05/15/2004	912827P89
Strip	08/15/2004	912820BK2
Strip	11/15/2004	912803AB9

ANNEX A

CONTROL AGREEMENT

This CONTROL AGREEMENT (the "Agreement") dated as of November 27, 2001 by and among Xerox Funding LLC II (the "Pledgor") and Wells Fargo Bank Minnesota, National Association, a national banking association with trust power, in its capacity as trustee (the "Trustee") and Wells Fargo Bank Minnesota, National Association, a national banking association, in its capacity as securities intermediary and depository bank (the "Account Holder").

PRELIMINARY STATEMENTS:

(1) The Pledgor has granted the Trustee a security interest (the "Security Interest") in certain security entitlements (the "Pledged Security Entitlements") with respect to certain U.S. Treasury securities identified on Schedule I attached hereto maintained by the Trustee with the Account Holder and carried from time to time and all other financial assets credited from time to time (the "Pledged Financial Assets") in an account with the Account Holder, ABA No. 091000019, Account No. 11919001 at its office at Sixth and Marquette, MAC N9303-120, Minneapolis, Minnesota 55479, Attention: Corporate Trust Services, in the name of "Xerox Funding LLC II, subject to the security interest of Wells Fargo Bank Minnesota, National Association, as Trustee for the benefit of the holder of the 7 1/2% Convertible Junior Subordinated Debentures due 2021 of Xerox Funding LLC II, Collateral Pledge Account" (the "Pledged Account") and all additions thereto and substitutions and proceeds thereof (collectively, the "Collateral"), pursuant to, and as more particularly described in, a Pledge Agreement dated as of November 27, 2001, among the Pledgor and the Trustee (as the same may hereafter be amended, supplemented or otherwise modified from time to time, the "Pledge Agreement"; terms defined in the Pledge Agreement and not otherwise defined herein are used herein as therein defined). The Pledgor acknowledges having received value for such pledge of the Collateral.

(2) Terms defined in Article 8 or 9 of the Uniform Commercial Code as in effect in the State of New York (the "UCC") are used in this Agreement (including, without limitation, paragraph (1) above) as such terms are defined in such Article 8 or 9.

(3) The Pledgor, the Trustee and the Account Holder are delivering this Agreement pursuant to the terms of the Pledge Agreement.

NOW, THEREFORE, in consideration of the premises and mutual agreements contained herein, the parties hereto hereby agree as follows:

SECTION 1. Notice of Exclusive Control. The Pledgor and Trustee are entering into this Agreement to perfect, and confirm the first priority lien of, the Trustee's security interest in the Collateral. The Account Holder agrees to promptly make all necessary entries or notations in its books and records to reflect the Trustee's security interest in the Collateral and to apply any value distributed on account of any Pledged Financial Assets as directed in writing by the Trustee without further consent from the Pledgor.

SECTION 2. The Account. The Account Holder represents and warrants to, and agrees with, the Pledgor and the Trustee and the Holder of the Xerox Funding Debentures that:

(a) The Account Holder shall not change the name or account number of the Pledged Account without the prior written consent of the Trustee.

(b) The Account Holder maintains the Pledged Account for the Trustee, and all property (including, without limitation, all funds and financial assets) held by the Account Holder for the account of the Pledgor is, and will continue to be, credited to the Pledged Account.

(c) To the extent that funds are credited to the Pledged Account, the Pledged Account is a deposit account; and to the extent that financial assets are credited to the Pledged Account, the Pledged Account is a securities account. The Account Holder is (i) the bank with which the Pledged Account is maintained and (ii) the securities intermediary with respect to financial assets held in the Pledged Account. The Trustee is (x) the Account Holder's customer with respect to the Pledged Account and (y) the entitlement holder with respect to financial assets credited from time to time to the Pledged Account.

(d) All financial assets in registered form or payable to or to the order of and credited to the Pledged Account shall be registered in the name of, payable to or to the order of, or endorsed to, the Account Holder and in no case during the term of the Pledge Agreement will any financial asset credited to the Pledged Account be registered in the name of, payable to or to the order of, or endorsed to, the Pledgor, except to the extent the foregoing have been subsequently endorsed by the Pledgor to the Account Holder or in blank.

(e) Notwithstanding any other agreement to the contrary, the Account Holder's jurisdiction with respect to the Pledged Account for purposes of the UCC (including Sections 9-304 and 8-110 thereof) is, and will continue to be for so long as the Security Interest shall be in effect, the State of New York.

(f) The Account Holder does not know of any claim to or interest in the Pledged Account or any property (including, without limitation, all funds and financial assets) credited to the Pledged Account, except for claims and interests of the parties referred to in this Agreement.

SECTION 3. Control by Trustee. (a) The Account Holder will comply with (A) all written instructions directing disposition of the funds in the Pledged Account (such instructions, a "Payment Order"), (B) all notifications and entitlement orders that the Account Holder receives directing it to transfer or redeem any financial asset in the Pledged Account and (C) all other directions concerning the Collateral, including, without limitation, directions to distribute to the Trustee proceeds of any such transfer or redemption or interest on any property in the Pledged Account (any such instruction, notification or direction referred to in clause (A), (B) or (C) above being an "Account Direction"), in each case of clauses (A), (B) and (C) above originated by the Trustee without further consent by the Pledgor or any other person.

(b) The Trustee hereby acknowledges that it shall maintain the Pledged Account on behalf of the Holder of the Xerox Funding Debentures.

SECTION 4. Priority of Trustee's Security Interest. (a) The Account Holder (i) subordinates to the Security Interest and in favor of the Trustee any security interest, lien, or right of setoff the Account Holder may have, now or in the future, against the Pledged Account or property in the Pledged Account, and (ii) agrees that it will not exercise any right in respect of any such security interest or lien or any such right of setoff until the Security Interest is terminated, except that the Account Holder will retain its prior lien on property in the Pledged Account to secure payment for property purchased for the Pledged Account and normal commissions and fees for the Pledged Account.

(b) The Account Holder will not enter into any other agreement with any Person relating to Account Directions or other directions with respect to the Pledged Account.

SECTION 5. Statements, Confirmations, and Notices of Adverse Claims. (a) The Account Holder will send copies of all statements and confirmations for the Pledged Account simultaneously to the Pledgor and the Trustee.

(b) When the Account Holder knows of any claim or interest in the Pledged Account or any property credited to the Pledged Account other than the claims and interests of the parties referred to in this Agreement, the Account Holder will promptly notify the Trustee and the Pledgor of such claim or interest.

SECTION 6. The Account Holder's Responsibility. (a) The Account Holder will not be liable to the Pledgor or the Trustee or the Holder of the Xerox Funding Debentures for complying with an Account Direction or other direction concerning the Collateral originated by the Trustee, even if the Pledgor notifies the Account Holder that the Trustee is not legally entitled to issue the Account Direction or such other direction unless the Account Holder takes the action after it is served with an injunction, restraining order, or other legal process enjoining it from doing so, issued by a court of competent jurisdiction, and had a reasonable opportunity to act on the injunction, restraining order or other legal process.

(b) This Agreement does not create any obligation of the Account Holder except for those expressly set forth in this Agreement and in Part 5 of Article 8 of the UCC and in Article 4 of the UCC. In particular, the Account Holder need not investigate whether the Trustee is entitled under the Trustee's agreements with the Pledgor to give an Account Direction or other direction concerning the Pledged Account. The Account Holder may conclusively rely on notices and communications it believes given by the appropriate party.

(c) In no event shall the Account Holder or any of its affiliates, shareholders, directors, officers, employees or agents be liable for indirect, special, punitive, incidental or consequential damages of any kind whatsoever even if advised of the possibility of such damages, other than such damages caused by its own bad faith, gross negligence or willful misconduct.

(d) Without limiting the foregoing, and notwithstanding any provision to the contrary elsewhere, the Account Holder and its affiliates, shareholders, directors, officers, employees or agents:

(i) shall have no responsibilities, obligations or duties in respect of the subject matter hereof other than those expressly set forth in this Agreement, and no implied duties, responsibilities, covenants or obligations shall be read into this Agreement against the Account Holder. Without limiting the foregoing, the Account Holder shall have no duty or authority to determine and/or investigate whether or not an event of default exists under any agreement between the Pledgor and the Trustee, or to determine and/or investigate whether or not the Trustee is entitled to give any Account Direction with respect to the Collateral;

(ii) may in any instance where the Account Holder determines that it lacks or is uncertain as to its authority to take or refrain from taking certain action hereunder, or as to any of the requirements of this Agreement under the circumstance before it, delay or refrain from taking any action unless and until it shall have received appropriate written instructions from the Trustee or advice from legal counsel selected by it (or other appropriate advisor), as the case may be, detailing the action required to be taken hereunder and the Account Holder may rely conclusively on any such instructions or advice;

(iii) so long as it and they shall have acted (or refrained from acting) in good faith and within the reasonable belief that such action or omission is duly authorized or within the discretion or powers granted to it hereunder, shall not be responsible or liable for any error of judgment in any action taken, suffered or omitted by it or them, or for any act done or step taken or omitted, or for any mistake of fact or law, unless such action constitutes gross negligence or willful misconduct as finally determined by a nonappealable judgment of a court of competent jurisdiction on its (or their) part;

(iv) will not be responsible or liable to the Pledgor, the Trustee, or any other person or entity whatsoever for the due execution, legality, validity, enforceability, genuineness, effectiveness or sufficiency of this Agreement (provided, however, that the Account Holder warrants that the Account Holder has legal capacity and has been duly authorized to enter into this Agreement) or for any statement, warranty or representation made by any other party in connection with this Agreement;

(v) will not incur any responsibility or liability by acting or not acting in reliance upon advice of counsel, or upon any notice, consent, certificate, instruction, Account Direction, statement, wire instruction, telecopy or other writing reasonably and in good faith believed by it or them to be genuine and in conformance with this Agreement and signed or sent by the proper party or parties and contemplated herein;

(vi) shall not be required to expend or risk its or their own funds, or to take any action (including the institution or defense of legal proceedings) which in its or their reasonable judgment may

cause it or them to incur or suffer any expense or liability, unless the Account Holder shall have been provided with security or indemnity, acceptable to Account Holder in its sole discretion, for the payment of the costs, expenses (including reasonable attorneys' fees) and liabilities which may be incurred therein or thereby.

(e) If any Collateral subject to this Agreement is at any time attached or levied upon, or in case the transfer or delivery of any such Collateral shall be stayed or enjoined, or in the case of any other legal process or judicial order affecting such Collateral, the Account Holder is authorized to comply with any such order in any manner as the Account Holder or its legal counsel reasonably deems appropriate. The Account Holder shall give prompt written notice, unless legally prohibited from doing so, to the Pledgor and the Trustee of any such attachment, levy, stay, injunction or legal process. If the Account Holder complies with any process, order, writ, judgment or decree relating to the Collateral subject to this Agreement, then the Account Holder shall not be liable or responsible to the Pledgor, the Trustee, or any other person or entity whatsoever even if such order, writ, judgment, decree or process is subsequently modified, vacated or otherwise determined to have been without legal force or effect.

(f) The Account Holder shall not be liable or responsible for any delays or failures in performance of any of its duties hereunder which result from events or conditions beyond its reasonable control and so long as the same exist or continue and cannot reasonably be remedied by the Account Holder in accordance with its normal business practices. Such events or conditions shall include, but shall not be limited to, acts of God, strikes, lockouts, riots, acts of war or terrorism, epidemics, nationalization, expropriation, currency restrictions, governmental regulations superimposed after the fact, fire, communication line failures (including the unavailability of the Federal Reserve Bank wire or telex or other wire or communication facility), power failures, earthquakes or other disasters.

SECTION 7. Indemnity. The Pledgor will indemnify the Account Holder, its officers, directors, employees and agents against claims, liabilities and expenses arising out of this Agreement (including, without limitation, reasonable attorney's fees and disbursements), except to the extent the claims, liabilities or expenses are caused by the Account Holder's gross negligence or willful misconduct as found by a court of competent jurisdiction in a final, non-appealable judgment.

SECTION 8. Termination; Survival. (a) This Agreement shall terminate automatically upon receipt by the Account Holder of written notice executed by two officers of the Trustee that (i) all of the Secured Obligations have been paid in full in cash or otherwise satisfied or (ii) all of the Collateral has been released, which ever is earlier, and the Account Holder shall thereafter be relieved of all duties and obligations hereunder. The Account Holder may terminate this Agreement on 60 days' prior notice to the Trustee and the Pledgor, provided that before such termination the Account Holder and the Pledgor shall make arrangements to transfer the property in the Pledged Account to another securities intermediary that shall have executed, together with the Trustee and the Pledgor, a control agreement in favor of the Trustee and the Holder of the Xerox Funding Debentures in respect of such property in substantially the form of this Agreement or otherwise in form and substance satisfactory to

the Trustee.

(b) In the event that the Trustee no longer serves as Trustee for the Collateral, the Trustee, the Account Holder and the Pledgor shall make arrangements for another Person to assume the rights and obligations of the Trustee hereunder, and such Person shall have executed, together with the Account Holder and the Pledgor, a control agreement in favor of such Person and the Holder of the Xerox Funding Debentures in substantially the form of this Agreement or otherwise in form and substance satisfactory to the Trustee.

(c) Sections 7 and 8 will survive termination of this Agreement.

SECTION 9. Conflict with Other Agreements. (a) In the event of any conflict between this Agreement (or any portion thereof) and any other agreement now existing or hereafter entered into, the terms of this Agreement shall prevail;

(b) No amendment or modification of this Agreement or waiver of any right hereunder shall be binding on any party hereto unless it is in writing and is signed by all of the parties hereto;

(c) The Account Holder hereby confirms and agrees that:

(i) There are no other agreements entered into between the Account Holder and the Pledgor with respect to the Pledged Account;

(ii) It has not entered into, and until the termination of the this Agreement will not enter into, any agreement with any other person relating to the Pledged Account and/or any financial assets credited thereto pursuant to which it has agreed to comply with entitlement orders (as defined in Section 8-102(a)(8) of the UCC) of such other person; and

(iii) It has not entered into, and until the termination of this Agreement will not enter into, any agreement with the Pledgor or the Trustee purporting to limit or condition the obligation of the Account Holder to comply with Account Directions as set forth in Section 3 hereof.

SECTION 10. Permitted Investments. In accordance with the Pledge Agreement, the Trustee (or the Pledgor, as the case may be) shall direct the Account Holder with respect to the selection of investments to be made with the funds in the Pledged Account.

SECTION 11. Entire Agreement. This Agreement is the entire agreement, and supersedes any prior agreements, and contemporaneous oral agreements, of the parties concerning its subject matter. The Trustee and the Account Holder shall be entitled to all the rights, benefits, privileges and immunities accorded to the Trustee under the Xerox Funding Indenture.

SECTION 12. Amendments. No modification, amendment or waiver of, nor consent to any departure by any party from, any provision of this Agreement will be effective unless made in writing signed by the

parties hereto, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given.

SECTION 13. Financial Assets. The Account Holder agrees with Trustee and the Pledgor that, to the fullest extent permitted by applicable law, all property credited from time to time to the Pledged Account will be treated as financial assets under Article 8 of the UCC.

SECTION 14. Notices. All notices, demands, requests, consents, approvals and other communications required or permitted hereunder must be in writing and will be effective upon receipt if delivered personally, or if sent by facsimile transmission with confirmation of delivery, or by nationally recognized overnight courier service, to the Pledgor's and the Trustee's addresses as set forth in the Pledge Agreement, and to the Account Holder's address as set forth below, or to such other address as any party may give to the others in writing for such purpose.

SECTION 15. Binding Effect. This Agreement shall become effective when it shall have been executed by the Pledgor, the Trustee and the Account Holder, and thereafter shall be binding upon and inure to the benefit of the Pledgor, the Trustee and the Account Holder and their respective successors and assigns.

SECTION 16. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of an original executed counterpart of this Agreement.

SECTION 17. Governing Law and Jurisdiction. THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. Each of the parties hereby irrevocably submits for itself and its property in any legal action or proceeding relating to this Agreement, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction and venue of the courts of the State of New York, the courts of the United States of America in New York, and appellate courts from any thereof.

SECTION 18. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ANY AND ALL RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR CLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) OF ANY NATURE RELATING TO THIS AGREEMENT, ANY DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED IN ANY OF SUCH DOCUMENTS. EACH PARTY HERETO ACKNOWLEDGES THAT THE FOREGOING WAIVER IS KNOWING AND VOLUNTARY.

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

Pledgor:

XEROX FUNDING LLC II

By:

Name:
Title:

Trustee:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Trustee

By:

Name:
Title:

Account Holder:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Account Holder

By:

Name:
Title:

Address:
Sixth and Marquette
MAC N9303-120
Minneapolis, Minnesota 55479
Attn: Corporate Trust Services
Fax: (612) 667-9825

SCHEDULE I

Pledged Financial Assets

Security	Maturity Date	CUSIP No.

Treasury bill	02/7/2002	912795JF9
Coupon	05/15/2002	912827F49
Strip	08/15/2002	912820BE6
Coupon	11/15/2002	912810DA3
Strip	02/15/2003	912820BF3
Coupon	05/15/2003	912810DD7
Strip	08/15/2003	912820BG1
Coupon	11/15/2003	912810DG0
Strip	02/15/2004	912810BH9
Coupon	05/15/2004	912827P89
Strip	08/15/2004	912820BK2
Strip	11/15/2004	912803AB9

Exhibit 4(h)(1)

XEROX CORPORATION,

as ISSUER,

and

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,

as TRUSTEE

INDENTURE

Dated as of January 17, 2002

9 3/4% Senior Notes due 2009

(Denominated in U.S. Dollars)

XEROX CORPORATION

RECONCILIATION AND TIE BETWEEN TRUST
INDENTURE ACT OF 1939 AND INDENTURE

Trust Indenture Act Section	Indenture Section
Section 310(a)(1)	607
(b)	604, 608(d), 1204
Section 311	604
Section 312	701
(b)	701
(c)	107
Section 313	101
(a)	702
(c)	601, 702, 703
Section 314(a)(4)	1005(a)
Section 315(a)	602
(b)	602
(c)	602
(d)	602
(e)	608(d)
Section 316 (c)	105(d)

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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ARTICLE TWELVE

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

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Exhibits

INDENTURE, dated as of January 17, 2002 among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York (herein called, the "Company"), having its principal office at 800 Long Ridge Road, Stamford, Connecticut 06904, and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (herein called, the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of $600,000,000 in aggregate principal amount of its 9 3/4% Senior Notes due 2009 in the form of Initial Notes (as defined below) and, if and when issued in connection with a registered exchange for such Initial Notes, 9 3/4% Senior Notes due 2009 in the form of Exchange Notes (as defined below) and, if and when issued in connection with a Private Exchange (as defined below) for such Initial Notes, 9 3/4% Senior Notes due 2009 in the form of Private Exchange Notes (as defined below), and such Additional Notes (as defined below) that the Company may from time to time choose to issue pursuant to this Indenture, and, to provide therefor, the Company has duly authorized the execution and delivery of this Indenture.

Upon the issuance of the Exchange Notes, if any, or the effectiveness of the Shelf Registration Statement, this Indenture shall be subject to and governed by the provisions of the Trust Indenture Act of 1939, as amended.

All things necessary have been done to make the Notes, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION

SECTION 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

"Acquired Indebtedness" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary of the Company or at the time it merges or consolidates with or into the Company or any of its Subsidiaries or assumed in connection with the acquisition of property or assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition, merger or consolidation.

"Act", when used with respect to any Holder, has the meaning specified in Section 105.

"Additional Interest" means all Additional Interest then owing pursuant to Section 4 of the Registration Rights Agreement.

"Additional Notes" means any newly issued 9 3/4% Senior Notes due 2009 issued after the Issue Date from time to time in accordance with the terms of this Indenture including, without limitation, the provisions of Section 1007 hereof.

"Affiliate" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative of the foregoing.

"Agent Members" has the meaning specified in Section 312.

"Asset Acquisition" means (1) an Investment by the Company or any Restricted Subsidiary of the Company in any other Person pursuant to which such Person shall become a Restricted Subsidiary of the Company or any Restricted Subsidiary of the Company, or shall be merged with or into the Company or any Restricted Subsidiary of the Company, or (2) the acquisition by the Company or any Restricted Subsidiary of the Company of the assets of any Person (other than a Restricted Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

"Asset Sale" means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by the Company or any of its Restricted Subsidiaries (including any Sale and Leaseback Transaction) to any Person other than the Company or a Restricted Subsidiary of the Company of: (1) any Capital Stock of any Restricted Subsidiary of the Company (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary); or (2) any other property or assets of the Company or any Restricted Subsidiary of the Company other than in the ordinary course of business; provided, however, that asset sales or other dispositions shall not include: (a) a transaction or series of related transactions for which the Company or its Restricted Subsidiaries receive aggregate consideration of up to $25.0 million; (b) the sale, lease, conveyance, disposition or other transfer of all or substantially all of the assets of the Company in accordance with and as permitted by Section 801; (c) any Restricted Payment permitted by Section 1008 or that constitutes a Permitted Investment; (d) the sale, lease, conveyance, disposition or other transfer of any Capital Stock or other ownership interest in or assets or property of an Unrestricted Subsidiary or a Person which is not a Subsidiary pursuant to any foreclosure of assets or other remedy provided by applicable law to a creditor of the Company or any Subsidiary of the Company with a Lien on such assets, which Lien is permitted under this Indenture; provided that such foreclosure or other remedy is conducted in a commercially reasonable manner or in accordance with any bankruptcy law; (e) a disposition of obsolete or worn out property or property that is no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries; (f) the discounting or compromising by the Company or any Restricted Subsidiary for less than the face value thereof of notes or accounts receivable in order to resolve disputes that occur in the ordinary course of business and not in connection with a factoring or financing transaction; and (g) for purposes of clauses (1) and (2) of Section 1009(a) only, any disposition, sale or transfer of property or assets that are part of the Turnaround Program (excluding any Qualified Receivables Transaction unless in connection with the sale of an entire business in connection with the Turnaround Program).

"Asset Sale Agreement" has the meaning specified in Section 1009.

"Bankruptcy Law" means Title 11, United States Bankruptcy Code of 1978, as amended, or any similar United States federal or state law relating to bankruptcy, insolvency, receivership, winding-up, liquidation, reorganization or relief of debtors or any amendment to, succession to or change in any such law.

"Board of Directors" means, as to any Person, the board of directors or similar governing body of such Person or any duly authorized committee

thereof.

"Board Resolution" means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York and Luxembourg, if and so long as the Notes are listed on the Luxembourg Stock Exchange, are authorized or obligated by law or executive order to close.

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

"Capital Stock" means:

(1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person; and

(2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person.

"Capitalized Lease Obligation" means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at any date shall be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

"Cash Equivalents" means:

(1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or the government of any Eligible Jurisdiction or issued by any agency thereof and backed by the full faith and credit of such government, in each case maturing within one year from the date of acquisition thereof;

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

(3) commercial paper and other securities maturing no more than one year from the date of acquisition thereof and, at the time of acquisition, having a rating of at least A-2 from S&P or at least P-2 from Moody's;

(4) certificates of deposit or bankers' acceptances maturing within one year from the date of acquisition thereof issued by any bank organized under

the laws of the United States of America or any state thereof or the District of Columbia or any Eligible Jurisdiction or any U.S. branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than $100.0 million;

(5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (4) above; and

(6) investments in money market funds which invest substantially all their assets in securities of the types described in clauses (1) through (5) above.

"Certificated Note" means a definitive Note registered in physical certificated form.

"Change of Control" means the occurrence of one or more of the following events:

(1) any "person," including its affiliates and associates, other than the Company, its Subsidiaries or the Company's or such Subsidiaries' employee benefit plans, or any "group" files a Schedule 13D or Schedule TO (or any successor schedule, form or report under the Exchange Act) disclosing that such person or group has become the "beneficial owner" of 50% or more of the combined voting power of the Company's Capital Stock or other Capital Stock into which the Company's Common Stock is reclassified or changed, with certain exceptions having ordinary power to elect directors, or has the power to, directly or indirectly, elect managers, trustees or a majority of the members of the Company's Board of Directors;

(2) there shall be consummated any share exchange, consolidation or merger of the Company pursuant to which the Company's Common Stock would be converted into cash, securities or other property, or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets, in each case other than pursuant to a share exchange, consolidation or merger of the Company in which the holders of the Company's Common Stock immediately prior to the share exchange, consolidation or merger have, directly or indirectly, at least a majority of the total voting power in the aggregate of all classes of Capital Stock of the continuing or surviving corporation immediately after the share exchange, consolidation or merger; or

(3) the Company is dissolved or liquidated.

For purposes of this Change of Control definition:

(a) "person" or "group" has the meaning given to it for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act or any successor provision;

(b) a "beneficial owner" will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture; and

(c) the number of shares of the Company's voting stock outstanding will be deemed to include, in addition to all outstanding shares of the Company's

voting stock and unissued shares deemed to be held by the "person" or "group" or other person with respect to which the Change of Control determination is being made, all unissued shares deemed to be held by all other persons.

"Change of Control Offer" has the meaning specified in Section 1006(a).

"Change of Control Payment Date" has the meaning specified in Section 1006(b).

"Clearstream" has the meaning specified in Section 201.

"Code" has the meaning specified in Section 315.

"Commission" means the Securities and Exchange Commission.

"Common Stock" of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common stock.

"Company" means the Person named as the "Company" in the first paragraph of this Indenture, until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman, any Vice Chairman, its President, any Vice President, its Treasurer or an Assistant Treasurer, and delivered to the Trustee.

"Consolidated EBITDA" means, with respect to any Person, for any period, the sum, all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in accordance with GAAP (without duplication), of:

(1) Consolidated Net Income; and

(2) to the extent Consolidated Net Income has been reduced thereby:

(a) all income taxes of such Person and its Restricted Subsidiaries paid or accrued in accordance with GAAP for such period (other than income taxes attributable to extraordinary, or nonrecurring gains or losses, taxes attributable to Asset Sales and taxes attributable to discontinued operations);

(b) Consolidated Fixed Charges; and

(c) Consolidated Non-cash Charges.

"Consolidated Fixed Charge Coverage Ratio" means, with respect to any Person, the ratio of Consolidated EBITDA of such Person during the four full fiscal quarters (the "Four Quarter Period") ending prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio for which financial statements are available (the "Transaction Date") to Consolidated Fixed Charges of such Person for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, "Consolidated EBITDA" and "Consolidated Fixed

Charges" shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence or repayment of any Indebtedness of such Person or any of its Restricted Subsidiaries (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to working capital facilities, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period; and

(2) any asset sales or other dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Indebtedness and also including any Consolidated EBITDA (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) attributable to the assets which are the subject of the Asset Acquisition or asset sale or other disposition during the Four Quarter Period) occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such asset sale or other disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Acquired Indebtedness) occurred on the first day of the Four Quarter Period.

If such Person or any of its Restricted Subsidiaries directly or indirectly guarantees Indebtedness of a third Person, the preceding sentence shall give effect to the incurrence of such guaranteed Indebtedness, without duplication, as if such Person or any Restricted Subsidiary of such Person had directly incurred or otherwise assumed such guaranteed Indebtedness.

Furthermore, in calculating "Consolidated Fixed Charges":

(1) for purposes of determining the numerator (but not the denominator) of this "Consolidated Fixed Charge Coverage Ratio," interest income determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter, shall be deemed to have accrued at a fixed rate per annum equal to the applicable rate of interest in effect on the Transaction Date;

(2) for purposes of determining the denominator (but not the numerator) of this "Consolidated Fixed Charge Coverage Ratio," interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter, shall be deemed to have accrued at a fixed rate per annum equal to the applicable rate of interest in effect on the Transaction Date; and

(3) notwithstanding clause (2) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Swap Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such

agreements.

"Consolidated Fixed Charges" means, with respect to any Person for any period, the sum, without duplication, of:

(1) Consolidated Interest Expense; plus

(2) the amount of all dividends on any series of Preferred Stock of such Person and its Restricted Subsidiaries paid, declared or accrued during such period multiplied, to the extent such dividend payments are not otherwise a deduction to such Person's federal income tax liabilities by a fraction, the numerator of which is one and the denominator of which is one minus the then current effective consolidated federal, state and local tax rate of such Person, expressed as a decimal.

"Consolidated Interest Expense" means, with respect to any Person for any period, total interest expense (including that portion attributable to Capitalized Lease Obligations in accordance with GAAP) of the Company and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP.

"Consolidated Net Income" means, with respect to any Person, for any period, the aggregate net income (or loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis, determined in accordance with GAAP; provided that there shall be excluded therefrom:

(1) after-tax gains or losses from Asset Sales or abandonments or reserves relating thereto;

(2) after-tax items classified as extraordinary or nonrecurring gains or losses;

(3) the net income (but not loss) of any Restricted Subsidiary of the referent Person to the extent that the declaration of dividends or similar distributions by that Restricted Subsidiary of that income is restricted by a contract, operation of law or otherwise;

(4) the net income of any other Person, other than a Restricted Subsidiary of the referent Person, joint ventures described in the definition of Permitted Joint Venture Investments and any joint ventures in which the Company or any Restricted Subsidiary is a party that exists as of the Issue Date, except to the extent of cash dividends or distributions paid to the referent Person or to a Restricted Subsidiary of the referent Person by such Person;

(5) after-tax income or loss attributable to discontinued operations; and

(6) in the case of a successor to the referent Person by consolidation or merger or as a transferee of the referent Person's assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

For purposes of determining the Consolidated Fixed Charge Coverage Ratio only, any loss attributable to the Turnaround Program shall also be excluded, provided that any loss, charge or cost described in clause (v) of the definition of Turnaround Program shall only be so excluded to the extent it

is non-cash.

"Consolidated Net Worth" means, at any time, as to a given entity (a) the sum of the amounts appearing on the latest consolidated balance sheet of such entity and its Subsidiaries, prepared in accordance with generally accepted accounting principles consistently applied, as (i) the par or stated value of all outstanding Capital Stock (including preferred stock), (ii) capital paid- in and earned surplus or earnings retained in the business plus or minus cumulative transaction adjustments, (iii) any unappropriated surplus reserves, (iv) any net unrealized appreciation of equity investment, and (v) minorities' interests in equity of subsidiaries, less (b) treasury stock, plus (c) in the case of the Company, $600.0 million.

"Consolidated Non-cash Charges" means, with respect to any Person, for any period, the aggregate depreciation and amortization of such Person and its Restricted Subsidiaries reducing Consolidated Net Income of such Person and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

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

"Corporate Trust Office" means a corporate trust office of the Trustee, at which at any particular time its corporate trust business shall be administered, which office at the date of execution of this Indenture is located at Sixth Street and Marquette Avenue, MAC N9303-120, Minneapolis, Minnesota 55479 and c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041.

"Convertible Trust Preferred Securities" means the $650.0 million aggregate liquidation amount of 8% Convertible Trust Preferred Securities of Xerox Capital Trust I and the $1,035.0 million aggregate liquidation amount of 7 1/2% Convertible Trust Preferred Securities of Xerox Capital Trust II, in each case, as in effect on the Issue Date.

"Covenant Defeasance" has the meaning specified in Section 1202.

"Credit Agreement" means the Revolving Credit Agreement, dated as of October 22, 1997, among the Company, the lenders party thereto in their capacities as lenders thereunder and the agents named therein, together with the related documents thereto (including, without limitation, any guarantee agreements and security documents), in each case as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreements extending the maturity of, refinancing, replacing (whether or not contemporaneously) or otherwise restructuring (including increasing the amount of available borrowings thereunder (provided that such increase in borrowings is permitted by Section 1008) or adding Restricted Subsidiaries of the Company as additional borrowers or collateral guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreements and whether by the same or any other agent, lender or group of lenders or investors and whether such Refinancing or replacement is under one or more debt facilities or commercial paper facilities, indenture or other agreements, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters of credit, together with related documents thereto (including, without limitation, any guaranty agreements and security documents).

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Restricted Subsidiary of the Company against fluctuations in currency values.

"Custodian" has the meaning specified in Section 201.

"Default" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"Defaulted Interest" has the meaning specified in Section 308.

"Depositary" means The Depository Trust Company, its nominees and their respective successors.

"Disqualified Capital Stock" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event (other than an event which would constitute an Asset Sale or Change of Control), matures or is mandatorily redeemable (other than such Capital Stock that will be redeemed with Qualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof (except, in each case, upon the occurrence of an Asset Sale or Change of Control) on or prior to the final maturity date of the Notes.

"Domestic Insignificant Subsidiary" means any Domestic Wholly Owned Restricted Subsidiary that is not a Guarantor other than a Person that is described in Section 1013(b) hereof.

"Domestic Restricted Subsidiary" means a Restricted Subsidiary incorporated or otherwise organized or existing under the laws of the United States, any state thereof or any territory or possession of the United States.

"Domestic Wholly Owned Restricted Subsidiary" means a Domestic Restricted Subsidiary that is also a Wholly Owned Restricted Subsidiary.

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

"ESOP Notes" means the then outstanding 7.89% (7.82% since January 1, 1993) Guaranteed Series B ESOP Notes due October 1, 2002 and the then outstanding Guaranteed ESOP Restructuring Notes due October 1, 2003.

"Euroclear" has the meaning specified in Section 201.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"Exchange Notes" means (i) the 9 3/4% Senior Notes due 2009 to be issued in exchange for the Initial Notes pursuant to the Registration Rights Agreement and (ii) Additional Notes, if any, issued in the form of 9 3/4% Senior Notes due 2009 to be issued in a registered security offering or in a registered exchange offer, in each case containing terms substantially identical to the

Initial Notes (except that (x) such Exchange Notes shall not contain terms with respect to transfer restrictions and shall be registered under the Securities Act, and (y) certain provisions relating to an increase in the stated rate of interest thereon shall be eliminated).

"Exchange Offer" means the offer by the Company to the Holders of the Notes to exchange all of the Initial Notes for Exchange Notes or Private Exchange Notes, as provided for in the Registration Rights Agreement, including any offer by the Company to the Holders of Additional Notes, if any, to exchange such Additional Notes for Exchange Notes or Private Exchange Notes.

"Exchange Offer Registration Statement" means the Exchange Offer Registration Statement as defined in the Registration Rights Agreement.

"fair market value" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

"Financing Subsidiary" has the meaning specified in Section 1013 of this Indenture.

"Foreign Subsidiary" means a Restricted Subsidiary that is incorporated or formed in a jurisdiction other than the United States or a State thereof or the District of Columbia.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect from time to time.

"Global Note" has the meaning specified in Section 201 of this Indenture.

"Guarantee" means any guarantee of the Notes by a Guarantor.

"Guarantor" means each of the Company's Restricted Subsidiaries that in the future executes a supplemental indenture in which such Restricted Subsidiary agrees to be bound by the terms of this Indenture as a Guarantor; provided that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its respective Guarantee is released in accordance with the terms of this Indenture.

"Holder" means a Person in whose name a Note is registered in the Security Register.

"IAI Global Note" has the meaning specified in Section 201.

"Indebtedness" means with respect to any Person, without duplication:

(1) all indebtedness of such Person for borrowed money;

(2) all indebtedness of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person;

(4) all indebtedness of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all indebtedness under any title retention agreement (but excluding trade accounts payable incurred in the ordinary course with a maturity of not greater than 90 days);

(5) all indebtedness for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit supporting obligations not for money borrowed entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the fifth business day following payment on the letter of credit);

(6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;

(7) all indebtedness of any other Person of the type referred to in clauses (1) through (6) which are secured by any Lien on any property or asset of such Person, the amount of such indebtedness being deemed to be the lesser of the fair market value of such property or asset or the amount of the indebtedness so secured;

(8) all indebtedness under currency agreements and interest swap agreements of such Person; and

(9) all Disqualified Capital Stock issued by such Person or any Preferred Stock of any Restricted Subsidiary of such Person ("Subsidiary Preferred Stock") with the amount of Indebtedness represented by such Disqualified Capital Stock or Subsidiary Preferred Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

For purposes hereof, the "maximum fixed repurchase price" of any Disqualified Capital Stock or Subsidiary Preferred Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock or Subsidiary Preferred Stock as if such Disqualified Capital Stock or Subsidiary Preferred Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to this Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock or Subsidiary Preferred Stock, such fair market value shall be determined reasonably and in good faith by the Board of Directors of the issuer of such Disqualified Capital Stock or Subsidiary Preferred Stock.

Accrual of interest, accrual of dividends, the accretion of accreted value, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock will not be deemed to be an incurrence of Indebtedness. The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value of the Indebtedness in the case of any Indebtedness issued with original issue discount and (ii) the principal amount or liquidation preference thereof.

For purposes of determining compliance with Section 1007, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. Notwithstanding any other provision of Section 1007, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to Section 1007 shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to Refinance other Indebtedness, if incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

"Independent Financial Advisor" means a firm: (1) which is not an Affiliate of the Company; and (2) which, in the judgment of the Company, is otherwise independent and qualified to perform the task for which it is to be engaged.

"Initial Notes" means (i) the 9 3/4% Senior Notes due 2009 of the Company and (ii) Additional Notes, if any, issued in the form of 9 3/4% Senior Notes due 2009 issued in one or more transactions exempt from the registration requirements of the Securities Act.

"Initial Purchasers" means Deutsche Banc Alex. Brown, Inc., J.P. Morgan Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc., ABN AMRO Incorporated, Banc One Capital Markets, Inc., Fleet Securities, Inc., PNC Capital Markets, Inc., RBC Dominion Securities Corporation and UBS Warburg LLC.

"interest" means, in respect of the Notes, the sum of interest thereon and Additional Interest, if any, on the Notes.

"Interest Payment Date" means January 15 and July 15 of each year, commencing July 15, 2002.

"Interest Swap Obligations" means the obligations of any Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

"Investment" means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee of Indebtedness) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any Person, or any keep-well agreement of any

Person. "Investment" shall exclude extensions of trade credit by the Company and its Restricted Subsidiaries in the ordinary course of business. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Restricted Subsidiary is no longer a Restricted Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Common Stock of such Restricted Subsidiary not sold or disposed of. If the Company designates any of its Subsidiaries to be an Unrestricted Subsidiary, the Company shall be deemed to have made an Investment on the date of such designation equal to the Designation Amount determined in accordance with the definition of "Unrestricted Subsidiary."

"Investment Grade Status", with respect to the Company, shall occur when the Notes have both (i) a rating of "BBB-" or higher from S&P and (ii) a rating of "Baa3" or higher from Moody's, and each such rating shall have been published by the applicable agency, in each case with no negative outlook.

"Investor Letter" has the meaning specified in Section 313.

"Issue Date" means January 17, 2002, the date of original issuance of the Notes.

"Legal Defeasance" has the meaning specified in Section 1202.

"Lien" means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

"Make-Whole Premium" with respect to a Note means an amount equal to the excess of (a) the present value of the remaining interest, premium and principal payments due on such Note to its final maturity date, computed using a discount rate equal to the Treasury Rate on such date plus 0.50%, over (b) the outstanding principal amount of such Note. For the avoidance of doubt, the Make-Whole Premium shall not be less than zero.

"Maturity Date" means, with respect to any Note, the date on which any principal of such Note becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"Moody's" means Moody's Investors Service, Inc., and its successors.

"Net Cash Proceeds" means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (other than the portion of any such deferred payment constituting interest) received by the Company or any of its Restricted Subsidiaries from such Asset Sale net of:

(1) out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) all legal, title and recording tax expenses, commissions and other

fees and expenses incurred, and all federal, state, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale;

(3) repayment of Indebtedness and any accrued interest and premium that is secured by the property or assets that are the subject of such Asset Sale;

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale; and

(5) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Sale.

"Net Proceeds Offer" has the meaning specified in Section 1009.

"Net Proceeds Offer Amount" has the meaning specified in Section 1009.

"Net Proceeds Offer Payment Date" has the meaning specified in Section 1009.

"Net Proceeds Offer Trigger Date" has the meaning specified in Section 1009.

"Notes" means, collectively, the Initial Notes, the Exchange Notes and the Private Exchange Notes, if any, treated as a single class of securities, as amended or supplemented from time to time in accordance with the terms of this Indenture.

"Officers' Certificate" means, with respect to any Person, a certificate signed by the chief executive officer, the president or any vice president and the chief financial officer, the treasurer, any assistant treasurer or the controller of such Person that shall comply with applicable provisions of this Indenture and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an officer, counsel or employee of the Company, and who shall be reasonably acceptable to the Trustee.

"Outstanding", when used with respect to the Notes, means, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

(i) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been

made;

(iii) Notes, except to the extent provided in Sections 1202 and 1203, with respect to which the Company has effected Legal Defeasance and/or Covenant Defeasance as provided in Article Twelve; and

(iv) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands the Notes are valid obligations of the Company; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, consent, notice or waiver hereunder, and for the purpose of making the calculations required by Section 313 of the Trust Indenture Act, Notes owned by the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor.

"Pari Passu Indebtedness" means any Indebtedness of the Company that is not subordinated to the Notes.

"Paying Agent" means any Person (including the Company acting as Paying Agent) authorized by the Company to pay the principal of (and premium, if any, on) or interest on any Notes on behalf of the Company.

"Permitted Indebtedness" means, without duplication, each of the following:

(1) (x) Indebtedness under the Notes (other than Additional Notes) and any Guarantees required by this Indenture and (y) Indebtedness under the Senior Euro Notes issued on the Issue Date and any guarantees required by the Senior Euro Notes Indenture;

(2) Indebtedness of the Company or any Restricted Subsidiary incurred in the ordinary course of business (including, without limitation, in connection with the Turnaround Program) so long as the proceeds thereof are not used, directly or indirectly, to finance an Asset Acquisition or to make a Restricted Payment (other than a Permitted Investment) or to effect a Refinancing of Indebtedness or Capital Stock (other than Refinancing Indebtedness incurred to Refinance any Indebtedness originally permitted to be incurred under this clause (2)); provided, however, that Indebtedness incurred under this clause (2) (including Guarantees thereof) by Domestic Insignificant Subsidiaries shall not exceed $100.0 million outstanding at any time in the aggregate for all Domestic Insignificant Subsidiaries;

(3) Indebtedness incurred pursuant to the Credit Agreement in an aggregate principal amount at any time outstanding not to exceed $7.0 billion (such amount to be reduced (but not increased) to the amount of the aggregate commitments and loans under the first Refinancing of the Credit Agreement

after the Issue Date), less the sum of all principal payments of such Indebtedness with the proceeds of Asset Sales (other than the sale or liquidation of receivables) (but in no event reduced below $4.75 billion);

(4) other Indebtedness of the Company and its Restricted Subsidiaries (other than the Credit Agreement) outstanding on the Issue Date;

(5) Interest Swap Obligations of the Company or any Restricted Subsidiary of the Company covering Indebtedness of the Company or any of its Restricted Subsidiaries; provided, however, that such Interest Swap Obligations are entered into to protect the Company or its Restricted Subsidiaries from fluctuations in interest rates on outstanding Indebtedness to the extent the notional principal amount of such Interest Swap Obligation does not, at the time of the incurrence thereof, exceed the principal amount of the Indebtedness to which such Interest Swap Obligation relates;

(6) Indebtedness under Currency Agreements; provided that in the case of Currency Agreements which relate to Indebtedness, such Currency Agreements do not increase the Indebtedness of the Company and its Restricted Subsidiaries outstanding other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(7) Indebtedness of a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by the Company or a Restricted Subsidiary of the Company, in each case subject to no Lien held by a Person other than the Company or a Restricted Subsidiary of the Company (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above); provided that if as of any date any Person other than the Company or a Restricted Subsidiary of the Company owns or holds any such Indebtedness or holds a Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above) in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the issuer of such Indebtedness;

(8) Indebtedness of the Company to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by a Restricted Subsidiary of the Company and subject to no Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above); provided that if as of any date any Person other than a Restricted Subsidiary of the Company owns or holds any such Indebtedness or any Person holds a Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above) in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the Company;

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

(10) Indebtedness of the Company or any Restricted Subsidiary in respect of performance bonds, bankers' acceptances, workers' compensation claims, surety or appeal bonds, payment obligations in connection with self- insurance or similar obligations, and operating leases, trade contracts and

bank overdrafts (and letters of credit in respect thereof) in the ordinary course of business;

(11) Indebtedness Incurred in a Qualified Receivables Transaction that is not recourse to the Company or any Restricted Subsidiary (except for Standard Securitization Undertakings or a Restricted Subsidiary whose principal assets are the receivables, leases or other assets that are the subject of the Qualified Receivables Transaction);

(12) any guarantee by the Company or a Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary so long as the incurrence of such Indebtedness would otherwise be permitted to be incurred under this Indenture and such guarantee is otherwise not prohibited by this Indenture and Section 1013(a), to the extent applicable to such guarantee, is complied with;

(13) Indebtedness arising from guarantees of Indebtedness of the Company or any Restricted Subsidiary or the agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Subsidiary, or other guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets, Subsidiary or Capital Stock of a Subsidiary for the purpose of financing such acquisition; provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including non-cash proceeds) actually received by the Company and/or such Restricted Subsidiary in connection with such disposition;

(14) the issuance of shares of Disqualified Capital Stock by the Company to a Restricted Subsidiary of the Company; provided, however, that (a) any subsequent issuance or transfer that results in any such Disqualified Capital Stock being held by a Person other than a Restricted Subsidiary thereof and (b) any sale or other transfer of any such Disqualified Capital Stock to a Person that is not a Restricted Subsidiary thereof shall be deemed, in each case, to constitute an issuance of such Disqualified Capital Stock by the Company that was not permitted by this clause (14);

(15) obligations incurred in the ordinary course of business and not for money borrowed (for example, repurchase agreements) to purchase securities or other property, if such obligations arise out of or in connection with the sale of the same or similar securities or properties;

(16) obligations to deliver goods or services in consideration of advance payments therefor;

(17) Indebtedness consisting of take-or-pay obligations contained in supply contracts entered into in the ordinary course of business;

(18) Refinancing Indebtedness; and

(19) additional Indebtedness of the Company and its Restricted Subsidiaries (other than Domestic Insignificant Subsidiaries) in an aggregate principal amount not to exceed $75.0 million at any one time outstanding (which amount may, but need not, be incurred in whole or in part under the Credit Agreement).

For purposes of determining compliance with Section 1007 of this Indenture, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (19) above or is entitled to be incurred pursuant to the Consolidated Fixed Charge Coverage Ratio provisions of Section 1007(a), the Company shall, in its sole discretion, classify such item of Indebtedness in any manner that complies with Section 1007. In addition, the Company may, at any time, change the classification of an item of Indebtedness (or any portion thereof) to any other clause, and in part under any one or more of the clauses listed above, or to Section 1007(a) provided that the Company would be permitted to incur such item of Indebtedness (or portion thereof) pursuant to such other clause or clauses, as the case may be, of Section 1007(a), as the case may be, at such time of reclassification. Accrual of interest, accretion or amortization of original issue discount or other discounts or premiums, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Capital Stock or Subsidiary Preferred Stock in the form of additional shares of the same class of Disqualified Capital Stock or Subsidiary Preferred Stock and any other changes in reported Indebtedness required by GAAP and other non-cash changes in Indebtedness due to fluctuations in interest rates, will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Capital Stock or Subsidiary Preferred Stock for purposes of Section 1007.

"Permitted Investments" means:

(1) Investments by the Company or any Restricted Subsidiary of the Company in any Person that is or will become immediately after such Investment a Restricted Subsidiary of the Company or that will merge or consolidate into the Company or a Restricted Subsidiary of the Company;

(2) Investments in the Company by any Restricted Subsidiary of the Company;

(3) Investments in cash in euros or U.S. dollars and Cash Equivalents or, to the extent determined by the Company or a Foreign Subsidiary in good faith to be necessary for local working capital requirements and operational requirements of the Foreign Subsidiaries, other cash and cash equivalents denominated in the currency of the jurisdiction of organization or place of business of such Foreign Subsidiary which are, in the case of Cash Equivalents, otherwise substantially similar to the items specified in the definition of "Cash Equivalents";

(4) loans and advances to employees and officers of the Company and its Subsidiaries to purchase Capital Stock of the Company for bona fide business purposes;

(5) Currency Agreements and Interest Swap Obligations entered into in the ordinary course of the Company's or its Restricted Subsidiaries' businesses and not for speculative purposes and otherwise in compliance with this Indenture;

(6) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (6) that are at that time outstanding, not to exceed $75.0 million in any calendar year at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value);

(7) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy, work-out or insolvency of such trade creditors or customers or as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(8) Investments made by the Company or its Restricted Subsidiaries as a result of consideration received in connection with any sale or other transfer of assets, to the extent applicable, in compliance with Section 1009 hereof;

(9) Permitted Joint Venture Investments;

(10) receivables owing to the Company or any Restricted Subsidiary or other trade credit provided by the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

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

(12) stock, obligations or securities received as security for, or in settlement of, debts created in the ordinary course of business and owing to the Company or any of its Restricted Subsidiaries or in satisfaction of judgments or claims;

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

(14) Investments owned by the Company and any Restricted Subsidiary as of the Issue Date, and any repayment of the ESOP Notes by the Company or any Restricted Subsidiary after the Issue Date; and

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

"Permitted Joint Venture Investments" means any Investment (A) in a joint venture, partnership or other arrangement with a Person or Persons that are not Affiliates of the Company, to the extent necessary or desirable, as determined by the Company, to (x) facilitate, or as contemplated by, the Turnaround Program or (y) facilitate Qualified Receivables Transactions and (B) in Fuji Xerox Co., Limited.

"Person" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"Predecessor Note" of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such

particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 307 in exchange for a mutilated security or in lieu of a lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note.

"Preferred Stock" of any Person means any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation.

"Private Exchange" means the offer by the Company, pursuant to a Registration Rights Agreement, to the Initial Purchasers or, if Additional Notes are issued by the Company, any other underwriters or initial purchasers in connection therewith to issue and deliver to such Person, in exchange for the Initial Notes held by such Person as part of its initial distribution, a like aggregate principal amount of Private Exchange Notes.

"Private Exchange Notes" means the 9 3/4% Senior Notes due 2009, if any, bearing the Private Placement Legend that may be issued pursuant to a Registration Rights Agreement to the Initial Purchasers or any other underwriters or initial purchasers in a Private Exchange.

"Private Placement Legend" means the legend set forth on the face of the Notes in the form set forth on Exhibit A-1.

"Purchase Money Indebtedness" means Indebtedness of the Company and its Restricted Subsidiaries incurred for the purpose of financing all or any part of the purchase price, or the cost of installation, construction or improvement, of property or equipment; provided, however, that (1) the amount of such Indebtedness shall not exceed such purchase price or cost, (2) such Indebtedness shall not be secured by any asset other than the specified asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property to which such asset is attached and (3) such Indebtedness shall be incurred within 180 days after such acquisition of such asset by the Company or such Restricted Subsidiary or such installation, construction or improvement.

"QIB" has the meaning specified in Section 201.

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

"Qualified Receivables Transaction" means any transaction or series of transactions entered into by the Company or any of its Restricted Subsidiaries in order to monetize or otherwise finance a discrete pool (which may be fixed or revolving) of receivables, leases or other financial assets (including, without limitation, financing contracts) (in each case whether now existing or arising in the future), and which may include a grant of a security interest in any such receivables, leases, other financial assets (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such receivables, leases, or other financial assets, all contracts and all guarantees or other obligations in respect thereof, proceeds thereof and other assets that are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving receivables, leases, or other financial assets.

"Redemption Date", when used with respect to any Note to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Note to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Refinance" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means any Refinancing by the Company or any Restricted Subsidiary of the Company of Indebtedness permitted by Section 1007 hereof (other than pursuant to clauses (2), (3), (5), (6), (7), (8), (9), (10), (11), (13), (14), (15), (16), (17) or (19) of the definition of Permitted Indebtedness), in each case that does not:

(1) result in an increase in the aggregate principal amount of Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and plus the amount of reasonable expenses incurred by the Company in connection with such Refinancing); or

(2) create Indebtedness with: (a) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; or (b) a final maturity earlier than the final maturity of the Indebtedness being Refinanced; provided that (x) if such Indebtedness being Refinanced is Indebtedness of the Company, then such Refinancing Indebtedness shall be Indebtedness solely of the Company and (y) if such Indebtedness being Refinanced is subordinate or junior to the Notes, then such Refinancing Indebtedness shall be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

"Reference Date" has the meaning specified in Section 1008.

"Registration Rights Agreement" means (i) with respect to the Initial Notes issued on the Issue Date, the registration rights agreement, dated as of the Issue Date, among the Company and the Initial Purchasers and (ii) with respect to each issuance of Additional Notes issued in a transaction exempt from the registration requirements of the Securities Act, the registration rights agreement, if any, among the Company and the Persons purchasing such Additional Notes under the related purchase agreement.

"Regular Record Date" for the interest payable on any Interest Payment Date means the January 1 or July 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Regulation S" has the meaning set forth in Section 201 of this Indenture.

"Regulation S Global Note" has the meaning set forth in Section 201 of this Indenture.

"Replacement Assets" has the meaning specified in Section 1009.

"Responsible Officer", when used with respect to the Trustee, means the

chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Global Note" has the meaning set forth in Section 201 of this Indenture.

"Restricted Payments" has the meaning specified in Section 1008.

"Restricted Payments Basket" has the meaning specified in Section 1008.

"Restricted Security" has the meaning set forth in Rule 144(a)(3) promulgated under the Securities Act.

"Restricted Subsidiary" of any Person means any Subsidiary of such Person which at the time of determination is not an Unrestricted Subsidiary.

"Reversion Date" has the meaning set forth in Section 1015 of this Indenture.

"Rule 144A" has the meaning set forth in Section 201 of this Indenture.

"S&P" means Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., and its successors.

"Sale and Leaseback Transaction" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person on the security of such Property.

"Securities Act" means the Securities Act of 1933, as amended, or any successor statute or statutes thereto.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Euro Notes" means the Company's (euro)225,000,000 aggregate principal amount of 9 3/4% Senior Notes due 2009 issued pursuant to the Senior Euro Notes Indenture, and the registered exchange notes and/or private exchange notes to be issued in exchange for such notes pursuant to the terms of the Senior Euro Notes Indenture and the Senior Euro Notes Registration Rights Agreement.

"Senior Euro Notes Indenture" means the Indenture, dated as of the Issue Date, among the Company and Wells Fargo Bank Minnesota, National Association, as trustee, pursuant to which the Senior Euro Notes were issued, as the same

may be amended, modified and supplemented from time to time.

"Senior Euro Notes Registration Rights Agreement" means the Registration Rights Agreement, dated as of the Issue Date, among the Company and the Initial Purchasers relating to the Senior Euro Notes.

"Senior Notes" means the Notes and the Senior Euro Notes.

"Series B Convertible Preferred Stock" means the 10.0 million shares of Series B Convertible Preferred Stock of the Company issued to the Company's Employee Stock Ownership Plan Trust, as in effect on the Issue Date.

"Shelf Registration Statement" means a "Shelf Registration" as such term is defined in the Registration Rights Agreement.

"Significant Subsidiary", with respect to any Person, means any Restricted Subsidiary of such Person that satisfies the criteria for a "significant subsidiary" set forth in Rule 1.02 of Regulation S-X under the Exchange Act as such Regulation is in effect on the Issue Date.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 308.

"Specified Redemption" has meaning set forth in Section 1101 of this Indenture.

"Specified Subsidiary" means any Subsidiary of the Company from time to time having a Consolidated Net Worth Amount of at least $100.0 million; provided, however, that each of Xerox Financial Services, Inc., Xerox Credit Corporation and any other corporation principally engaged in any business or businesses other than development, manufacture and/or marketing of (x) business equipment (including, without limitation, reprographic, computer (including software) and facsimile equipment), (y) merchandise or (z) services (other than financial services) shall be excluded as a "Specified Subsidiary" of the Company.

"Standard Securitization Undertakings" means representations, warranties, covenants and indemnities entered into by the Company or any of its Restricted Subsidiaries that are reasonably customary in an accounts receivable transaction.

"Stated Maturity" when used with respect to any Indebtedness or any installment of interest thereon means the dates specified in such Indebtedness as the fixed date on which the principal of or premiums on such Indebtedness or such installment of interest is due and payable, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"Subordinated Indebtedness" means Indebtedness of the Company that is subordinated or junior in right of payment to the Notes.

"Subsidiary", with respect to any Person, means:

(1) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be owned, directly

or indirectly, by such Person; or

(2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time, directly or indirectly, owned by such Person.

"Subsidiary Preferred Stock" has the meaning given to such term in the definition of "Indebtedness."

"Surviving Entity" has the meaning specified in Section 801(a).

"Suspended Covenants" means the covenants and provisions contained in Sections 1007, 1008, 1009, 1010 and 1011.

"Suspension Period" has the meaning specified in Section 1015 of the Indenture.

"Synthetic Purchase Agreement" shall mean any agreement pursuant to which the Company or any of its Subsidiaries is or may become obligated to make any payment the amount of which is determined by reference to a derivative agreement that relates to the price or value at any time of any Capital Stock of the Company; provided that no phantom stock or similar plan providing for payments only to current or former directors, officers or employees of the Company or any Subsidiary (or to their heirs or estates or successors or assigns) shall be deemed to be a Synthetic Purchase Agreement.

"Treasury Rate" for any date, means the yield to maturity at the time of computation of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H.15 (519) that has become publicly available at least two business days prior to the date the redemption is effected pursuant to a Specified Redemption (the "Specified Redemption Date") (or, if such Statistical Release is no longer published, any publicly available source of similar market data) most nearly equal to the period from the Specified Redemption Date to January 15, 2009; provided, however, that if the period from the Specified Redemption Date to January 15, 2009 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given except that if the period from the Specified Redemption Date to January 15, 2009 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year shall be used.

"Trust Indenture Act" or "TIA" means the Trust Indenture Act of 1939, as amended.

"Trustee" means the Person named as the Trustee in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Turnaround Program" means (i) arranging third party vendor financing for customers of the Company and its Subsidiaries, including the sale of finance receivables or financing assets (and related assets); (ii) the outsourcing of manufacturing activities, including the sale or other disposition of any related manufacturing assets; (iii) the exit from the SOHO business and

charges and other costs related thereto to the extent incurred prior to the Issue Date; (iv) the optimization of the Company's research spending, including, without limitation, through the disposition of the Palo Alto Research Center, whether as an outright sale, joint venture or otherwise; and (v) to the extent not covered in clause (i), (ii), (iii) or (iv) above, charges relating to cost reduction initiatives or measures announced by the Company from time to time, including, without limitation, (a) reductions in workforce, (b) the closing or disposition, including by sale, termination of leases or otherwise, of or relating to the Company's or any of its Subsidiaries' manufacturing sites, offices and other real property, (c) deployment of, and transition to, a "distributor" model in the "Developing Markets Operations" or other markets where the Company's or its Subsidiaries' products or services, or any receivables relating to any thereof, would be sold or disposed of to third-party vendors or any other Person, (d) other dispositions of the Company's or any of its Subsidiaries' real, personal or intellectual property, assets or other rights relating thereto, and (e) any asset impairment relating to any of the foregoing initiatives or measures; in each case for any matter referred to in clauses (i) through (v) above as determined by the Company in good faith and as announced by the Company as part of its Turnaround Program.

"Unrestricted Subsidiary" of any Person means:

(1) the Subsidiary to be so designated has total assets of $1,000 or less or any Subsidiary of such Person that at the time of determination shall be or continue to be designated an Unrestricted Subsidiary by the Board of Directors of such Person in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided that:

(1) the Company certifies to the Trustee that such designation complies with Section 1008 hereof, including that the Company would be permitted to make, at the time of such designation, (a) a Permitted Investment or (b) an Investment pursuant to Section 1008(a), in either case, in an amount (the "Designation Amount") equal to the fair market value of the Company's proportionate interest in such Subsidiary on such date; and

(2) each Subsidiary to be so designated and each of its Subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Company or any of its Restricted Subsidiaries.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary only if it contemporaneously becomes a Guarantor or:

(1) immediately after giving effect to such designation, the Company is able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 1007 hereof; and

(2) immediately before and immediately after giving effect to such

designation, no Default or Event of Default shall have occurred and be continuing.

Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"U.S. Government Obligations" means securities that are (i) direct obligations of the United States for the timely payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of the United States, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such U.S. Government Obligation or a specific payment of principal of or interest on any such U.S. Government Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal of or interest on the U.S. Government Obligation evidenced by such depository receipt.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the then outstanding aggregate principal amount of such Indebtedness into (b) the sum of the total of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

"Wholly Owned Restricted Subsidiary" of any Person means any Wholly Owned Subsidiary of such Person which at the time of determination is a Restricted Subsidiary of such Person.

"Wholly Owned Subsidiary" of any Person means any Subsidiary of such Person of which all the outstanding voting securities (other than in the case of a Foreign Subsidiary, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by such Person or any Wholly Owned Subsidiary of such Person.

SECTION 102. Rules of Construction.

Unless the context otherwise requires:

(a) the terms defined in this Article One have the meanings assigned to them in this Article One, and include the plural as well as the singular;

(b) all terms used herein which are defined in the Trust Indenture Act or the rules and regulations of the Commission thereunder, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings

assigned to them in accordance with GAAP;

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(e) references to any Article, Section or other subdivision in this Indenture, unless otherwise described, are references to an Article, Section or subdivision of this Indenture;

(f) "or" is not exclusive; and

(g) words used herein implying any gender shall apply to every gender.

SECTION 103. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance with which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than pursuant to Section 1005) shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 104. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. In giving such opinion, such counsel may rely upon opinions of local counsel reasonably satisfactory to the Trustee. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 105. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 105.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The principal amount and serial numbers of Notes held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such

Note.

SECTION 106. Notices, etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, to the attention of its Corporate Trust Department;

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this Indenture, or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 107. Notice to Holders; Waiver.

Where this Indenture provides notice of any event to Holders by the Company or the Trustee, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at its address as it appears in the Security Register, not later than the latest date, if any, and not earlier than the earliest date, if any, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice mailed to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder when so mailed, whether or not such Holder actually receives such notice. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event to Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice for every purpose hereunder.

So long as the Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, the Company will make publication of such notice to the Holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxembourg Wort) or, if such publication is not practicable, in one other leading daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions. For so long as the Notes are listed on the Luxembourg Stock Exchange and if required by the

rules of the Luxembourg Stock Exchange, a copy of all notices will be provided by the Company to the Luxembourg Stock Exchange.

Holders may communicate pursuant to Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of Section 312(c) of the Trust Indenture Act.

SECTION 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. Successors.

All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 110. Separability Clause.

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

SECTION 111. Benefits of Indenture.

Nothing in this Indenture, in the Notes, express or implied, shall give to any Person, other than the parties hereto, any Paying Agent, any Security Registrar and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. GOVERNING LAW.

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

SECTION 113. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with any provision of the Trust Indenture Act or another provision which is required or deemed to be included in this Indenture by any of the provisions of the Trust Indenture Act, such provision or requirement of the Trust Indenture Act shall control.

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

SECTION 114. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date of any Note shall not be a Business Day, then (notwithstanding any other

provision of this Indenture or of the Notes) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date; provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date, as the case may be. In such event, no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date, as the case may be, to the next succeeding Business Day and, with respect to any Interest Payment Date, interest for the period from and after such Interest Payment Date shall accrue with respect to the next succeeding Interest Payment Date. If a regular record date is a date that is not a Business Day, such record date shall not be affected.

SECTION 115. Unclaimed Money; Prescription.

If money deposited with the Trustee or any applicable agent for the payment of principal of, premium, if any, or interest on the Notes remains unclaimed for two years, the Trustee and such Paying Agent shall return the money to the Company. After that, Holders entitled to the money must look to the Company for payment unless applicable abandoned property law designates another Person and all liability of the Trustee and such Paying Agent shall cease. Other than as set forth in this paragraph, this Indenture does not provide for any periods for the escheatment of the payment of principal of, premium, if any, or interest and on the Notes.

SECTION 116. No Recourse Against Others.

No past, present or future director, officer, employee, promoter, adviser, incorporator or shareholder of the Company, as such, shall have any liability for any obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability, to the extent permitted by applicable law. The waiver and release are part of the consideration for issuance of the Notes.

SECTION 117. Multiple Originals.

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

SECTION 118. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan, security or debt agreement of the Company. No such indenture, loan, security or debt agreement may be used to interpret this Indenture.

ARTICLE TWO

NOTE FORMS

SECTION 201. Forms Generally.

The Notes shall be known as the "9 3/4% Senior Notes due 2009" of the Company. The Notes shall be treated as a single class for all purposes under this Indenture. The Notes and the Trustee's certificates of authentication shall be in substantially the forms set forth in Exhibit B, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their execution of the Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The definitive Notes shall be printed, lithographed or engraved on steel-engraved borders or word processed or may be produced in any other manner, all as determined by the officers of the Company executing such Notes, as evidenced by their execution of such Notes; provided, however, that if the Notes are listed on any securities exchange such manner as is permitted by the rules of such securities exchange.

Each Note shall be dated the date of its issuance and shall show the date of its authentication. The terms and provisions contained in the Notes shall constitute, and are expressly made, a part of this Indenture.

Notes offered and sold to "QIBs" (Qualified Institutional Buyers, as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act ("Rule 144A") may be issued in the form of one or more permanent global notes ("Global Notes") substantially in the form set forth in Exhibit B hereto (each, a "Restricted Global Note") deposited with the Trustee, as custodian for the Depositary or its nominee (in such capacity, the "Custodian"), and registered in the name of the Depositary or its nominee, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Restricted Global Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depositary or its nominee, as hereinafter provided.

Notes offered and sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") shall be issued in the form of a single permanent Global Note substantially in the form set forth in Exhibit B hereto (the "Regulation S Global Note") deposited with the Custodian, and registered in the name of the Depositary or its nominee for the accounts of the Euroclear System, as operated by Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, societe anonyme ("Clearstream"), duly executed by the Company and authenticated by the Trustee as hereinafter provided. During or prior to the end of the "40-day restricted period" within the meaning of Rule 903(c) of Regulation S, beneficial interests in the Regulation S Global Note may only be held through Euroclear and Clearstream. Any resale or transfer of beneficial interests in the Regulation S Global Note shall be made only pursuant to Rule 144A or Regulation S or another exemption from the Registration requirements of the Securities Act, after delivery to the Company by the transferor, if required by the Company, of the opinions, certification or other information described in Section 313. The aggregate principal amount of the Regulation S Global Note may from time to time be

increased or decreased by adjustments made in the records of the Trustee, as Custodian for the Depositary or its nominee, as herein provided.

Notes offered and sold by Holders to institutional investors that qualify as "accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act will be in the form of a Global Note substantially in the form set forth in Exhibit B hereto, with such applicable legends as are required by Section 313(e) (the "IAI Global Notes") deposited with the Trustee, as custodian for the Depositary or its nominee, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the IAI Global Note may from time to time be increased or decreased by adjustments made on the records of the Trustee, as custodian for the Depositary or its nominee as hereinafter provided.

ARTICLE THREE

THE NOTES

SECTION 301. Title and Terms.

The Trustee shall authenticate (i) Initial Notes to be authenticated and delivered under this Indenture on the Issue Date in an aggregate amount equal to $600,000,000, (ii) Exchange Notes or Private Exchange Notes from time to time only in exchange for a like principal amount of Initial Notes and (iii) Notes not bearing the Private Placement Legend from time to time only in exchange for (A) a like principal amount of Initial Notes or (B) a like principal amount of Private Exchange Notes, except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of, other Notes pursuant to Section 303, 304, 306, 307, 801, 906, 1006, 1009 or 1108. The Trustee shall authenticate Additional Notes thereafter in unlimited amount for original issue upon a written order of the Company in the form of an Officers' Certificate in aggregate principal amount as specified in such order (so long as permitted by this Indenture, including, without limitation, Section 1007). Any such Officers' Certificate shall also specify the date on which the original issue of Notes is to be authenticated and shall certify that such issuance will not be prohibited by Section 1007.

The Notes shall be known and designated as the "9 3/4% Senior Notes due 2009" of the Company. The Notes will mature on the January 15, 2009. Interest on the Notes will accrue at the rate of 9 3/4% per annum and will be payable semiannually in cash on each January 15 and July 15, commencing on July 15, 2002, to the persons who are registered Holders at the close of business on the January 1 and July 1 immediately preceding the applicable interest payment date. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance to but excluding the actual interest payment date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Notes shall be redeemable as provided in Article Eleven.

SECTION 302. Denominations.

The Notes shall be issuable only in registered form without coupons and only in denominations of $1,000 and any integral multiple thereof.

SECTION 303. Execution, Authentication, Delivery and Dating.

The Notes shall be executed on behalf of the Company by its chairman, any vice chairman, its president, a vice president, the treasurer or any assistant treasurer, under its corporate seal reproduced thereon and attested by its secretary or an assistant secretary. The signature of any of these officers on the Notes may be manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Notes.

Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes.

Each Note shall be dated the date of its authentication.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of a Responsible Officer, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

Notwithstanding the foregoing, all Notes issued under this Indenture shall vote and consent together on all matters (as to which any of such Notes may vote or consent) as one class and no series of Notes will have the right to vote or consent as a separate class on any matter.

SECTION 304. Temporary Notes.

Pending the preparation of definitive Notes, the Company may execute and upon Company Order the Trustee shall authenticate and deliver, temporary Notes which are printed, lithographed, typewritten, word processed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Notes in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Notes may determine, as conclusively evidenced by their execution of such Notes.

If temporary Notes are issued, the Company shall cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes shall be exchangeable for definitive Notes upon surrender of the temporary Notes at the office or agency of the Company designated for such purpose pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes, the Company shall execute and upon Company Order the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Notes of authorized denominations and the Trustee shall cancel and return, within three (3) Business Days, all such temporary Notes surrendered for cancellation. Until so exchanged, the temporary Notes shall in all

respects be entitled to the same benefits under this Indenture as definitive Notes.

SECTION 305. Registrar and Paying Agent.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 1002 being herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. At all reasonable times, the Security Register shall be open to inspection by the Trustee. The Trustee is hereby initially appointed as Security Registrar (the "Security Registrar") for the purpose of registering Notes and transfers of Notes as herein provided. The Security Registrar shall not be required to register transfers of Notes or to exchange Notes for a period beginning 15 days before the mailing of a notice of redemption of Notes and ending on the date of such mailing. The Security Registrar shall not be required to exchange or register transfers of any Notes called or being called for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

The Company shall maintain an office or agency within the City and State of New York where Notes may be presented for payment to the Paying Agent. The Company will at all times maintain a Paying Agent in Luxembourg as long as the Notes may be listed on the Luxembourg Stock Exchange. The Company may have one or more Co-Security Registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Paying Agent or Co-Security Registrar not a party to this Indenture, which, following the effectiveness of a registration statement pursuant to the Registration Rights Agreement, shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. Initially, the Trustee will act as Paying Agent in The City of New York and Security Registrar. If the Company fails to maintain a Security Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 606. The Company or any of its Wholly Owned Subsidiaries incorporated in the United States may act as Paying Agent, Security Registrar, Co-Security Registrar or transfer agent.

SECTION 306. Registration of Transfers and Exchanges.

Upon surrender for registration of transfer of any Note at the office or agency of the Company designated pursuant to Section 1002, the Company shall execute and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denomination or denominations of a like aggregate principal amount.

Furthermore, any Holder of the Restricted Global Note shall, by acceptance of such Global Note, agree that transfers of beneficial interests in such Global Note may be effected only through a book-entry system maintained by the Holder of such Global Note (or its agent), and that ownership of a beneficial interest in the Note shall be required to be reflected in a book entry.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

Every Note presented or surrendered for registration of transfer or for exchange shall be duly endorsed, or be accompanied by a written instrument of transfer, in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or its attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange or redemption of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes, other than exchanges pursuant to Section 303, 304, 801, 906, 1006, 1009 or 1108 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Note during a period beginning at the opening of business 15 days before the selection of Notes to be redeemed under Section 1104 and ending at the close of business on the day of such mailing of the relevant notice of redemption, or (ii) to register the transfer of or exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

None of the Company, the Trustee or the Depositary shall be liable for any delay by the Security Registrar in identifying the beneficial owners of the Notes and each such Person may conclusively rely on, and shall be protected in relying on, instructions from the Security Registrar for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of any Notes to be issued).

SECTION 307. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Trustee, or (ii) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Note, and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of actual notice to the Company or the Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in exchange for any such mutilated Note or in lieu of any such destroyed, lost or stolen Note, a new Note of like tenor and principal amount, bearing a number not contemporaneously outstanding.

(b) Upon the issuance of any new Note under this Section 307, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

(c) Every new Note issued pursuant to this Section 307 in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled

to all benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(d) The provisions of this Section 307 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

SECTION 308. Payment of Interest; Interest Rights Preserved.

Interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name such Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 1002; provided, however, at the Company's option, interest may be paid at the Trustee's Corporate Trust Office or by check mailed to the registered address of Holders. Notwithstanding the foregoing, payment of (and premium, if any, on), interest on Notes represented by Global Notes shall be made in accordance with procedures required by the Depositary.

Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date shall forthwith cease to be payable to the Holder on the Regular Record Date by virtue of having been such Holder, and such defaulted interest and (to the extent lawful) interest on such defaulted interest at the rate borne by the Notes (such defaulted interest and interest thereon herein collectively called "Defaulted Interest") may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a "Special Record Date" for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date, and in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given in the manner provided for in Section 107, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so given, such Defaulted Interest shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such Special Record Date.

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities

exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 308, each Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 309. Persons Deemed Owners.

Prior to the due presentment of a Note for registration of transfer, the Company the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any, on) and (subject to Sections 306 and 308) interest on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 310. Cancellation.

All Notes surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Notes previously authenticated hereunder which the Company has not issued and sold, and all Notes so delivered shall be promptly canceled by the Trustee. Subject to the first sentence of this Section 310, if the Company shall so acquire any of the Notes, however, such acquisition shall not operate as a redemption or satisfaction of the Indebtedness represented by such Notes unless and until the same are surrendered to the Trustee for cancellation. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in this Section 309, except as expressly permitted by this Indenture. All canceled Notes held by the Trustee shall be disposed of by the Trustee in accordance with its customary procedures and certification of their disposal delivered to the Company.

SECTION 311. Computation of Interest.

Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 312. Book-Entry Provisions for Global Notes.

(a) The Company shall execute and the Trustee shall, in accordance with this Section 312, authenticate and deliver initially one or more Global Notes that (a) shall be registered in the name of the Depositary for such Global Note or Global Notes or the nominee of such Depositary, (b) shall be delivered by the Trustee to such Depositary or pursuant to such Depositary's instructions or held by the Custodian and (c) bear legends as required by Section 313(e).

Members of, or participants in the Depositary ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Depositary or by the Custodian or under such Global Note, and the Depositary may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and its Agent Members, the operation of customary practices of such Depositary governing the exercise of the rights of a Holder of a beneficial interest in any Global Note.

(b) Interests of beneficial owners in a Global Note may be transferred in accordance with the applicable rules and procedures of the Depositary and the provisions of Section 313. Transfers of a Global Note shall be limited to transfers of such Global Note in whole, but not in part, to the Depositary, its successors or their respective nominees except that Certificated Notes shall be transferred to all beneficial owners in exchange for their beneficial interests in the Global Note only in the following circumstances: (x) the Depositary notifies the Company that it is unwilling or unable to continue as depositary for a global note or ceases to be a "Clearing Agency" registered under the Exchange Act or (y) an Event of Default has occurred and is continuing with respect to the Notes.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in any Global Note to beneficial owners pursuant to paragraph (b), the Registrar shall (if one or more Certificated Notes are to be issued) reflect on its books and records the date and a decrease in the principal amount of such Global Note in an amount equal to the principal amount of the beneficial interest in such Global Note to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more Certificated Notes of like tenor and principal amount of authorized denominations.

(d) In connection with the transfer of Global Notes as an entirety to beneficial owners pursuant to paragraph (b), the Global Notes shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depositary in exchange for its beneficial interest in the Global Notes, an equal aggregate principal amount of Certificated Notes of like tenor of authorized denominations.

(e) The Holder of any Global Note may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Notes.

(f) Any Certificated Note delivered in exchange for an interest in the Restricted Global or Regulation S Global Note pursuant to paragraph (b) of this Section 312 shall bear the Private Placement Legend if required by Section 313(e).

SECTION 313. Special Transfer Provisions.

Unless a Note is sold in connection with an effective registration statement under the Securities Act, the following provisions shall apply:

(a) Transfers to Non-QIB Institutional Accredited Investors. The following provisions shall apply with respect to the registration of any proposed transfer of a Note constituting a Restricted Security to any Institutional Accredited Investor which is not a QIB:

(i) the Security Registrar shall register the transfer of any Note constituting a Restricted Security, whether or not such Note bears the Private Placement Legend, if (x) the requested transfer is subsequent to a date which is two years after the later of the Issue Date and the last date on which the Company or any of its Affiliates was the owner of such Note or (y) in the case of a transfer to an Institutional Accredited Investor which is not a QIB (excluding Non-U.S. Persons), the transferee has executed and delivered to the Company and the Trustee (with a copy to the Security Registrar) an institutional accredited investor transferee compliance letter (an "Investor Letter") substantially in the form of Exhibit C hereto and any legal opinions and certifications required thereby; and

(ii) upon receipt by the Security Registrar of (x) the certificate in substantially the form of Exhibit C and any legal opinions and certifications required by clause (y) of paragraph (i) above and (y) instructions given in accordance with the procedures of the Depositary and the Security Registrar, (1) the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Global Note in which the transferor's beneficial interest is held in an amount equal to the principal amount of the beneficial interest in such IAI Global Note to be transferred or shall cancel any Certificated Note so transferred, and (2) the Security Registrar shall reflect on its books and records, if necessary, a corresponding increase in the principal amount of the IAI Global Note in which the transferee's beneficial interest will be held or, if it is determined by the Company that Certificated Notes must be issued, the Company shall execute and the Trustee shall authenticate and make available for delivery one or more Certificated Notes of like tenor and amount.

(b) Transfers to QIBs. The following provisions shall apply with respect to the registration of any proposed transfer of a Note constituting a Restricted Security to a QIB (excluding transfers to Non-U.S. Persons):

(i) the Security Registrar shall only register the transfer if such transfer is being made by a proposed transferor who has delivered to the Company and the Trustee a certificate substantially in the form of Exhibit D hereto (with a copy to the Security Registrar), and the transferee must advise the Company and the Trustee in writing that it is purchasing the Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying upon its foregoing representations in order to claim the exemption from registration provided by Rule 144A.

(ii) if the proposed transferee is an Agent Member and the Note to be transferred consists of a Certificated Note, upon receipt by the

Company, the Trustee and the Security Registrar of the documents referred to in paragraph (i) above and instructions given in accordance with the procedures of the Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Rule 144A Global Notes in an amount equal to the principal amount of the Certificated Note to be transferred, and the Trustee shall cancel the Certificated Note so transferred.

(c) Transfers to Non-U.S. Persons at Any Time. The following provisions shall apply with respect to any transfer of a Note to a Non-U.S. Person:

(i) any proposed transfer to any Non-U.S. Person of a Certificated Note or an interest in a Rule 144A Global Note may be made upon receipt by the Company and the Trustee (with a copy to the Security Registrar) of a certificate substantially in the form of Exhibit E hereto from the proposed transferor.

(ii) (a) if the proposed transferor is an Agent Member holding a beneficial interest in a Rule 144A Global Note, upon receipt by the Company, the Trustee and the Security Registrar of (A) the documents, if any, required by paragraph (i) and (B) instructions in accordance with the procedures of the Depositary, the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Rule 144A Global Notes in an amount equal to the principal amount of the beneficial interest in the Rule 144A Global Notes to be transferred, and (b) if the proposed transferee is an Agent Member, upon receipt by the Security Registrar of instructions given in accordance with the procedures of the Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Regulation S Global Notes in an amount equal to the principal amount of the Certificated Note or the Rule 144A Global Notes, as the case may be, to be transferred, and the Trustee shall cancel the Certificated Note, if any, so transferred or decrease the amount of the Rule 144A Global Notes.

(d) Transfers between Unrestricted Global Notes. The following restrictions shall apply with respect to transfers between Unrestricted Global Notes:

(i) if the proposed transferor is an Agent Member holding a beneficial interest in an Unrestricted Global Note, upon receipt by the Trustee of instructions in accordance with the procedures of the Depositary, the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Unrestricted Global Note in which such transferor has a beneficial interest in an amount equal to the principal amount of the beneficial interest in such Unrestricted Global Note to be transferred; and

(ii) if the proposed transferee is an Agent Member, upon receipt by the Trustee of instructions given in accordance with the procedures of the Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Unrestricted Global Note in which the transferee holds a beneficial interest in an amount equal to the principal amount of the beneficial interest in the other Unrestricted Global Note to be transferred, and the Security Registrar shall decrease the amount of the Unrestricted Global Note in which the transferor had a beneficial interest.

(e) Private Placement Legend. Upon the transfer, exchange or replacement of Notes not bearing or subject to the restrictions covered by the Private Placement Legend, the transferred or replacement Notes shall not bear or be subject to the restrictions covered by the Private Placement Legend, unless the Company believes that such transferred or replacement Notes are or will be Restricted Securities, in which case, such Notes shall bear, or be subject to the restrictions covered by, the Private Placement Legend. Upon the transfer, exchange or replacement of Notes bearing or subject to the Private Placement Legend, the Security Registrar shall deliver only Notes that bear or are subject to the Private Placement Legend unless (i) the circumstances contemplated by paragraph (a)(i)(x) of this Section 313 exist, (ii) there is delivered to the Security Registrar an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act or (iii) such Note has been sold pursuant to an effective registration statement under the Securities Act. At the request of the Company or a Holder, the Security Registrar may deliver Notes that do not bear and are not subject to the Private Placement Legend if (i) the circumstances contemplated by paragraph (a)(i)(x) of this Section 313 exist or (ii) there is delivered to the Security Registrar an Opinion of Counsel reasonably satisfactory to the Trustee to the effect that neither such legend nor the related restriction on transfer are required in order to maintain compliance with the provisions of the Securities Act.

(f) General. By its acceptance of any Note bearing the Private Placement Legend, each Holder of such a Note acknowledges the restrictions on transfer of such Note set forth in this Indenture and in the Private Placement Legend and agrees that it will transfer such Note only as provided in this Indenture.

The Security Registrar shall retain copies of all letters, notices and other written communications received pursuant to Section 312 or this Section 313. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Security Registrar.

The Trustee and the Security Registrar shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among Agent Members or beneficial owners of interests in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 314. "CUSIP", "ISIN" and "Common Code" Numbers.

The Company in issuing the Notes shall use "CUSIP", "ISIN" or "Common Code" number(s) and the Trustee shall use the "CUSIP", "ISIN" or "Common Code" number(s), in each case, as applicable, in notices of redemption or exchange as a convenience to Holders; provided that neither the Company nor the Trustee shall have any responsibility for any defect in the "CUSIP", "ISIN" or "Common Code" number, as applicable, that appears on any Note, check,

advice or payment or redemption notice, and any such notice may state that no representation is made as to the correctness or accuracy of the "CUSIP", "ISIN" and "Common Code" number(s), as applicable, printed in the notice or on the Notes, and that reliance may be placed only on the other identification numbers printed on the Notes and any such redemption or exchange shall not be affected by any defect in or omission of such number(s). The Company shall promptly notify the Trustee of any changes in "CUSIP", "ISIN" or "Common Code" numbers, as applicable.

SECTION 315. Issuance of Additional Notes.

The Company shall be entitled to issue Additional Notes under this Indenture which shall have substantially identical terms as the Notes, other than with respect to the date of issuance, issue price, amount of interest payable on the first payment date applicable thereto or upon a registration default as provided under a registration rights agreement related thereto and terms of optional redemption, if any (and, if such Additional Notes shall be issued in the form of Exchange Notes, other than with respect to transfer restrictions); provided, that such issuance shall be made in compliance with Section 1007; provided, however, that no Additional Notes may be issued unless the Additional Notes either (i) are part of the same "issue" as the Initial Notes for purposes of section 1271 through 1275 of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) have an issue price for purposes of section 1273 of the Code equal to the adjusted issue price of the Initial Notes, determined as of the issue date of the Additional Notes. The Initial Notes issued on the date of this Indenture, any Additional Notes and all Exchange Notes or Private Exchange Notes issued in exchange therefor shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Notes, the Company shall set forth in an Officers' Certificate, a copy of which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of Notes outstanding immediately prior to the issuance of such Additional Notes;

(2) the aggregate principal amount of such Additional Notes to be authenticated and delivered pursuant to this Indenture;

(3) the issue price and the issue date of such Additional Notes and the amount of interest payable on the first payment date applicable thereto;

(4) the "CUSIP", "ISIN" or "Common Code" number, as applicable, of such Additional Notes; and

(5) whether such Additional Notes shall be transfer Restricted Securities (within the meaning set forth in Rule 144(a)(3) of the Securities Act) and issued in the form of Initial Notes or shall be registered securities issued in the form of Exchange Notes, substantially in the form as set forth in Exhibit B hereto.

SECTION 316. Deposit of Moneys; Payments.

Prior to 10:00 a.m. New York time on each Interest Payment Date and on the Maturity Date or any other date a payment on the Notes is scheduled or required to be made, the Company shall have deposited with the Paying Agent

in immediately available funds U.S. dollars sufficient to make all cash payments due on such Interest Payment Date or the Maturity Date, as the case may be. The principal and interest on Global Notes shall be payable to the Depositary or its nominee, as the case may be, as the sole registered owner and the sole holder of the Global Notes represented thereby. The principal and interest on Certificated Notes shall be payable at the office of the Paying Agents or by check mailed to the registered address of Holders. The Paying Agents shall pay the Company any excess cash remaining on deposit after all payments have been made with respect to a given Interest Payment Date or the Maturity Date, as the case may be. All payments made hereunder shall be in U.S. dollars.

SECTION 317. Paying Agent To Hold Money in Trust.

Each Paying Agent shall hold in trust for the benefit of the Holders or the Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, or interest on the Notes, and shall notify the Trustee of any default by the Company in making any such payment. Money held in trust by the Paying Agent need not be segregated except as required by law and except if the Company or any of their respective Affiliates is acting as Paying Agent, and in no event shall the Paying Agent be liable for any interest on any money received by it hereunder. The Company at any time may require the Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed and the Trustee may at any time during the continuance of any Event of Default, upon a Company Order to the Paying Agent, require such Paying Agent to pay forthwith all money so held by it to the Trustee and to account for any funds disbursed. Upon making such payment, the Paying Agent shall have no further liability for the money delivered to the Trustee.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. Satisfaction and Discharge of Indenture.

This Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the applicable Notes, as expressly provided for in this Indenture) as to all Outstanding Notes under this Indenture when:

(1) either:

(a) all the Notes previously authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has previously been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the applicable Trustee for cancellation; or

(b) all Notes not previously delivered to the applicable Trustee for cancellation have become due and payable within one year or as a result of a mailing of a notice of redemption and the Company has irrevocably deposited or caused to be deposited with the applicable Trustee U.S. dollars, non-callable U.S. Government Obligations or a combination thereof in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not previously delivered to the applicable Trustee for cancellation, for principal of, premium, if any,

and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the applicable Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable under this Indenture by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 606 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section 401, the obligations of the Trustee under Section 402 and Section 1003 shall survive such satisfaction and discharge.

SECTION 402. Application of Trust Money.

Subject to the provisions of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

ARTICLE FIVE

REMEDIES

SECTION 501. Events of Default.

"Event of Default", wherever used herein, means any one of the following events:

(1) the failure to pay interest on any Notes or Senior Euro Notes when the same becomes due and payable and the default continues for a continuous period of 30 days;

(2) the failure to pay the principal on any Notes or Senior Euro Notes, when such principal becomes due and payable, at maturity, upon redemption or otherwise (including the failure to make a payment to purchase (x) Notes tendered pursuant to a Change of Control Offer or a Net Proceeds Offer or (y) Senior Euro Notes tendered pursuant to a "Change of Control Offer" or a "Net Proceeds Offer" (as each such term is defined under the Senior Euro Notes Indenture);

(3) a default in the observance or performance of any other covenant or agreement contained in this Indenture which default continues for a period of 90 days after the Company receives written notice specifying the default (and demanding that such default be remedied) from the Trustee or the Holders of at least 25% of the outstanding principal amount of the Notes (except in the case of a default with respect to Section 801, which will constitute an Event

of Default with such notice requirement but without such passage of time requirement);

(4) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Company or any Restricted Subsidiary of the Company, or the acceleration of the final Stated Maturity of any such Indebtedness, if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates $50.0 million or more at any time;

(5) one or more judgments in an aggregate amount in excess of $50.0 million (excluding any amounts adequately covered by insurance from a solvent and unaffiliated insurance company) shall have been rendered against the Company or any of its Restricted Subsidiaries and such judgments remain undischarged, unpaid or unstayed for a period of 90 days after such judgment or judgments become final and non-appealable;

(6) the entry by a court of competent jurisdiction of (A) a decree or order for relief in respect of the Company or any Significant Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law or (B) a decree or order adjudging the Company or any Significant Subsidiary bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or any Significant Subsidiary under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Significant Subsidiary or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief shall continue to be in effect, or any such other decree or order shall be unstayed and in effect, for a period of 60 consecutive days; or

(7) (A) the commencement by the Company or any Significant Subsidiary of a voluntary case or proceeding under any applicable Bankruptcy Law or any other case or proceeding to be adjudicated bankrupt or insolvent, (B) the Company or any Significant Subsidiary consents to the entry of a decree or order for relief in respect of the Company or such Significant Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding against it, (C) the Company or any Significant Subsidiary files a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, (D) the Company or any Significant Subsidiary (x) consents to the filing of such petition or the appointment of, or taking possession by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or such Significant Subsidiary or of any substantial part of its property, (y) makes an assignment for the benefit of creditors or (z) admits in writing its inability to pay its debts generally as they become due or (E) the Company or any Significant Subsidiary takes any corporate action in furtherance of any such actions in this clause (7).

SECTION 502. Acceleration of Maturity; Rescission and Annulment.

(a) If an Event of Default (other than an Event of Default specified in clause (6) or (7) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of Outstanding Notes under this Indenture may declare the principal of, and

premium, if any, and accrued interest on all the Notes under this Indenture to be due and payable by notice in writing to the Company and the Trustee specifying the respective Event of Default and that it is a "notice of acceleration", and the same shall become immediately due and payable. If an Event of Default specified in Section 501(6) or 501(7) with respect to the Company occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the Outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

(b) At any time after a declaration of acceleration with respect to the Notes as described in paragraph (a) above, the Holders of a majority in principal amount of the Notes under this Indenture may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and

(4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its expenses, disbursements and advances.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if:

(a) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable and such default continues for a period of 30 days, or

(b) default is made in the payment of the principal of (or premium, if any, on) any Note at the maturity thereof,

the Company shall, upon demand of the Trustee, pay to the Trustee for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal (and premium, if any) and interest, and interest on any overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installment of interest, at the rate borne by the Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name as trustee of an express trust, may institute a

judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Notes or the property of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal, premium, if any, or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 606.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 505. Trustee May Enforce Claims Without Possession of Notes.

All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name

and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article Five shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 606;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any, on,) and interest on the Notes in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Notes for principal (and premium, if any) and interest, respectively; and

THIRD: The balance, if any, to the Company.

SECTION 507. Limitation on Suits.

No Holder of any Notes shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee, for 60 days after its receipt of such notice, request and offer of reasonably satisfactory indemnity, has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority or more in principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the

manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment, as provided herein (including, if applicable, Article Twelve) and in such Note, of the principal of (and premium, if any, on) and (subject to Section 308) interest on, such Note on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in Section 307(d), no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and, subject to the provisions of Section 507, every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Five or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. Control by Holders.

The Holders of not less than a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; provided that

(1) such direction shall not be in conflict with any rule of law or

with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) the Trustee need not take any action which might involve it in personal liability or be unjustly prejudicial to the Holders not consenting.

SECTION 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past Default or Event of Default hereunder and its consequences, except a Default or Event of Default:

(1) in respect of the payment of the principal of (or premium, if any, on) or interest on any Note, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

Upon any such waiver, such Default or Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

SECTION 514. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

SECTION 601. Notice of Defaults.

Within 90 days after the occurrence of any Default hereunder, the Trustee shall transmit in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, notice of such Default hereunder known to the Trustee, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default or Event of Default in the payment of the principal of (or premium, if any, on) or interest on any Note, the Trustee shall be protected in withholding such notice if and so long as the Board of Directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders; and

provided further that in the case of any Default or Event of Default of the character specified in Section 501(3), no such notice to Holders shall be given until at least 30 days after the occurrence thereof.

In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise thereof, as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

SECTION 602. Certain Rights of Trustee.

Subject to the provisions of Sections 315(a) through 315(d) of the Trust Indenture Act:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled at all reasonable times to examine the books, records and premises of the Company personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or

attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(8) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 603. Trustee Not Responsible for Recitals or Issuance of Notes.

The recitals contained herein and in the Notes, except for the Trustee's certificates of authentication, shall be taken as the statements of the Company and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Notes, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Notes and perform its obligations hereunder and that the statements made by it in any Statement of Eligibility of Form T-1 supplied or to be supplied to the Company are or will be, as the case may be, true and accurate, subject to the qualifications set forth therein. The Trustee shall not be accountable for the use or application by the Company of Notes or the proceeds thereof.

SECTION 604. Trustee May Hold Notes.

The Trustee, any Paying Agent, any Security Registrar or any other agent of the Company or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Sections 310(b) and 311 of the Trust Indenture Act, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 605. Money Held in Trust.

Cash in U.S. dollars or U.S. Government Obligations held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any such cash or U.S. Government Obligations received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 606. Compensation and Reimbursement.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and

advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its gross negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without gross negligence or bad faith on its part, arising out of or in connection with the acceptance, administration or enforcement of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The obligations of the Company under this Section 606 to compensate the Trustee, to pay or reimburse the Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Trustee shall constitute indebtedness and shall survive the satisfaction and discharge of this Indenture. As security for the performance of such obligations of the Company, the Trustee shall have a claim prior to the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any, on) or interest on particular Notes.

SECTION 607. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be eligible to act as Trustee under Section 310(a)(1) of the Trust Indenture Act and shall have a combined capital and surplus of at least $100.0 million. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of federal, state, territorial or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 607, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Six.

SECTION 608. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article Six shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 609.

(b The Trustee may resign at any time by giving at least 60 days prior written notice thereof to the Company addressed to the Company. If the instrument of acceptance by a successor Trustee required by Section 609 shall not have been delivered to the Trustee within 90 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of not less than a majority in principal amount of the Outstanding Notes, delivered to the Trustee and to the Company addressed to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with the provisions of Section 310(b) of the Trust Indenture Act after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Note for at least six months, or

(2) the Trustee shall cease to be eligible under Section 607 and shall fail to resign after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Note for at least six months, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company may remove the Trustee, or (ii) subject to Section 315(e) of the Trust Indenture Act, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to the Holders of Notes in the manner provided for in Section 107. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 609. Acceptance of Appointment by Successor.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and, thereupon, the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all

property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts. No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article Six.

SECTION 610. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such Notes; and in case at that time any of the Notes shall not have been authenticated, any successor Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Notes in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. Disclosure of Names and Addresses of Holders; Holders' List.

(a) Every Holder of Notes, by receiving and holding the same, agrees with the Company and the Trustee that none of the Company or the Trustee or any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with Section 312 of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

(b) The Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing no later than the record date for each Interest Payment Date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

SECTION 702. Reports by Trustee.

Within 60 days after May 15 of each year commencing with the first May 15

after the first issuance of Notes, the Trustee shall transmit to the Holders, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, a brief report dated as of such May 15 if required by Section 313(a) of the Trust Indenture Act.

ARTICLE EIGHT

CONSOLIDATION, MERGER, SALE OF ASSETS

SECTION 801. Company May Consolidate, etc., Only on Certain Terms.

(a) The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary of the Company to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's assets (determined on a consolidated basis for the Company and the Company's Restricted Subsidiaries) whether as an entirety or substantially as an entirety to any Person unless:

(1) either:

(a) the Company shall be the surviving or continuing corporation; or

(b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):

(x) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia; and

(y) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance of every covenant of the Notes, this Indenture and the Registration Rights Agreement on the part of the Company to be performed or observed;

(2) if such transaction or series of related transactions occurs other than during a Suspension Period, immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including giving effect to any Indebtedness (including Acquired Indebtedness) incurred or anticipated to be incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, shall either (x) be able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to Section 1007(a) hereof or (y) shall have a Consolidated Fixed Charge Coverage Ratio immediately after such transaction or series of related transactions equal to or greater than the Company's Consolidated Fixed Charge Coverage Ratio immediately prior to such transaction or series of related transactions;

(3) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including, without limitation, giving effect to any Indebtedness (including Acquired Indebtedness) incurred or anticipated to be incurred and any Lien granted in connection with or in respect of the transaction), no Default or Event of Default shall have occurred or be continuing; and

(4) the Company or the Surviving Entity shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the applicable provisions of this Indenture and that all conditions precedent in this Indenture relating to such transaction have been satisfied.

(b) For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

(c) Notwithstanding the foregoing, the Company need not comply with clause (2) of paragraph (a) of this Section 801 in connection with (x) a sale assignment, transfer, conveyance or other disposition of assets between or among the Company and any of its Wholly Owned Restricted Subsidiaries or (y) any merger of the Company with or into any Wholly Owned Restricted Subsidiary or (z) a merger by the Company with an Affiliate incorporated or organized solely for the purpose of reincorporating or reorganizing the Company in another jurisdiction.

SECTION 802. Successor Substituted.

Upon any consolidation, merger, sale, assignment, conveyance, transfer, lease or other transaction described in, and complying with the provisions of, Section 801 in which the Company is not the continuing corporation, the Surviving Entity shall succeed to, and be substituted for, and may exercise every right and power of, the Company, as the case may be, under the Indenture and the Notes with the same effect as if such Surviving Entity had been named as such, and the Company shall be discharged from all obligations and covenants under this Indenture and the Notes, provided that, in the case of a transfer by lease, the predecessor shall not be released from its obligations with respect to the payment of principal (premium, if any) and interest on the Notes.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the

Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and complying with Article Eight of this Indenture; or

(2) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default; or

(4) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee pursuant to the requirements of Section 609; or

(5) to cure any ambiguity, defect or inconsistency, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make clear any other provisions with respect to matters or questions arising under this Indenture (including adding provisions requested by the Luxembourg Stock Exchange in order to list the Notes thereon); provided that such action shall not adversely affect the interests of the Holders in any material respect; or

(6) to add Guarantors pursuant to Section 1013; or

(7) to secure the Notes pursuant to the requirements of Section 1012 or otherwise; or

(8) to comply with any requirements of the Commission in order to effect and maintain the qualification of this Indenture under the Trust Indenture Act.

SECTION 902. Supplemental Indentures and Waivers With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture. However, no such supplemental indenture or waiver (including a waiver pursuant to Section 513) shall, without the consent of the Holder of each Outstanding Note affected thereby,

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption or reduce the redemption price therefor;

(4) make any Notes payable in money other than that stated in the Notes;

(5) make any change in provisions of this Indenture protecting the right of each Holder to receive payment of principal of and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default; or

(6) after the Company's obligation to purchase Notes arises thereunder, amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in the event of a Change of Control or, after such Change of Control has occurred, modify any of the provisions or definitions with respect thereto; provided, that for purposes of this clause (6), a Change of Control shall not be deemed to have occurred upon the entering into or execution of any agreement or instrument notwithstanding that the consummation of the transactions contemplated by such agreement or instrument would result in a Change of Control as defined herein if such agreement or instrument expressly provides that it shall be a condition to closing thereunder that the Holders of the Notes shall have waived the Change of Control on or prior to such closing unless and until such condition is waived by the parties to such agreement or instrument or the Change of Control has actually occurred; or

(7) modify or change any provision of this Indenture or the related definitions, in each case, affecting the ranking of the Notes in a manner which adversely affects the Holders.

It shall not be necessary for any Act of Holders under this Section 902 to approve the particular form of any proposed supplemental indenture or waiver, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Nine or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article Nine, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article Nine shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. Reference in Notes to Supplemental Indentures.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Nine may, and shall if required by the

Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Notes.

SECTION 907. Notice of Supplemental Indentures.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of Sections 901 and 902, the Company shall give notice thereof to the Holders of each Outstanding Note affected, in the manner provided for in Section 107, setting forth in general terms the substance of such supplemental indenture; provided, however, that the Company shall not be required to give notice of any indenture supplemental hereto entered into solely for the purpose specified in Section 901(5) or (8), notice with respect to which shall be given by the Company when it is next required to give notice pursuant to this Section 907.

SECTION 908. Record Date.

The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to consent to any supplemental indenture, agreement or instrument or any waiver, and, if a record date is fixed, shall promptly notify the Trustee of any such record date. If a record date is fixed, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to consent to such supplemental indenture, agreement or instrument or waiver or to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective with respect to such supplemental indenture, agreement or instrument or waiver which is entered into more than 120 days after such record date.

ARTICLE TEN

COVENANTS

SECTION 1001. Payment of Principal, Premium, if any, and Interest.

The Company shall pay the principal of (and premium, if any, on) and interest on the Notes in accordance with the terms of the Notes and this Indenture. Principal, premium, if any, interest shall be considered paid on the date due if on such date the Trustee or the relevant Paying Agent hold in accordance with this Indenture money sufficient to pay all principal, premium and interest then due and the Trustee or such Paying Agent, as the case may be, are not prohibited from paying such money to the Holders on that date.

SECTION 1002. Maintenance of Office or Agency.

The Company shall maintain, in the Borough of Manhattan in the City of New York, State of New York and, if and for so long as the Notes are listed on the Luxembourg Stock Exchange, in Luxembourg, an office or agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Corporate Trust Office of the Trustee and the office of an agent

of the Trustee located at c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041 shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company shall give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands. Unless otherwise specified with respect to the Notes as contemplated by Section 301, the Company hereby designates as a place of payment for the Notes the office or agency of the Trustee, and initially appoints the Trustee as Paying Agent to receive all such presentations, surrenders, notices and demands. The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation. The Company shall give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency but shall not be required to give notice of such designation, rescission or change to the Holders.

SECTION 1003. Money for Note Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent, it shall, on or before each due date of the principal of (and premium, if any, on) or interest on any of the Notes, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and shall promptly notify the Trustee of its action or failure so to act. Whenever the Company shall have one or more Paying Agents for the Notes, it shall, on or before each due date of the principal of (and premium, if any, on), or interest on, any Notes, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee of such action or any failure so to act. The Company shall cause each Paying Agent (other than the Trustee) to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any, on) or interest on Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Notes) in the making of any payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

SECTION 1004. Corporate Existence.

Subject to Article Eight hereof, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its material rights (charter and statutory), licenses and franchises; provided that the Company shall not be required to preserve any such right, license or franchise if the Board of Directors of the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries, taken as a whole.

SECTION 1005. Statement by Officers as to Compliance.

The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year, an officers' certificate stating that in the course of the performance by the signer of its duties as an officer of the Company he would normally have knowledge of any Default or Event of Default and whether or not the signer knows of any Default or Event of Default that occurred during such period and if any specifying such Default or Event of Default, its status and what action the Company is taking or proposed to take with respect thereto. The Company shall provide an officers' certificate to the Trustee promptly upon any such officer obtaining knowledge of any Default or Event of Default that has occurred and, if applicable, describe such Default or Event of Default and the status thereof. For purposes of this Section 1005, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture. The Company shall comply with Section 314(a)(4) of the Trust Indenture Act.

SECTION 1006. Purchase of Notes Upon a Change of Control.

(a) Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (equal to $1,000 and integral multiples thereof) of such Holder's Notes pursuant to the offer described below (the "Change of Control Offer"), at a purchase price equal to 101% of the principal amount of the Notes repurchased plus accrued and unpaid interest to the date of purchase.

(b) Within 30 days following the date upon which the Change of Control occurred, the Company shall send, or cause the Trustee to send, by first class mail, a notice to each Holder, with a copy to the Trustee stating:

(i) that a Change of Control has occurred and that such Holder has purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase;

(ii) the repurchase date (which shall be no earlier than 30 days nor later than 45 days from the date such notice is mailed, other than as required by law) (the "Change of Control Payment Date");

(iii) the procedures determined by the Company, consistent with this Indenture, that a Holder must follow in order to have its Notes purchased;

(iv) that the Change of Control Offer is being made pursuant to this Section 1006 and that all Notes properly tendered into the Change of Control Offer and not withdrawn will be accepted for payment; and that the Change of Control Offer shall remain open for a period of 20

Business Days or such longer period as may be required by applicable law;

(v) the purchase price (including the amount of accrued interest, if any) for each Note and the date on which the Change of Control Offer expires;

(vi) that any Note not tendered for payment will continue to accrue interest in accordance with the terms thereof;

(vii) that, unless the Company shall default in the payment of the purchase price, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;

(viii) that Holders electing to have Notes purchased pursuant to a Change of Control Offer will be required to surrender their Notes to the Paying Agent at the address specified in the notice prior to 5:00 p.m., New York City time, on the third Business Day prior to the Change of Control Payment Date and must complete the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note;

(ix) that Holders of Notes will be entitled to withdraw their election if the Paying Agent receives, not later than 5:00 p.m., New York City time, on the third Business Day prior to the Change of Control Payment Date, a facsimile transmission or letter setting forth the name of the Holders, the principal amount of Notes the Holders delivered for purchase, the Note certificate number (if any) and a statement that such Holder is withdrawing his election to have such Notes purchased;

(x) that Holders whose Notes are purchased only in part will be issued Notes of like tenor equal in principal amount to the unpurchased portion of the Notes surrendered; provided, however, that each Note purchased and each new Note issued shall be in denominations of $1,000 or integral multiples thereof; and

(xi) a description of the circumstances and relevant facts regarding such Change of Control.

On the Change of Control Payment Date, the Company shall (i) accept for payment Notes or portions thereof in integral multiples of $1,000 validly tendered and not withdrawn pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent money, in immediately available funds, sufficient to pay the purchase price of all Notes or portions thereof validly tendered and accepted and (iii) deliver to the Trustee the Notes so accepted together with an Officers' Certificate setting forth the Notes or portions thereof tendered to and accepted for payment by the Company. The Paying Agent shall promptly mail or deliver to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail or cause to be transferred by book-entry to such Holders a new Note of like tenor equal in principal amount to any unpurchased portion of the Note surrendered. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. Upon the payment of the purchase price for the Notes accepted for purchase, the Trustee shall cancel and return the Notes purchased to the Company. Any monies remaining after the purchase of all Notes validly tendered pursuant to a Change of Control Offer shall be returned within three (3) Business Days by the Paying

Agent to the Company. The Company shall publicly announce the results of the Change of Control Offer as soon as practicable following the Change of Control Payment Date.

(c) The Company is not required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements of this Section 1006 applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

(d) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with this Section 1006 the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 1006 by virtue thereof.

SECTION 1007. Limitation on Incurrence of Additional Indebtedness.

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, acquire, become liable, contingently or otherwise, with respect to, or otherwise become responsible for payment of (collectively, "incur") any Indebtedness (other than Permitted Indebtedness); provided, however, that the Company may incur Indebtedness (including, without limitation, Acquired Indebtedness), if on the date of the incurrence of such Indebtedness, after giving effect to the incurrence thereof, the Consolidated Fixed Charge Coverage Ratio of the Company is (i) greater than 2.0 to 1.0 if such Indebtedness is incurred on or before January 15, 2004 or (ii) greater than 2.25 to 1.0 if such Indebtedness is incurred after January 15, 2004.

(b) The Company will not, directly or indirectly, incur any Indebtedness which by its terms (or by the terms of any agreement governing such Indebtedness) is subordinated in right of payment to any other Indebtedness of the Company, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the Notes to the same extent and in the same manner as such Indebtedness is subordinated to other Indebtedness of the Company.

(c) Notwithstanding clause (a) of this Section 1007, the Company will not permit any Domestic Insignificant Subsidiary, directly or indirectly, to incur any Indebtedness other than Indebtedness permitted to be incurred by such Domestic Insignificant Subsidiary under clauses (2), (4), (7), (9), (10), (16) and (18) (provided that in the case of clause (18) the Indebtedness being Refinanced is the Indebtedness of any Domestic Insignificant Subsidiary) of the definition of Permitted Indebtedness.

SECTION 1008. Limitation on Restricted Payments.

(a) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any distribution (other than dividends or distributions payable in Qualified Capital Stock of

the Company) on or in respect of shares of the Company's or any Restricted Subsidiary's Capital Stock to holders of such Capital Stock in their capacity as such, other than dividends, payments or distributions payable to the Company or any Restricted Subsidiary of the Company (and, if such Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, dividends or distributions payable to the other equity holders of such Restricted Subsidiary on a pro rata basis);

(2) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company or any Restricted Subsidiary (other than (x) in exchange for Qualified Capital Stock of the Company, (y) the redemption of Preferred Stock of the Company or any Restricted Subsidiary outstanding on the Issue Date (other than the Convertible Trust Preferred Securities) at any scheduled final mandatory redemption date thereof as in effect on the Issue Date or (z) Capital Stock of a Restricted Subsidiary held by the Company or another Restricted Subsidiary) or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock or make any payments with respect to Synthetic Purchase Agreements;

(3) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Indebtedness (other than the purchase, repurchase or other acquisition of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition); or

(4) make any Investment (other than Permitted Investments)

(each of the foregoing actions set forth in clauses (1), (2), (3) and (4) being referred to as a "Restricted Payment"), if at the time of such Restricted Payment or immediately after giving effect thereto,

(i) a Default or an Event of Default shall have occurred and be continuing; or

(ii) the Company is not able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 1007; or

(iii) the aggregate amount of Restricted Payments (including such proposed Restricted Payment) made subsequent to December 31, 2001 (the amount expended for such purposes, if other than in cash, being the fair market value of such property as determined in good faith by the Company) shall exceed the sum, without duplication (the "Restricted Payments Basket"), of:

(v) 50% of the cumulative Consolidated Net Income (or if cumulative Consolidated Net Income shall be a loss, minus 100% of such loss) of the Company earned subsequent to December 31, 2001 and on or prior to the date the Restricted Payment occurs (the "Reference Date") (treating such period as a single accounting period); plus

(w) 100% of the aggregate Net Cash Proceeds received by

the Company from any Person (other than a Subsidiary of the Company) from the issuance and sale subsequent to December 31, 2001 and on or prior to the Reference Date of Qualified Capital Stock of the Company or warrants, options or other rights to acquire Qualified Capital Stock of the Company (but excluding any debt security that is convertible into, or exchangeable for, Qualified Capital Stock); plus

(x) 100% of the aggregate Net Cash Proceeds of any equity contribution received by the Company from a holder of the Company's Capital Stock; plus

(y) the amount by which Indebtedness of the Company (other than the Convertible Subordinated Debentures) is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to December 31, 2001 of such Indebtedness for Qualified Capital Stock of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); plus

(z) without duplication, the sum of:

(1) the aggregate amount returned in cash on or with respect to Investments (other than Permitted Investments) made subsequent to December 31, 2001 whether through interest payments, principal payments, dividends or other distributions or payments;

(2) the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the disposition of all or any portion of such Investments (other than to a Subsidiary of the Company); and

(3) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary;

provided, however, that the sum of clauses (1), (2) and (3) above shall not exceed the aggregate amount of all such Investments made subsequent to December 31, 2001.

(b) Notwithstanding the foregoing, the provisions set forth in the preceding paragraphs do not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration;

(2) the acquisition of any shares of Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock, either (i) solely in exchange for shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of shares of Qualified Capital Stock of the Company;

(3) the repurchase, redemption or other repayment of any Subordinated Indebtedness or Subsidiary Preferred Stock permitted to be issued pursuant to clause (2) of the definition of Permitted Indebtedness either (i) solely in exchange for shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company or other Subordinated Indebtedness of the Company that is Refinancing Indebtedness, or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of (a) shares of Qualified Capital Stock of the Company or (b) other Subordinated Indebtedness of the Company that is Refinancing Indebtedness;

(4) (x) the repurchase or other acquisition of shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any such Qualified Capital Stock, from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such Qualified Capital Stock or (y) the redemption or repayment of any outstanding de minimis Subordinated Indebtedness; provided that the aggregate amount paid under clauses (x) and (y) combined does not exceed $25.0 million since the Issue Date;

(5) regularly scheduled or cumulative dividends or distributions on the Convertible Trust Preferred Securities or on any other trust preferred securities issued by a Restricted Subsidiary of the Company that is a special purpose finance vehicle of the Company to the extent or distributions are included in Consolidated Fixed Charges;

(6) any repurchase of the Convertible Trust Preferred Securities upon the exercise by the holders thereof of any right to require such Restricted Subsidiary to purchase such securities through the application of the net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of an issuance of, or solely in exchange for, either (x) junior subordinated debentures of the Company that are subordinated to the Notes pursuant to a written agreement that is, taken as a whole, no less restrictive to the holders of such junior subordinated debentures than the subordination terms of the junior subordinated debentures into which such Convertible Trust Preferred Securities are exchangeable and have a maturity (including pursuant to any sinking fund obligation, mandatory redemption or right of repurchase at the option of the holder or otherwise) no earlier that the final maturity of the Notes and that have the benefit of covenants that are, taken as a whole, no more restrictive than the covenants in this Indenture or (y) Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company;

(7) regularly scheduled or cumulative dividends on the Company's Series B Convertible Preferred Stock to the extent such dividends are or were included in Consolidated Fixed Charges;

(8) upon the occurrence of a Change of Control and after the completion of the offer to repurchase of the Notes as described under "Change of Control" above (including the purchase of all Notes tendered), any purchase, defeasance, retirement, redemption or other acquisition of Subordinated Indebtedness required under the terms of such Subordinated Indebtedness as a result of such Change of Control;

(9) payments to holders of Capital Stock (or to the holders of Indebtedness or Disqualified Capital Stock that is convertible into or exchangeable for Capital Stock upon such conversion or exchange) in lieu of the issuance of fractional shares;

(10) the payment of consideration by a Person other than the Company or a Subsidiary to equity holders of the Company;

(11) any repurchase of the Convertible Subordinated Debentures upon exercise of the right of the holders to require the Company to purchase such securities on April 21, 2003;

(12) the transactions with any Person (including any Affiliate of the Company) described in Section 1011(c)(1) and the funding of any obligations in connection therewith; and

(13) other Restricted Payments in an aggregate amount which, when taken together with all other Restricted Payments pursuant to this clause (13), does not exceed $35.0 million.

(c) In determining the aggregate amount of Restricted Payments made subsequent to January 1, 2002 in accordance with clause (iii) of the second preceding paragraph, amounts expended pursuant to clauses (1) and (4) of the immediately preceding paragraph shall be included in such calculation. No issuance and sale of Qualified Capital Stock pursuant to clause (2) or (3) of the immediately preceding paragraph shall increase the Restricted Payments Basket, except to the extent the proceeds thereof exceed the amounts used to effect the transactions described therein.

SECTION 1009. Limitation on Asset Sales.

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of (as determined in good faith by the Company or such Restricted Subsidiary);

(2) at least 75% of the consideration received by the Company or the Restricted Subsidiary, as the case may be, from such Asset Sale shall be in the form of cash or Cash Equivalents (provided that the amount of any Pari Passu Indebtedness of the Company or any Indebtedness of a Restricted Subsidiary that is assumed by the transferee of any such assets shall be deemed to be cash for the purposes of this clause (2)); and

(3) upon the consummation of an Asset Sale, the Company shall apply, or cause such Restricted Subsidiary to apply, the Net Cash

Proceeds relating to such Asset Sale within 365 days of receipt thereof:

(A) (i) to repurchase or otherwise acquire any Pari Passu Indebtedness pursuant to any exercise by the holders thereof of the right to require the issuer thereof to repurchase or acquire such Pari Passu Indebtedness prior to its scheduled maturity or scheduled repayment, (ii) to prepay, repay, repurchase, redeem, defease or otherwise acquire or retire for value, on or prior to any scheduled maturity, repayment or amortization that portion of Pari Passu Indebtedness of the Company to the extent that such Pari Passu Indebtedness has a stated maturity, scheduled repayment or amortization that has or will become due prior to the final stated maturity of the Notes, (iii) any Pari Passu Indebtedness under the Credit Agreement (other than Capital Markets Debt) or (iv) any Indebtedness of a Restricted Subsidiary; provided that, in each case under this clause (A), if such Pari Passu Indebtedness was borrowed under the revolving portion of any credit facility, then a permanent reduction in the availability under the revolving portion of such credit facility will be effected;

(B) to make an Investment in or expenditures for properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties and assets (including Capital Stock of any entity) that will be used in the business of the Company and its Subsidiaries or in businesses reasonably related thereto or to fund the cash portion of the Turnaround Program ("Replacement Assets"); and/or

(C) a combination of prepayment and Investment permitted by the foregoing clauses (3)(A) and (3)(B);

provided that, notwithstanding the preceding provisions of this paragraph (3), if the Company or any Restricted Subsidiary:

(i) enters into any letter of intent, memorandum of understanding, agreement or other instrument (each, an "Asset Sale Agreement") after the Issue Date that contemplates one or more Asset Sales by the Company or such Restricted Subsidiary; and

(ii) after the date of such Asset Sale Agreement and within 365 days immediately prior to the consummation of the Asset Sale(s) pursuant thereto, has applied any cash or Cash Equivalents (other than Net Cash Proceeds from any other Asset Sale) ("Applied Cash") in any manner permitted by clause 3(A), 3(B) or 3(C) of the preceding paragraph (other than any repayments of Indebtedness under the Revolving Credit Facility, dated as of October 22, 1997 as it existed on the Issue Date only),

then the amount of Net Cash Proceeds relating to such Asset Sale(s) up to the amount of Applied Cash shall be deemed to have been applied by Company or such Restricted Subsidiary in accordance with the provisions of clause (3) above.

(b) Pending the application of any Net Cash Proceeds required by this Section 1009, the Company or such Restricted Subsidiary may temporarily reduce any short-term loans or any Indebtedness under the revolving portion of any credit facility, including, without limitation, under the Credit

Agreement, and such temporary reductions shall not result in any permanent reduction in the availability under the revolving portion of such credit facility.

(c) On the 366th day after an Asset Sale or such earlier date, if any, as the Board of Directors of the Company or of such Restricted Subsidiary determines not to apply the Net Cash Proceeds relating to such Asset Sale as set forth in clauses (3)(A), (3)(B) and (3)(C) of paragraph (a) (each, a "Net Proceeds Offer Trigger Date"), such aggregate amount of Net Cash Proceeds which have not been applied on or before such Net Proceeds Offer Trigger Date as permitted in paragraphs (a)(3)(A), (a)(3)(B) and (a)(3)(C) above or deemed to have been applied pursuant to the proviso of paragraph (a) above (each a "Net Proceeds Offer Amount") shall be applied by the Company or such Restricted Subsidiary to make an offer to purchase (the "Net Proceeds Offer") to all Holders of Notes and Senior Euro Notes (and holders of other Pari Passu Indebtedness of the Company to the extent required by the terms thereof) on a date (the "Net Proceeds Offer Payment Date") not less than 30 nor more than 60 days following the applicable Net Proceeds Offer Trigger Date, from all Holders of Notes and Senior Euro Notes (and holders of other Pari Passu Indebtedness of the Company to the extent required by the terms thereof) on a pro rata basis, that amount of Notes and the Senior Euro Notes (and other Pari Passu Indebtedness) equal to the Net Proceeds Offer Amount at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that if at any time any non-cash consideration received by the Company or any Restricted Subsidiary of the Company, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any such non-cash consideration), then such conversion or disposition shall be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof shall be applied in accordance with this Section 1009.

(d) The Company may defer the Net Proceeds Offer until there is an aggregate unutilized Net Proceeds Offer Amount equal to or in excess of $75.0 million resulting from one or more Asset Sales (at which time, the entire unutilized Net Proceeds Offer Amount, and not just the amount in excess of $75.0 million, shall be applied as required pursuant to this paragraph).

(e) Notwithstanding paragraphs (a), (b) and (c) of this Section 1009, the Company and its Restricted Subsidiaries will be permitted to consummate an Asset Sale without complying with such paragraphs to the extent that:

(1) at least 75% of the consideration for such Asset Sale constitutes Replacement Assets; and

(2) such Asset Sale is for fair market value; provided that any cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries in connection with any Asset Sale permitted to be consummated under this paragraph shall constitute Net Cash Proceeds subject to the provisions of paragraphs (a), (b) and (c) of this Section 1009.

(f) Each Net Proceeds Offer will be mailed to the record Holders as shown on the register of Holders within 45 days following the Net Proceeds Offer Trigger Date, with a copy to the Trustee and the Paying Agent. The Net Proceeds Offer shall remain open from the time of mailing for at least 20 Business Days or such longer period as may be required by applicable law and

until 5:00 p.m., New York City time, on the last day of the period (the "Net Proceeds Offer Payment Date"). The notice, which shall govern the terms of the Net Proceeds Offer, shall include such disclosures as are required by law and shall state:

(i) that the Net Proceeds Offer is being made pursuant to this Section 10.16 and that all Notes in integral multiples of $1,000 validly tendered into the Net Proceeds Offer shall be accepted for payment; provided, however, that if the aggregate principal amount of Notes, Senior Euro Notes and Pari Passu Indebtedness properly tendered in the Net Proceeds Offer exceeds the Net Proceeds Offer Amount, the Company shall select the Notes, Senior Euro Notes and other Pari Passu Indebtedness will be purchased on a pro rata basis based upon the aggregate principal amount of such Notes, Senior Euro Notes and other Pari Passu Indebtedness tendered; and that the Net Proceeds Offer shall remain open for a period of 20 Business Days or such longer period as may be required by applicable law;

(ii) the purchase price (including the amount of accrued interest and, if any) for each Note, the Net Proceeds Offer Payment Date and the date on which the Net Proceeds Offer expires;

(iii) that any Note not tendered for payment shall continue to accrue interest in accordance with the terms thereof;

(iv) that, unless the Company shall default in the payment of the purchase price, any Note accepted for payment pursuant to the Net Proceeds Offer shall cease to accrue interest after the Net Proceeds Offer Payment Date;

(v) that Holders electing to have Notes purchased pursuant to a Net Proceeds Offer shall be required to surrender their Notes to the Paying Agent at the address specified in the notice prior to 5:00 p.m., New York City time, on three (3) Business Days prior to the Net Proceeds Offer Payment Date and must complete any form letter of transmittal proposed by the Company and acceptable to the Trustee and the Paying Agent;

(vi) that any Holder of Notes shall be entitled to withdraw its election if the Paying Agent receives, not later than 5:00 p.m., New York City time, on three (3) Business Days prior to the Net Proceeds Offer Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes the Holder delivered for purchase, the Note certificate number (if any) and a statement that such Holder is withdrawing its election to have such Notes purchased;

(vii) that Holders whose Notes are purchased only in part shall be issued Notes of like tenor equal in principal amount to the unpurchased portion of the Notes surrendered;

(viii) the instructions that Holders must follow in order to tender their Notes; and

(ix) a description of the circumstances and relevant facts regarding such Asset Sale and Net Proceeds Offer.

On the Net Proceeds Offer Payment Date, the Company shall (i) accept for

payment (subject to pro ration as described in under Section 1009(c)) Notes or portions thereof in integral multiples of $1,000 validly tendered pursuant to the Net Proceeds Offer, (ii) deposit with the Paying Agent money, in immediately available funds, sufficient to pay the purchase price of all Notes or portions thereof so tendered and accepted and (iii) deliver to the Trustee the Notes so accepted together with an Officers' Certificate setting forth the Notes or portions thereof tendered to and accepted for payment by the Company. The Paying Agent shall promptly mail or deliver to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail or deliver to such Holders a new Note of like tenor equal in principal amount to any unpurchased portion of the Note surrendered. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. Upon the payment of the purchase price for the Notes accepted for purchase, the Trustee shall cancel and return the Notes purchased to the Company. Any monies remaining after the purchase of all Notes validly tendered pursuant to a Net Proceeds Offer shall be returned within three Business Days by the Paying Agent to the Company. The Company shall publicly announce the results of the Net Proceeds Offer as soon as practicable following the Net Proceeds Offer Payment Date.

(g) After consummation of any Net Proceeds Offer, any Net Proceeds Offer Amount not applied to any such purchase may be used by the Company for any purpose permitted by the other provisions of this Indenture.

(h) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Net Proceeds Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Section 1009, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the provisions of this Section 1009 by virtue thereof.

SECTION 1010. Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual, encumbrance or restriction on the ability of any Restricted Subsidiary of the Company to:

(1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any Restricted Subsidiary;

(2) make loans or advances or to pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary of the Company; or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary of the Company,

except for such encumbrances or restrictions existing under or by reason of:

(a) applicable law, rules, regulations and/or orders;

(b) this Indenture (including, without limitation, any Liens permitted by this Indenture) and the Senior Euro Notes Indenture (including, without

limitation, any lien permitted by such Senior Euro Notes Indenture);

(c) customary non-assignment provisions of any contract, or any lease or license governing a leasehold interest, of any Restricted Subsidiary of the Company;

(d) any agreement or instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired or any Subsidiary of such Person;

(e) any agreements or instruments existing on the Issue Date to the extent and in the manner such agreements are in effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof, provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are no more restrictive (as determined in the good faith judgment of the Company) in any material respect, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such agreements or instruments as in effect on the Issue Date;

(f) the Credit Agreement;

(g) Purchase Money Indebtedness incurred in compliance with Section 1007 hereof that impose restrictions of the nature described in clause (3) above on the property acquired;

(h) any agreement relating to Indebtedness of a Restricted Subsidiary permitted to be incurred under Section 1007 hereof;

(i) restrictions on cash or other deposits or net worth imposed under contracts entered into in the ordinary course of business;

(j) any encumbrance or restriction existing under or by reason of contractual requirements in connection with a Qualified Receivables Transaction;

(k) pursuant to any merger agreements, stock purchase agreements, asset sale agreements and similar agreements limiting the transfer of properties and assets or distributions pending consummation of the subject transaction;

(l) in the case of clause (3) of this Section 1010, any encumbrance or restriction (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license, or similar contract, (b) by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by this Indenture, or (c) contained in security agreements securing Indebtedness of any Restricted Subsidiary to the extent permitted by this Indenture and such encumbrance or restrictions restrict the transfer of the property subject to such security agreements;

(m) an agreement governing Indebtedness incurred to Refinance the Indebtedness issued, assumed or incurred pursuant to an agreement referred to in clause (b), (d), (e), (g), (h) or (j) above; provided, however, that the provisions relating to such encumbrance or restriction contained in any such

Indebtedness are no more restrictive in any material respect than the provisions relating to such encumbrance or restriction contained in agreements referred to in such clause (b), (d), (e), (g), (h) or (j) as determined by the Company; and

(n) agreements or instruments, including, without limitation, joint venture agreements, entered into to facilitate the Turnaround Program or in connection with Permitted Joint Venture Investments.

SECTION 1011. Limitations on Transactions with Affiliates.

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any of its Affiliates (each an "Affiliate Transaction"), other than (x) Affiliate Transactions permitted under paragraph (c) of this Section 1011 and (y) Affiliate Transactions on terms that are no less favorable in any material respect than those that might reasonably have been obtained, in the good faith judgment of the Board of Directors of the Company or the Restricted Subsidiary, as the case may be, in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company or such Restricted Subsidiary.

(b) Each Affiliate Transaction (and each series of related Affiliate Transactions which are similar or part of a common plan) involving aggregate payments or other property with a fair market value in excess of $20.0 million shall be approved by the Board of Directors of the Company or such Restricted Subsidiary, as the case may be, such approval to be evidenced by a Board Resolution stating that such Board of Directors has determined that such transaction complies with the foregoing provisions.

(c) The foregoing paragraphs shall not apply to:

(1) any employment agreement, collective bargaining agreement, employee benefit plan, related trust agreement or any similar arrangement, payment of compensation and fees to, and indemnity provided on behalf of, any present or former employees, officers, directors or consultants, maintenance of benefit programs or arrangements for any present or former employees, officers or directors, including vacation plans, health and life insurance plans, deferred compensation plans, and retirement or savings plan and similar plans, and loans and advances to any present or former employees, officers, directors, consultants and shareholders, in each case entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or approved by the Board of Directors of the Company or such Restricted Subsidiary, as the case may be;

(2) transactions exclusively between or among the Company and any of its Restricted Subsidiaries or any joint venture in which the Company has a Permitted Joint Venture Investment or exclusively between or among such Restricted Subsidiaries; provided such transactions are not otherwise prohibited by this Indenture;

(3) any agreement, instrument or arrangement as in effect as of the Issue Date or any amendment thereto or any transaction contemplated thereby (including pursuant to any amendment thereto) in any replacement

agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date as determined by the Company;

(4) Permitted Investments and Restricted Payments permitted by this Indenture;

(5) the issuance or sale of any Capital Stock (other than Disqualified Capital Stock) of the Company; and

(6) any transactions with joint ventures described in the definition of Permitted Joint Venture Investments and transactions contemplated by or to facilitate the Turnaround Program.

SECTION 1012. Limitation on Liens.

(a) The Company will not create or suffer to exist, or permit any of its Specified Subsidiaries to create or suffer to exist, any Lien, or any other type of preferential arrangement, upon or with respect to any of its properties (other than "margin stock" as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System), whether now owned or hereafter acquired, or assign, or permit any of its Specified Subsidiaries to assign, any right to receive income, in each case to secure any Indebtedness (other than Indebtedness described in clauses (5) and (8) of the definition of "Indebtedness" herein) without making effective provision whereby all of the Notes (together with, if the Company shall so determine, any other Indebtedness of the Company or such Specified Subsidiary then existing or thereafter created which is not subordinate to the Notes) shall be equally and ratably secured with the Indebtedness secured by such security (provided that any Lien created for the benefit of the Holders of the Notes pursuant to this sentence shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Lien that resulted in such provision becoming applicable, unless a Default or Event of Default shall then be continuing); provided, however, that the Company or its Specified Subsidiaries may create or suffer to exist any Lien or preferential arrangement of any kind in, of or upon any of the properties or assets of the Company or its Specified Subsidiaries to secure any Indebtedness in an aggregate amount at any time outstanding not greater than 20% of the Consolidated Net Worth of the Company; and provided, further, that the foregoing restrictions shall not apply to any of the following:

(1) deposits, Liens or pledges arising in the ordinary course of business to enable the Company or any of its Specified Subsidiaries to exercise any privilege or license or to secure payments of workers' compensation or unemployment insurance, or to secure the performance of bids, tenders, leases contracts (other than for the payment of borrowed money) or statutory landlords' Liens or to secure public or statutory obligations or surety, stay or appeal bonds, or other similar deposits or pledges made in the ordinary course of business;

(2) Liens imposed by law or other similar Liens, if arising in the ordinary course of business, such as mechanic's, materialman's, workman's, repairman's or carrier's liens, or deposits or pledges in the ordinary course of business to obtain the release of such Liens;

(3) Liens arising out of judgments or awards against the Company or any of its Specified Subsidiaries in an aggregate amount not to exceed at any time outstanding under this clause (3) the greater of (a) 15% of the Consolidated Net Worth of the Company or (b) the minimum amount which, if subtracted from such Consolidated Net Worth, would reduce such Consolidated Net Worth below $3.2 billion and, in each case, with respect to which the Company or such Specified Subsidiary shall in good faith be prosecuting an appeal or proceedings for review, or Liens for the purpose of obtaining a stay or discharge in the course of any legal proceedings;

(4) Liens for taxes if such taxes are not delinquent or thereafter can be paid without penalty, or are being contested in good faith by appropriate proceedings, or minor survey exceptions or minor encumbrances, easements or restrictions which do not in the aggregate materially detract from the value of the property so encumbered or restricted or materially impair their use in the operation of the business of the Company or any Specified Subsidiary owning such property;

(5) Liens in favor of any government or department or agency thereof or in favor of a prime contractor under a government contract and resulting from the acceptance of progress or partial payments under government contracts or subcontracts thereunder;

(6) Liens existing on December 1, 1991;

(7) purchase money Liens or security interests in property acquired or held by the Company or any Specified Subsidiary in the ordinary course of business to secure the purchase price thereof or Indebtedness incurred to finance the acquisition thereof;

(8) Liens existing on property at the time of its acquisition;

(9) the rights of Xerox Credit Corporation relating to a certain reserve account established pursuant to an operating agreement dated as of November 1, 1980, between the Company and Xerox Credit Corporation;

(10) the replacement, extension or renewal of any of the foregoing; and

(11) Liens on any assets of any Specified Subsidiary of up to $500.0 million incurred since December 1, 1991 in connection with the sale or assignment of assets of such Specified Subsidiary for cash where the proceeds are applied to repayment of Indebtedness of such Specified Subsidiary and/or invested by such Specified Subsidiary in assets which would be reflected as receivables on the balance sheet of such Specified Subsidiary.

(b) In addition, if after the Issue Date any Capital Markets Debt of the Company or any Restricted Subsidiary becomes secured by a Lien pursuant to any provision similar to the covenant in the immediately preceding paragraph, then:

(1) in the case of a Lien securing Subordinated Indebtedness, the Notes are secured by a Lien on the same property as such Lien that is senior in priority to such Lien; and

(2) in all other cases, the Notes are equally and ratably secured by a Lien on the same property as such Lien.

SECTION 1013. Subsidiary Guarantees.

(a) If on or after the Issue Date:

(1) any other Capital Market Debt of the Company is or becomes guaranteed by any Restricted Subsidiary of the Company; or

(2) any one or more Wholly Owned Domestic Restricted Subsidiaries (singly or in the aggregate) would at the end of any fiscal quarter constitute a Significant Subsidiary (which term for the purposes of this Section 1013 shall be limited to any Person that satisfies only the asset criteria set forth in clauses (1) and (2) of paragraph (w) of Rule 1.02 of Regulation S-X under the Exchange Act) (other than (i) Xerox Financial Services, Inc. and each of its Subsidiaries (other than Xerox Credit Corporation) for so long as its respective business is conducted in a manner similar to that on the Issue Date, (ii) Xerox Credit Corporation or any other Restricted Subsidiary of the Company, in each case so long as it is primarily a special purpose financing vehicle of the Company or its Restricted Subsidiaries (a "Financing Subsidiary") or any holding company whose principal asset is Capital Stock of a Financing Subsidiary or (iii) any Domestic Restricted Subsidiary so long as its primary asset is Capital Stock of one or more Foreign Subsidiaries and/or its primary asset is Indebtedness of one or more Foreign Subsidiaries or any combination of the foregoing), then the Company shall cause, in the case of (1), such Restricted Subsidiary that is guaranteeing Company Capital Markets Debt, and, in the case of (2), such Domestic Restricted Subsidiary(ies), to execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee pursuant to which such Person shall fully and unconditionally guarantee all of the Company's obligations under the Notes and this Indenture, including the prompt payment in full when due of the principal of, premium on, if any, interest and, without duplication, Additional Interest, if any, on the Notes and all other amounts payable by the Company thereunder and hereunder, subject to any applicable grace period, whether at maturity, by acceleration or otherwise, and interest on any overdue principal and any overdue interest on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes, such Guarantee to be more fully described in such supplemental indenture.

(b) Any Guarantee executed pursuant to clause (1) of paragraph (a) above shall provide by its terms that such Guarantee shall be automatically and unconditionally released upon the release of the guarantee that resulted in such clause (1) becoming applicable (other than by reason of payment under such guarantee) so long as such Restricted Subsidiary is not at such time guaranteeing any other Capital Markets Debt of the Company and no Default or Event of Default is then continuing. In addition, any Guarantee executed pursuant either to clause (1) or clause (2) of paragraph (a) above shall provide by its terms that such Guarantee shall be automatically and unconditionally released upon: (i) the designation of the Restricted Subsidiary that gave such Guarantee as an Unrestricted Subsidiary in compliance with provisions of this Indenture or (ii) any transaction, including without limitation, any sale, exchange or transfer, to any Person

not an Affiliate of the Company, of the Company's Capital Stock in, or all or substantially all the property of, such Restricted Subsidiary, which transaction is in compliance with the terms of this Indenture, and which results in the Restricted Subsidiary that gave such Guarantee ceasing to be a Subsidiary of the Company and, in the case of either clause (i) or clause (ii), such Restricted Subsidiary is released from all guarantees, if any, by it of other Capital Markets Debt of the Company.

(c) In addition to the foregoing, the Company shall have the right to cause any Restricted Subsidiary to execute a Guarantee in respect of the Company's obligations under the Notes, provided that such Restricted Subsidiary shall execute and deliver to the Trustees a supplemental indenture in a form reasonably satisfactory to the Trustees in respect of such Guarantee.

SECTION 1014. Reports to Holders.

Whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, the Company will furnish the Holders of Notes:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that describes the financial condition and results of operations of the Company and its consolidated Subsidiaries and, with respect to the annual information only, a report thereon by the Company's certified independent accounts; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports,

in each case within the time periods specified in the Commission's rules and regulations.

If and so long as the Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, copies of such reports shall also be available at the specified office of the Paying Agent and transfer agent in Luxembourg.

In addition, following the consummation of the Exchange Offer contemplated by the Registration Rights Agreements, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Company has agreed that, for so long as any Notes remain outstanding, it will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SECTION 1015. Suspension Period.

For purposes of this Article 10, during a Suspension Period, the Suspended Covenants will not apply. The remaining provisions and covenants of this

Article 10 will continue to apply at all times so long as any Notes remain Outstanding.

"Suspension Period" means any period (a) beginning on the date that:

(1) the Notes have Investment Grade Status, provided that prior to the assignment of the ratings contemplated by the definition of Investment Grade Status, the Company has advised Moody's and S&P that the Suspended Covenants will not apply during any Suspension Period;

(2) no Default or Event of Default has occurred and is continuing; and

(3) the Company has delivered an Officers' Certificate to the Trustee certifying that the conditions set forth in clauses (1) and (2) above are satisfied,

and (b) ending on the date (the "Reversion Date") that the Notes cease to have the applicable ratings from both Moody's and S&P specified in the definition of Investment Grade Status; provided that solely for the purpose of determining the Reversion Date, the Notes shall be deemed to have Investment Grade Status if clause (i) or (ii) of the definition of Investment Grade Status are otherwise satisfied, notwithstanding that either Moody's and/or S&P announces a negative outlook with respect to the Notes.

On each Reversion Date, all Indebtedness incurred during the Suspension Period prior to such Reversion Date will be deemed to have been outstanding on the Issue Date and classified as permitted under clause (4) of the definition of Permitted Indebtedness.

For purposes of calculating the amount available to be made as Restricted Payments under Section 1008(a)(iii), calculations under such clause (a)(iii) will be made with reference to December 31, 2001 as set forth in such clause. Accordingly, (x) Restricted Payments made during the Suspension Period not otherwise permitted pursuant to any of clauses (1) through (13) of Section 1008(b) will reduce the amount available to be made as Restricted Payments under Section 1008(a)(iii), provided, that the amount available to be made as Restricted Payments on the Reversion Date shall not be reduced to below zero solely as a result of such Restricted Payments, but may be reduced to below zero as a result of cumulative Consolidated Net Income for the purpose of Section 1008(a)(iii)(v) being a loss, and (y) the items specified in subclause (v) through (z) of Section 1008(a)(iii) that occur during the Suspension Period will increase the amount available to be made as Restricted Payments under Section 1008(a)(iii). Any Restricted Payments made during the Suspension Period that (i) are of the type described in Section 1008(b)(4) or (ii) that would have been made pursuant to Section 1008(b)(13) if such Section were then applicable, shall reduce the amounts permitted to be incurred under such Section 1008(b)(4) or 1008(b)(13), as the case may be, on the Reversion Date.

For purposes of Section 1009, on the Reversion Date, the unutilized Net Proceeds Offer Amount will be reset to zero.

SECTION 1016. Calculation of Original Issue Discount.

The Company shall file with the Trustee promptly at the end of each calendar year (i) a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Notes as

of the end of such year and (ii) such other specific information relating to such original issue discount as may then be relevant under the Code.

ARTICLE ELEVEN

REDEMPTION OF NOTES

SECTION 1101. Right of Redemption.

Except as set forth in this Section 1101, the Notes are not redeemable.

The Company may, at any time and from time to time, at its option, redeem the Outstanding Notes (in whole or in part) at a redemption price equal to 95.167% of the principal amount thereof, plus the original issue discount on such Notes that has accrued pursuant to Section 1272 of the Internal Revenue Code of 1986, as amended, to the applicable redemption date, plus accrued and unpaid interest on the Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a "Specified Redemption"); provided that in the case of any such redemption in part, at least 50% of the original principal amount of the Notes remains outstanding after giving effect to such redemption. The Company shall give not less than 30 nor more than 60 days notice of such redemption.

SECTION 1102. Applicability of Article.

Redemption of Notes at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

SECTION 1103. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Notes pursuant to Section 1101 shall be evidenced by an Officers' Certificate. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Notes to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Notes to be redeemed pursuant to Section 1104.

SECTION 1104. Selection by Trustee of Notes to Be Redeemed.

In the event that the Company chooses to redeem less than all of the Notes, selection of the Notes for redemption will be made by the Trustee either:

(1) in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed; or,

(2) if the Notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than $1,000.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

SECTION 1105. Notice of Redemption.

Notice of redemption shall be given in the manner provided for in Section 107 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed. So long as any Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, any such notice to the Holders of the relevant Notes shall also be published in a daily newspaper of general circulation in Luxembourg (which is expected to be the Luxembourg Wort).

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all Outstanding Notes are to be redeemed, the identification by "CUSIP," "ISIN" or "Common Code" Numbers, if any (and, in the case of a partial redemption, the principal amounts) and, as applicable, of the particular Notes to be redeemed,

(4) if any Note is to be redeemed in part only, the portion of the principal amount thereof to be redeemed,

(5) that on the Redemption Date, the Redemption Price (together with accrued interest to the Redemption Date payable as provided in Section 1107) will become due and payable upon each such Note, or the portion thereof, to be redeemed, and that interest thereon will cease to accrue on and after said date, and

(6) the place or places where such Notes are to be surrendered for payment of the Redemption Price.

Notice of redemption of Notes to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1106. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and accrued interest on, any Notes, or any portions thereof, to be redeemed on that date.

SECTION 1107. Notes Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest, if

any) such Notes, or portions thereof, shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with said notice, such Note shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Notes, or one or more Predecessor Notes, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 308.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium and interest) shall, until paid, bear interest from the Redemption Date at the rate borne by the Notes.

SECTION 1108. Notes Redeemed in Part.

Any Note which is to be redeemed only in part pursuant to the provisions of this Article shall be surrendered at the office or agency of the Company maintained for such purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the

Holder of such Note without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

ARTICLE TWELVE

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1201. Company's Option to Effect Legal Defeasance or Covenant Defeasance.

The Company may, at its option and at any time, with respect to the Notes, elect to have either Section 1202 or Section 1203 be applied to all Outstanding Notes upon compliance with the conditions set forth below in this Article Twelve.

SECTION 1202. Legal Defeasance and Discharge.

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the Outstanding Notes ("Legal Defeasance"). Such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Notes, except for:

(1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due from the trust fund referred to below;

(2) the Company's obligations with respect to Sections 304, 306, 307 and 1002;

(3) the Trustee's rights, powers, trust, duties and immunities under

Article Six and the Company's obligations in connection therewith; and

(4) the provisions of Article Twelve of this Indenture.

SECTION 1203. Covenant Defeasance.

The Company may, at its option and at any time, elect to have the obligations of the Company released with respect to Sections 1006 through and including 1015 and Section 801(a)(2) ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, clauses (4) and (5) in Section 501 will no longer constitute Events of Default with respect to the Notes. The Company may exercise its Legal Defeasance option notwithstanding its prior exercise of its Covenant Defeasance option.

SECTION 1204. Conditions to Legal Defeasance or Covenant Defeasance.

The following shall be the conditions to application of either Section 1202 or Section 1203:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of Notes, cash in U.S. dollars, non-callable U.S. Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof or on the redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that:

(a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or

(b) since the date of this Indenture, there has been a change in the applicable federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be

continuing on the date of such deposit or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under this Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(7) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with;

(8) No event or condition shall exist that would prevent the Company from making payments of the principal of, premium, if any, and interest on the Notes on the date of such deposit on the date of such deposit.

Notwithstanding the foregoing, the Opinion of Counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered if all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable on the maturity date within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company.

SECTION 1205. Deposited Money and U.S. Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.

Subject to the provisions of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively, for purposes of this Section 1205, the "Trustee") pursuant to Section 1204 in respect of the Outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Governmental Obligations deposited pursuant to Section 1204 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the Outstanding Notes.

Anything in this Article Twelve to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section

1204 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance, as applicable, in accordance with this Article Twelve.

SECTION 1206. Reinstatement.

If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 1205 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 1202 or 1203, as the case may be, until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 1205, and the Company shall execute all documents reasonably satisfactory to the Trustee evidencing such revival and reinstatement; provided, however, that if the Company makes any payment of principal of (or premium, if any, on) or interest on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

[Signature Page to Follow]

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

XEROX CORPORATION

Attest: /s/ Martin S. Wagner
Name: Martin S. Wagner
Title: Assistant Secretary

By /s/ Gregory B. Tayler
Name: Gregory B. Tayler
Title: Vice President and Treasurer

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

By /s/ Jane Y. Schweiger
Name: Jane Y. Schweiger
Title: Assistant Vice President

EXHIBIT A-1

[Form of Private Placement Legend]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF, THE HOLDER (1) AGREES THAT IT WILL NOT WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO XEROX CORPORATION OR ANY

SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) INSIDE THE UNITED STATES TO AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT (AN "ACCREDITED INVESTOR") THAT, PRIOR TO SUCH TRANSFER, FURNISHES (OR HAS FURNISHED ON ITS BEHALF BY A U.S. BROKER-DEALER) TO THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS SECURITY (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE TRUSTEE FOR THIS NOTE), (D) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT (IF AVAILABLE), (E) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF XEROX CORPORATION SO REQUESTS), OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (2) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND, IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE, IF THE PROPOSED TRANSFEREE IS AN ACCREDITED INVESTOR, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE TRUSTEE AND XEROX CORPORATION SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS EITHER OF THEM MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANING GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

EXHIBIT A-2

[Form of Global Note Legend]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR'S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

EXHIBIT B

[Form of Note]

(FACE OF NOTE)

FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND THE REGULATIONS THEREUNDER, THIS SECURITY IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT; FOR EACH $1,000 PRINCIPAL AMOUNT OF THIS NOTE, (1) THE ISSUE PRICE IS $951.67; (2) THE AMOUNT OF ORIGINAL ISSUE DISCOUNT IS $48.33; (3) THE ISSUE DATE IS JANUARY 17, 2002; AND (4) THE YIELD TO MATURITY (COMPOUNDED SEMI-ANNUALLY) IS 10.75%.

CUSIP No.: ISIN No.: Common Code:

XEROX CORPORATION

9 3/4% SENIOR NOTE DUE 2009

No. $

Xerox Corporation, a New York corporation (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to or registered assigns, the principal sum of U.S. Dollars on January 15, 2009, at the office or agency of the Company referred to below, and to pay interest thereon from January 17, 2002, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually on January 15 and July 15 of each year, commencing July 15, 2002, at the rate of 9 3/4% per annum, until the principal hereof is paid or duly provided for, and (to the extent lawful) to pay on demand interest on any overdue interest at the rate borne by the Notes from the date on which such overdue interest becomes payable to the date payment of such interest has been made or duly provided for.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest, which shall be the January 1 or July 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date, and such Defaulted Interest, and (to the extent lawful) interest on such Defaulted Interest at the rate borne by the Notes, may be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. [The Company shall pay all Additional Interest, if any, in the same manner on the dates and in the amounts set forth in the Registration Rights Agreement.]/a/ Interest on this Note shall be computed on the basis of a 360-day year of twelve 30-day months.

Payment of the principal of (and premium, if any, on), interest on this Note will be made at the office or agency of the Company maintained for that purpose in (which initially will be the office of the Trustee maintained at

c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041, or at such other office or agency of the Company as may be maintained for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the address of the Person entitled thereto as such address shall appear on the Security Register. Notwithstanding the foregoing, payment of interest in respect of Notes represented by Global Notes shall be made in accordance with procedures required by the Depositary.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been duly executed by the Trustee referred to on the reverse hereof by manual signature, this Note shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

/a/ Delete if an Exchange Note.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: XEROX CORPORATION

By:
Name:
Title:

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

This is one of the Notes referred to in the within-mentioned Indenture.

Dated:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Trustee

By:
Authorized Signatory

(REVERSE OF NOTE)

1. Indenture. This Note is one of a duly authorized issue of securities of the Company designated as its 9 3/4% Senior Notes due 2009 (herein called the "Notes"), issued under an indenture (herein called the "Indenture") dated as of January 17, 2002, among the Company and Wells Fargo Bank Minnesota, National Association, as trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties, obligations and immunities thereunder of the Company, the Trustee and the Holders of the Notes, and of the terms upon which the Notes are, and are to be, authenticated and delivered.

Capitalized terms used herein but not otherwise defined herein shall have the meaning assigned to such terms in the Indenture.

The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. ss.ss. 77aaa-77bbbb) (the "TIA"), as in effect on the date of the Indenture. Notwithstanding anything to the contrary herein, the Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and the TIA for a statement of such terms.

No reference herein to the Indenture and no provisions of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the times, place, and rate, and in the coin or currency, herein prescribed.

[2. Registration Rights. Pursuant to the Registration Rights Agreement, the Company will be obligated to consummate an Exchange Offer pursuant to which the Holder of this Note shall have the right to exchange this Note for 9 3/4% Senior Notes due 2009 of the Company in the form of Exchange Notes, which have been registered under the Securities Act, in like principal amount and having identical terms as the Notes (other than as set forth in this paragraph). The Holders of Notes shall be entitled to receive Additional Interest in the event such Exchange Offer is not consummated and upon certain other conditions, all pursuant to and in accordance with the terms of the Registration Rights Agreement.]/a/

3. Redemption. Except as set forth in this paragraph, the Notes are not redeemable.

(a) The Company may, at any time and from time to time, at its option, redeem the Outstanding Notes (in whole or in part) at a redemption price equal to 95.167% of

/a/ Delete if an Exchange Note.

the principal amount thereof, plus the original issue discount on such Notes that the accrued pursuant to Section 1272 of the Internal Revenue Code of 1986, as amended, to the applicable redemption date, plus accrued and unpaid interest on the Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a "Specified Redemption"); provided that in the case of

any such redemption in part, at least 50% of the original principal amount of the Notes remains outstanding after giving effect to such redemption. The Company shall give not less than 30 nor more than 60 days notice of such redemption.

In the event that the Company chooses to redeem less than all of the Notes, selection of the Notes for redemption will be made by the Trustee either:

(1) in compliance with the requirements of the principle national securities exchange, if any, on which the Notes are listed; or,

(2) if the Notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate.

(b) In the case of any redemption of Notes, interest installments whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Notes, or one or more Predecessor Notes, of record at the close of business on the relevant Record Date referred to on the face hereof. Notes (or portions thereof) for whose redemption and payment provision is made in accordance with the Indenture shall cease to bear interest from and after the Redemption Date.

(c) In the event of redemption of this Note in part only, a new Note or Notes for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

4. Offers to Purchase. Sections 1006 and 1009 of the Indenture provide that upon the occurrence of a Change of Control and following certain Asset Sales, and subject to certain conditions and limitations contained therein, the Company shall make an offer to purchase all or a portion of the Notes in accordance with the procedures set forth in the Indenture.

5. Defaults and Remedies. If an Event of Default occurs and is continuing, the principal of and premium, if any, on all of the Outstanding Notes, plus all accrued and unpaid interest, if any, to and including the date the Notes are paid, may be declared due and payable in the manner and with the effect provided in the Indenture.

6. Defeasance. The Indenture contains provisions for defeasance at any time of (a) the entire Indebtedness of the Company on this Note and (b) certain restrictive covenants and the related Defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

7. Amendment and Waivers. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding, on behalf of the Holders of all the Notes, to waive compliance by the Company with certain provisions of the Indenture and certain past Defaults or Events of Default under the Indenture and their consequences. Any such consent or waiver by or on behalf of the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in

exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

8. Denominations, Transfers and Exchanges. The Notes are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registerable on the Security Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company, maintained for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

No service charge shall be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

9. Persons Deemed Owners. Prior to and at the time of due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

10. Unclaimed Money. If money deposited with the Trustee or any applicable agent for the payment of principal of, premium, if any, or interest on, the Notes remains unclaimed for two years, the Trustee and such paying agent shall return the money to the Company. After that, Holders entitled to the money must look to the Company for payment unless applicable abandoned property law designates another Person and all liability of the Trustee and such paying agent shall cease. Other than as set forth in this paragraph and Section 115 of the Indenture, the Notes and the Indenture, respectively, do not provide for any periods for the escheatment of the payment of principal of, premium, if any, or interest on the Notes.

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

The Company will furnish to any Holder of a Note upon written request and without charge a copy of the Indenture. Requests may be made to: Xerox Corporation, 800 Long Ridge Road, Stamford, Connecticut 06904, Attention: Chief Financial Officer.

[In addition to the rights provided to Holders of Notes under the Indenture, Holders shall have all the rights set forth in the Registration Rights Agreement.]/a/

/a/ Delete if an Exchange Note.

ASSIGNMENT FORM

If you, the Holder, want to assign this Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Note to

(Insert assignee's social security or tax ID number)

(Print or type assignee's name, address and zip code) and irrevocably appoint

agent to transfer this Note on the books of the Company. The agent may substitute another to act for such agent.

In connection with any transfer of this Note occurring prior to the date which is the earlier of (i) the date of the declaration by the Commission of the effectiveness of a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering resales of this Note (which effectiveness shall not have been suspended or terminated at the date of the transfer) and (ii) the date two years (or such shorter period of time as permitted by Rule 144(k) under the Securities Act or any successor provision thereunder) after the later of the original issuance date appearing on the face of this Note (or any Predecessor Note) or the last date on which the Company or any Affiliate of the Company was the owner of this Note (or any Predecessor Note), the undersigned confirms that it has not utilized any general solicitation or general advertising in connection with the transfer and that:

[Check One]

[ ] (a) this Note is being transferred in compliance with the exemption from registration under the Securities Act provided by Rule 144A thereunder.

or

[ ] (b) this Note is being transferred other than in accordance with (a) above and documents, including a transferor certificate substantially in the form of Exhibit C, D or E to the Indenture in the case of a transfer pursuant to Regulation S, are being furnished which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked and, in the case of (b) above, if the appropriate document is not attached or otherwise furnished to the Trustee, the Trustee or Registrar shall not be obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 313 of the Indenture shall have been satisfied.

Date: Your signature:

(Sign exactly as your name appears
on the other side of this Note)

By:

NOTICE: To be executed by an
executive officer

Signature Guarantee:

TO BE COMPLETED BY PURCHASER IF (a) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as the undersigned has requested pursuant to Rule 144A (including the information specified in Rule 144A(d)(4)) or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: By:

NOTICE: To be executed by an
executive officer

OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have this Note purchased by the Company pursuant to Section 1006 or 1009 of the Indenture, check the appropriate box:

Section 1006 [ ] Section 1009 [ ]

If you wish to have a portion of this Note purchased by the Company pursuant to Section 1006 or 1009 of the Indenture, state the amount:

$

Date: Your signature:

(Sign exactly as your name appears
on the other side of this Note)

By:

NOTICE: To be executed by an
executive officer

Signature Guarantee:

EXHIBIT C

Form of Investor Letter To Be
Delivered in Connection with Transfers
to Non-QIB Institutional Accredited Investors

, 200

XEROX CORPORATION
800 Long Ridge Road
Stamford, CT 06904

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION
Corporate Trust
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Ladies and Gentlemen:

In connection with our proposed purchase of $_____ aggregate principal amount of 9 3/4% Senior Notes due 2009 (the "Notes") of XEROX CORPORATION (the "Company"), we confirm that:

1. We understand that the Notes have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Notes to offer, sell or otherwise transfer such Notes prior to (i) the date which is two years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Notes (or any predecessor thereto), (ii) such later date, if any, as may be required by any subsequent change in applicable law and (iii) such later date as the Company may, pursuant to Section 313 of the Indenture, determine is required in order to comply with U.S. Federal or state securities laws or the securities laws of any other relevant jurisdiction (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) so long as the Notes are eligible for resale pursuant to Rule 144A under the Securities Act, to a Person we reasonably believe is a qualified institutional buyer under Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A (as indicated by the box checked by the transferor on the Certificate of Transfer on the reverse of the Notes), (d) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, (e) to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act that is purchasing at least $250,000 of Notes that is purchasing for his or her own account or for the account of such an institutional accredited investor after delivery of an investor letter duly executed by such transferee or (f) pursuant to any other available exemption from the registration requirements

of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and to compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. Each purchaser acknowledges that the Company and the Trustee reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Notes pursuant to clauses (e) or (f) above to require the delivery of an Opinion of Counsel, certification and/or other information satisfactory to the Company and the Trustee.

2. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that is purchasing at least $250,000 of Notes, purchasing for our own account or for the account of such an institutional accredited investor that is purchasing at least $250,000 of Notes, and we are acquiring the Notes for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act and we have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our Investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or its Investment for an indefinite period.

3. We are acquiring the Notes purchased by us for our own account or for one or more accounts as to each of which we exercise sole investment discretion.

4. Each addressee is entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours, (Name of Purchaser)

By:
Name:
Title:

Upon transfer, the Notes would be registered in the name of the new beneficial owner as follows:

Name:

Address:

Taxpayer ID Number:

EXHIBIT D

Form of Transfer Certificate
for Transfer to a QIB

, 200

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
Corporate Trust
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Re: Xerox Corporation
9 3/4% Senior Notes due 2009 (the "Notes")

Ladies and Gentlemen:

Reference is hereby made to the Indenture dated as of January 17, 2002 (the "Indenture") among Xerox Corporation (the "Company") and Wells Fargo Bank Minnesota, National Association, as Trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to $ aggregate principal amount of Notes which
---
are evidenced by a [Regulation S Global Note (CUSIP/ISIN No.) and held with the Depositary (Common Code) in the name of/Certificated Note (CUSIP/ISIN No.) held by] [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such beneficial interest in the Note to a Person who will take delivery thereof in the form of an equal aggregate principal amount of Notes evidenced by a [Rule 144A Global Note/Certificated Note] of the same series and of like tenor as the Notes (CUSIP/ISIN No.). The Transferor has informed such Person that he is obtaining an interest in a Note that is subject to restrictions on transfer and that each subsequent transferee should be so informed.

In connection with such request and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "Securities Act"), and accordingly the Transferor does hereby further certify that the Notes are being transferred to a Person that the Transferor reasonably believes is purchasing the Notes for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States.

The Transferor further certifies that it is not an "affiliate" of the Company within the meaning of the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

[Insert Name of Transferor]

By:

Name: Title:

Dated: , 200

EXHIBIT E

Form of Transfer Certificate
for Transfer to a Non-U.S. Person

, 200

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION
Corporate Trust
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Re: XEROX CORPORATION
9 3/4% Senior Notes Due 2009 (the "Notes")

Ladies and Gentlemen:

Reference is hereby made to the Indenture dated as of January 17, 2002 (the "Indenture") among Xerox Corporation (the "Company") and Wells Fargo Bank Minnesota, National Association, as Trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to $ aggregate principal amount of Notes which
---
are evidenced by a [Rule 144A Global Note (CUSIP/ISIN No.) and held with the Depositary (Common Code) in the name of/Certificated Note (CUSIP/ISIN No.) held by] [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such Note to a Person who will take delivery thereof in the form of an equal aggregate principal amount of Notes evidenced by a [Regulation S Global Note/Certificated Note] of the same series and of like tenor as the Notes (CUSIP/ISIN No.).

In connection with such request and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with Rule 903 or Rule 904 under the United States Securities Act of 1933, as amended (the "Securities Act"), and accordingly the Transferor does hereby further certify that:

(1) the offer of the Notes was not made to a Person in the United States;

(2) either (a) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any Person

acting on its behalf reasonably believed that the transferee was outside the United States or (b) the transaction was executed in, on or through the facilities of a Designated Offshore Securities Market and neither the Transferor nor any Person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(3) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable; and

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company. Terms used in this certificate and not otherwise defined herein or in the Indenture have the meanings set forth in Regulation S under the Securities Act.

[Insert Name of Transferor]

By:

Name: Title:

Dated: , 200

Exhibit 4(h)(2)

XEROX CORPORATION,

as ISSUER,

and

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,

as TRUSTEE

INDENTURE

Dated as of January 17, 2002

9 3/4% Senior Notes due 2009

(Denominated in Euro)

XEROX CORPORATION

RECONCILIATION AND TIE BETWEEN TRUST INDENTURE ACT OF 1939 AND INDENTURE

Trust Indenture Act Section		Indenture Section
Section 310	(a)(1)	607
	(b)	604, 608(d), 1204
Section 311		604
Section 312		701
	(b)	701
	(c)	107
Section 313		101
	(a)	702
	(c)	601, 702, 703
Section 314	(a)(4)	1005
Section 315	(a)	602
	(b)	602
	(c)	602
	(d)	602
	(e)	608(d)
Section 316	(c)	105(d)

Note: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

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INDENTURE, dated as of January 17, 2002 among XEROX CORPORATION, a corporation duly organized and existing under the laws of the State of New York (herein called, the "Company"), having its principal office at 800 Long Ridge Road, Stamford, Connecticut 06904, and WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION, a national banking association, as trustee (herein called, the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the creation of an issue of (euro)225,000,000 in aggregate principal amount of its 9 3/4% Senior Notes due 2009 in the form of Initial Notes (as defined below) and, if and when issued in connection with a registered exchange for such Initial Notes, 9 3/4% Senior Notes due 2009 in the form of Exchange Notes (as defined below) and, if and when issued in connection with a Private Exchange (as defined below) for such Initial Notes, 9 3/4% Senior Notes due 2009 in the form of Private Exchange Notes (as defined below), and such Additional Notes (as defined below) that the Company may from time to time choose to issue pursuant to this Indenture, and, to provide therefor, the Company has duly authorized the execution and delivery of this Indenture.

Upon the issuance of the Exchange Notes, if any, or the effectiveness of the Shelf Registration Statement, this Indenture shall be subject to and governed

by the provisions of the Trust Indenture Act of 1939, as amended.

All things necessary have been done to make the Notes, when executed by the Company and authenticated and delivered hereunder and duly issued by the Company, the valid obligations of the Company, and to make this Indenture a valid agreement of the Company, in accordance with their and its terms.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually covenanted and agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION

SECTION 101. Definitions.

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

"Acquired Indebtedness" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary of the Company or at the time it merges or consolidates with or into the Company or any of its Subsidiaries or assumed in connection with the acquisition of property or assets from such Person and in each case not incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary of the Company or such acquisition, merger or consolidation.

"Act", when used with respect to any Holder, has the meaning specified in Section 105.

"Additional Interest" means all Additional Interest then owing pursuant to Section 4 of the Registration Rights Agreement.

"Additional Notes" means any newly issued 9 3/4% Senior Notes due 2009 issued after the Issue Date from time to time in accordance with the terms of this Indenture including, without limitation, the provisions of Section 1007 hereof.

"Affiliate" means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative of the foregoing.

"Agent Members" has the meaning specified in Section 312.

"Asset Acquisition" means (1) an Investment by the Company or any Restricted Subsidiary of the Company in any other Person pursuant to which such Person shall become a Restricted Subsidiary of the Company or any Restricted

Subsidiary of the Company, or shall be merged with or into the Company or any Restricted Subsidiary of the Company, or (2) the acquisition by the Company or any Restricted Subsidiary of the Company of the assets of any Person (other than a Restricted Subsidiary of the Company) which constitute all or substantially all of the assets of such Person or comprises any division or line of business of such Person or any other properties or assets of such Person other than in the ordinary course of business.

"Asset Sale" means any direct or indirect sale, issuance, conveyance, transfer, lease (other than operating leases entered into in the ordinary course of business), assignment or other transfer for value by the Company or any of its Restricted Subsidiaries (including any Sale and Leaseback Transaction) to any Person other than the Company or a Restricted Subsidiary of the Company of: (1) any Capital Stock of any Restricted Subsidiary of the Company (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary); or (2) any other property or assets of the Company or any Restricted Subsidiary of the Company other than in the ordinary course of business; provided, however, that asset sales or other dispositions shall not include: (a) a transaction or series of related transactions for which the Company or its Restricted Subsidiaries receive aggregate consideration of up to $25.0 million; (b) the sale, lease, conveyance, disposition or other transfer of all or substantially all of the assets of the Company in accordance with and as permitted by Section 801; (c) any Restricted Payment permitted by Section 1008 or that constitutes a Permitted Investment; (d) the sale, lease, conveyance, disposition or other transfer of any Capital Stock or other ownership interest in or assets or property of an Unrestricted Subsidiary or a Person which is not a Subsidiary pursuant to any foreclosure of assets or other remedy provided by applicable law to a creditor of the Company or any Subsidiary of the Company with a Lien on such assets, which Lien is permitted under this Indenture; provided that such foreclosure or other remedy is conducted in a commercially reasonable manner or in accordance with any bankruptcy law; (e) a disposition of obsolete or worn out property or property that is no longer useful in the conduct of the business of the Company and its Restricted Subsidiaries; (f) the discounting or compromising by the Company or any Restricted Subsidiary for less than the face value thereof of notes or accounts receivable in order to resolve disputes that occur in the ordinary course of business and not in connection with a factoring or financing transaction; and (g) for purposes of clauses (1) and (2) of Section 1009(a) only, any disposition, sale or transfer of property or assets that are part of the Turnaround Program (excluding any Qualified Receivables Transaction unless in connection with the sale of an entire business in connection with the Turnaround Program).

"Asset Sale Agreement" has the meaning specified in Section 1009.

"Bankruptcy Law" means Title 11, United States Bankruptcy Code of 1978, as amended, or any similar United States federal or state law relating to bankruptcy, insolvency, receivership, winding-up, liquidation, reorganization or relief of debtors or any amendment to, succession to or change in any such law.

"Board of Directors" means, as to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

"Board Resolution" means, with respect to any Person, a copy of a resolution

certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Bund Rate" means (i) the rate borne by direct obligations of the Federal Republic of Germany (Bunds or Bundesanleihen) having a constant maturity most nearly equal to the period from the Redemption Date to January 15, 2009 and (ii) if there are no such obligations, the rate determined by linear interpolation between the rates borne by the two direct obligations of the Federal Republic of Germany maturing closest to, but straddling such date in each case as published in the Financial Times.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York, London, England and Luxembourg, if and so long as the Notes are listed on the Luxembourg Stock Exchange, are authorized or obligated by law or executive order to close.

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

"Capital Stock" means:

(1) with respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated and whether or not voting) of corporate stock, including each class of Common Stock and Preferred Stock of such Person; and

(2) with respect to any Person that is not a corporation, any and all partnership, membership or other equity interests of such Person.

"Capitalized Lease Obligation" means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP and, for purposes of this definition, the amount of such obligations at any date shall be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

"Cash Equivalents" means:

(1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or the government of any Eligible Jurisdiction or issued by any agency thereof and backed by the full faith and credit of such government, in each case maturing within one year from the date of acquisition thereof;

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

(3) commercial paper and other securities maturing no more than one year from the date of acquisition thereof and, at the time of acquisition, having a rating of at least A-2 from S&P or at least P-2 from Moody's;

(4) certificates of deposit or bankers' acceptances maturing within one year from the date of acquisition thereof issued by any bank organized under the laws of the United States of America or any state thereof or the District of Columbia or any Eligible Jurisdiction or any U.S. branch of a foreign bank having at the date of acquisition thereof combined capital and surplus of not less than $100.0 million;

(5) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (1) above entered into with any bank meeting the qualifications specified in clause (4) above; and

(6) investments in money market funds which invest substantially all their assets in securities of the types described in clauses (1) through (5) above.

"Certificated Note" means a definitive Note registered in physical certificated form.

"Change of Control" means the occurrence of one or more of the following events:

(1) any "person," including its affiliates and associates, other than the Company, its Subsidiaries or the Company's or such Subsidiaries' employee benefit plans, or any "group" files a Schedule 13D or Schedule TO (or any successor schedule, form or report under the Exchange Act) disclosing that such person or group has become the "beneficial owner" of 50% or more of the combined voting power of the Company's Capital Stock or other Capital Stock into which the Company's Common Stock is reclassified or changed, with certain exceptions having ordinary power to elect directors, or has the power to, directly or indirectly, elect managers, trustees or a majority of the members of the Company's Board of Directors;

(2) there shall be consummated any share exchange, consolidation or merger of the Company pursuant to which the Company's Common Stock would be converted into cash, securities or other property, or the Company sells, assigns, conveys, transfers, leases or otherwise disposes of all or substantially all of its assets, in each case other than pursuant to a share exchange, consolidation or merger of the Company in which the holders of the Company's Common Stock immediately prior to the share exchange, consolidation or merger have, directly or indirectly, at least a majority of the total voting power in the aggregate of all classes of Capital Stock of the continuing or surviving corporation immediately after the share exchange, consolidation or merger; or

(3) the Company is dissolved or liquidated.

For purposes of this Change of Control definition:

(a) "person" or "group" has the meaning given to it for purposes of Sections 13(d) and 14(d) of the Exchange Act or any successor provisions, and the term "group" includes any group acting for the purpose of acquiring, holding or disposing of securities within the meaning of Rule 13d-5(b)(1) under the Exchange Act or any successor

provision;

(b) a "beneficial owner" will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of this Indenture; and

(c) the number of shares of the Company's voting stock outstanding will be deemed to include, in addition to all outstanding shares of the Company's voting stock and unissued shares deemed to be held by the "person" or "group" or other person with respect to which the Change of Control determination is being made, all unissued shares deemed to be held by all other persons.

"Change of Control Offer" has the meaning specified in Section 1006(a).

"Change of Control Payment Date" has the meaning specified in Section 1006(b).

"Clearstream" has the meaning specified in Section 201.

"Code" has the meaning specified in Section 315.

"Commission" means the Securities and Exchange Commission.

"Common Depositary" means Deutsche Bank AG London, or its nominees or their successors.

"Common Stock" of any Person means any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person's common stock, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common stock.

"Company" means the Person named as the "Company" in the first paragraph of this Indenture, until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman, any Vice Chairman, its President, any Vice President, its Treasurer or an Assistant Treasurer, and delivered to the Trustee.

"Consolidated EBITDA" means, with respect to any Person, for any period, the sum, all as determined on a consolidated basis for such Person and its Restricted Subsidiaries in accordance with GAAP (without duplication), of:

(1) Consolidated Net Income; and

(2) to the extent Consolidated Net Income has been reduced thereby:

(a) all income taxes of such Person and its Restricted Subsidiaries paid or accrued in accordance with GAAP for such period (other than income taxes attributable to extraordinary, or nonrecurring gains or losses, taxes attributable to Asset Sales and taxes attributable to discontinued operations);

(b) Consolidated Fixed Charges; and

(c) Consolidated Non-cash Charges.

"Consolidated Fixed Charge Coverage Ratio" means, with respect to any Person, the ratio of Consolidated EBITDA of such Person during the four full fiscal quarters (the "Four Quarter Period") ending prior to the date of the transaction giving rise to the need to calculate the Consolidated Fixed Charge Coverage Ratio for which financial statements are available (the "Transaction Date") to Consolidated Fixed Charges of such Person for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, "Consolidated EBITDA" and "Consolidated Fixed Charges" shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence or repayment of any Indebtedness of such Person or any of its Restricted Subsidiaries (and the application of the proceeds thereof) giving rise to the need to make such calculation and any incurrence or repayment of other Indebtedness (and the application of the proceeds thereof), other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to working capital facilities, occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such incurrence or repayment, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four Quarter Period; and

(2) any asset sales or other dispositions or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of such Person or one of its Restricted Subsidiaries (including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Indebtedness and also including any Consolidated EBITDA (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) attributable to the assets which are the subject of the Asset Acquisition or asset sale or other disposition during the Four Quarter Period) occurring during the Four Quarter Period or at any time subsequent to the last day of the Four Quarter Period and on or prior to the Transaction Date, as if such asset sale or other disposition or Asset Acquisition (including the incurrence, assumption or liability for any such Acquired Indebtedness) occurred on the first day of the Four Quarter Period.

If such Person or any of its Restricted Subsidiaries directly or indirectly guarantees Indebtedness of a third Person, the preceding sentence shall give effect to the incurrence of such guaranteed Indebtedness, without duplication, as if such Person or any Restricted Subsidiary of such Person had directly incurred or otherwise assumed such guaranteed Indebtedness.

Furthermore, in calculating "Consolidated Fixed Charges":

(1) for purposes of determining the numerator (but not the denominator) of this "Consolidated Fixed Charge Coverage Ratio," interest income determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter, shall be deemed to have accrued at a fixed rate per annum equal to the applicable rate of interest in effect on the Transaction Date;

(2) for purposes of determining the denominator (but not the numerator) of this "Consolidated Fixed Charge Coverage Ratio," interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter, shall be deemed to have accrued at a fixed rate per annum equal to the applicable rate of interest in effect on the Transaction Date; and

(3) notwithstanding clause (2) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Interest Swap Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of such agreements.

"Consolidated Fixed Charges" means, with respect to any Person for any period, the sum, without duplication, of:

(1) Consolidated Interest Expense; plus

(2) the amount of all dividends on any series of Preferred Stock of such Person and its Restricted Subsidiaries paid, declared or accrued during such period multiplied, to the extent such dividend payments are not otherwise a deduction to such Person's federal income tax liabilities by a fraction, the numerator of which is one and the denominator of which is one minus the then current effective consolidated federal, state and local tax rate of such Person, expressed as a decimal.

"Consolidated Interest Expense" means, with respect to any Person for any period, total interest expense (including that portion attributable to Capitalized Lease Obligations in accordance with GAAP) of the Company and its Restricted Subsidiaries for such period, on a consolidated basis, determined in conformity with GAAP.

"Consolidated Net Income" means, with respect to any Person, for any period, the aggregate net income (or loss) of such Person and its Restricted Subsidiaries for such period on a consolidated basis, determined in accordance with GAAP; provided that there shall be excluded therefrom:

(1) after-tax gains or losses from Asset Sales or abandonments or reserves relating thereto;

(2) after-tax items classified as extraordinary or nonrecurring gains or losses;

(3) the net income (but not loss) of any Restricted Subsidiary of the referent Person to the extent that the declaration of dividends or similar distributions by that Restricted Subsidiary of that income is restricted by a contract, operation of law or otherwise;

(4) the net income of any other Person, other than a Restricted Subsidiary of the referent Person, joint ventures described in the definition of Permitted Joint Venture Investments and any joint ventures in which the Company or any Restricted Subsidiary is a party that exists as of the Issue Date, except to the extent of cash dividends or distributions paid to the referent Person or to a Restricted Subsidiary of the referent Person by such Person;

(5) after-tax income or loss attributable to discontinued operations; and

(6) in the case of a successor to the referent Person by consolidation or merger or as a transferee of the referent Person's assets, any earnings of the successor corporation prior to such consolidation, merger or transfer of assets.

For purposes of determining the Consolidated Fixed Charge Coverage Ratio only, any loss attributable to the Turnaround Program shall also be excluded, provided that any loss, charge or cost described in clause (v) of the definition of Turnaround Program shall only be so excluded to the extent it is non-cash.

"Consolidated Net Worth" means, at any time, as to a given entity (a) the sum of the amounts appearing on the latest consolidated balance sheet of such entity and its Subsidiaries, prepared in accordance with generally accepted accounting principles consistently applied, as (i) the par or stated value of all outstanding Capital Stock (including preferred stock), (ii) capital paid- in and earned surplus or earnings retained in the business plus or minus cumulative transaction adjustments, (iii) any unappropriated surplus reserves, (iv) any net unrealized appreciation of equity investment, and (v) minorities' interests in equity of subsidiaries, less (b) treasury stock, plus (c) in the case of the Company, $600.0 million.

"Consolidated Non-cash Charges" means, with respect to any Person, for any period, the aggregate depreciation and amortization of such Person and its Restricted Subsidiaries reducing Consolidated Net Income of such Person and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

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

"Corporate Trust Office" means a corporate trust office of the Trustee, at which at any particular time its corporate trust business shall be administered, which office at the date of execution of this Indenture is located at Sixth Street and Marquette Avenue, MAC N9303-120, Minneapolis, Minnesota 55479 and c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041.

"Convertible Trust Preferred Securities" means the $650.0 million aggregate liquidation amount of 8% Convertible Trust Preferred Securities of Xerox Capital Trust I and the $1,035.0 million aggregate liquidation amount of 7 1/2% Convertible Trust Preferred Securities of Xerox Capital Trust II, in each case, as in effect on the Issue Date.

"Covenant Defeasance" has the meaning specified in Section 1202.

"Credit Agreement" means the Revolving Credit Agreement, dated as of October 22, 1997, among the Company, the lenders party thereto in their capacities as lenders thereunder and the agents named therein, together with the related documents thereto (including, without limitation, any guarantee agreements and security documents), in each case as such agreement may be amended (including any amendment and restatement thereof), supplemented or otherwise modified from time to time, including any agreements extending the maturity of, refinancing, replacing (whether or not contemporaneously) or otherwise

restructuring (including increasing the amount of available borrowings thereunder (provided that such increase in borrowings is permitted by Section 1008) or adding Restricted Subsidiaries of the Company as additional borrowers or collateral guarantors thereunder) all or any portion of the Indebtedness under such agreement or any successor or replacement agreements and whether by the same or any other agent, lender or group of lenders or investors and whether such Refinancing or replacement is under one or more debt facilities or commercial paper facilities, indenture or other agreements, in each case with banks or other institutional lenders or trustees or investors providing for revolving credit loans, term loans, notes or letters of credit, together with related documents thereto (including, without limitation, any guaranty agreements and security documents).

"Currency Agreement" means any foreign exchange contract, currency swap agreement or other similar agreement or arrangement designed to protect the Company or any Restricted Subsidiary of the Company against fluctuations in currency values.

"Default" means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

"Defaulted Interest" has the meaning specified in Section 308.

"Depositary" means Euroclear and Clearstream or a successor clearing agency to either or both of them.

"Disqualified Capital Stock" means that portion of any Capital Stock which, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder thereof), or upon the happening of any event (other than an event which would constitute an Asset Sale or Change of Control), matures or is mandatorily redeemable (other than such Capital Stock that will be redeemed with Qualified Capital Stock), pursuant to a sinking fund obligation or otherwise, or is redeemable at the sole option of the holder thereof (except, in each case, upon the occurrence of an Asset Sale or Change of Control) on or prior to the final maturity date of the Notes.

"Domestic Insignificant Subsidiary" means any Domestic Wholly Owned Restricted Subsidiary that is not a Guarantor other than a Person that is described in Section 1013(b) hereof.

"Domestic Restricted Subsidiary" means a Restricted Subsidiary incorporated or otherwise organized or existing under the laws of the United States, any state thereof or any territory or possession of the United States.

"Domestic Wholly Owned Restricted Subsidiary" means a Domestic Restricted Subsidiary that is also a Wholly Owned Restricted Subsidiary.

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

"ESOP Notes" means the then outstanding 7.89% (7.82% since January 1, 1993) Guaranteed Series B ESOP Notes due October 1, 2002 and the then outstanding Guaranteed ESOP Restructuring Notes due October 1, 2003.

"euro" or "(euro)" means the currency introduced at the start of the third stage of economic and monetary union pursuant to the Treaty of Rome

establishing the European Community, as amended by the Treaty on European Union, signed at Maastricht on February 7, 1992.

"Euroclear" has the meaning specified in Section 201.

"Euro Government Obligations" means securities that are (i) direct obligations of an Eligible Jurisdiction for the timely payment of which its full faith and credit is pledged or (ii) obligations of a Person controlled or supervised by and acting as an agency or instrumentality of an Eligible Jurisdiction, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation by an Eligible Jurisdiction, which, in either case, are not callable or redeemable at the option of the issuer thereof, and shall also include a depository receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any such Euro Government Obligation or a specific payment of principal of or interest on any such Euro Government Obligation held by such custodian for the account of the holder of such depository receipt; provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depository receipt from any amount received by the custodian in respect of the Euro Government Obligation or the specific payment of principal of or interest on the Euro Government Obligation evidenced by such depository receipt.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

"Exchange Notes" means (i) the 9 3/4% Senior Notes due 2009 to be issued in exchange for the Initial Notes pursuant to the Registration Rights Agreement and (ii) Additional Notes, if any, issued in the form of 9 3/4% Senior Notes due 2009 to be issued in a registered security offering or in a registered exchange offer, in each case containing terms substantially identical to the Initial Notes (except that (x) such Exchange Notes shall not contain terms with respect to transfer restrictions and shall be registered under the Securities Act, and (y) certain provisions relating to an increase in the stated rate of interest thereon shall be eliminated).

"Exchange Offer" means the offer by the Company to the Holders of the Notes to exchange all of the Initial Notes for Exchange Notes or Private Exchange Notes, as provided for in the Registration Rights Agreement, including any offer by the Company to the Holders of Additional Notes, if any, to exchange such Additional Notes for Exchange Notes or Private Exchange Notes.

"Exchange Offer Registration Statement" means the Exchange Offer Registration Statement as defined in the Registration Rights Agreement.

"fair market value" means, with respect to any asset or property, the price which could be negotiated in an arm's-length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction.

"Financing Subsidiary" has the meaning specified in Section 1013 of this Indenture.

"Foreign Subsidiary" means a Restricted Subsidiary that is incorporated or formed in a jurisdiction other than the United States or a State thereof or

the District of Columbia.

"GAAP" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, which are in effect from time to time.

"Global Note" has the meaning specified in Section 201 of this Indenture.

"Guarantee" means any guarantee of the Notes by a Guarantor.

"Guarantor" means each of the Company's Restricted Subsidiaries that in the future executes a supplemental indenture in which such Restricted Subsidiary agrees to be bound by the terms of this Indenture as a Guarantor; provided that any Person constituting a Guarantor as described above shall cease to constitute a Guarantor when its respective Guarantee is released in accordance with the terms of this Indenture.

"Holder" means a Person in whose name a Note is registered in the Security Register.

"IAI Global Note" has the meaning specified in Section 201.

"Indebtedness" means with respect to any Person, without duplication:

(1) all indebtedness of such Person for borrowed money;

(2) all indebtedness of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all Capitalized Lease Obligations of such Person;

(4) all indebtedness of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all indebtedness under any title retention agreement (but excluding trade accounts payable incurred in the ordinary course with a maturity of not greater than 90 days);

(5) all indebtedness for the reimbursement of any obligor on any letter of credit, banker's acceptance or similar credit transaction (other than obligations with respect to letters of credit supporting obligations not for money borrowed entered into in the ordinary course of business of such Person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the fifth business day following payment on the letter of credit);

(6) guarantees and other contingent obligations in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;

(7) all indebtedness of any other Person of the type referred to in clauses (1) through (6) which are secured by any Lien on any property or asset of such Person, the amount of such indebtedness being deemed to be the lesser of the fair market value of such property or asset or the amount of

the indebtedness so secured;

(8) all indebtedness under currency agreements and interest swap agreements of such Person; and

(9) all Disqualified Capital Stock issued by such Person or any Preferred Stock of any Restricted Subsidiary of such Person ("Subsidiary Preferred Stock") with the amount of Indebtedness represented by such Disqualified Capital Stock or Subsidiary Preferred Stock being equal to the greater of its voluntary or involuntary liquidation preference and its maximum fixed repurchase price, but excluding accrued dividends, if any.

For purposes hereof, the "maximum fixed repurchase price" of any Disqualified Capital Stock or Subsidiary Preferred Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock or Subsidiary Preferred Stock as if such Disqualified Capital Stock or Subsidiary Preferred Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to this Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock or Subsidiary Preferred Stock, such fair market value shall be determined reasonably and in good faith by the Board of Directors of the issuer of such Disqualified Capital Stock or Subsidiary Preferred Stock.

Accrual of interest, accrual of dividends, the accretion of accreted value, the payment of interest in the form of additional Indebtedness and the payment of dividends in the form of additional shares of Preferred Stock will not be deemed to be an incurrence of Indebtedness. The amount of any Indebtedness outstanding as of any date shall be (i) the accreted value of the Indebtedness in the case of any Indebtedness issued with original issue discount and (ii) the principal amount or liquidation preference thereof.

For purposes of determining compliance with Section 1007, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. Notwithstanding any other provision of Section 1007, the maximum amount of Indebtedness that the Company or any Restricted Subsidiary may incur pursuant to Section 1007 shall not be deemed to be exceeded solely as a result of fluctuations in the exchange rate of currencies. The principal amount of any Indebtedness incurred to Refinance other Indebtedness, if incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies
in which such Refinancing Indebtedness is denominated that is in effect on the date of such refinancing.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

"Independent Financial Advisor" means a firm: (1) which is not an Affiliate of the Company; and (2) which, in the judgment of the Company, is otherwise independent and qualified to perform the task for which it is to be engaged.

"Initial Notes" means (i) the 9 3/4% Senior Notes due 2009 of the Company and

(ii) Additional Notes, if any, issued in the form of 9 3/4% Senior Notes due 2009 issued in one or more transactions exempt from the registration requirements of the Securities Act.

"Initial Purchasers" means Deutsche Banc Alex. Brown, Inc., J.P. Morgan Securities, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Smith Barney Inc., ABN AMRO Incorporated, Banc One Capital Markets, Inc., Fleet Securities, Inc., PNC Capital Markets, Inc., RBC Dominion Securities Corporation and UBS Warburg LLC.

"interest" means, in respect of the Notes, the sum of interest thereon and Additional Interest, if any, on the Notes.

"Interest Payment Date" means January 15 and July 15 of each year, commencing July 15, 2002.

"Interest Swap Obligations" means the obligations of any Person pursuant to any arrangement with any other Person, whereby, directly or indirectly, such Person is entitled to receive from time to time periodic payments calculated by applying either a floating or a fixed rate of interest on a stated notional amount in exchange for periodic payments made by such other Person calculated by applying a fixed or a floating rate of interest on the same notional amount and shall include, without limitation, interest rate swaps, caps, floors, collars and similar agreements.

"Investment" means, with respect to any Person, any direct or indirect loan or other extension of credit (including, without limitation, a guarantee of Indebtedness) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition by such Person of any Capital Stock, bonds, notes, debentures or other securities or evidences of Indebtedness issued by, any Person, or any keep-well agreement of any Person. "Investment" shall exclude extensions of trade credit by the Company and its Restricted Subsidiaries in the ordinary course of business. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Capital Stock of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Restricted Subsidiary is no longer a Restricted Subsidiary of the Company, the Company shall be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Common Stock of such Restricted Subsidiary not sold or disposed of. If the Company designates any of its Subsidiaries to be an Unrestricted Subsidiary, the Company shall be deemed to have made an Investment on the date of such designation equal to the Designation Amount determined in accordance with the definition of "Unrestricted Subsidiary."

"Investment Grade Status", with respect to the Company, shall occur when the Notes have both (i) a rating of "BBB-" or higher from S&P and (ii) a rating of "Baa3" or higher from Moody's, and each such rating shall have been published by the applicable agency, in each case with no negative outlook.

"Investor Letter" has the meaning specified in Section 313.

"Issue Date" means January 17, 2002, the date of original issuance of the Notes.

"Judgment Currency" has the meaning set forth in Section 119 of this

Indenture.

"Legal Defeasance" has the meaning specified in Section 1202.

"Lien" means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest).

"Make-Whole Premium" with respect to a Note means an amount equal to the excess of (a) the present value of the remaining interest, premium and principal payments due on such Note to its final maturity date, computed using a discount rate equal to the Bund Rate, on such date plus 0.50%, over (b) the outstanding principal amount of such Note. For the avoidance of doubt, the Make-Whole Premium shall not be less than zero.

"Maturity Date" means, with respect to any Note, the date on which any principal of such Note becomes due and payable as therein or herein provided, whether at the Stated Maturity with respect to such principal or by declaration of acceleration, call for redemption or purchase or otherwise.

"Moody's" means Moody's Investors Service, Inc., and its successors.

"Net Cash Proceeds" means, with respect to any Asset Sale, the proceeds in the form of cash or Cash Equivalents including payments in respect of deferred payment obligations when received in the form of cash or Cash Equivalents (other than the portion of any such deferred payment constituting interest) received by the Company or any of its Restricted Subsidiaries from such Asset Sale net of:

(1) out-of-pocket expenses and fees relating to such Asset Sale (including, without limitation, legal, accounting and investment banking fees and sales commissions);

(2) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all federal, state, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Sale;

(3) repayment of Indebtedness and any accrued interest and premium that is secured by the property or assets that are the subject of such Asset Sale;

(4) appropriate amounts to be provided by the Company or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by the Company or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale; and

(5) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Sale.

"Net Proceeds Offer" has the meaning specified in Section 1009.

"Net Proceeds Offer Amount" has the meaning specified in Section 1009.

"Net Proceeds Offer Payment Date" has the meaning specified in Section 1009.

"Net Proceeds Offer Trigger Date" has the meaning specified in Section 1009.

"Notes" means, collectively, the Initial Notes, the Exchange Notes and the Private Exchange Notes, if any, treated as a single class of securities, as amended or supplemented from time to time in accordance with the terms of this Indenture.

"Officers' Certificate" means, with respect to any Person, a certificate signed by the chief executive officer, the president or any vice president and the chief financial officer, the treasurer, any assistant treasurer or the controller of such Person that shall comply with applicable provisions of this Indenture and delivered to the Trustee.

"Opinion of Counsel" means a written opinion of counsel, who may be an officer, counsel or employee of the Company, and who shall be reasonably acceptable to the Trustee.

"Outstanding", when used with respect to the Notes, means, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, except:

(i) Notes theretofore cancelled by the Trustee or delivered to the Trustee for cancellation;

(ii) Notes, or portions thereof, for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Notes; provided that, if such Notes are to be redeemed, notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Notes, except to the extent provided in Sections 1202 and 1203, with respect to which the Company has effected Legal Defeasance and/or Covenant Defeasance as provided in Article Twelve; and

(iv) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a bona fide purchaser in whose hands the Notes are valid obligations of the Company; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, consent, notice or waiver hereunder, and for the purpose of making the calculations required by Section 313 of the Trust Indenture Act, Notes owned by the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in making such calculation or in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if

the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or such other obligor.

"Pari Passu Indebtedness" means any Indebtedness of the Company that is not subordinated to the Notes.

"Paying Agent" means any Person (including the Company acting as Paying Agent) authorized by the Company to pay the principal of (and premium, if any, on) or interest on any Notes on behalf of the Company.

"Permitted Indebtedness" means, without duplication, each of the following:

(1) (x) Indebtedness under the Notes (other than Additional Notes) and any Guarantees required by this Indenture and (y) Indebtedness under the Senior Dollar Notes issued on the Issue Date and any guarantees required by the Senior Dollar Notes Indenture;

(2) Indebtedness of the Company or any Restricted Subsidiary incurred in the ordinary course of business (including, without limitation, in connection with the Turnaround Program) so long as the proceeds thereof are not used, directly or indirectly, to finance an Asset Acquisition or to make a Restricted Payment (other than a Permitted Investment) or to effect a Refinancing of Indebtedness or Capital Stock (other than Refinancing Indebtedness incurred to Refinance any Indebtedness originally permitted to be incurred under this clause (2)); provided, however, that Indebtedness incurred under this clause (2) (including Guarantees thereof) by Domestic Insignificant Subsidiaries shall not exceed $100.0 million outstanding at any time in the aggregate for all Domestic Insignificant Subsidiaries;

(3) Indebtedness incurred pursuant to the Credit Agreement in an aggregate principal amount at any time outstanding not to exceed $7.0 billion (such amount to be reduced (but not increased) to the amount of the aggregate commitments and loans under the first Refinancing of the Credit Agreement after the Issue Date), less the sum of all principal payments of such Indebtedness with the proceeds of Asset Sales (other than the sale or liquidation of receivables) (but in no event reduced below $4.75 billion);

(4) other Indebtedness of the Company and its Restricted Subsidiaries (other than the Credit Agreement) outstanding on the Issue Date;

(5) Interest Swap Obligations of the Company or any Restricted Subsidiary of the Company covering Indebtedness of the Company or any of its Restricted Subsidiaries; provided, however, that such Interest Swap Obligations are entered into to protect the Company or its Restricted Subsidiaries from fluctuations in interest rates on outstanding Indebtedness to the extent the notional principal amount of such Interest Swap Obligation does not, at the time of the incurrence thereof, exceed the principal amount of the Indebtedness to which such Interest Swap Obligation relates;

(6) Indebtedness under Currency Agreements; provided that in the case of Currency Agreements which relate to Indebtedness, such Currency Agreements do not increase the Indebtedness of the Company and its Restricted Subsidiaries outstanding other than as a result of fluctuations in foreign currency exchange rates or by reason of fees, indemnities and compensation payable thereunder;

(7) Indebtedness of a Restricted Subsidiary of the Company to the Company or to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by the Company or a Restricted Subsidiary of the Company, in each case subject to no Lien held by a Person other than the Company or a Restricted Subsidiary of the Company (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above); provided that if as of any date any Person other than the Company or a Restricted Subsidiary of the Company owns or holds any such Indebtedness or holds a Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above) in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the issuer of such Indebtedness;

(8) Indebtedness of the Company to a Restricted Subsidiary of the Company for so long as such Indebtedness is held by a Restricted Subsidiary of the Company and subject to no Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above); provided that if as of any date any Person other than a Restricted Subsidiary of the Company owns or holds any such Indebtedness or any Person holds a Lien (other than in favor of a senior secured credit agreement that is permitted to be incurred under clause (3) above) in respect of such Indebtedness, such date shall be deemed the incurrence of Indebtedness not constituting Permitted Indebtedness by the Company;

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

(10) Indebtedness of the Company or any Restricted Subsidiary in respect of performance bonds, bankers' acceptances, workers' compensation claims, surety or appeal bonds, payment obligations in connection with self- insurance or similar obligations, and operating leases, trade contracts and bank overdrafts (and letters of credit in respect thereof) in the ordinary course of business;

(11) Indebtedness Incurred in a Qualified Receivables Transaction that is not recourse to the Company or any Restricted Subsidiary (except for Standard Securitization Undertakings or a Restricted Subsidiary whose principal assets are the receivables, leases or other assets that are the subject of the Qualified Receivables Transaction);

(12) any guarantee by the Company or a Restricted Subsidiary of Indebtedness of the Company or any Restricted Subsidiary so long as the incurrence of such Indebtedness would otherwise be permitted to be incurred under this Indenture and such guarantee is otherwise not prohibited by this Indenture and Section 1013(a), to the extent applicable to such guarantee, is complied with;

(13) Indebtedness arising from guarantees of Indebtedness of the Company or any Restricted Subsidiary or the agreements of the Company or a Restricted Subsidiary providing for indemnification, adjustment of purchase price or similar obligations, in each case, incurred or assumed in connection with the disposition of any business, assets or Capital Stock of a Subsidiary, or other guarantees of Indebtedness incurred by any Person

acquiring all or any portion of such business, assets, Subsidiary or Capital Stock of a Subsidiary for the purpose of financing such acquisition; provided that the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds (including non-cash proceeds) actually received by the Company and/or such Restricted Subsidiary in connection with such disposition;

(14) the issuance of shares of Disqualified Capital Stock by the Company to a Restricted Subsidiary of the Company; provided, however, that (a) any subsequent issuance or transfer that results in any such Disqualified Capital Stock being held by a Person other than a Restricted Subsidiary thereof and (b) any sale or other transfer of any such Disqualified Capital Stock to a Person that is not a Restricted Subsidiary thereof shall be deemed, in each case, to constitute an issuance of such Disqualified Capital Stock by the Company that was not permitted by this clause (14);

(15) obligations incurred in the ordinary course of business and not for money borrowed (for example, repurchase agreements) to purchase securities or other property, if such obligations arise out of or in connection with the sale of the same or similar securities or properties;

(16) obligations to deliver goods or services in consideration of advance payments therefor;

(17) Indebtedness consisting of take-or-pay obligations contained in supply contracts entered into in the ordinary course of business;

(18) Refinancing Indebtedness; and

(19) additional Indebtedness of the Company and its Restricted Subsidiaries (other than Domestic Insignificant Subsidiaries) in an aggregate principal amount not to exceed $75.0 million at any one time outstanding (which amount may, but need not, be incurred in whole or in part under the Credit Agreement).

For purposes of determining compliance with Section 1007 of this Indenture, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (19) above or is entitled to be incurred pursuant to the Consolidated Fixed Charge Coverage Ratio provisions of Section 1007(a), the Company shall, in its sole discretion, classify such item of Indebtedness in any manner that complies with Section 1007. In addition, the Company may, at any time, change the classification of an item of Indebtedness (or any portion thereof) to any other clause, and in part under any one or more of the clauses listed above, or to Section 1007(a) provided that the Company would be permitted to incur such item of Indebtedness (or portion thereof) pursuant to such other clause or clauses, as the case may be, of Section 1007(a), as the case may be, at such time of reclassification. Accrual of interest, accretion or amortization of original issue discount or other discounts or premiums, the payment of interest on any Indebtedness in the form of additional Indebtedness with the same terms, and the payment of dividends on Disqualified Capital Stock or Subsidiary Preferred Stock in the form of additional shares of the same class of Disqualified Capital Stock or Subsidiary Preferred Stock and any other changes in reported Indebtedness required by GAAP and other non-cash changes in Indebtedness due to fluctuations in interest rates, will not be deemed to be an incurrence of Indebtedness or an issuance of Disqualified Capital Stock or Subsidiary Preferred Stock for purposes of Section 1007.

"Permitted Investments" means:

(1) Investments by the Company or any Restricted Subsidiary of the Company in any Person that is or will become immediately after such Investment a Restricted Subsidiary of the Company or that will merge or consolidate into the Company or a Restricted Subsidiary of the Company;

(2) Investments in the Company by any Restricted Subsidiary of the Company;

(3) Investments in cash in euros or U.S. dollars and Cash Equivalents or, to the extent determined by the Company or a Foreign Subsidiary in good faith to be necessary for local working capital requirements and operational requirements of the Foreign Subsidiaries, other cash and cash equivalents denominated in the currency of the jurisdiction of organization or place of business of such Foreign Subsidiary which are, in the case of Cash Equivalents, otherwise substantially similar to the items specified in the definition of "Cash Equivalents";

(4) loans and advances to employees and officers of the Company and its Subsidiaries to purchase Capital Stock of the Company for bona fide business purposes;

(5) Currency Agreements and Interest Swap Obligations entered into in the ordinary course of the Company's or its Restricted Subsidiaries' businesses and not for speculative purposes and otherwise in compliance with this Indenture;

(6) additional Investments having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (6) that are at that time outstanding, not to exceed $75.0 million in any calendar year at the time of such Investment (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value);

(7) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy, work-out or insolvency of such trade creditors or customers or as a result of a foreclosure by the Company or any of its Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(8) Investments made by the Company or its Restricted Subsidiaries as a result of consideration received in connection with any sale or other transfer of assets, to the extent applicable, in compliance with Section 1009 hereof;

(9) Permitted Joint Venture Investments;

(10) receivables owing to the Company or any Restricted Subsidiary or other trade credit provided by the Company or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

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

(12) stock, obligations or securities received as security for, or in settlement of, debts created in the ordinary course of business and owing to the Company or any of its Restricted Subsidiaries or in satisfaction of judgments or claims;

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

(14) Investments owned by the Company and any Restricted Subsidiary as of the Issue Date, and any repayment of the ESOP Notes by the Company or any Restricted Subsidiary after the Issue Date; and

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

"Permitted Joint Venture Investments" means any Investment (A) in a joint venture, partnership or other arrangement with a Person or Persons that are not Affiliates of the Company, to the extent necessary or desirable, as determined by the Company, to (x) facilitate, or as contemplated by, the Turnaround Program or (y) facilitate Qualified Receivables Transactions and (B) in Fuji Xerox Co., Limited.

"Person" means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"Predecessor Note" of any particular Note means every previous Note evidencing all or a portion of the same debt as that evidenced by such particular Note; and, for the purposes of this definition, any Note authenticated and delivered under Section 307 in exchange for a mutilated security or in lieu of a lost, destroyed or stolen Note shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Note.

"Preferred Stock" of any Person means any Capital Stock of such Person that has preferential rights to any other Capital Stock of such Person with respect to dividends or redemptions or upon liquidation.

"Private Exchange" means the offer by the Company, pursuant to a Registration Rights Agreement, to the Initial Purchasers or, if Additional Notes are issued by the Company, any other underwriters or initial purchasers in connection therewith to issue and deliver to such Person, in exchange for the Initial Notes held by such Person as part of its initial distribution, a like aggregate principal amount of Private Exchange Notes.

"Private Exchange Notes" means the 9 3/4% Senior Notes due 2009, if any, bearing the Private Placement Legend that may be issued pursuant to a Registration Rights Agreement to the Initial Purchasers or any other underwriters or initial purchasers in a Private Exchange.

"Private Placement Legend" means the legend set forth on the face of the

Notes in the form set forth on Exhibit A-1.

"Purchase Money Indebtedness" means Indebtedness of the Company and its Restricted Subsidiaries incurred for the purpose of financing all or any part of the purchase price, or the cost of installation, construction or improvement, of property or equipment; provided, however, that (1) the amount of such Indebtedness shall not exceed such purchase price or cost, (2) such Indebtedness shall not be secured by any asset other than the specified asset being financed or, in the case of real property or fixtures, including additions and improvements, the real property to which such asset is attached and (3) such Indebtedness shall be incurred within 180 days after such acquisition of such asset by the Company or such Restricted Subsidiary or such installation, construction or improvement.

"QIB" has the meaning specified in Section 201.

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

"Qualified Receivables Transaction" means any transaction or series of transactions entered into by the Company or any of its Restricted Subsidiaries in order to monetize or otherwise finance a discrete pool (which may be fixed or revolving) of receivables, leases or other financial assets (including, without limitation, financing contracts) (in each case whether now existing or arising in the future), and which may include a grant of a security interest in any such receivables, leases, other financial assets (whether now existing or arising in the future) of the Company or any of its Restricted Subsidiaries, and any assets related thereto, including all collateral securing such receivables, leases, or other financial assets, all contracts and all guarantees or other obligations in respect thereof, proceeds thereof and other assets that are customarily transferred, or in respect of which security interests are customarily granted, in connection with asset securitization transactions involving receivables, leases, or other financial assets.

"Redemption Date", when used with respect to any Note to be redeemed, in whole or in part, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Note to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Refinance" means, in respect of any security or Indebtedness, to refinance, extend, renew, refund, repay, prepay, redeem, defease or retire, or to issue a security or Indebtedness in exchange or replacement for, such security or Indebtedness in whole or in part. "Refinanced" and "Refinancing" shall have correlative meanings.

"Refinancing Indebtedness" means any Refinancing by the Company or any Restricted Subsidiary of the Company of Indebtedness permitted by Section 1007 hereof (other than pursuant to clauses (2), (3), (5), (6), (7), (8), (9), (10), (11), (13), (14), (15), (16), (17) or (19) of the definition of Permitted Indebtedness), in each case that does not:

(1) result in an increase in the aggregate principal amount of Indebtedness of such Person as of the date of such proposed Refinancing (plus the amount of any premium required to be paid under the terms of the

instrument governing such Indebtedness and plus the amount of reasonable expenses incurred by the Company in connection with such Refinancing); or

(2) create Indebtedness with: (a) a Weighted Average Life to Maturity that is less than the Weighted Average Life to Maturity of the Indebtedness being Refinanced; or (b) a final maturity earlier than the final maturity of the Indebtedness being Refinanced; provided that (x) if such Indebtedness being Refinanced is Indebtedness of the Company, then such Refinancing Indebtedness shall be Indebtedness solely of the Company and (y) if such Indebtedness being Refinanced is subordinate or junior to the Notes, then such Refinancing Indebtedness shall be subordinate to the Notes at least to the same extent and in the same manner as the Indebtedness being Refinanced.

"Reference Date" has the meaning specified in Section 1008.

"Registration Rights Agreement" means (i) with respect to the Initial Notes issued on the Issue Date, the registration rights agreement, dated as of the Issue Date, among the Company and the Initial Purchasers and (ii) with respect to each issuance of Additional Notes issued in a transaction exempt from the registration requirements of the Securities Act, the registration rights agreement, if any, among the Company and the Persons purchasing such Additional Notes under the related purchase agreement.

"Regular Record Date" for the interest payable on any Interest Payment Date means the January 1 or July 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date.

"Regulation S" has the meaning set forth in Section 201 of this Indenture.

"Regulation S Global Note" has the meaning set forth in Section 201 of this Indenture.

"Replacement Assets" has the meaning specified in Section 1009.

"Responsible Officer", when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above-designated officers, and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Restricted Global Note" has the meaning set forth in Section 201 of this Indenture.

"Restricted Payments" has the meaning specified in Section 1008.

"Restricted Payments Basket" has the meaning specified in Section 1008.

"Restricted Security" has the meaning set forth in Rule 144(a)(3) promulgated under the Securities Act.

"Restricted Subsidiary" of any Person means any Subsidiary of such Person which at the time of determination is not an Unrestricted Subsidiary.

"Reversion Date" has the meaning set forth in Section 1015 of this Indenture.

"Rule 144A" has the meaning set forth in Section 201 of this Indenture.

"S&P" means Standard & Poor's Rating Service, a division of The McGraw-Hill Companies, Inc., and its successors.

"Sale and Leaseback Transaction" means any direct or indirect arrangement with any Person or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary of any property, whether owned by the Company or any Restricted Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person from whom funds have been or are to be advanced by such Person on the security of such Property.

"Securities Act" means the Securities Act of 1933, as amended, or any successor statute or statutes thereto.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Senior Dollars Notes" means the Company's $600,000,000 aggregate principal amount of 9 3/4% Senior Notes due 2009 issued pursuant to the Senior Dollar Notes Indenture, and the registered exchange notes and/or private exchange notes to be issued in exchange for such notes pursuant to the terms of the Senior Dollar Notes Indenture and the Senior Dollar Notes Registration Rights Agreement.

"Senior Dollar Notes Indenture" means the Indenture, dated as of the Issue Date, among the Company and Wells Fargo Bank Minnesota, National Association, as trustee, pursuant to which the Senior Dollar Notes were issued, as the same may be amended, modified and supplemented from time to time.

"Senior Dollar Notes Registration Rights Agreement" means the Registration Rights Agreement, dated as of the Issue Date, among the Company and the Initial Purchasers relating to the Senior Dollar Notes.

"Senior Notes" means the Notes and the Senior Dollar Notes.

"Series B Convertible Preferred Stock" means the 10.0 million shares of Series B Convertible Preferred Stock of the Company issued to the Company's Employee Stock Ownership Plan Trust, as in effect on the Issue Date.

"Shelf Registration Statement" means a "Shelf Registration" as such term is defined in the Registration Rights Agreement.

"Significant Subsidiary", with respect to any Person, means any Restricted Subsidiary of such Person that satisfies the criteria for a "significant subsidiary" set forth in Rule 1.02 of Regulation S-X under the Exchange Act as such Regulation is in effect on the Issue Date.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 308.

"Specified Redemption" has meaning set forth in Section 1101 of this Indenture.

"Specified Subsidiary" means any Subsidiary of the Company from time to time having a Consolidated Net Worth Amount of at least $100.0 million; provided, however, that each of Xerox Financial Services, Inc., Xerox Credit Corporation and any other corporation principally engaged in any business or businesses other than development, manufacture and/or marketing of (x) business equipment (including, without limitation, reprographic, computer (including software) and facsimile equipment), (y) merchandise or (z) services (other than financial services) shall be excluded as a "Specified Subsidiary" of the Company.

"spot rate of exchange" has the meaning specified in Section 119.

"Standard Securitization Undertakings" means representations, warranties, covenants and indemnities entered into by the Company or any of its Restricted Subsidiaries that are reasonably customary in an accounts receivable transaction.

"Stated Maturity" when used with respect to any Indebtedness or any installment of interest thereon means the dates specified in such Indebtedness as the fixed date on which the principal of or premiums on such Indebtedness or such installment of interest is due and payable, and shall not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"Subordinated Indebtedness" means Indebtedness of the Company that is subordinated or junior in right of payment to the Notes.

"Subsidiary", with respect to any Person, means:

(1) any corporation of which the outstanding Capital Stock having at least a majority of the votes entitled to be cast in the election of directors under ordinary circumstances shall at the time be owned, directly or indirectly, by such Person; or

(2) any other Person of which at least a majority of the voting interest under ordinary circumstances is at the time, directly or indirectly, owned by such Person.

"Subsidiary Preferred Stock" has the meaning given to such term in the definition of "Indebtedness."

"Surviving Entity" has the meaning specified in Section 801(a).

"Suspended Covenants" means the covenants and provisions contained in Sections 1007, 1008, 1009, 1010 and 1011.

"Suspension Period" has the meaning specified in Section 1015 of the Indenture.

"Synthetic Purchase Agreement" shall mean any agreement pursuant to which the Company or any of its Subsidiaries is or may become obligated to make any payment the amount of which is determined by reference to a derivative

agreement that relates to the price or value at any time of any Capital Stock of the Company; provided that no phantom stock or similar plan providing for payments only to current or former directors, officers or employees of the Company or any Subsidiary (or to their heirs or estates or successors or assigns) shall be deemed to be a Synthetic Purchase Agreement.

"Trust Indenture Act" or "TIA" means the Trust Indenture Act of 1939, as amended.

"Trustee" means the Person named as the Trustee in the first paragraph of this Indenture until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean such successor Trustee.

"Turnaround Program" means (i) arranging third party vendor financing for customers of the Company and its Subsidiaries, including the sale of finance receivables or financing assets (and related assets); (ii) the outsourcing of manufacturing activities, including the sale or other disposition of any related manufacturing assets; (iii) the exit from the SOHO business and charges and other costs related thereto to the extent incurred prior to the Issue Date; (iv) the optimization of the Company's research spending, including, without limitation, through the disposition of the Palo Alto Research Center, whether as an outright sale, joint venture or otherwise; and (v) to the extent not covered in clause (i), (ii), (iii) or (iv) above, charges relating to cost reduction initiatives or measures announced by the Company from time to time, including, without limitation, (a) reductions in workforce, (b) the closing or disposition, including by sale, termination of leases or otherwise, of or relating to the Company's or any of its Subsidiaries' manufacturing sites, offices and other real property, (c) deployment of, and transition to, a "distributor" model in the "Developing Markets Operations" or other markets where the Company's or its Subsidiaries' products or services, or any receivables relating to any thereof, would be sold or disposed of to third-party vendors or any other Person, (d) other dispositions of the Company's or any of its Subsidiaries' real, personal or intellectual property, assets or other rights relating thereto, and (e) any asset impairment relating to any of the foregoing initiatives or measures; in each case for any matter referred to in clauses (i) through (v) above as determined by the Company in good faith and as announced by the Company as part of its Turnaround Program.

"Unrestricted Subsidiary" of any Person means:

(1) the Subsidiary to be so designated has total assets of $1,000 or less or any Subsidiary of such Person that at the time of determination shall be or continue to be designated an Unrestricted Subsidiary by the Board of Directors of such Person in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The Board of Directors may designate any Subsidiary (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary unless such Subsidiary owns any Capital Stock of, or owns or holds any Lien on any property of, the Company or any other Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; provided that:

(1) the Company certifies to the Trustee that such designation complies with Section 1008 hereof, including that the Company would be permitted to

make, at the time of such designation, (a) a Permitted Investment or (b) an Investment pursuant to Section 1008(a), in either case, in an amount (the "Designation Amount") equal to the fair market value of the Company's proportionate interest in such Subsidiary on such date; and

(2) each Subsidiary to be so designated and each of its Subsidiaries has not at the time of designation, and does not thereafter, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable with respect to any Indebtedness pursuant to which the lender has recourse to any of the assets of the Company or any of its Restricted Subsidiaries.

The Board of Directors may designate any Unrestricted Subsidiary to be a Restricted Subsidiary only if it contemporaneously becomes a Guarantor or:

(1) immediately after giving effect to such designation, the Company is able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 1007 hereof; and

(2) immediately before and immediately after giving effect to such designation, no Default or Event of Default shall have occurred and be continuing.

Any such designation by the Board of Directors shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the foregoing provisions.

"Weighted Average Life to Maturity" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (a) the then outstanding aggregate principal amount of such Indebtedness into (b) the sum of the total of the products obtained by multiplying (i) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof, by (ii) the number of years (calculated to the nearest one-twelfth) which will elapse between such date and the making of such payment.

"Wholly Owned Restricted Subsidiary" of any Person means any Wholly Owned Subsidiary of such Person which at the time of determination is a Restricted Subsidiary of such Person.

"Wholly Owned Subsidiary" of any Person means any Subsidiary of such Person of which all the outstanding voting securities (other than in the case of a Foreign Subsidiary, directors' qualifying shares or an immaterial amount of shares required to be owned by other Persons pursuant to applicable law) are owned by such Person or any Wholly Owned Subsidiary of such Person.

SECTION 102. Rules of Construction.

Unless the context otherwise requires:

(a) the terms defined in this Article One have the meanings assigned to them in this Article One, and include the plural as well as the singular;

(b) all terms used herein which are defined in the Trust Indenture Act or the rules and regulations of the Commission thereunder, either directly or by reference therein, have the meanings assigned to them therein;

(c) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP;

(d) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision;

(e) references to any Article, Section or other subdivision in this Indenture, unless otherwise described, are references to an Article, Section or subdivision of this Indenture;

(f) "or" is not exclusive; and

(g) words used herein implying any gender shall apply to every gender.

SECTION 103. Compliance Certificates and Opinions.

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee an Officers' Certificate stating that all conditions precedent, if any, provided for in this Indenture (including any covenant compliance with which constitutes a condition precedent) relating to the proposed action have been complied with and an Opinion of Counsel stating that in the opinion of such counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of this Indenture relating to such particular application or request, no additional certificate or opinion need be furnished.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than pursuant to Section 1005) shall include:

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 104. Form of Documents Delivered to Trustee.

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify

or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. In giving such opinion, such counsel may rely upon opinions of local counsel reasonably satisfactory to the Trustee. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 105. Acts of Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section 105.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The principal amount and serial numbers of Notes held by any Person, and the date of holding the same, shall be proved by the Security Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Note shall bind every future Holder of the same Note and the Holder of every Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company

in reliance thereon, whether or not notation of such action is made upon such Note.

SECTION 106. Notices, etc., to Trustee and Company.

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, to the attention of its Corporate Trust Department;

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this Indenture, or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 107. Notice to Holders; Waiver.

Where this Indenture provides notice of any event to Holders by the Company or the Trustee, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at its address as it appears in the Security Register, not later than the latest date, if any, and not earlier than the earliest date, if any, prescribed for the giving of such notice. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Any notice mailed to a Holder in the manner herein prescribed shall be conclusively deemed to have been received by such Holder when so mailed, whether or not such Holder actually receives such notice. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of or irregularities in regular mail service or by reason of any other cause, it shall be impracticable to mail notice of any event to Holders when such notice is required to be given pursuant to any provision of this Indenture, then any manner of giving such notice as shall be satisfactory to the Trustee shall be deemed to be a sufficient giving of such notice for every purpose hereunder.

So long as the Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, the Company will make publication of such notice to the Holders of the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxembourg Wort) or, if such publication is not practicable, in one other leading daily newspaper with general circulation in Europe, such newspaper being published on each business day in morning editions, whether or not it shall be published in Saturday, Sunday or holiday editions. For so long as

the Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, a copy of all notices will be provided by the Company to the Luxembourg Stock Exchange.

Holders may communicate pursuant to Section 312(b) of the Trust Indenture Act with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of Section 312(c) of the Trust Indenture Act.

SECTION 108. Effect of Headings and Table of Contents.

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. Successors.

All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors.

SECTION 110. Separability Clause.

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

SECTION 111. Benefits of Indenture.

Nothing in this Indenture, in the Notes, express or implied, shall give to any Person, other than the parties hereto, any Paying Agent, any Security Registrar and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. GOVERNING LAW.

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

SECTION 113. Conflict with Trust Indenture Act.

If any provision hereof limits, qualifies or conflicts with any provision of the Trust Indenture Act or another provision which is required or deemed to be included in this Indenture by any of the provisions of the Trust Indenture Act, such provision or requirement of the Trust Indenture Act shall control.

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

SECTION 114. Legal Holidays.

In any case where any Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date of

any Note shall not be a Business Day, then (notwithstanding any other provision of this Indenture or of the Notes) payment of interest or principal (and premium, if any) need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date; provided that no interest shall accrue for the period from and after such Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date, as the case may be. In such event, no interest shall accrue with respect to such payment for the period from and after such Interest Payment Date, Redemption Date, date established for the payment of Defaulted Interest, Stated Maturity, Maturity Date, Change of Control Purchase Date or Net Proceeds Offer Payment Date, as the case may be, to the next succeeding Business Day and, with respect to any Interest Payment Date, interest for the period from and after such Interest Payment Date shall accrue with respect to the next succeeding Interest Payment Date. If a regular record date is a date that is not a Business Day, such record date shall not be affected.

SECTION 115. Unclaimed Money; Prescription.

If money deposited with the Trustee or any applicable agent for the payment of principal of, premium, if any, or interest on the Notes remains unclaimed for two years, the Trustee and such Paying Agent shall return the money to the Company. After that, Holders entitled to the money must look to the Company for payment unless applicable abandoned property law designates another Person and all liability of the Trustee and such Paying Agent shall cease. Other than as set forth in this paragraph, this Indenture does not provide for any periods for the escheatment of the payment of principal of, premium, if any, or interest on the Notes.

SECTION 116. No Recourse Against Others.

No past, present or future director, officer, employee, promoter, adviser, incorporator or shareholder of the Company, as such, shall have any liability for any obligations of the Company under the Notes or this Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability, to the extent permitted by applicable law. The waiver and release are part of the consideration for issuance of the Notes.

SECTION 117. Multiple Originals.

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

SECTION 118. No Adverse Interpretation of Other Agreements.

This Indenture may not be used to interpret another indenture, loan, security or debt agreement of the Company. No such indenture, loan, security or debt agreement may be used to interpret this Indenture.

SECTION 119. Judgment Currency.

The euro is the sole currency of account and payment for all sums payable under the Notes. The Company agrees to indemnify each Holder against any loss incurred by such Holder as a result of any judgment or order being given or made against the Company, for any euro amount due under the Notes and such judgment or order being expressed and paid in a currency (the "Judgment Currency") other than euro and as a result of any variation as between (i) the rate of exchange at which the euro amount is converted into the Judgment Currency for the purpose of such judgment or order and (ii) the spot rate of exchange in The City of New York at which such Holder on the date of payment of such judgment or order is able to purchase euro with the amount of the Judgment Currency actually received by such Holder if such Holder had utilized such amount of Judgment Currency to purchase euro as promptly as practicable upon such Holder's receipt thereof. The foregoing indemnity shall continue in full force and effect notwithstanding any such judgment or order as aforesaid. The term "spot rate of exchange" shall include any premiums and costs of exchange payable in connection with the purchase of, or conversion into, euro. This indemnity shall (i) constitute a separate and independent obligation from the other obligations of the Company, (ii) give rise to a separate and independent cause of action, (iii) apply irrespective of any waiver granted by any Holder, and (iv) continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgment or order.

ARTICLE TWO

NOTE FORMS

SECTION 201. Forms Generally.

The Notes shall be known as the "9 3/4% Senior Notes due 2009" of the Company. The Notes shall be treated as a single class for all purposes under this Indenture. The Notes and the Trustee's certificates of authentication shall be in substantially the forms set forth in Exhibit B, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their execution of the Notes. Any portion of the text of any Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Note.

The definitive Notes shall be printed, lithographed or engraved on steel-engraved borders or word processed or may be produced in any other manner, all as determined by the officers of the Company executing such Notes, as evidenced by their execution of such Notes; provided, however, that if the Notes are listed on any securities exchange such manner as is permitted by the rules of such securities exchange.

Each Note shall be dated the date of its issuance and shall show the date of its authentication. The terms and provisions contained in the Notes shall constitute, and are expressly made, a part of this Indenture.

Notes offered and sold to "QIBs" (Qualified Institutional Buyers, as defined in Rule 144A under the Securities Act) in reliance on Rule 144A under the Securities Act ("Rule 144A") may be issued in the form of one or more permanent global notes ("Global Notes") substantially in the form set forth

in Exhibit B hereto (each, a "Restricted Global Note") deposited with the Common Depositary, as custodian for the Depositary, and registered in the name of the Common Depositary or its nominee, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the Restricted Global Note may from time to time be increased or decreased by adjustments made on the records of the Common Depositary, as custodian for the Depositary, as hereinafter provided.

Notes offered and sold in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") shall be issued in the form of a single permanent Global Note substantially in the form set forth in Exhibit B hereto (the "Regulation S Global Note") deposited with the Common Depositary, as custodian for the Depositary, and registered in the name of the Common Depositary or its nominee for the accounts of the Euroclear System, as operated by Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, societe anonyme ("Clearstream"), duly executed by the Company and authenticated by the Trustee as hereinafter provided. During or prior to the end of the "40-day restricted period" within the meaning of Rule 903(c) of Regulation S, beneficial interests in the Regulation S Global Note may only be held through Euroclear and Clearstream. Any resale or transfer of beneficial interests in the Regulation S Global Note shall be made only pursuant to Rule 144A or Regulation S or another exemption from the Registration requirements of the Securities Act, after delivery to the Company by the transferor, if required by the Company, of the opinions, certification or other information described in Section 313. The aggregate principal amount of the Regulation S Global Note may from time to time be increased or decreased by adjustments made in the records of the Common Depositary, as custodian for the Depositary, as herein provided.

Notes offered and sold by Holders to institutional investors that qualify as "accredited investors" within the meaning of Rule 501(a)(1), (2), (3) or (7) under the Securities Act will be in the form of a Global Note substantially in the form set forth in Exhibit B hereto, with such applicable legends as are required by Section 313(e) (the "IAI Global Notes") deposited with the Common Depositary, as custodian for the Depositary, duly executed by the Company and authenticated by the Trustee as hereinafter provided. The aggregate principal amount of the IAI Global Note may from time to time be increased or decreased by adjustments made on the records of the Common Depositary, as custodian for the Depositary as hereinafter provided.

The provisions of the "Operating Procedures of the Euroclear System" and "Terms and Conditions Governing Use of Euroclear" and the "General Terms and Conditions of Clearstream" and "Customer Handbook" of the Clearstream shall be applicable to interests in the Global Notes that are held through participants through Euroclear or Clearstream.

ARTICLE THREE

THE NOTES

SECTION 301. Title and Terms.

The Trustee shall authenticate (i) Initial Notes to be authenticated and delivered under this Indenture on the Issue Date in an aggregate amount equal to (euro)225,000,000, (ii) Exchange Notes or Private Exchange Notes from time to time only in exchange for a like principal amount of Initial Notes and (iii) Notes not bearing the Private Placement Legend from time to time only

in exchange for (A) a like principal amount of Initial Notes or (B) a like principal amount of Private Exchange Notes, except for Notes authenticated and delivered upon registration or transfer of, or in exchange for, or in lieu of, other Notes pursuant to Section 303, 304, 306, 307, 801, 906, 1006, 1009 or 1108. The Trustee shall authenticate Additional Notes thereafter in unlimited amount for original issue upon a written order of the Company in the form of an Officers' Certificate in aggregate principal amount as specified in such order (so long as permitted by this Indenture, including, without limitation, Section 1007). Any such Officers' Certificate shall also specify the date on which the original issue of Notes is to be authenticated and shall certify that such issuance will not be prohibited by Section 1007.

The Notes shall be known and designated as the "9 3/4% Senior Notes due 2009" of the Company. The Notes will mature on January 15, 2009. Interest on the Notes will accrue at the rate of 9 3/4% per annum and will be payable semiannually in cash on each January 15 and July 15, commencing on July 15, 2002, to the persons who are registered Holders at the close of business on the January 1 and July 1 immediately preceding the applicable interest payment date. Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from and including the date of issuance to but excluding the actual interest payment date. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

The Notes shall be redeemable as provided in Article Eleven.

SECTION 302. Denominations.

The Notes shall be issuable only in registered form without coupons and only in denominations of (euro)1,000 and any integral multiple thereof.

SECTION 303. Execution, Authentication, Delivery and Dating.

The Notes shall be executed on behalf of the Company by its chairman, any vice chairman, its president, a vice president, the treasurer or any assistant treasurer, under its corporate seal reproduced thereon and attested by its secretary or an assistant secretary. The signature of any of these officers on the Notes may be manual or facsimile signatures of the present or any future such authorized officer and may be imprinted or otherwise reproduced on the Notes.

Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Notes executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Notes, and the Trustee in accordance with such Company Order shall authenticate and deliver such Notes to the Common Depositary.

Each Note shall be dated the date of its authentication.

No Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Note a certificate of

authentication substantially in the form provided for herein duly executed by the Trustee by manual signature of a Responsible Officer, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder and is entitled to the benefits of this Indenture.

Notwithstanding the foregoing, all Notes issued under this Indenture shall vote and consent together on all matters (as to which any of such Notes may vote or consent) as one class and no series of Notes will have the right to vote or consent as a separate class on any matter.

SECTION 304. Temporary Notes.

Pending the preparation of definitive Notes, the Company may execute and upon Company Order the Trustee shall authenticate and deliver, temporary Notes which are printed, lithographed, typewritten, word processed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Notes in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Notes may determine, as conclusively evidenced by their execution of such Notes.

If temporary Notes are issued, the Company shall cause definitive Notes to be prepared without unreasonable delay. After the preparation of definitive Notes, the temporary Notes shall be exchangeable for definitive Notes upon surrender of the temporary Notes at the office or agency of the Company designated for such purpose pursuant to Section 1002, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes, the Company shall execute and upon Company Order the Trustee shall authenticate and deliver in exchange therefor a like principal amount of definitive Notes of authorized denominations and the Trustee shall cancel and return, within three (3) Business Days, all such temporary Notes surrendered for cancellation. Until so exchanged, the temporary Notes shall in all respects be entitled to the same benefits under this Indenture as definitive Notes.

SECTION 305. Registrar and Paying Agent.

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office and in any other office or agency designated pursuant to Section 1002 being herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Security Register shall be in written form or any other form capable of being converted into written form within a reasonable time. At all reasonable times, the Security Register shall be open to inspection by the Trustee. The Trustee is hereby initially appointed as Security Registrar (the "Security Registrar") for the purpose of registering Notes and transfers of Notes as herein provided. The Security Registrar shall not be required to register transfers of Notes or to exchange Notes for a period beginning 15 days before the mailing of a notice of redemption of Notes and ending on the date of such mailing. The Security Registrar shall not be required to exchange or register transfers of any Notes called or being called for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

The Company shall maintain an office or agency within the City and State of

New York and London, England where Notes may be presented for payment to the Paying Agent. The Company will at all times maintain a Paying Agent in Luxembourg as long as the Notes may be listed on the Luxembourg Stock Exchange. The Company may have one or more Co-Security Registrars and one or more additional paying agents. The term "Paying Agent" includes any additional paying agent.

The Company shall enter into an appropriate agency agreement with any Paying Agent or Co-Security Registrar not a party to this Indenture, which, following the effectiveness of a registration statement pursuant to the Registration Rights Agreement, shall incorporate the terms of the TIA. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of any such agent. Initially, the Trustee will act as Paying Agent in The City of New York and Security Registrar. If the Company fails to maintain a Security Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 606. The Company or any of its Wholly Owned Subsidiaries incorporated in the United States may act as Paying Agent, Security Registrar, Co-Security Registrar or transfer agent.

SECTION 306. Registration of Transfers and Exchanges.

Upon surrender for registration of transfer of any Note at the office or agency of the Company designated pursuant to Section 1002, the Company shall execute and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Notes of any authorized denomination or denominations of a like aggregate principal amount.

Furthermore, any Holder of the Restricted Global Note shall, by acceptance of such Global Note, agree that transfers of beneficial interests in such Global Note may be effected only through a book-entry system maintained by the Holder of such Global Note (or its agent), and that ownership of a beneficial interest in the Note shall be required to be reflected in a book entry.

All Notes issued upon any registration of transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Notes surrendered upon such registration of transfer or exchange.

Every Note presented or surrendered for registration of transfer or for exchange shall be duly endorsed, or be accompanied by a written instrument of transfer, in form satisfactory to the Company and the Security Registrar, duly executed by the Holder thereof or its attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange or redemption of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Notes, other than exchanges pursuant to Section 303, 304, 801, 906, 1006, 1009 or 1108 not involving any transfer.

The Company shall not be required (i) to issue, register the transfer of or exchange any Note during a period beginning at the opening of business 15 days before the selection of Notes to be redeemed under Section 1104 and ending at the close of business on the day of such mailing of the relevant

notice of redemption, or (ii) to register the transfer of or exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

None of the Company, the Trustee, the Depositary or the Common Depositary shall be liable for any delay by the Security Registrar in identifying the beneficial owners of the Notes and each such Person may conclusively rely on, and shall be protected in relying on, instructions from the Security Registrar for all purposes (including with respect to the registration and delivery, and the respective principal amounts, of any Notes to be issued).

SECTION 307. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Trustee, or (ii) the Company and the Trustee receive evidence to their satisfaction of the destruction, loss or theft of any Note, and there is delivered to the Company and the Trustee such security or indemnity as may be required by them to save each of them harmless, then, in the absence of actual notice to the Company or the Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in exchange for any such mutilated Note or in lieu of any such destroyed, lost or stolen Note, a new Note of like tenor and principal amount, bearing a number not contemporaneously outstanding.

(b) Upon the issuance of any new Note under this Section 307, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

(c) Every new Note issued pursuant to this Section 307 in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(d) The provisions of this Section 307 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

SECTION 308. Payment of Interest; Interest Rights Preserved.

Interest on any Note which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name such Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest at the office or agency of the Company maintained for such purpose pursuant to Section 1002; provided, however, at the Company's option, interest may be paid at the Trustee's Corporate Trust Office and a Paying Agent's corporate office in London, England or by check mailed to the registered address of Holders. Notwithstanding the foregoing, payment of (and premium, if any, on), interest on Notes represented by Global Notes shall be made in accordance with procedures required by the Depositary.

Any interest on any Note which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date shall forthwith cease to be

payable to the Holder on the Regular Record Date by virtue of having been such Holder, and such defaulted interest and (to the extent lawful) interest on such defaulted interest at the rate borne by the Notes (such defaulted interest and interest thereon herein collectively called "Defaulted Interest") may be paid by the Company, at its election in each case, as provided in clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Note and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this clause provided. Thereupon the Trustee shall fix a "Special Record Date" for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date, and in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given in the manner provided for in Section 107, not less than 10 days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been so given, such Defaulted Interest shall be paid to the Persons in whose names the Notes (or their respective Predecessor Notes) are registered at the close of business on such Special Record Date.

(2) The Company may make payment of any Defaulted Interest in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section 308, each Note delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Note.

SECTION 309. Persons Deemed Owners.

Prior to the due presentment of a Note for registration of transfer, the Company the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any, on) and (subject to Sections 306 and 308) interest on such Note and for all other purposes whatsoever, whether or not such Note be overdue, and none of the Company, the Trustee or any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 310. Cancellation.

All Notes surrendered for payment, redemption, registration of transfer or exchange shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Notes previously authenticated hereunder which the Company has not issued and sold, and all Notes so delivered shall be promptly canceled by the Trustee. Subject to the first sentence of this Section 310, if the Company shall so acquire any of the Notes, however, such acquisition shall not operate as a redemption or satisfaction of the Indebtedness represented by such Notes unless and until the same are surrendered to the Trustee for cancellation. No Notes shall be authenticated in lieu of or in exchange for any Notes canceled as provided in this Section 309, except as expressly permitted by this Indenture. All canceled Notes held by the Trustee shall be disposed of by the Trustee in accordance with its customary procedures and certification of their disposal delivered to the Company.

SECTION 311. Computation of Interest.

Interest on the Notes shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 312. Book-Entry Provisions for Global Notes.

(a) The Company shall execute and the Trustee shall, in accordance with this Section 312, authenticate and deliver initially one or more Global Notes that (i) shall be registered in the name of the Common Depositary or its nominee, as custodian for the Depositary, for such Global Note or Global Notes, (ii) shall be delivered such Common Depositary or pursuant to such Common Depositary's instructions and (iii) bear legends as required by Section 313(e).

Members of, or participants in the Depositary ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by the Common Depositary or its nominee, as custodian for the Depositary or under such Global Note, and the Common Depositary, as custodian for the Depositary, may be treated by the Company, the Trustee and any agent of the Company or the Trustee as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee or any agent of the Company or the Trustee from giving effect to any written certification, proxy or other authorization furnished by the Depositary or impair, as between the Depositary and their Agent Members, the operation of customary practices of such Depositary governing the exercise of the rights of a Holder of a beneficial interest in any Global Note.

(b) Interests of beneficial owners in a Global Note may be transferred in accordance with the applicable rules and procedures of the Depositary and the provisions of Section 313. Transfers of a Global Note shall be limited to transfers of such Global Note in whole, but not in part, to the Common Depositary, its successors or their respective nominees except that Certificated Notes shall be transferred to all beneficial owners in exchange for their beneficial interests in the Global Note only in the following circumstances: (x) the Depositary notifies the Company it is unwilling or

unable to continue as clearing agency, (y) the Common Depositary notifies the Company that it is unwilling or unable to continue as Common Depositary and a successor Common Depositary is not appointed within 120 days of such notice or (z) an Event of Default has occurred and is continuing with respect to the Notes.

(c) In connection with any transfer or exchange of a portion of the beneficial interest in any Global Note to beneficial owners pursuant to paragraph (b), the Registrar shall (if one or more Certificated Notes are to be issued) reflect on its books and records the date and a decrease in the principal amount of such Global Note in an amount equal to the principal amount of the beneficial interest in such Global Note to be transferred, and the Company shall execute, and the Trustee shall authenticate and deliver, one or more Certificated Notes of like tenor and principal amount of authorized denominations.

(d) In connection with the transfer of Global Notes as an entirety to beneficial owners pursuant to paragraph (b), the Global Notes shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and the Trustee shall authenticate and deliver, to each beneficial owner identified by the Depositary in exchange for its beneficial interest in the Global Notes, an equal aggregate principal amount of Certificated Notes of like tenor of authorized denominations.

(e) The Holder of any Global Note may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which a Holder is entitled to take under this Indenture or the Notes.

(f) Any Certificated Note delivered in exchange for an interest in the Restricted Global or Regulation S Global Note pursuant to paragraph (b) of this Section 312 shall bear the Private Placement Legend if required by Section 313(e).

SECTION 313. Special Transfer Provisions.

Unless a Note is sold in connection with an effective registration statement under the Securities Act, the following provisions shall apply:

(a) Transfers to Non-QIB Institutional Accredited Investors. The following provisions shall apply with respect to the registration of any proposed transfer of a Note constituting a Restricted Security to any Institutional Accredited Investor which is not a QIB:

(i) the Security Registrar shall register the transfer of any Note constituting a Restricted Security, whether or not such Note bears the Private Placement Legend, if (x) the requested transfer is subsequent to a date which is two years after the later of the Issue Date and the last date on which the Company or any of its Affiliates was the owner of such Note or (y) in the case of a transfer to an Institutional Accredited Investor which is not a QIB (excluding Non-U.S. Persons), the transferee has executed and delivered to the Company and the Trustee (with a copy to the Security Registrar) an institutional accredited investor transferee compliance letter (an "Investor Letter") substantially in the form of Exhibit C hereto and any legal opinions and certifications required thereby; and

(ii) upon receipt by the Security Registrar of (x) the certificate in substantially the form of Exhibit C and any legal opinions and certifications required by clause (y) of paragraph (i) above and (y) instructions given in accordance with the procedures of the Depositary and the Security Registrar, (1) the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Global Note in which the transferor's beneficial interest is held in an amount equal to the principal amount of the beneficial interest in such IAI Global Note to be transferred or shall cancel any Certificated Note so transferred, and (2) the Security Registrar shall reflect on its books and records, if necessary, a corresponding increase in the principal amount of the IAI Global Note in which the transferee's beneficial interest will be held or, if it is determined by the Company that Certificated Notes must be issued, the Company shall execute and the Trustee shall authenticate and make available for delivery one or more Certificated Notes of like tenor and amount.

(b) Transfers to QIBs. The following provisions shall apply with respect to the registration of any proposed transfer of a Note constituting a Restricted Security to a QIB (excluding transfers to Non-U.S. Persons):

(i) the Security Registrar shall only register the transfer if such transfer is being made by a proposed transferor who has delivered to the Company and the Trustee a certificate substantially in the form of Exhibit D hereto (with a copy to the Security Registrar), and the transferee must advise the Company and the Trustee in writing that it is purchasing the Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a QIB within the meaning of Rule 144A and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as it has requested pursuant to Rule 144A or has determined not to request such information and that it is aware that the transferor is relying registration provided by Rule 144A.

(ii) if the proposed transferee is an Agent Member and the Note to be transferred consists of a Certificated Note, upon receipt by the Company, the Trustee and the Security Registrar of the documents referred to in paragraph (i) above and instructions given in accordance with the procedures of the Common Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Rule 144A Global Notes in an amount equal to the principal amount of the Certificated Note to be transferred, and the Trustee shall cancel the Certificated Note so transferred.

(c) Transfers to Non-U.S. Persons at Any Time. The following provisions shall apply with respect to any transfer of a Note to a Non-U.S. Person:

(i) any proposed transfer to any Non-U.S. Person of a Certificated Note or an interest in a Rule 144A Global Note may be made upon receipt by the Company and the Trustee (with a copy to the Security Registrar) of a certificate substantially in the form of Exhibit E hereto from the proposed transferor.

(ii) (a) if the proposed transferor is an Agent Member holding a beneficial interest in a Rule 144A Global Note, upon receipt by the Company, the Trustee and the Security Registrar of (A) the documents, if

any, required by paragraph (i) and (B) instructions in accordance with the procedures of the Common Depositary, the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Rule 144A Global Notes in an amount equal to the principal amount of the beneficial interest in the Rule 144A Global Notes to be transferred, and (b) if the proposed transferee is an Agent Member, upon receipt by the Security Registrar of instructions given in accordance with the procedures of the Common Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Regulation S Global Notes in an amount equal to the principal amount of the Certificated Note or the Rule 144A Global Notes, as the case may be, to be transferred, and the Trustee shall cancel the Certificated Note, if any, so transferred or decrease the amount of the Rule 144A Global Notes.

(d) Transfers between Unrestricted Global Notes. The following restrictions shall apply with respect to transfers between Unrestricted Global Notes:

(i) if the proposed transferor is an Agent Member holding a beneficial interest in an Unrestricted Global Note, upon receipt by the Trustee of instructions in accordance with the procedures of the Common Depositary, the Security Registrar shall reflect on its books and records the date and a decrease in the principal amount of the Unrestricted Global Note in which such transferor has a beneficial interest in an amount equal to the principal amount of the beneficial interest in such Unrestricted Global Note to be transferred; and

(ii) if the proposed transferee is an Agent Member, upon receipt by the Trustee of instructions given in accordance with the procedures of the Common Depositary, the Security Registrar shall reflect on its books and records the date and an increase in the principal amount of the Unrestricted Global Note in which the transferee holds a beneficial interest in an amount equal to the principal amount of the beneficial interest in the other Unrestricted Global Note to be transferred, and the Security Registrar shall decrease the amount of the Unrestricted Global Note in which the transferor had a beneficial interest.

(e) Private Placement Legend. Upon the transfer, exchange or replacement of Notes not bearing or subject to the restrictions covered by the Private Placement Legend, the transferred or replacement Notes shall not bear or be subject to the restrictions covered by the Private Placement Legend, unless the Company believes that such transferred or replacement Notes are or will be Restricted Securities, in which case, such Notes shall bear, or be subject to the restrictions covered by, the Private Placement Legend. Upon the transfer, exchange or replacement of Notes bearing or subject to the Private Placement Legend, the Security Registrar shall deliver only Notes that bear or are subject to the Private Placement Legend unless (i) the circumstances contemplated by paragraph (a)(i)(x) of this Section 313 exist, (ii) there is delivered to the Security Registrar an Opinion of Counsel reasonably satisfactory to the Company and the Trustee to the effect that neither such legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act or (iii) such Note has been sold pursuant to an effective registration statement under the Securities Act. At the request of the Company or a Holder, the Security Registrar may deliver Notes that do not bear and are not subject to the Private Placement Legend if (i) the

circumstances contemplated by paragraph (a)(i)(x) of this Section 313 exist or (ii) there is delivered to the Security Registrar an Opinion of Counsel reasonably satisfactory to the Trustee to the effect that neither such legend nor the related restriction on transfer are required in order to maintain compliance with the provisions of the Securities Act.

(f) General. By its acceptance of any Note bearing the Private Placement Legend, each Holder of such a Note acknowledges the restrictions on transfer of such Note set forth in this Indenture and in the Private Placement Legend and agrees that it will transfer such Note only as provided in this Indenture.

The Security Registrar shall retain copies of all letters, notices and other written communications received pursuant to Section 312 or this Section 313. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Security Registrar.

The Trustee and the Security Registrar shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer imposed under this Indenture or under applicable law with respect to any transfer of any interest in any Note (including any transfers between or among Agent Members or beneficial owners of interests in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by the terms of, this Indenture, and to examine the same to determine substantial compliance as to form with the express requirements hereof.

SECTION 314. "CUSIP", "ISIN" and "Common Code" Numbers.

The Company in issuing the Notes shall use "CUSIP", "ISIN" or "Common Code" number(s) and the Trustee shall use the "CUSIP", "ISIN" or "Common Code" number(s), in each case, as applicable, in notices of redemption or exchange as a convenience to Holders; provided that neither the Company nor the Trustee shall have any responsibility for any defect in the "CUSIP", "ISIN" or "Common Code" number, as applicable, that appears on any Note, check, advice or payment or redemption notice, and any such notice may state that no representation is made as to the correctness or accuracy of the "CUSIP", "ISIN" and "Common Code" number(s), as applicable, printed in the notice or on the Notes, and that reliance may be placed only on the other identification numbers printed on the Notes and any such redemption or exchange shall not be affected by any defect in or omission of such number(s). The Company shall promptly notify the Trustee of any changes in "CUSIP", "ISIN" or "Common Code" numbers, as applicable.

SECTION 315. Issuance of Additional Notes.

The Company shall be entitled to issue Additional Notes under this Indenture which shall have substantially identical terms as the Notes, other than with respect to the date of issuance, issue price, amount of interest payable on the first payment date applicable thereto or upon a registration default as provided under a registration rights agreement related thereto and terms of optional redemption, if any (and, if such Additional Notes shall be issued in the form of Exchange Notes, other than with respect to transfer restrictions); provided, that such issuance shall be made in compliance with Section 1007; provided, however, that no Additional Notes may be issued

unless the Additional Notes either (i) are part of the same "issue" as the Initial Notes for purposes of section 1271 through 1275 of the Internal Revenue Code of 1986, as amended (the "Code"), or (ii) have an issue price for purposes of section 1273 of the Code equal to the adjusted issue price of the Initial Notes, determined as of the issue date of the Additional Notes. The Initial Notes issued on the date of this Indenture, any Additional Notes and all Exchange Notes or Private Exchange Notes issued in exchange therefor shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Notes, the Company shall set forth in an Officers' Certificate, a copy of which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of Notes outstanding immediately prior to the issuance of such Additional Notes;

(2) the aggregate principal amount of such Additional Notes to be authenticated and delivered pursuant to this Indenture;

(3) the issue price and the issue date of such Additional Notes and the amount of interest payable on the first payment date applicable thereto;

(4) the "CUSIP", "ISIN" or "Common Code" number, as applicable, of such Additional Notes; and

(5) whether such Additional Notes shall be transfer Restricted Securities (within the meaning set forth in Rule 144(a)(3) of the Securities Act) and issued in the form of Initial Notes or shall be registered securities issued in the form of Exchange Notes, substantially in the form as set forth in Exhibit B hereto.

SECTION 316. Deposit of Moneys; Payments.

Prior to 10:00 a.m. London time on each Interest Payment Date and on the Maturity Date or any other date a payment on the Notes is scheduled or required to be made, the Company shall have deposited with the Paying Agent in immediately available funds euro sufficient to make all cash payments due on such Interest Payment Date or the Maturity Date, as the case may be. The principal and interest on Global Notes shall be payable to the Common Depositary or its nominee, as the case may be, as the sole registered owner and the sole holder of the Global Notes represented thereby. The principal and interest on Certificated Notes shall be payable at the office of the Paying Agents or by check mailed to the registered address of Holders. The Paying Agents shall pay the Company any excess cash remaining on deposit after all payments have been made with respect to a given Interest Payment Date or the Maturity Date, as the case may be. All payments made hereunder shall be in euro.

SECTION 317. Paying Agent To Hold Money in Trust.

Each Paying Agent shall hold in trust for the benefit of the Holders or the Trustee all money held by the Paying Agent for the payment of principal of, premium, if any, or interest on the Notes, and shall notify the Trustee of any default by the Company in making any such payment. Money held in trust by the Paying Agent need not be segregated except as required by law and except if the Company or any of their respective Affiliates is acting as Paying Agent, and in no event shall the Paying Agent be liable for any interest on

any money received by it hereunder. The Company at any time may require the Paying Agent to pay all money held by it to the Trustee and account for any funds disbursed and the Trustee may at any time during the continuance of any Event of Default, upon a Company Order to the Paying Agent, require such Paying Agent to pay forthwith all money so held by it to the Trustee and to account for any funds disbursed. Upon making such payment, the Paying Agent shall have no further liability for the money delivered to the Trustee.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. Satisfaction and Discharge of Indenture.

This Indenture will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the applicable Notes, as expressly provided for in this Indenture) as to all Outstanding Notes under this Indenture when:

(1) either:

(a) all the Notes previously authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has previously been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the applicable Trustee for cancellation; or

(b) all Notes not previously delivered to the applicable Trustee for cancellation have become due and payable within one year or as a result of a mailing of a notice of redemption and the Company has irrevocably deposited or caused to be deposited with the applicable Trustee euro, non-callable Euro Government Obligations or a combination thereof in an amount sufficient to pay and discharge the entire Indebtedness on the Notes not previously delivered to the applicable Trustee for cancellation, for principal of, premium, if any, and interest on the Notes to the date of deposit together with irrevocable instructions from the Company directing the applicable Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable under this Indenture by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 606 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of clause (1) of this Section 401, the obligations of the Trustee under Section 402 and Section 1003 shall survive such satisfaction and discharge.

SECTION 402. Application of Trust Money.

Subject to the provisions of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

ARTICLE FIVE

REMEDIES

SECTION 501. Events of Default.

"Event of Default", wherever used herein, means any one of the following events:

(1) the failure to pay interest on any Notes or Senior Dollar Notes when the same becomes due and payable and the default continues for a continuous period of 30 days;

(2) the failure to pay the principal on any Notes or Senior Dollar Notes, when such principal becomes due and payable, at maturity, upon redemption or other wise (including the failure to make a payment to purchase (x) Notes tendered pursuant to a Change of Control Offer or a Net Proceeds Offer or (y) Senior Dollar Notes tendered pursuant to a "Change of Control Offer" or a "Net Proceeds Offer" (as each such term is defined under the Senior Dollar Notes Indenture);

(3) a default in the observance or performance of any other covenant or agreement contained in this Indenture which default continues for a period of 90 days after the Company receives written notice specifying the default (and demanding that such default be remedied) from the Trustee or the Holders of at least 25% of the outstanding principal amount of the Notes (except in the case of a default with respect to Section 801, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);

(4) the failure to pay at final maturity (giving effect to any applicable grace periods and any extensions thereof) the principal amount of any Indebtedness of the Company or any Restricted Subsidiary of the Company, or the acceleration of the final Stated Maturity of any such Indebtedness, if the aggregate principal amount of such Indebtedness, together with the principal amount of any other such Indebtedness in default for failure to pay principal at final maturity or which has been accelerated, aggregates $50.0 million or more at any time;

(5) one or more judgments in an aggregate amount in excess of $50.0 million (excluding any amounts adequately covered by insurance from a solvent and unaffiliated insurance company) shall have been rendered against the Company or any of its Restricted Subsidiaries and such judgments remain undischarged, unpaid or unstayed for a period of 90 days after such judgment or judgments become final and non-appealable;

(6) the entry by a court of competent jurisdiction of (A) a decree or order for relief in respect of the Company or any Significant Subsidiary in

an involuntary case or proceeding under any applicable Bankruptcy Law or (B) a decree or order adjudging the Company or any Significant Subsidiary bankrupt or insolvent, or seeking reorganization, arrangement, adjustment or composition of or in respect of the Company or any Significant Subsidiary under any applicable federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or any Significant Subsidiary or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and any such decree or order for relief shall continue to be in effect, or any such other decree or order shall be unstayed and in effect, for a period of 60 consecutive days; or

(7) (A) the commencement by the Company or any Significant Subsidiary of a voluntary case or proceeding under any applicable Bankruptcy Law or any other case or proceeding to be adjudicated bankrupt or insolvent, (B) the Company or any Significant Subsidiary consents to the entry of a decree or order for relief in respect of the Company or such Significant Subsidiary in an involuntary case or proceeding under any applicable Bankruptcy Law or to the commencement of any bankruptcy or insolvency case or proceeding against it, (C) the Company or any Significant Subsidiary files a petition or answer or consent seeking reorganization or relief under any applicable federal or state law, (D) the Company or any Significant Subsidiary (x) consents to the filing of such petition or the appointment of, or taking possession by, a custodian, receiver, liquidator, assignee, trustee, sequestrator or similar official of the Company or such Significant Subsidiary or of any substantial part of its property, (y) makes an assignment for the benefit of creditors or (z) admits in writing its inability to pay its debts generally as they become due or (E) the Company or any Significant Subsidiary takes any corporate action in furtherance of any such actions in this clause (7).

SECTION 502. Acceleration of Maturity; Rescission and Annulment.

(a) If an Event of Default (other than an Event of Default specified in clause (6) or (7) above with respect to the Company) shall occur and be continuing, the Trustee or the Holders of at least 25% in principal amount of Outstanding Notes under this Indenture may declare the principal of, and premium, if any, and accrued interest on all the Notes under this Indenture to be due and payable by notice in writing to the Company and the Trustee specifying the respective Event of Default and that it is a "notice of acceleration", and the same shall become immediately due and payable. If an Event of Default specified in Section 501(6) or 501(7) with respect to the Company occurs and is continuing, then all unpaid principal of, and premium, if any, and accrued and unpaid interest on all of the Outstanding Notes shall ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

(b) At any time after a declaration of acceleration with respect to the Notes as described in paragraph (a) above, the Holders of a majority in principal amount of the Notes under this Indenture may rescind and cancel such declaration and its consequences:

(1) if the rescission would not conflict with any judgment or decree;

(2) if all existing Events of Default have been cured or waived except nonpayment of principal or interest that has become due solely because of the acceleration;

(3) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and

(4) if the Company has paid the Trustee its reasonable compensation and reimbursed the Trustee for its expenses, disbursements and advances.

No such rescission shall affect any subsequent Default or impair any right consequent thereto.

SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if:

(a) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable and such default continues for a period of 30 days, or

(b) default is made in the payment of the principal of (or premium, if any, on) any Note at the maturity thereof,

the Company shall, upon demand of the Trustee, pay to the Trustee for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal (and premium, if any) and interest, and interest on any overdue principal (and premium, if any) and, to the extent that payment of such interest shall be legally enforceable, upon any overdue installment of interest, at the rate borne by the Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Company fails to pay such amounts forthwith upon such demand, the Trustee, in its own name as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, may prosecute such proceeding to judgment or final decree and may enforce the same against the Company or any other obligor upon the Notes and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property of the Company or any other obligor upon the Notes, wherever situated.

If an Event of Default occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. Trustee May File Proofs of Claim.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or any other obligor upon the Notes or the property of the Company or of such other obligor or their

creditors, the Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment of overdue principal, premium, if any, or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise,

(i) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Holders allowed in such judicial proceeding, and

(ii) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 606.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

SECTION 505. Trustee May Enforce Claims Without Possession of Notes.

All rights of action and claims under this Indenture or the Notes may be prosecuted and enforced by the Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name and as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

SECTION 506. Application of Money Collected.

Any money collected by the Trustee pursuant to this Article Five shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 606;

SECOND: To the payment of the amounts then due and unpaid for principal of (and premium, if any, on,) and interest on the Notes in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable

on such Notes for principal (and premium, if any) and interest, respectively; and

THIRD: The balance, if any, to the Company.

SECTION 507. Limitation on Suits.

No Holder of any Notes shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default;

(2) the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee, for 60 days after its receipt of such notice, request and offer of reasonably satisfactory indemnity, has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority or more in principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders, or to obtain or to seek to obtain priority or preference over any other Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders.

SECTION 508. Unconditional Right of Holders to Receive Principal, Premium and Interest.

Notwithstanding any other provision in this Indenture, the Holder of any Note shall have the right, which is absolute and unconditional, to receive payment, as provided herein (including, if applicable, Article Twelve) and in such Note, of the principal of (and premium, if any, on) and (subject to Section 308) interest on, such Note on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. Restoration of Rights and Remedies.

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any

determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. Rights and Remedies Cumulative.

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes in Section 307(d), no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and, subject to the provisions of Section 507, every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. Delay or Omission Not Waiver.

No delay or omission of the Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article Five or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. Control by Holders.

The Holders of not less than a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee; provided that

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) the Trustee need not take any action which might involve it in personal liability or be unjustly prejudicial to the Holders not consenting.

SECTION 513. Waiver of Past Defaults.

The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past Default or Event of Default hereunder and its consequences, except a Default or Event of Default:

(1) in respect of the payment of the principal of (or premium, if any, on) or interest on any Note, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

Upon any such waiver, such Default or Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or Event of Default or impair any right consequent thereon.

SECTION 514. Waiver of Stay or Extension Laws.

The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

SECTION 601. Notice of Defaults.

Within 90 days after the occurrence of any Default hereunder, the Trustee shall transmit in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, notice of such Default hereunder known to the Trustee, unless such Default shall have been cured or waived; provided, however, that, except in the case of a Default or Event of Default in the payment of the principal of (or premium, if any, on) or interest on any Note, the Trustee shall be protected in withholding such notice if and so long as the Board of Directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders; and provided further that in the case of any Default or Event of Default of the character specified in Section 501(3), no such notice to Holders shall be given until at least 30 days after the occurrence thereof.

In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise thereof, as a prudent Person would exercise or use under the circumstances in the conduct of such Person's own affairs.

SECTION 602. Certain Rights of Trustee.

Subject to the provisions of Sections 315(a) through 315(d) of the Trust Indenture Act:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order and any resolution of the Board of Directors may be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled at all reasonable times to examine the books, records and premises of the Company personally or by agent or attorney;

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder; and

(8) the Trustee shall not be liable for any action taken, suffered or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by this Indenture.

The Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

SECTION 603. Trustee Not Responsible for Recitals or Issuance of Notes.

The recitals contained herein and in the Notes, except for the Trustee's certificates of authentication, shall be taken as the statements of the Company and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this

Indenture or of the Notes, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Notes and perform its obligations hereunder and that the statements made by it in any Statement of Eligibility of Form T-1 supplied or to be supplied to the Company are or will be, as the case may be, true and accurate, subject to the qualifications set forth therein. The Trustee shall not be accountable for the use or application by the Company of Notes or the proceeds thereof.

SECTION 604. Trustee May Hold Notes.

The Trustee, any Paying Agent, any Security Registrar or any other agent of the Company or of the Trustee, in its individual or any other capacity, may become the owner or pledgee of Notes and, subject to Sections 310(b) and 311 of the Trust Indenture Act, may otherwise deal with the Company with the same rights it would have if it were not Trustee, Paying Agent, Security Registrar or such other agent.

SECTION 605. Money Held in Trust.

Cash in euro or Euro Government Obligations held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any Euro Government Obligations received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 606. Compensation and Reimbursement.

The Company agrees:

(1) to pay to the Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its gross negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without gross negligence or bad faith on its part, arising out of or in connection with the acceptance, administration or enforcement of this trust, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The obligations of the Company under this Section 606 to compensate the Trustee, to pay or reimburse the Trustee for expenses, disbursements and advances and to indemnify and hold harmless the Trustee shall constitute indebtedness and shall survive the satisfaction and discharge of this Indenture. As security for the performance of such obligations of the Company, the Trustee shall have a claim prior to the Notes upon all property and funds held or collected by the Trustee as such, except funds held in trust for the payment of principal of (and premium, if any, on) or interest

on particular Notes.

SECTION 607. Corporate Trustee Required; Eligibility.

There shall at all times be a Trustee hereunder which shall be eligible to act as Trustee under Section 310(a)(1) of the Trust Indenture Act and shall have a combined capital and surplus of at least $100.0 million. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of federal, state, territorial or District of Columbia supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 607, it shall resign immediately in the manner and with the effect hereinafter specified in this Article Six.

SECTION 608. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article Six shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 609.

(b) The Trustee may resign at any time by giving at least 60 days prior written notice thereof to the Company addressed to the Company. If the instrument of acceptance by a successor Trustee required by Section 609 shall not have been delivered to the Trustee within 90 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by Act of the Holders of not less than a majority in principal amount of the Outstanding Notes, delivered to the Trustee and to the Company addressed to the Company.

(d) If at any time:

(1) the Trustee shall fail to comply with the provisions of Section 310(b) of the Trust Indenture Act after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Note for at least six months, or

(2) the Trustee shall cease to be eligible under Section 607 and shall fail to resign after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Note for at least six months, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Company may remove the Trustee, or (ii) subject to Section 315(e) of the Trust Indenture Act, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent

jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Company shall promptly appoint a successor Trustee. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Company. If no successor Trustee shall have been so appointed by the Company or the Holders and accepted appointment in the manner hereinafter provided, any Holder who has been a bona fide Holder of a Note for at least six months may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Company shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee to the Holders of Notes in the manner provided for in Section 107. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office.

SECTION 609. Acceptance of Appointment by Successor.

Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and, thereupon, the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts. No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article Six.

SECTION 610. Merger, Conversion, Consolidation or Succession to Business.

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Trustee had itself authenticated

such Notes; and in case at that time any of the Notes shall not have been authenticated, any successor Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have; provided, however, that the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Notes in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. Disclosure of Names and Addresses of Holders; Holders' List.

(a) Every Holder of Notes, by receiving and holding the same, agrees with the Company and the Trustee that none of the Company or the Trustee or any agent of either of them shall be held accountable by reason of the disclosure of any such information as to the names and addresses of the Holders in accordance with Section 312 of the Trust Indenture Act, regardless of the source from which such information was derived, and that the Trustee shall not be held accountable by reason of mailing any material pursuant to a request made under Section 312(b) of the Trust Indenture Act.

(b) The Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing no later than the record date for each Interest Payment Date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

SECTION 702. Reports by Trustee.

Within 60 days after May 15 of each year commencing with the first May 15 after the first issuance of Notes, the Trustee shall transmit to the Holders, in the manner and to the extent provided in Section 313(c) of the Trust Indenture Act, a brief report dated as of such May 15 if required by Section 313(a) of the Trust Indenture Act.

ARTICLE EIGHT

CONSOLIDATION, MERGER, SALE OF ASSETS

SECTION 801. Company May Consolidate, etc., Only on Certain Terms.

(a) The Company will not, in a single transaction or series of related transactions, consolidate or merge with or into any Person, or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Restricted Subsidiary of the Company to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's assets (determined on a consolidated basis for the Company and the Company's Restricted Subsidiaries) whether as an entirety or substantially as an entirety to any Person unless:

(1) either:

(a) the Company shall be the surviving or continuing corporation; or

(b) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Restricted Subsidiaries substantially as an entirety (the "Surviving Entity"):

(x) shall be a corporation organized and validly existing under the laws of the United States or any State thereof or the District of Columbia; and

(y) shall expressly assume, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance of every covenant of the Notes, this Indenture and the Registration Rights Agreement on the part of the Company to be performed or observed;

(2) if such transaction or series of related transactions occurs other than during a Suspension Period, immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including giving effect to any Indebtedness (including Acquired Indebtedness) incurred or anticipated to be incurred in connection with or in respect of such transaction), the Company or such Surviving Entity, as the case may be, shall either (x) be able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to Section 1007(a) hereof or (y) shall have a Consolidated Fixed Charge Coverage Ratio immediately after such transaction or series of related transactions equal to or greater than the Company's Consolidated Fixed Charge Coverage Ratio immediately prior to such transaction or series of related transactions;

(3) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above (including, without limitation, giving effect to any Indebtedness (including Acquired Indebtedness) incurred or anticipated to be incurred and any Lien or Event of Default shall have occurred or be continuing; and

(4) the Company or the Surviving Entity shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the applicable provisions of this Indenture and that all conditions precedent in this Indenture relating to such transaction have been satisfied.

(b) For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company, shall be

deemed to be the transfer of all or substantially all of the properties and assets of the Company.

(c) Notwithstanding the foregoing, the Company need not comply with clause (2) of paragraph (a) of this Section 801 in connection with (x) a sale assignment, transfer, conveyance or other disposition of assets between or among the Company and any of its Wholly Owned Restricted Subsidiaries or (y) any merger of the Company with or into any Wholly Owned Restricted Subsidiary or (z) a merger by the Company with an Affiliate incorporated or organized solely for the purpose of reincorporating or reorganizing the Company in another jurisdiction.

SECTION 802. Successor Substituted.

Upon any consolidation, merger, sale, assignment, conveyance, transfer, lease or other transaction described in, and complying with the provisions of, Section 801 in which the Company is not the continuing corporation, the Surviving Entity shall succeed to, and be substituted for, and may exercise every right and power of, the Company, as the case may be, under the Indenture and the Notes with the same effect as if such Surviving Entity had been named as such, and the Company shall be discharged from all obligations and covenants under this Indenture and the Notes, provided that, in the case of a transfer by lease, the predecessor shall not be released from its obligations with respect to the payment of principal (premium, if any) and interest on the Notes.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 901. Supplemental Indentures Without Consent of Holders.

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and complying with Article Eight of this Indenture; or

(2) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default; or

(4) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee pursuant to the requirements of Section 609; or

(5) to cure any ambiguity, defect or inconsistency, to correct or supplement any provision herein which may be inconsistent with any other provision herein, or to make clear any other provisions with respect to matters or questions arising under this Indenture (including adding provisions requested by the Luxembourg Stock Exchange in order to list the Notes thereon); provided that such action shall not adversely affect the interests of the Holders in any material respect; or

(6) to add Guarantors pursuant to Section 1013; or

(7) to secure the Notes pursuant to the requirements of Section 1012 or otherwise; or

(8) to comply with any requirements of the Commission in order to effect and maintain the qualification of this Indenture under the Trust Indenture Act.

SECTION 902. Supplemental Indentures and Waivers With Consent of Holders.

With the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders under this Indenture. However, no such supplemental indenture or waiver (including a waiver pursuant to Section 513) shall, without the consent of the Holder of each Outstanding Note affected thereby,

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or change or have the effect of changing the time for payment of interest, including defaulted interest, on any Notes;

(3) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption or reduce the redemption price therefor;

(4) make any Notes payable in money other than that stated in the Notes;

(5) make any change in provisions of this Indenture protecting the right of each Holder to receive payment of principal of and interest on such Note on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default; or

(6) after the Company's obligation to purchase Notes arises thereunder, amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in the event of a Change of Control or, after such Change of Control has occurred, modify any of the provisions or definitions with respect thereto; provided, that for purposes of this clause (6), a Change of Control shall not be deemed to have occurred upon the entering into or execution of any agreement or instrument notwithstanding that the consummation of the transactions contemplated by such agreement or instrument would result in a Change of Control as defined herein if such agreement or instrument expressly provides that it shall be a condition to closing thereunder that the Holders of the Notes shall have waived the Change of Control on or prior to such closing unless and until such condition is waived by the parties to such agreement or instrument or the Change of Control has actually occurred; or

(7) modify or change any provision of this Indenture or the related

definitions, in each case, affecting the ranking of the Notes in a manner which adversely affects the Holders.

It shall not be necessary for any Act of Holders under this Section 902 to approve the particular form of any proposed supplemental indenture or waiver, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. Execution of Supplemental Indentures.

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article Nine or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. Effect of Supplemental Indentures.

Upon the execution of any supplemental indenture under this Article Nine, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Notes theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. Conformity with Trust Indenture Act.

Every supplemental indenture executed pursuant to this Article Nine shall conform to the requirements of the Trust Indenture Act as then in effect.

SECTION 906. Reference in Notes to Supplemental Indentures.

Notes authenticated and delivered after the execution of any supplemental indenture pursuant to this Article Nine may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Notes so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Notes.

SECTION 907. Notice of Supplemental Indentures.

Promptly after the execution by the Company and the Trustee of any supplemental indenture pursuant to the provisions of Sections 901 and 902, the Company shall give notice thereof to the Holders of each Outstanding Note affected, in the manner provided for in Section 107, setting forth in general terms the substance of such supplemental indenture; provided, however, that the Company shall not be required to give notice of any indenture supplemental hereto entered into solely for the purpose specified in Section 901(5) or (8), notice with respect to which shall be given by the Company when it is next required to give notice pursuant to this Section 907.

SECTION 908. Record Date.

The Company may, but shall not be obligated to, fix a record date for the

purpose of determining the Holders entitled to consent to any supplemental indenture, agreement or instrument or any waiver, and, if a record date is fixed, shall promptly notify the Trustee of any such record date. If a record date is fixed, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be entitled to consent to such supplemental indenture, agreement or instrument or waiver or to revoke any consent previously given, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective with respect to such supplemental indenture, agreement or instrument or waiver which is entered into more than 120 days after such record date.

ARTICLE TEN

COVENANTS

SECTION 1001. Payment of Principal, Premium, if any, and Interest.

The Company shall pay the principal of (and premium, if any, on) and interest on the Notes in accordance with the terms of the Notes and this Indenture. Principal, premium, if any, and interest shall be considered paid on the date due if on such date the Trustee or the relevant Paying Agent hold in accordance with this Indenture money sufficient to pay all principal, premium and interest then due and the Trustee or such Paying Agent, as the case may be, are not prohibited from paying such money to the Holders on that date.

SECTION 1002. Maintenance of Office or Agency.

The Company shall maintain, in the Borough of Manhattan in the City of New York, State of New York, in London, England and, if and for so long as the Notes are listed on the Luxembourg Stock Exchange, in Luxembourg, an office or agency where Notes may be presented or surrendered for payment, where Notes may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Corporate Trust Office of the Trustee and the office of an agent of the Trustee located at c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041 shall be such office or agency of the Company, unless the Company shall designate and maintain some other office or agency for one or more of such purposes. The Company shall give prompt written notice to the Trustee of any change in the location of any such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands. Unless otherwise specified with respect to the Notes as contemplated by Section 301, the Company hereby designates as a place of payment for the Notes the office or agency of the Trustee, and initially appoints the Trustee as Paying Agent to receive all such presentations, surrenders, notices and demands. The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation. The Company shall give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency but shall not be required to give notice of such designation, rescission or change to the Holders.

SECTION 1003. Money for Note Payments to Be Held in Trust.

If the Company shall at any time act as its own Paying Agent, it shall, on or before each due date of the principal of (and premium, if any, on) or interest on any of the Notes, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal (and premium, if any) or interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and shall promptly notify the Trustee of its action or failure so to act. Whenever the Company shall have one or more Paying Agents for the Notes, it shall, on or before each due date of the principal of (and premium, if any, on), or interest on, any Notes, deposit with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the Persons entitled to such principal, premium or interest, and (unless such Paying Agent is the Trustee) the Company shall promptly notify the Trustee of such action or any failure so to act. The Company shall cause each Paying Agent (other than the Trustee) to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will:

(1) hold all sums held by it for the payment of the principal of (and premium, if any, on) or interest on Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Company (or any other obligor upon the Notes) in the making of any payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

SECTION 1004. Corporate Existence.

Subject to Article Eight hereof, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and its material rights (charter and statutory), licenses and franchises; provided that the Company shall not be required to preserve any such right, license or franchise if the Board of Directors of the Company shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Restricted Subsidiaries, taken as a whole.

SECTION 1005. Statement by Officers as to Compliance.

The Company shall deliver to the Trustee, within 120 days after the end of each fiscal year, an officers' certificate stating that in the course of the performance by the signer of its duties as an officer of the Company he would normally have knowledge of any Default or Event of Default and whether or not the signer knows of any Default or Event of Default that occurred during such period and if any specifying such Default or Event of Default, its status and what action the Company is taking or proposed to take with respect thereto. The Company shall provide an officers' certificate to the Trustee promptly upon any such officer obtaining knowledge of any Default or Event of Default

that has occurred and, if applicable, describe such Default or Event of Default and the status thereof. For purposes of this Section 1005, such compliance shall be determined without regard to any period of grace or requirement of notice under this Indenture. The Company shall comply with Section 314(a)(4) of the Trust Indenture Act.

SECTION 1006. Purchase of Notes Upon a Change of Control.

(a) Upon the occurrence of a Change of Control, each Holder will have the right to require that the Company purchase all or a portion (equal to (euro)1,000 and integral multiples thereof) of such Holder's Notes pursuant to the offer described below (the "Change of Control Offer"), at a purchase price equal to 101% of the principal amount of the Notes repurchased plus accrued and unpaid interest to the date of purchase.

(b) Within 30 days following the date upon which the Change of Control occurred, the Company shall send, or cause the Trustee to send, by first class mail, a notice to each Holder, with a copy to the Trustee stating:

(i) that a Change of Control has occurred and that such Holder has purchase price in cash equal to 101% of the principal amount thereof plus accrued and unpaid interest to the date of purchase;

(ii) the repurchase date (which shall be no earlier than 30 days nor later than 45 days from the date such notice is mailed, other than as required by law) (the "Change of Control Payment Date");

(iii) the procedures determined by the Company, consistent with this Indenture, that a Holder must follow in order to have its Notes purchased;

(iv) that the Change of Control Offer is being made pursuant to this Section 1006 and that all Notes properly tendered into the Change of Control Offer and not withdrawn will be accepted for payment; and that the Change of Control Offer shall remain open for a period of 20 Business Days or such longer period as may be required by applicable law;

(v) the purchase price (including the amount of accrued interest, if any) for each Note and the date on which the Change of Control Offer expires;

(vi) that any Note not tendered for payment will continue to accrue interest in accordance with the terms thereof;

(vii) that, unless the Company shall default in the payment of the purchase price, any Note accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date;

(viii) that Holders electing to have Notes purchased pursuant to a Change of Control Offer will be required to surrender their Notes to the Paying Agent at the address specified in the notice prior to 5:00 p.m., London, England time, on the third Business Day prior to the Change of Control Payment Date and must complete the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note;

(ix) that Holders of Notes will be entitled to withdraw their election if the Paying Agent receives, not later than 5:00 p.m., London, England time, on the third Business Day prior to the Change of Control Payment Date, a facsimile transmission or letter setting forth the name of the Holders, the principal amount of Notes the Holders delivered for purchase, the Note certificate number (if any) and a statement that such Holder is withdrawing his election to have such Notes purchased;

(x) that Holders whose Notes are purchased only in part will be issued Notes of like tenor equal in principal amount to the unpurchased portion of the Notes surrendered; provided, however, that each Note (euro)1,000 or integral multiples thereof; and

(xi) a description of the circumstances and relevant facts regarding such Change of Control.

On the Change of Control Payment Date, the Company shall (i) accept for payment Notes or portions thereof in integral multiples of (euro)1,000 validly tendered and not withdrawn pursuant to the Change of Control Offer, (ii) deposit with the Paying Agent money, in immediately available funds, sufficient to pay the purchase price of all Notes or portions thereof validly tendered and accepted and (iii) deliver to the Trustee the Notes so accepted together with an Officers' Certificate setting forth the Notes or portions thereof tendered to and accepted for payment by the Company. The Paying Agent shall promptly mail or deliver to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail or cause to be transferred by book-entry to such Holders a new Note of like tenor equal in principal amount to any unpurchased portion of the Note surrendered. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. Upon the payment of the purchase price for the Notes accepted for purchase, the Trustee shall cancel and return the Notes purchased to the Company. Any monies remaining after the purchase of all Notes validly tendered pursuant to a Change of Control Offer shall be returned within three (3) Business Days by the Paying Agent to the Company. The Company shall publicly announce the results of the Change of Control Offer as soon as practicable following the Change of Control Payment Date.

(c) The Company is not required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements of this Section 1006 applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

(d) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with this Section 1006 the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under this Section 1006 by virtue thereof.

SECTION 1007. Limitation on Incurrence of Additional Indebtedness.

(a) The Company will not, and will not permit any of its Restricted

Subsidiaries to, directly or indirectly, create, incur, assume, guarantee, acquire, become liable, contingently or otherwise, with respect to, or otherwise become responsible for payment of (collectively, "incur") any Indebtedness (other than Permitted Indebtedness); provided, however, that the Company may incur Indebtedness (including, without limitation, Acquired Indebtedness), if on the date of the incurrence of such Indebtedness, after giving effect to the incurrence thereof, the Consolidated Fixed Charge Coverage Ratio of the Company is (i) greater than 2.0 to 1.0 if such Indebtedness is incurred on or before January 15, 2004 or (ii) greater than 2.25 to 1.0 if such Indebtedness is incurred after January 15, 2004.

(b) The Company will not, directly or indirectly, incur any Indebtedness which by its terms (or by the terms of any agreement governing such Indebtedness) is subordinated in right of payment to any other Indebtedness of the Company, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the Notes to the same extent and in the same manner as such Indebtedness is subordinated to other Indebtedness of the Company.

(c) Notwithstanding clause (a) of this Section 1007, the Company will not permit any Domestic Insignificant Subsidiary, directly or indirectly, to incur any Indebtedness other than Indebtedness permitted to be incurred by such Domestic Insignificant Subsidiary under clauses (2), (4), (7), (9), (10), (16) and (18) (provided that in the case of clause (18) the Indebtedness being Refinanced is the Indebtedness of any Domestic Insignificant Subsidiary) of the definition of Permitted Indebtedness.

SECTION 1008. Limitation on Restricted Payments.

(a) The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly:

(1) declare or pay any dividend or make any distribution (other than dividends or distributions payable in Qualified Capital Stock of the Company) on or in respect of shares of the Company's or any Restricted Subsidiary's Capital Stock to holders of such Capital Stock in their capacity as such, other than dividends, payments or distributions payable to the Company or any Restricted Subsidiary of the Company (and, if such Restricted Subsidiary is not a Wholly Owned Restricted Subsidiary, dividends or distributions payable to the other equity holders of such Restricted Subsidiary on a pro rata basis);

(2) purchase, redeem or otherwise acquire or retire for value any Capital Stock of the Company or any Restricted Subsidiary (other than (x) in exchange for Qualified Capital Stock of the Company, (y) the redemption of Preferred Stock of the Company or any Restricted Subsidiary outstanding on the Issue Date (other than the Convertible Trust Preferred Securities) at any scheduled final mandatory redemption date thereof as in effect on the Issue Date or (z) Capital Stock of a Restricted Subsidiary held by the Company or another Restricted Subsidiary) or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock or make any payments with respect to Synthetic Purchase Agreements;

(3) make any principal payment on, purchase, defease, redeem, prepay, decrease or otherwise acquire or retire for value, prior to any scheduled final maturity, scheduled repayment or scheduled sinking fund

payment, any Subordinated Indebtedness (other than the purchase, repurchase or other acquisition of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase or other acquisition); or

(4) make any Investment (other than Permitted Investments)

(each of the foregoing actions set forth in clauses (1), (2), (3) and (4) being referred to as a "Restricted Payment"), if at the time of such Restricted Payment or immediately after giving effect thereto,

(i) a Default or an Event of Default shall have occurred and be continuing; or

(ii) the Company is not able to incur at least $1.00 of additional Indebtedness (other than Permitted Indebtedness) in compliance with Section 1007; or

(iii) the aggregate amount of Restricted Payments (including such proposed Restricted Payment) made subsequent to December 31, 2001 (the amount expended for such purposes, if other than in cash, being the fair market value of such property as determined in good faith by the Company) shall exceed the sum, without duplication (the "Restricted Payments Basket"), of:

(v) 50% of the cumulative Consolidated Net Income (or if cumulative Consolidated Net Income shall be a loss, minus 100% of such loss) of the Company earned subsequent to December 31, 2001 and on or prior to the date the Restricted Payment occurs (the "Reference Date")(treating such period as a single accounting period); plus

(w) 100% of the aggregate Net Cash Proceeds received by the Company from any Person (other than a Subsidiary of the Company) from the issuance and sale subsequent to December 31, 2001 and on or prior to the Reference Date of Qualified Capital Stock of the Company or warrants, options or other rights to acquire Qualified Capital Stock of the Company (but excluding any debt security that is convertible into, or exchangeable for, Qualified Capital Stock); plus

(x) 100% of the aggregate Net Cash Proceeds of any equity contribution received by the Company from a holder of the Company's Capital Stock; plus

(y) the amount by which Indebtedness of the Company (other than the Convertible Subordinated Debentures) is reduced on the Company's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Company) subsequent to December 31, 2001 of such Indebtedness for Qualified Capital Stock of the Company (less the amount of any cash, or the fair value of any other property, distributed by the Company upon such conversion or exchange); plus

(z) without duplication, the sum of:

(1) the aggregate amount returned in cash on or with

respect to Investments (other than Permitted Investments) made subsequent to December 31, 2001 whether through interest payments, principal payments, dividends or other distributions or payments;

(2) the Net Cash Proceeds received by the Company or any of its Restricted Subsidiaries from the disposition of all or any portion of such Investments (other than to a Subsidiary of the Company); and

(3) upon redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the fair market value of such Subsidiary;

provided, however, that the sum of clauses (1), (2) and (3) above shall not exceed the aggregate amount of all such Investments made subsequent to December 31, 2001.

(b) Notwithstanding the foregoing, the provisions set forth in the preceding paragraphs do not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration of such dividend if the dividend would have been permitted on the date of declaration;

(2) the acquisition of any shares of Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of such Capital Stock, either (i) solely in exchange for shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of shares of Qualified Capital Stock of the Company;

(3) the repurchase, redemption or other repayment of any Subordinated Indebtedness or Subsidiary Preferred Stock permitted to be issued pursuant to clause (2) of the definition of Permitted Indebtedness either (i) solely in exchange for shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company or other Subordinated Indebtedness of the Company that is Refinancing Indebtedness, or (ii) through the application of net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of (a) shares of Qualified Capital Stock of the Company or (b) other Subordinated Indebtedness of the Company that is Refinancing Indebtedness;

(4) (x) the repurchase or other acquisition of shares of Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any such Qualified Capital Stock, from employees, former employees, directors or former directors of the Company or any of its Subsidiaries (or permitted transferees of such employees, former employees, directors or former directors), pursuant to the terms of the agreements (including employment agreements) or plans (or amendments thereto) approved by the Board of Directors under which such individuals purchase or sell, or are granted the option to purchase or sell, shares of such Qualified Capital Stock or (y) the redemption or

repayment of any outstanding de minimis Subordinated Indebtedness; provided that the aggregate amount paid under clauses (x) and (y) combined does not exceed $25.0 million since the Issue Date;

(5) regularly scheduled or cumulative dividends or distributions on the Convertible Trust Preferred Securities or on any other trust preferred securities issued by a Restricted Subsidiary of the Company that is a special purpose finance vehicle of the Company to the extent otherwise permitted to be issued under this Indenture and such dividends or distributions are included in Consolidated Fixed Charges;

(6) any repurchase of the Convertible Trust Preferred Securities upon the exercise by the holders thereof of any right to require such Restricted Subsidiary to purchase such securities through the application of the net proceeds of a substantially concurrent sale for cash (other than to a Subsidiary of the Company) of an issuance of, or solely in exchange for, either (x) junior subordinated debentures of the Company that are subordinated to the Notes pursuant to a written agreement that is, taken as a whole, no less restrictive to the holders of such junior subordinated debentures than the subordination terms of the junior subordinated debentures into which such Convertible Trust Preferred Securities are exchangeable and have a maturity (including pursuant to any sinking fund obligation, mandatory redemption or right of repurchase at the option of the holder or otherwise) no earlier that the final maturity of the Notes and that have the benefit of covenants that are, taken as a whole, no more restrictive than the covenants in this Indenture or (y) Qualified Capital Stock of the Company or any warrants, rights or options to purchase or acquire shares of any class of Qualified Capital Stock of the Company;

(7) regularly scheduled or cumulative dividends on the Company's Series B Convertible Preferred Stock to the extent such dividends are or were included in Consolidated Fixed Charges;

(8) upon the occurrence of a Change of Control and after the completion of the offer to repurchase of the Notes as described under "Change of Control" above (including the purchase of all Notes tendered), any purchase, defeasance, retirement, redemption or other acquisition of Subordinated Indebtedness required under the terms of such Subordinated Indebtedness as a result of such Change of Control;

(9) payments to holders of Capital Stock (or to the holders of Indebtedness or Disqualified Capital Stock that is convertible into or exchangeable for Capital Stock upon such conversion or exchange) in lieu of the issuance of fractional shares;

(10) the payment of consideration by a Person other than the Company or a Subsidiary to equity holders of the Company;

(11) any repurchase of the Convertible Subordinated Debentures upon exercise of the right of the holders to require the Company to purchase such securities on April 21, 2003;

(12) the transactions with any Person (including any Affiliate of the Company) described in Section 1011(c)(1) and the funding of any obligations in connection therewith; and

(13) other Restricted Payments in an aggregate amount which, when taken together with all other Restricted Payments pursuant to this clause (13), does not exceed $35.0 million.

(c) In determining the aggregate amount of Restricted Payments made subsequent to January 1, 2002 in accordance with clause (iii) of the second preceding paragraph, amounts expended pursuant to clauses (1) and (4) of the immediately preceding paragraph shall be included in such calculation. No issuance and sale of Qualified Capital Stock pursuant to clause (2) or (3) of the immediately preceding paragraph shall increase the Restricted Payments Basket, except to the extent the proceeds thereof exceed the amounts used to effect the transactions described therein.

SECTION 1009. Limitation on Asset Sales.

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale unless:

(1) the Company or the applicable Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets sold or otherwise disposed of (as determined in good faith by the Company or such Restricted Subsidiary);

(2) at least 75% of the consideration received by the Company or the Restricted Subsidiary, as the case may be, from such Asset Sale shall be in the form of cash or Cash Equivalents (provided that the amount of any Pari Passu Indebtedness of the Company or any Indebtedness of a Restricted Subsidiary that is assumed by the transferee of any such assets shall be deemed to be cash for the purposes of this clause (2)); and

(3) upon the consummation of an Asset Sale, the Company shall apply, or cause such Restricted Subsidiary to apply, the Net Cash Proceeds relating to such Asset Sale within 365 days of receipt thereof:

(A) (i) to repurchase or otherwise acquire any Pari Passu Indebtedness pursuant to any exercise by the holders thereof of the right to require the issuer thereof to repurchase or acquire such Pari Passu Indebtedness prior to its scheduled maturity or scheduled repayment, (ii) to prepay, repay, repurchase, redeem, defease or otherwise acquire or retire for value, on or prior to any scheduled maturity, repayment or amortization that portion of Pari Passu Indebtedness of the Company to the extent that such Pari Passu Indebtedness has a stated maturity, scheduled repayment or amortization that has or will become due prior to the final stated maturity of the Notes, (iii) any Pari Passu Indebtedness under the Credit Agreement (other than Capital Markets Debt) or (iv) any Indebtedness of a Restricted Subsidiary; provided that, in each case under this clause (A), if such Pari Passu Indebtedness was borrowed under the revolving portion of any credit facility, then a permanent reduction in the availability under the revolving portion of such credit facility will be effected;

(B) to make an Investment in or expenditures for properties and assets that replace the properties and assets that were the subject of such Asset Sale or in properties and assets (including

Capital Stock of any entity) that will be used in the business of the Company and its Subsidiaries or in businesses reasonably related thereto or to fund the cash portion of the Turnaround Program ("Replacement Assets"); and/or

(C) a combination of prepayment and Investment permitted by the foregoing clauses (3)(A) and (3)(B);

provided that, notwithstanding the preceding provisions of this paragraph (3), if the Company or any Restricted Subsidiary:

(i) enters into any letter of intent, memorandum of understanding, agreement or other instrument (each, an "Asset Sale Agreement") after the Issue Date that contemplates one or more Asset Sales by the Company or such Restricted Subsidiary; and

(ii) after the date of such Asset Sale Agreement and within 365 days immediately prior to the consummation of the Asset Sale(s) pursuant thereto, has applied any cash or Cash Equivalents (other than Net Cash Proceeds from any other Asset Sale) ("Applied Cash") in any manner permitted by clause 3(A), 3(B) or 3(C) of the preceding paragraph (other than any repayments of Indebtedness under the Revolving Credit Facility, dated as of October 22, 1997 as it existed on the Issue Date only),

then the amount of Net Cash Proceeds relating to such Asset Sale(s) up to the amount of Applied Cash shall be deemed to have been applied by Company or such Restricted Subsidiary in accordance with the provisions of clause (3) above.

(b) Pending the application of any Net Cash Proceeds required by this Section 1009, the Company or such Restricted Subsidiary may temporarily reduce any short-term loans or any Indebtedness under the revolving portion of any credit facility, including, without limitation, under the Credit Agreement, and such temporary reductions shall not result in any permanent reduction in the availability under the revolving portion of such credit facility.

(c) On the 366th day after an Asset Sale or such earlier date, if any, as the Board of Directors of the Company or of such Restricted Subsidiary determines not to apply the Net Cash Proceeds relating to such Asset Sale as set forth in clauses (3)(A), (3)(B) and (3)(C) of paragraph (a) (each, a "Net Proceeds Offer Trigger Date"), such aggregate amount of Net Cash Proceeds which have not been applied on or before such Net Proceeds Offer Trigger Date as permitted in paragraphs (a)(3)(A), (a)(3)(B) and (a)(3)(C) above or deemed to have been applied pursuant to the proviso of paragraph (a) above (each a "Net Proceeds Offer Amount") shall be applied by the Company or such Restricted Subsidiary to make an offer to purchase (the "Net Proceeds Offer") to all Holders of Notes and Senior Dollar Notes (and holders of other Pari Passu Indebtedness of the Company to the extent required by the terms thereof) on a date (the "Net Proceeds Offer Payment Date") not less than 30 nor more than 60 days following the applicable Net Proceeds Offer Trigger Date, from all Holders of Notes and Senior Dollar Notes (and holders of other Pari Passu Indebtedness of the Company to the extent required by the terms thereof) on a pro rata basis, that amount of Notes and the Senior Dollar Notes (and other Pari Passu Indebtedness) equal to the Net Proceeds Offer Amount at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest thereon to the date of purchase; provided, however, that

if at any time any non-cash consideration received by the Company or any Restricted Subsidiary of the Company, as the case may be, in connection with any Asset Sale is converted into or sold or otherwise disposed of for cash (other than interest received with respect to any such non-cash consideration), then such conversion or disposition shall be deemed to constitute an Asset Sale hereunder and the Net Cash Proceeds thereof shall be applied in accordance with this Section 1009.

(d) The Company may defer the Net Proceeds Offer until there is an aggregate unutilized Net Proceeds Offer Amount equal to or in excess of $75.0 million resulting from one or more Asset Sales (at which time, the entire unutilized Net Proceeds Offer Amount, and not just the amount in excess of $75.0 million, shall be applied as required pursuant to this paragraph).

(e) Notwithstanding paragraphs (a), (b) and (c) of this Section 1009, the Company and its Restricted Subsidiaries will be permitted to consummate an Asset Sale without complying with such paragraphs to the extent that:

(1) at least 75% of the consideration for such Asset Sale constitutes Replacement Assets; and

(2) such Asset Sale is for fair market value; provided that any cash or Cash Equivalents received by the Company or any of its Restricted Subsidiaries in connection with any Asset Sale permitted to be consummated under this paragraph shall constitute Net Cash Proceeds subject to the provisions of paragraphs (a), (b) and (c) of this Section 1009.

(f) Each Net Proceeds Offer will be mailed to the record Holders as shown on the register of Holders within 45 days following the Net Proceeds Offer Trigger Date, with a copy to the Trustee and the Paying Agent. The Net Proceeds Offer shall remain open from the time of mailing for at least 20 Business Days or such longer period as may be required by applicable law and until 5:00 p.m., London, England time, on the last day of the period (the "Net Proceeds Offer Payment Date"). The notice, which shall govern the terms of the Net Proceeds Offer, shall include such disclosures as are required by law and shall state:

(i) that the Net Proceeds Offer is being made pursuant to this Section 10.16 and that all Notes in integral multiples of (euro)1,000 validly tendered into the Net Proceeds Offer shall be accepted for payment; provided, however, that if the aggregate principal amount of Notes, Senior Dollar Notes and Pari Passu Indebtedness properly tendered in the Net Proceeds Offer exceeds the Net Proceeds Offer Amount, the Company shall select the Notes, Senior Dollar Notes and other Pari Passu Indebtedness will be purchased on a pro rata basis based upon the aggregate principal amount of such Notes, Senior Dollar Notes and other Pari Passu Indebtedness tendered; and that the Net Proceeds Offer shall remain open for a period of 20 Business Days or such longer period as may be required by applicable law;

(ii) the purchase price (including the amount of accrued interest, if any) for each Note, the Net Proceeds Offer Payment Date and the date on which the Net Proceeds Offer expires;

(iii) that any Note not tendered for payment shall continue to accrue interest in accordance with the terms thereof;

(iv) that, unless the Company shall default in the payment of the purchase price, any Note accepted for payment pursuant to the Net Proceeds Offer shall cease to accrue interest after the Net Proceeds Offer Payment Date;

(v) that Holders electing to have Notes purchased pursuant to a Net Proceeds Offer shall be required to surrender their Notes to the Paying Agent at the address specified in the notice prior to 5:00 p.m., London, England time, on three (3) Business Days prior to the Net Proceeds Offer Payment Date and must complete any form letter of transmittal proposed by the Company and acceptable to the Trustee and the Paying Agent;

(vi) that any Holder of Notes shall be entitled to withdraw its election if the Paying Agent receives, not later than 5:00 p.m., London, England time, on three (3) Business Days prior to the Net Proceeds Offer Payment Date, a facsimile transmission or letter setting forth the name of such Holder, the principal amount of Notes the Holder delivered for purchase, the Note certificate number (if any) and a statement that such Holder is withdrawing its election to have such Notes purchased;

(vii) that Holders whose Notes are purchased only in part shall be issued Notes of like tenor equal in principal amount to the unpurchased portion of the Notes surrendered;

(viii) the instructions that Holders must follow in order to tender their Notes; and

(ix) a description of the circumstances and relevant facts regarding such Asset Sale and Net Proceeds Offer.

On the Net Proceeds Offer Payment Date, the Company shall (i) accept for payment (subject to pro ration as described in under Section 1009(c)) Notes or portions thereof in integral multiples of (euro)1,000 validly tendered pursuant to the Net Proceeds Offer, (ii) deposit with the Paying Agent money, in immediately available funds, sufficient to pay the purchase price of all Notes or portions thereof so tendered and accepted and (iii) deliver to the Trustee the Notes so accepted together with an Officers' Certificate setting forth the Notes or portions thereof tendered to and accepted for payment by the Company. The Paying Agent shall promptly mail or deliver to the Holders of Notes so accepted payment in an amount equal to the purchase price, and the Trustee shall promptly authenticate and mail or deliver to such Holders a new Note of like tenor equal in principal amount to any unpurchased portion of the Note surrendered. Any Notes not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. Upon the payment of the purchase price for the Notes accepted for purchase, the Trustee shall cancel and return the Notes purchased to the Company. Any monies remaining after the purchase of all Notes validly tendered pursuant to a Net Proceeds Offer shall be returned within three Business Days by the Paying Agent to the Company. The Company shall publicly announce the results of the Net Proceeds Offer as soon as practicable following the Net Proceeds Offer Payment Date.

(g) After consummation of any Net Proceeds Offer, any Net Proceeds Offer Amount not applied to any such purchase may be used by the Company for any purpose permitted by the other provisions of this Indenture.

(h) The Company will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes pursuant to a Net Proceeds Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of this Section 1009, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the provisions of this Section 1009 by virtue thereof.

SECTION 1010. Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.

The Company will not, and will not cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual, encumbrance or restriction on the ability of any Restricted Subsidiary of the Company to:

(1) pay dividends or make any other distributions on or in respect of its Capital Stock to the Company or any Restricted Subsidiary;

(2) make loans or advances or to pay any Indebtedness or other obligation owed to the Company or any other Restricted Subsidiary of the Company; or

(3) transfer any of its property or assets to the Company or any other Restricted Subsidiary of the Company,

except for such encumbrances or restrictions existing under or by reason of:

(a) applicable law, rules, regulations and/or orders;

(b) this Indenture (including, without limitation, any Liens permitted by this Indenture) and the Senior Dollar Notes Indenture (including, without limitation, any lien permitted by such Senior Dollar Notes Indenture);

(c) customary non-assignment provisions of any contract, or any lease or license governing a leasehold interest, of any Restricted Subsidiary of the Company;

(d) any agreement or instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired or any Subsidiary of such Person;

(e) any agreements or instruments existing on the Issue Date to the extent and in the manner such agreements are in effect on the Issue Date and any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings thereof, provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings are no more restrictive (as determined in the good faith judgment of the Company) in any material respect, taken as a whole, with respect to such dividend and other payment restrictions than those contained in such agreements or instruments as in effect on the Issue Date;

(f) the Credit Agreement;

(g) Purchase Money Indebtedness incurred in compliance with Section 1007 hereof that impose restrictions of the nature described in clause (3) above on the property acquired;

(h) any agreement relating to Indebtedness of a Restricted Subsidiary permitted to be incurred under Section 1007 hereof;

(i) restrictions on cash or other deposits or net worth imposed under contracts entered into in the ordinary course of business;

(j) any encumbrance or restriction existing under or by reason of contractual requirements in connection with a Qualified Receivables Transaction;

(k) pursuant to any merger agreements, stock purchase agreements, asset sale agreements and similar agreements limiting the transfer of properties and assets or distributions pending consummation of the subject transaction;

(l) in the case of clause (3) of this Section 1010, any encumbrance or restriction (a) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license, or similar contract, (b) by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by this Indenture, or (c) contained in security agreements securing Indebtedness of any Restricted Subsidiary to the extent permitted by this Indenture and such encumbrance or restrictions restrict the transfer of the property subject to such security agreements;

(m) an agreement governing Indebtedness incurred to Refinance the Indebtedness issued, assumed or incurred pursuant to an agreement referred to in clause (b), (d), (e), (g), (h) or (j) above; provided, however, that the provisions relating to such encumbrance or restriction contained in any such Indebtedness are no more restrictive in any material respect than the provisions relating to such encumbrance or restriction contained in agreements referred to in such clause (b), (d), (e), (g), (h) or (j) as determined by the Company; and

(n) agreements or instruments, including, without limitation, joint venture agreements, entered into to facilitate the Turnaround Program or in connection with Permitted Joint Venture Investments.

SECTION 1011. Limitations on Transactions with Affiliates.

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into or permit to exist any transaction or series of related transactions (including, without limitation, the purchase, sale, lease or exchange of any property or the rendering of any service) with any of its Affiliates (each an "Affiliate Transaction"), other than (x) Affiliate Transactions permitted under paragraph (c) of this Section 1011 and (y) Affiliate Transactions on terms that are no less favorable in any material respect than those that might reasonably have been obtained, in

the good faith judgment of the Board of Directors of the Company or the Restricted Subsidiary, as the case may be, in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate of the Company or such Restricted Subsidiary.

(b) Each Affiliate Transaction (and each series of related Affiliate Transactions which are similar or part of a common plan) involving aggregate payments or other property with a fair market value in excess of $20.0 million shall be approved by the Board of Directors of the Company or such Restricted Subsidiary, as the case may be, such approval to be evidenced by a Board Resolution stating that such Board of Directors has determined that such transaction complies with the foregoing provisions.

(c) The foregoing paragraphs shall not apply to:

(1) any employment agreement, collective bargaining agreement, employee benefit plan, related trust agreement or any similar arrangement, payment of compensation and fees to, and indemnity provided on behalf of, any present or former employees, officers, directors or consultants, maintenance of benefit programs or arrangements for any present or former employees, officers or directors, including vacation plans, health and life insurance plans, deferred compensation plans, and retirement or savings plan and similar plans, and loans and advances to any present or former employees, officers, directors, consultants and shareholders, in each case entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business or approved by the Board of Directors of the Company or such Restricted Subsidiary, as the case may be;

(2) transactions exclusively between or among the Company and any of its Restricted Subsidiaries or any joint venture in which the Company has a Permitted Joint Venture Investment or exclusively between or among such Restricted Subsidiaries; provided such transactions are not otherwise prohibited by this Indenture;

(3) any agreement, instrument or arrangement as in effect as of the Issue Date or any amendment thereto or any transaction contemplated thereby (including pursuant to any amendment thereto) in any replacement agreement thereto so long as any such amendment or replacement agreement is not more disadvantageous to the Holders in any material respect than the original agreement as in effect on the Issue Date as determined by the Company;

(4) Permitted Investments and Restricted Payments permitted by this Indenture;

(5) the issuance or sale of any Capital Stock (other than Disqualified Capital Stock) of the Company; and

(6) any transactions with joint ventures described in the definition of Permitted Joint Venture Investments and transactions contemplated by or to facilitate the Turnaround Program.

SECTION 1012. Limitation on Liens.

(a) The Company will not create or suffer to exist, or permit any of its Specified Subsidiaries to create or suffer to exist, any Lien, or any

other type of preferential arrangement, upon or with respect to any of its properties (other than "margin stock" as that term is defined in Regulation U issued by the Board of Governors of the Federal Reserve System), whether now owned or hereafter acquired, or assign, or permit any of its Specified Subsidiaries to assign, any right to receive income, in each case to secure any Indebtedness (other than Indebtedness described in clauses (5) and (8) of the definition of "Indebtedness" herein) without making effective provision whereby all of the Notes (together with, if the Company shall so determine, any other Indebtedness of the Company or such Specified Subsidiary then existing or thereafter created which is not subordinate to the Notes) shall be equally and ratably secured with the Indebtedness secured by such security (provided that any Lien created for the benefit of the Holders of the Notes pursuant to this sentence shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Lien that resulted in such provision becoming applicable, unless a Default or Event of Default shall then be continuing); provided, however, that the Company or its Specified Subsidiaries may create or suffer to exist any Lien or preferential arrangement of any kind in, of or upon any of the properties or assets of the Company or its Specified Subsidiaries to secure any Indebtedness in an aggregate amount at any time outstanding not greater than 20% of the Consolidated Net Worth of the Company; and provided, further, that the foregoing restrictions shall not apply to any of the following:

(1) deposits, Liens or pledges arising in the ordinary course of business to enable the Company or any of its Specified Subsidiaries to exercise any privilege or license or to secure payments of workers' compensation or unemployment insurance, or to secure the performance of bids, tenders, leases contracts (other than for the payment of borrowed money) or statutory landlords' Liens or to secure public or statutory obligations or surety, stay or appeal bonds, or other similar deposits or pledges made in the ordinary course of business;

(2) Liens imposed by law or other similar Liens, if arising in the ordinary course of business, such as mechanic's, materialman's, workman's, repairman's or carrier's liens, or deposits or pledges in the ordinary course of business to obtain the release of such Liens;

(3) Liens arising out of judgments or awards against the Company or any of its Specified Subsidiaries in an aggregate amount not to exceed at any time outstanding under this clause (3) the greater of (a) 15% of the Consolidated Net Worth of the Company or (b) the minimum amount which, if subtracted from such Consolidated Net Worth, would reduce such Consolidated Net Worth below $3.2 billion and, in each case, with respect to which the Company or such Specified Subsidiary shall in good faith be prosecuting an appeal or proceedings for review, or Liens for the purpose of obtaining a stay or discharge in the course of any legal proceedings;

(4) Liens for taxes if such taxes are not delinquent or thereafter can be paid without penalty, or are being contested in good faith by appropriate proceedings, or minor survey exceptions or minor encumbrances, easements or restrictions which do not in the aggregate materially detract from the value of the property so encumbered or restricted or materially impair their use in the operation of the business of the Company or any Specified Subsidiary owning such property;

(5) Liens in favor of any government or department or agency thereof or in favor of a prime contractor under a government contract and resulting from the acceptance of progress or partial payments under government contracts or subcontracts thereunder;

(6) Liens existing on December 1, 1991;

(7) purchase money Liens or security interests in property acquired or held by the Company or any Specified Subsidiary in the ordinary course of business to secure the purchase price thereof or Indebtedness incurred to finance the acquisition thereof;

(8) Liens existing on property at the time of its acquisition;

(9) the rights of Xerox Credit Corporation relating to a certain reserve account established pursuant to an operating agreement dated as of November 1, 1980, between the Company and Xerox Credit Corporation;

(10) the replacement, extension or renewal of any of the foregoing; and

(11) Liens on any assets of any Specified Subsidiary of up to $500.0 million incurred since December 1, 1991 in connection with the sale or assignment of assets of such Specified Subsidiary for cash where the proceeds are applied to repayment of Indebtedness of such Specified Subsidiary and/or invested by such Specified Subsidiary in assets which would be reflected as receivables on the balance sheet of such Specified Subsidiary.

(b) In addition, if after the Issue Date any Capital Markets Debt of the Company or any Restricted Subsidiary becomes secured by a Lien pursuant to any provision similar to the covenant in the immediately preceding paragraph, then:

(1) in the case of a Lien securing Subordinated Indebtedness, the Notes are secured by a Lien on the same property as such Lien that is senior in priority to such Lien; and

(2) in all other cases, the Notes are equally and ratably secured by a Lien on the same property as such Lien.

SECTION 1013. Subsidiary Guarantees.

(a) If on or after the Issue Date:

(1) any other Capital Market Debt of the Company is or becomes guaranteed by any Restricted Subsidiary of the Company; or

(2) any one or more Wholly Owned Domestic Restricted Subsidiaries (singly or in the aggregate) would at the end of any fiscal quarter Section 1013 shall be limited to any Person that satisfies only the asset criteria set forth in clauses (1) and (2) of paragraph (w) of Rule 1.02 of Regulation S-X under the Exchange Act) (other than (i) Xerox Financial Services, Inc. and each of its Subsidiaries (other than Xerox Credit Corporation) for so long as its respective business is conducted in a manner similar to that on the Issue Date, (ii) Xerox Credit

Corporation or any other Restricted Subsidiary of the Company, in each case so long as it is primarily a special purpose financing vehicle of the Company or its Restricted Subsidiaries (a "Financing Subsidiary") or any holding company whose principal asset is Capital Stock of a Financing Subsidiary or (iii) any Domestic Restricted Subsidiary so long as its primary asset is Capital Stock of one or more Foreign Subsidiaries and/or its primary asset is Indebtedness of one or more Foreign Subsidiaries or any combination of the foregoing), then the Company shall cause, in the case of (1), such Restricted Subsidiary that is guaranteeing Company Capital Markets Debt, and, in the case of (2), such Domestic Restricted Subsidiary(ies), to execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee pursuant to which such Person shall fully and unconditionally guarantee all of the Company's obligations under the Notes and this Indenture, including the prompt payment in full when due of the principal of, premium on, if any, interest and, without duplication, Additional Interest, if any, on the Notes and all other amounts payable by the Company thereunder and hereunder, subject to any applicable grace period, whether at maturity, by acceleration or otherwise, and interest on any overdue principal and any overdue interest on the Notes and all other obligations of the Company to the Holders or the Trustee hereunder or under the Notes, such Guarantee to be more fully described in such supplemental indenture.

(b) Any Guarantee executed pursuant to clause (1) of paragraph (a) above shall provide by its terms that such Guarantee shall be automatically and unconditionally released upon the release of the guarantee that resulted in such clause (1) becoming applicable (other than by reason of payment under such guarantee) so long as such Restricted Subsidiary is not at such time guaranteeing any other Capital Markets Debt of the Company and no Default or Event of Default is then continuing. In addition, any Guarantee executed pursuant either to clause (1) or clause (2) of paragraph (a) above shall provide by its terms that such Guarantee shall be automatically and unconditionally released upon: (i) the designation of the Restricted Subsidiary that gave such Guarantee as an Unrestricted Subsidiary in compliance with provisions of this Indenture or (ii) any transaction, including without limitation, any sale, exchange or transfer, to any Person not an Affiliate of the Company, of the Company's Capital Stock in, or all or substantially all the property of, such Restricted Subsidiary, which transaction is in compliance with the terms of this Indenture, and which results in the Restricted Subsidiary that gave such Guarantee ceasing to be a Subsidiary of the Company and, in the case of either clause (i) or clause (ii), such Restricted Subsidiary is released from all guarantees, if any, by it of other Capital Markets Debt of the Company.

(c) In addition to the foregoing, the Company shall have the right to cause any Restricted Subsidiary to execute a Guarantee in respect of the Company's obligations under the Notes, provided that such Restricted Subsidiary shall execute and deliver to the Trustees a supplemental indenture in a form reasonably satisfactory to the Trustees in respect of such Guarantee.

SECTION 1014. Reports to Holders.

Whether or not required by the rules and regulations of the Commission, so long as any Notes are outstanding, the Company will furnish the Holders of Notes:

(1) all quarterly and annual financial information that would be required to be contained in a filing with the Commission on Forms 10-Q and 10-K if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" that describes the financial condition and results of operations of the Company and its consolidated Subsidiaries and, with respect to the annual information only, a report thereon by the Company's certified independent accounts; and

(2) all current reports that would be required to be filed with the Commission on Form 8-K if the Company were required to file such reports,

in each case within the time periods specified in the Commission's rules and regulations.

If and so long as the Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, copies of such reports shall also be available at the specified office of the Paying Agent and transfer agent in Luxembourg.

In addition, following the consummation of the Exchange Offer contemplated by the Registration Rights Agreements, whether or not required by the rules and regulations of the Commission, the Company will file a copy of all such information and reports with the Commission for public availability within the time periods specified in the Commission's rules and regulations (unless the Commission will not accept such a filing) and make such information available to securities analysts and prospective investors upon request. In addition, the Company has agreed that, for so long as any Notes remain outstanding, it will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

SECTION 1015. Suspension Period.

For purposes of this Article 10, during a Suspension Period, the Suspended Covenants will not apply. The remaining provisions and covenants of this Article 10 will continue to apply at all times so long as any Notes remain Outstanding.

"Suspension Period" means any period (a) beginning on the date that:

(1) the Notes have Investment Grade Status, provided that prior to the assignment of the ratings contemplated by the definition of Investment Grade Status, the Company has advised Moody's and S&P that the Suspended Covenants will not apply during any Suspension Period;

(2) no Default or Event of Default has occurred and is continuing; and

(3) the Company has delivered an Officers' Certificate to the Trustee certifying that the conditions set forth in clauses (1) and (2) above are satisfied,

and (b) ending on the date (the "Reversion Date") that the Notes cease to have the applicable ratings from both Moody's and S&P specified in the definition of Investment Grade Status; provided that solely for the purpose of determining the Reversion Date, the Notes shall be deemed to have

Investment Grade Status if clause (i) or (ii) of the definition of Investment Grade Status are otherwise satisfied, notwithstanding that either Moody's and/or S&P announces a negative outlook with respect to the Notes.

On each Reversion Date, all Indebtedness incurred during the Suspension Period prior to such Reversion Date will be deemed to have been outstanding on the Issue Date and classified as permitted under clause (4) of the definition of Permitted Indebtedness.

For purposes of calculating the amount available to be made as Restricted Payments under Section 1008(a)(iii), calculations under such clause (a)(iii) will be made with reference to December 31, 2001 as set forth in such clause. Accordingly, (x) Restricted Payments made during the Suspension Period not otherwise permitted pursuant to any of clauses (1) through (13) of Section 1008(b) will reduce the amount available to be made as Restricted Payments under Section 1008(a)(iii), provided, that the amount available to be made as Restricted Payments on the Reversion Date shall not be reduced to below zero solely as a result of such Restricted Payments, but may be reduced to below zero as a result of cumulative Consolidated Net Income for the purpose of Section 1008(a)(iii)(v) being a loss, and (y) the items specified in subclause (v) through (z) of Section 1008(a)(iii) that occur during the Suspension Period will increase the amount available to be made as Restricted Payments under Section 1008(a)(iii). Any Restricted Payments made during the Suspension Period that (i) are of the type described in Section 1008(b)(4) or (ii) that would have been made pursuant to Section 1008(b)(13) if such Section were then applicable, shall reduce the amounts permitted to be incurred under such Section 1008(b)(4) or 1008(b)(13), as the case may be, on the Reversion Date.

For purposes of Section 1009, on the Reversion Date, the unutilized Net Proceeds Offer Amount will be reset to zero.

SECTION 1016. Calculation of Original Issue Discount.

The Company shall file with the Trustee promptly at the end of each calendar year (i) a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Notes as of the end of such year and (ii) such other specific information relating to such original issue discount as may then be relevant under the Code.

ARTICLE ELEVEN

REDEMPTION OF NOTES

SECTION 1101. Right of Redemption.

Except as set forth in this Section 1101, the Notes are not redeemable.

The Company may, at any time and from time to time, at its option, redeem the Outstanding Notes (in whole or in part) at a redemption price equal to 95.167% of the principal amount thereof, plus the original issue discount on such Notes that has accrued pursuant to Section 1272 of the Internal Revenue Code of 1986, as amended, to the applicable redemption date, plus accrued and unpaid interest on the Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a "Specified Redemption"); provided that in the case of any such redemption in part, at least 50% of the original principal amount of the Notes remains outstanding after giving effect to such

redemption. The Company shall give not less than 30 nor more than 60 days notice of such redemption.

SECTION 1102. Applicability of Article.

Redemption of Notes at the election of the Company or otherwise, as permitted or required by any provision of this Indenture, shall be made in accordance with such provision and this Article.

SECTION 1103. Election to Redeem; Notice to Trustee.

The election of the Company to redeem any Notes pursuant to Section 1101 shall be evidenced by an Officers' Certificate. In case of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date and of the principal amount of Notes to be redeemed and shall deliver to the Trustee such documentation and records as shall enable the Trustee to select the Notes to be redeemed pursuant to Section 1104.

SECTION 1104. Selection by Trustee of Notes to Be Redeemed.

In the event that the Company chooses to redeem less than all of the Notes, selection of the Notes for redemption will be made by the Trustee either:

(1) in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed; or,

(2) if the Notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate; provided, however, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than (euro)1,000.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Notes selected for partial redemption, the principal amount thereof to be redeemed.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of such Note which has been or is to be redeemed.

SECTION 1105. Notice of Redemption.

Notice of redemption shall be given in the manner provided for in Section 107 not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Notes to be redeemed. So long as any Notes are listed on the Luxembourg Stock Exchange and if required by the rules of the Luxembourg Stock Exchange, any such notice to the Holders of the relevant Notes shall also be published in a daily newspaper of general circulation in Luxembourg (which is expected to be the Luxembourg Wort).

All notices of redemption shall state:

(1) the Redemption Date,

(2) the Redemption Price,

(3) if less than all Outstanding Notes are to be redeemed, the identification by "CUSIP," "ISIN" or "Common Code" Numbers, if any (and, in the case of a partial redemption, the principal amounts) and, as applicable, of the particular Notes to be redeemed,

(4) if any Note is to be redeemed in part only, the portion of the principal amount thereof to be redeemed,

(5) that on the Redemption Date, the Redemption Price (together with accrued interest to the Redemption Date payable as provided in Section 1107) will become due and payable upon each such Note, or the portion thereof, to be redeemed, and that interest thereon will cease to accrue on and after said date, and

(6) the place or places where such Notes are to be surrendered for payment of the Redemption Price.

Notice of redemption of Notes to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company.

SECTION 1106. Deposit of Redemption Price.

On or prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and accrued interest on, any Notes, or any portions thereof, to be redeemed on that date.

SECTION 1107. Notes Payable on Redemption Date.

Notice of redemption having been given as aforesaid, the Notes so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified (together with accrued interest, if any, to the Redemption Date), and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest, if any) such Notes, or portions thereof, shall cease to bear interest. Upon surrender of any such Note for redemption in accordance with said notice, such Note shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; provided, however, that installments of interest whose Stated Maturity is on or prior to the Redemption Date shall be payable to the Holders of such Notes, or one or more Predecessor Notes, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 308.

If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium and interest) shall, until paid, bear interest from the Redemption Date at the rate borne by the Notes.

SECTION 1108. Notes Redeemed in Part.

Any Note which is to be redeemed only in part pursuant to the provisions of this Article shall be surrendered at the office or agency of the Company maintained for such purpose pursuant to Section 1002 (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed

by, the Holder thereof or such Holder's attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Note without service charge, a new Note or Notes, of any authorized denomination as requested by such Holder, in an aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

ARTICLE TWELVE

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1201. Company's Option to Effect Legal Defeasance or Covenant Defeasance.

The Company may, at its option and at any time, with respect to the Notes, elect to have either Section 1202 or Section 1203 be applied to all Outstanding Notes upon compliance with the conditions set forth below in this Article Twelve.

SECTION 1202. Legal Defeasance and Discharge.

The Company may, at its option and at any time, elect to have its obligations discharged with respect to the Outstanding Notes ("Legal Defeasance"). Such Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Notes, except for:

(1) the rights of Holders to receive payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due from the trust fund referred to below;

(2) the Company's obligations with respect to Sections 304, 306, 307 and 1002;

(3) the Trustee's rights, powers, trust, duties and immunities under Article Six and the Company's obligations in connection therewith; and

(4) the provisions of Article Twelve of this Indenture.

SECTION 1203. Covenant Defeasance.

The Company may, at its option and at any time, elect to have the obligations of the Company released with respect to Sections 1006 through and including 1015 and Section 801(a)(2) ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, clauses (4) and (5) in Section 501 will no longer constitute Events of Default with respect to the Notes. The Company may exercise its Legal Defeasance option notwithstanding its prior exercise of its Covenant Defeasance option.

SECTION 1204. Conditions to Legal Defeasance or Covenant Defeasance.

The following shall be the conditions to application of either Section 1202 or Section 1203:

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of Notes, cash in euros, non-callable Euro Government Obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, premium, if any, and interest on the Notes on the stated date for payment thereof or on the redemption date, as the case may be;

(2) in the case of Legal Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that:

(a) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or

(b) since the date of this Indenture, there has been a change in the applicable federal income tax law,

in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Company shall have delivered to the Trustee an Opinion of Counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for federal income tax purposes as a result of such Covenant Defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default shall have occurred and be continuing on the date of such deposit or insofar as Events of Default from bankruptcy or insolvency events are concerned, at any time in the period ending on the 91st day after the date of deposit;

(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under this Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(6) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(7) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with;

(8) No event or condition shall exist that would prevent the Company

from making payments of the principal of, premium, if any, and interest on the Notes on the date of such deposit on the date of such deposit.

Notwithstanding the foregoing, the Opinion of Counsel required by clause (2) above with respect to a Legal Defeasance need not be delivered if all Notes not theretofore delivered to the Trustee for cancellation (1) have become due and payable or (2) will become due and payable on the maturity date within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company.

SECTION 1205. Deposited Money and Euro Government Obligations to Be Held in Trust; Other Miscellaneous Provisions.

Subject to the provisions of Section 1003, all money and Euro Government Obligations (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively, for purposes of this Section 1205, the "Trustee") pursuant to Section 1204 in respect of the Outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal (and premium, if any) and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the Euro Governmental Obligations deposited pursuant to Section 1204 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the Outstanding Notes.

Anything in this Article Twelve to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or Euro Government Obligations held by it as provided in Section 1204 which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance, as applicable, in accordance with this Article Twelve.

SECTION 1206. Reinstatement.

If the Trustee or any Paying Agent is unable to apply any money in accordance with Section 1205 by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 1202 or 1203, as the case may be, until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 1205, and the Company shall execute all documents reasonably satisfactory to the Trustee evidencing such revival and reinstatement; provided, however, that if the Company makes any payment of principal of (or premium, if any, on) or interest on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

[Signature Page to Follow]

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

XEROX CORPORATION

Attest: /S/ Martin S. Wagner

Name: Martin S. Wagner
Title: Assistant Secretary

By /S/ Gregory B. Tayler

Name: Gregory B. Tayler
Title: Vice President and Treasurer

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION

By /S/ Jane Y. Schweiger

Name: Jane Y. Schweiger
Title: Assistant Vice President

EXHIBIT A-1

[Form of Private Placement Legend]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF U.S. PERSONS EXCEPT AS SET FORTH BELOW. BY ITS ACQUISITION HEREOF, THE HOLDER (1) AGREES THAT IT WILL NOT WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE RESELL OR OTHERWISE TRANSFER THIS NOTE EXCEPT (A) TO XEROX CORPORATION OR ANY SUBSIDIARY THEREOF, (B) INSIDE THE UNITED STATES TO A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT, (C) INSIDE THE UNITED STATES TO AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1), (2), (3) OR (7) UNDER THE SECURITIES ACT (AN "ACCREDITED INVESTOR") THAT, PRIOR TO SUCH TRANSFER, FURNISHES (OR HAS FURNISHED ON ITS BEHALF BY A U.S. BROKER-DEALER) TO THE TRUSTEE A SIGNED LETTER CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS RELATING TO THE RESTRICTIONS ON TRANSFER OF THIS SECURITY (THE FORM OF WHICH LETTER CAN BE OBTAINED FROM THE TRUSTEE FOR THIS NOTE), (D) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT (IF AVAILABLE), (E) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), (F) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL IF XEROX CORPORATION SO REQUESTS), OR (G) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (2) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND, IN CONNECTION WITH ANY TRANSFER OF THIS NOTE WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS NOTE, IF THE PROPOSED TRANSFEREE IS AN ACCREDITED INVESTOR, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE TRUSTEE AND XEROX CORPORATION SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS EITHER OF THEM MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. AS USED HEREIN, THE TERMS "OFFSHORE TRANSACTION," "UNITED STATES" AND "U.S. PERSON" HAVE THE MEANING GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

EXHIBIT A-2

[Form of Global Note Legend]

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR OR CLEARSTREAM, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF BT GLOBAL NET NOMINEES LIMITED OR SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR OR CLEARSTREAM (AND ANY PAYMENT IS MADE TO BT GLOBAL NET NOMINEES LIMITED, OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF EUROCLEAR OR CLEARSTREAM) ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF EUROCLEAR OR CLEARSTREAM OR TO CUSTODIANS THEREOF OR THEIR NOMINEES OR TO A SUCCESSOR OF EUROCLEAR OR CLEARSTREAM OR SUCH SUCCESSORS'S NOMINEE OR TO CUSTODIANS OF SUCH SUCCESSOR OR NOMINEES THEREOF AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

EXHIBIT B

[Form of Note]

(FACE OF NOTE)

FOR PURPOSES OF SECTIONS 1272, 1273 AND 1275 OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED, AND THE REGULATIONS THEREUNDER, THIS SECURITY IS BEING ISSUED WITH ORIGINAL ISSUE DISCOUNT; FOR EACH (euro)1,000 PRINCIPAL AMOUNT OF THIS NOTE, (1) THE ISSUE PRICE IS (euro)951.67; (2) THE AMOUNT OF ORIGINAL ISSUE DISCOUNT IS (euro)48.33; (3) THE ISSUE DATE IS JANUARY 17, 2002; AND (4) THE YIELD TO MATURITY (COMPOUNDED SEMI-ANNUALLY) IS 10.75%.

CUSIP No.: ISIN No.: Common Code:

XEROX CORPORATION

9 3/4% SENIOR NOTE DUE 2009

No. (euro)

Xerox Corporation, a New York corporation (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to or registered assigns, the principal sum of Euro on January 15, 2009, at the office or agency of the Company referred to below, and to pay interest thereon from January 17, 2002, or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semiannually on January 15 and July 15 of each year, commencing July 15, 2002, at the rate of 9 3/4% per annum, until the principal hereof is paid or duly provided for, and (to the extent lawful) to pay on demand interest on any overdue interest at the rate borne by the Notes from the date on which such overdue interest becomes payable to the date payment of such interest has been made or duly provided for.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in the Indenture, be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on the Regular Record Date for such interest, which shall be the January 1 or July 1 (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such Regular Record Date, and such Defaulted Interest, and (to the extent lawful) interest on such Defaulted Interest at the rate borne by the Notes, may be paid to the Person in whose name this Note (or one or more Predecessor Notes) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Notes not less than 10 days prior to such Special Record Date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture. [The Company shall pay all Additional Interest, if any, in the same manner on the dates and in the amounts set forth in the Registration Rights Agreement.]/a/ Interest on this Note shall be computed on the basis of a 360-day year of twelve 30-day months.

Payment of the principal of (and premium, if any, on), interest on this Note will be made at the office or agency of the Company maintained for that purpose in (which initially will be the office of the Trustee maintained at c/o The Depository Trust Company, 1st Floor, TADS Department, 55 Water Street, New York, New York 10041, or at such other office or agency of the Company as may be maintained for such purpose, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that payment of interest may be made at the option of the Company by check mailed to the address of the Person entitled thereto as such address shall appear on the Security Register. Notwithstanding the foregoing, payment of interest in respect of Notes represented by Global Notes shall be made in accordance with procedures required by the Depositary.

Reference is hereby made to the further provisions of this Note set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been duly executed by the Trustee referred to on the reverse hereof by manual signature, this Note shall not be entitled to any benefit under the Indenture, or be valid or obligatory for any purpose.

/a/ Delete if an Exchange Note.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated: XEROX CORPORATION

By:
Name:
Title:

Attest:

Secretary

TRUSTEE'S CERTIFICATE OF AUTHENTICATION.

This is one of the Notes referred to in the within-mentioned Indenture.

Dated:

WELLS FARGO BANK MINNESOTA,
NATIONAL ASSOCIATION, as Trustee

By:
Authorized Signatory

(REVERSE OF NOTE)

1. Indenture. This Note is one of a duly authorized issue of securities of the Company designated as its 9 3/4% Senior Notes due 2009 (herein called the "Notes"), issued under an indenture (herein called the "Indenture") dated as of January 17, 2002, among the Company and Wells Fargo Bank Minnesota, National Association, as trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), to which Indenture and all indentures supplemental thereto reference is hereby made for a statement of the respective rights, limitations of rights, duties, obligations and immunities thereunder of the Company, the Trustee and the Holders of the Notes, and of the terms upon which the Notes are, and are to be, authenticated and delivered.

Capitalized terms used herein but not otherwise defined herein shall have the meaning assigned to such terms in the Indenture.

The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939 (15 U.S.C. ss.ss. 77aaa-77bbbb) (the "TIA"), as in effect on the date of the Indenture. Notwithstanding anything to the contrary herein, the Notes are subject to all such terms, and Holders of Notes are referred to the Indenture and the TIA for a statement of such terms.

No reference herein to the Indenture and no provisions of this Note or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, premium, if any, and interest on this Note at the times, place, and rate, and in the coin or currency, herein prescribed.

[2. Registration Rights. Pursuant to the Registration Rights Agreement, the Company will be obligated to consummate an Exchange Offer pursuant to which the Holder of this Note shall have the right to exchange this Note for 9 3/4% Senior Notes due 2009 of the Company in the form of Exchange Notes, which have been registered under the Securities Act, in like principal amount and having identical terms as the Notes (other than as set forth in this paragraph). The Holders of Notes shall be entitled to receive Additional Interest in the event such Exchange Offer is not consummated and upon certain other conditions, all pursuant to and in accordance with the terms of the Registration Rights Agreement.]/a/

3. Redemption. Except as set forth in this paragraph, the Notes are not redeemable.

(a) The Company may, at any time and from time to time, at its option, redeem the Outstanding Notes (in whole or in part) at a redemption price equal to 95.167% of

/a/ Delete if an Exchange Note.

the principal amount thereof, plus the original issue discount on such Notes that has accrued pursuant to Section 1272 of the Internal Revenue Code of 1986, as amended, to the applicable redemption date, plus accrued and unpaid interest on the Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a "Specified Redemption"); provided that in the case of any such redemption in part, at least 50% of the original principal amount of the Notes remains outstanding after giving effect to such redemption. The Company shall give not less than 30 nor more than 60 days notice of such redemption.

In the event that the Company chooses to redeem less than all of the Notes, selection of the Notes for redemption will be made by the Trustee either:

(1) in compliance with the requirements of the principle national securities exchange, if any, on which the Notes are listed; or,

(2) if the Notes are not so listed, on a pro rata basis, by lot or by such method as the Trustee shall deem fair and appropriate.

(b) In the case of any redemption of Notes, interest installments whose

Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Notes, or one or more Predecessor Notes, of record at the close of business on the relevant Record Date referred to on the face hereof. Notes (or portions thereof) for whose redemption and payment provision is made in accordance with the Indenture shall cease to bear interest from and after the Redemption Date.

(c) In the event of redemption of this Note in part only, a new Note or Notes for the unredeemed portion hereof shall be issued in the name of the Holder hereof upon the cancellation hereof.

4. Offers to Purchase. Sections 1006 and 1009 of the Indenture provide that upon the occurrence of a Change of Control and following certain Asset Sales, and subject to certain conditions and limitations contained therein, the Company shall make an offer to purchase all or a portion of the Notes in accordance with the procedures set forth in the Indenture.

5. Defaults and Remedies. If an Event of Default occurs and is continuing, the principal of and premium, if any, on all of the Outstanding Notes, plus all accrued and unpaid interest, if any, to and including the date the Notes are paid, may be declared due and payable in the manner and with the effect provided in the Indenture.

6. Defeasance. The Indenture contains provisions for defeasance at any time of (a) the entire Indebtedness of the Company on this Note and (b) certain restrictive covenants and the related Defaults and Events of Default, upon compliance by the Company with certain conditions set forth therein, which provisions apply to this Note.

7. Amendment and Waivers. The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders under the Indenture at any time by the Company and the Trustee with the consent of the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding. The Indenture also contains provisions permitting the Holders of a majority in aggregate principal amount of the Notes at the time Outstanding, on behalf of the Holders of all the Notes, to waive compliance by the Company with certain provisions of the Indenture and certain past Defaults or Events of Default under the Indenture and their consequences. Any such consent or waiver by or on behalf of the Holder of this Note shall be conclusive and binding upon such Holder and upon all future Holders of this Note and of any Note issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

8. Denominations, Transfers and Exchanges. The Notes are issuable only in registered form without coupons in denominations of(euro)1,000 and any integral multiple thereof.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Note is registerable on the Security Register of the Company, upon surrender of this Note for registration of transfer at the office or agency of the Company, maintained for such purpose, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Notes, of authorized denominations and for the same aggregate principal

amount, will be issued to the designated transferee or transferees.

No service charge shall be made for any registration of transfer or exchange of Notes, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

9. Persons Deemed Owners. Prior to and at the time of due presentment of this Note for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Note is registered as the owner hereof for all purposes, whether or not this Note be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

10. Unclaimed Money. If money deposited with the Trustee or any applicable agent for the payment of principal of, premium, if any, or interest on, the Notes remains unclaimed for two years, the Trustee and such paying agent shall return the money to the Company. After that, Holders entitled to the money must look to the Company for payment unless applicable abandoned property law designates another Person and all liability of the Trustee and such paying agent shall cease. Other than as set forth in this paragraph and Section 115 of the Indenture, the Notes and the Indenture, respectively, do not provide for any periods for the escheatment of the payment of principal of, premium, if any, or interest on the Notes.

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

The Company will furnish to any Holder of a Note upon written request and without charge a copy of the Indenture. Requests may be made to: Xerox Corporation, 800 Long Ridge Road, Stamford, Connecticut 06904, Attention: Chief Financial Officer.

[In addition to the rights provided to Holders of Notes under the Indenture, Holders shall have all the rights set forth in the Registration Rights Agreement.]/a/

/a/ Delete if an Exchange Note.

ASSIGNMENT FORM

If you, the Holder, want to assign this Note, fill in the form below and have your signature guaranteed:

I or we assign and transfer this Note to

(Insert assignee's social security or tax ID number)

(Print or type assignee's name, address and zip code) and irrevocably appoint

agent to transfer this Note on the books of the Company. The agent may

substitute another to act for such agent.

In connection with any transfer of this Note occurring prior to the date which is the earlier of (i) the date of the declaration by the Commission of the effectiveness of a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), covering resales of this Note (which effectiveness shall not have been suspended or terminated at the date of the transfer) and (ii) the date two years (or such shorter period of time as permitted by Rule 144(k) under the Securities Act or any successor provision thereunder) after the later of the original issuance date appearing on the face of this Note (or any Predecessor Note) or the last date on which the Company or any Affiliate of the Company was the owner of this Note (or any Predecessor Note), the undersigned confirms that it has not utilized any general solicitation or general advertising in connection with the transfer

[Check One]

[ ] (a) this Note is being transferred in compliance with the exemption from registration under the Securities Act provided by Rule 144A thereunder.

or

[ ] (b) this Note is being transferred other than in accordance with (a) above and documents, including a transferor certificate substantially in the form of Exhibit C, D or E to the Indenture in the case of a transfer pursuant to Regulation S, are being furnished which comply with the conditions of transfer set forth in this Note and the Indenture.

If none of the foregoing boxes is checked and, in the case of (b) above, if the appropriate document is not attached or otherwise furnished to the Trustee, the Trustee or Registrar shall not be obligated to register this Note in the name of any Person other than the Holder hereof unless and until the conditions to any such transfer of registration set forth herein and in Section 313 of the Indenture shall have been satisfied.

Date: Your signature:

(Sign exactly as your name appears on the other side of this Note)

By:

NOTICE: To be executed by an executive officer

Signature Guarantee:

TO BE COMPLETED BY PURCHASER IF (a) ABOVE IS CHECKED

The undersigned represents and warrants that it is purchasing this Note for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act and is aware that the sale to it is being made in reliance on Rule 144A and acknowledges that it has received such information regarding the Company as

the undersigned has requested pursuant to Rule 144A (including the information specified in Rule 144A(d)(4)) or has determined not to request such information and that it is aware that the transferor is relying upon the undersigned's foregoing representations in order to claim the exemption from registration provided by Rule 144A.

Dated: By:

NOTICE: To be executed by an executive officer

OPTION OF HOLDER TO ELECT PURCHASE

If you wish to have this Note purchased by the Company pursuant to Section 1006 or 1009 of the Indenture, check the appropriate box:

Section 1006 [ ] Section 1009 [ ]

If you wish to have a portion of this Note purchased by the Company pursuant to Section 1006 or 1009 of the Indenture, state the amount:

(euro)

Date: Your signature:

(Sign exactly as your name appears on the other side of this Note)

By:

NOTICE: To be executed by an executive officer

Signature Guarantee:

EXHIBIT C

Form of Investor Letter To Be Delivered in Connection with Transfers to Non-QIB Institutional Accredited Investors

, 200

XEROX CORPORATION
800 Long Ridge Road
Stamford, CT 06904

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

Corporate Trust
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Ladies and Gentlemen:

In connection with our proposed purchase of (euro) aggregate principal amount of 9 3/4% Senior Notes due 2009 (the "Notes") of XEROX CORPORATION (the "Company"), we confirm that:

1. We understand that the Notes have not been registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and, unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Notes to offer, sell or otherwise transfer such Notes prior to (i) the date which is two years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Notes (or any predecessor thereto), (ii) such later date, if any, as may be required by any subsequent change in applicable law and (iii) such later date as the Company may, pursuant to Section 313 of the Indenture, determine is required in order to comply with U.S. Federal or state securities laws or the securities laws of any other relevant jurisdiction (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) so long as the Notes are eligible for resale pursuant to Rule 144A under the Securities Act, to a Person we reasonably believe is a qualified institutional buyer under Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A (as indicated by the box checked by the transferor on the Certificate of Transfer on the reverse of the Notes), (d) in an offshore transaction complying with Rule 903 or Rule 904 of Regulation S under the Securities Act, (e) to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 under the Securities Act that is purchasing at least $250,000 of Notes that is purchasing for his or her own account or for the account of such an institutional accredited investor after delivery of an investor letter duly executed by such transferee or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and to compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. Each purchaser acknowledges that the Company and the Trustee reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Notes pursuant to clauses (e) or (f) above to require the delivery of an Opinion of Counsel, certification and/or other information satisfactory to the Company and the Trustee.

2. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act) that is purchasing at least $250,000 of Notes, purchasing for our own account or for the account of such an institutional accredited investor that is purchasing at least $250,000 of Notes, and we are acquiring the Notes for investment purposes and not with a view to, or for offer or sale in connection with, any distribution

in violation of the Securities Act and we have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our Investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or its Investment for an indefinite period.

3. We are acquiring the Notes purchased by us for our own account or for one or more accounts as to each of which we exercise sole investment discretion.

4. Each addressee is entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered hereby.

Very truly yours, (Name of Purchaser)

By:

Name: Title:

Upon transfer, the Notes would be registered in the name of the new beneficial owner as follows:

Name:

Address:

Taxpayer ID Number:

EXHIBIT D

Form of Transfer Certificate
for Transfer to a QIB

, 200

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION,
Corporate Trust Sixth Street
and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Re: Xerox Corporation
9 3/4% Senior Notes due 2009 (the "Notes")

Ladies and Gentlemen:

Reference is hereby made to the Indenture dated as of January 17, 2002 (the "Indenture") among Xerox Corporation (the "Company") and Wells Fargo Bank Minnesota, National Association, as Trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to (euro) ---- aggregate principal amount of Notes

which are evidenced by a [Regulation S Global Note (CUSIP/ISIN No.) and
held with the Common Depositary, through Euroclear or Clearstream or both
(Common

Code) in the name of/Certificated Note (CUSIP/ISIN No.) held by] [insert name
of transferor] (the "Transferor"). The Transferor has requested a transfer of
such beneficial interest in the Note to a Person who will take delivery thereof
in the form of an equal aggregate principal amount of Notes evidenced by a [Rule
144A Global Note/Certificated Note] of the same series and of like tenor as the
Notes (CUSIP/ISIN No.). The Transferor has informed such Person that he is
obtaining an interest in a Note that is subject to restrictions on transfer and
that each subsequent transferee should be so informed.

In connection with such request and in respect of such Notes, the Transferor
does hereby certify that such transfer has been effected pursuant to and in
accordance with Rule 144A under the United States Securities Act of 1933, as
amended (the "Securities Act"), and accordingly the Transferor does hereby
further certify that the Notes are being transferred to a Person that the
Transferor reasonably believes is purchasing the Notes for its own account, or
for one or more accounts with respect to which such Person exercises sole
investment discretion, and such Person and each such account is a "qualified
institutional buyer" within the meaning of Rule 144A under the Securities Act,
in each case in a transaction meeting the requirements of Rule 144A and in
accordance with any applicable securities laws of any state of the United
States.

The Transferor further certifies that it is not an "affiliate" of the Company
within the meaning of the Securities Act.

This certificate and the statements contained herein are made for your benefit
and the benefit of the Company.

[Insert Name of Transferor]

By:

Name: Title:

Dated: , 200

EXHIBIT E

Form of Transfer Certificate
for Transfer to a Non-U.S. Person

, 200

WELLS FARGO BANK MINNESOTA, NATIONAL ASSOCIATION

Corporate Trust
Sixth Street and Marquette Avenue
MAC N9303-120
Minneapolis, MN 55479

Re: XEROX CORPORATION
     9 3/4% Senior Notes Due 2009 (the "Notes")

Ladies and Gentlemen:

Reference is hereby made to the Indenture dated as of January 17, 2002 (the "Indenture") among Xerox Corporation (the "Company") and Wells Fargo Bank Minnesota, National Association, as Trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

This letter relates to (euro)   aggregate principal amount of Notes which are evidenced by a [Rule 144A Global Note (CUSIP/ISIN No.) and held with the Common Depositary, through Euroclear and Clearstream or both (Common Code) in the name of/Certificated Note (CUSIP/ISIN No.) held by] [insert name of transferor] (the "Transferor"). The Transferor has requested a transfer of such Note to a Person who will take delivery thereof in the form of an equal aggregate principal amount of Notes evidenced by a [Regulation S Global Note/Certificated Note] of the same series and of like tenor as the Notes (CUSIP/ISIN No.   ).

In connection with such request and in respect of such Notes, the Transferor does hereby certify that such transfer has been effected pursuant to and in accordance with Rule 903 or Rule 904 under the United States Securities Act of 1933, as amended (the "Securities Act"), and accordingly the Transferor does hereby further certify that:

(1) the offer of the Notes was not made to a Person in the United States;

(2) either (a) at the time the buy order was originated, the transferee was outside the United States or the Transferor and any Person acting on its behalf reasonably believed that the transferee was outside the United States or (b) the transaction was executed in, on or through the facilities of a Designated Off-shore Securities Market and neither the Transferor nor any Person acting on its behalf knows that the transaction was prearranged with a buyer in the United States;

(3) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable; and

(4) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company. Terms used in this certificate and not otherwise defined herein or in the Indenture have the meanings set forth in Regulation S under the Securities Act.

[Insert Name of Transferor]

By:

Name: Title:

Dated: , 200

Exhibit 4(h)(3)

REGISTRATION RIGHTS AGREEMENT

Dated as of January 17, 2002

Among

XEROX CORPORATION,

as Issuer,

and

DEUTSCHE BANC ALEX. BROWN INC.,
J.P. MORGAN SECURITIES INC.,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
SALOMON SMITH BARNEY INC.,
ABN AMRO INCORPORATED,
BANC ONE CAPITAL MARKETS, INC.,
FLEET SECURITIES, INC.,
PNC CAPITAL MARKETS, INC.,
RBC DOMINION SECURITIES CORPORATION,
and
UBS WARBURG LLC,
as Initial Purchasers

$600,000,000 9 3/4% Senior Notes due 2009

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is dated as of January 17, 2002, among XEROX CORPORATION, a New York corporation, (the "Issuer"), and DEUTSCHE BANC ALEX. BROWN INC., J.P. MORGAN SECURITIES INC., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, SALOMON SMITH BARNEY INC., ABN AMRO INCORPORATED, BANC ONE CAPITAL MARKETS, INC., FLEET SECURITIES, INC., PNC CAPITAL MARKETS, INC., RBC DOMINION SECURITIES CORPORATION and UBS WARBURG LLC, as initial purchasers (the "Initial Purchasers").

This Agreement is entered into in connection with the Purchase Agreement by and among the Issuer and the Initial Purchasers, dated as of January 14, 2002 (the "Purchase Agreement"), which provides for, among other things, the sale by the Issuer to the Initial Purchasers of $600,000,000 aggregate principal amount of the Issuer's 9 3/4% Senior Notes due 2009 (the "Notes"). In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Issuer has agreed to provide the registration rights set forth in this Agreement for the benefit of the Initial Purchasers and any subsequent holder or holders of the Notes. The execution and delivery of this Agreement is a condition to the Initial Purchasers' obligation to purchase the Notes under the Purchase Agreement.

The parties hereby agree as follows:

1. Definitions

As used in this Agreement, the following terms shall have the following meanings:

Additional Interest: See Section 4(a) hereof.

Advice: See the last paragraph of Section 5 hereof.

Agreement: See the introductory paragraphs hereto.

Applicable Period: See Section 2(b) hereof.

Business Day: Any day that is not a Saturday, Sunday or a day on which banking institutions in New York are authorized or required by law to be closed.

Event Date: See Section 4 hereof.

Exchange Act: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

Exchange Effectiveness Deadline: The 365th day after the Issue Date.

Exchange Filing Date: The date on which the Issuer files the Exchange Offer Registration Statement with the SEC pursuant to Section 2 hereof.

Exchange Filing Deadline: The 90th day after the Issue Date.

Exchange Notes: See Section 2(a) hereof.

Exchange Offer: See Section 2(a) hereof.

Exchange Offer Registration Statement: See Section 2(a) hereof.

Holder: Any holder of a Registrable Note or Registrable Notes.

Indenture: The Indenture, dated as of January 17, 2002, by and between the Issuer and Wells Fargo Bank Minnesota, National Association, as Trustee, pursuant to which the Notes are being issued, as amended or supplemented from time to time in accordance with the terms thereof.

Information: See Section 5(o) hereof.

Initial Purchasers: See the introductory paragraphs hereto.

Initial Shelf Registration: See Section 3(a) hereof.

Inspectors: See Section 5(o) hereof.

Issue Date: January 17, 2002, the date of original issuance of the Notes.

Issuer: See the introductory paragraphs hereto.

NASD: See Section 5(s) hereof.

Notes: See the introductory paragraphs hereto.

Participant: See Section 7(a) hereof.

Participating Broker-Dealer: See Section 2(b) hereof.

Person: An individual, trustee, corporation, partnership, limited liability company, joint stock company, trust, unincorporated association, union, business association, firm or other legal entity.

Private Exchange: See Section 2(b) hereof.

Private Exchange Notes: See Section 2(b) hereof.

Prospectus: The prospectus included in any Registration Statement (including, without limitation, any prospectus subject to completion and a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A under the Securities Act, as amended or supplemented by any prospectus supplement, and all other amendments and supplements to the Prospectus, including post- effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

Purchase Agreement: See the introductory paragraphs hereof.

Records: See Section 5(o) hereof.

Registrable Notes: Each Note upon its original issuance and at all times subsequent thereto, each Exchange Note as to which Section 2(c)(iv) hereof is applicable upon original issuance and at all times subsequent thereto and each Private Exchange Note upon original issuance thereof and at all times subsequent thereto, until, in each case, the earliest to occur of (i) a Registration Statement (other than, with respect to any Exchange Note as to which Section 2(c)(iv) hereof is applicable, the Exchange Offer Registration Statement) covering such Note, Exchange Note or Private Exchange Note has been declared effective by the SEC and such Note, Exchange Note or such Private Exchange Note, as the case may be, has been disposed of in accordance with such effective Registration Statement, (ii) such Note has been exchanged pursuant to the Exchange Offer for an Exchange Note or Exchange Notes that may be resold without restriction under state and federal securities laws, (iii) such Note, Exchange Note or Private Exchange Note, as the case may be, ceases to be outstanding for purposes of the Indenture or (iv) such Note, Exchange Note or Private Exchange Note, as the case may be, is resold in compliance with Rule 144 (as amended or replaced) under the Securities Act or may be resold without restriction pursuant to Rule 144(k) (as amended or replaced) under the Securities Act.

Registration Statement: Any registration statement of the Issuer that covers any of the Notes, the Exchange Notes or the Private Exchange Notes filed with the SEC under the Securities Act, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

Rule 144: Rule 144 under the Securities Act.

Rule 144A: Rule 144A under the Securities Act.

Rule 405: Rule 405 under the Securities Act.

Rule 415: Rule 415 under the Securities Act.

Rule 424: Rule 424 under the Securities Act.

SEC: The U.S. Securities and Exchange Commission.

Securities Act: The Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

Shelf Effectiveness Deadline: The Shelf Effectiveness Deadline shall be the 180th day after the delivery of a Shelf Notice; provided, that the Shelf Effectiveness Deadline shall be no earlier than that Exchange Effectiveness Deadline.

Shelf Effectiveness Period: See Section 3(a).

Shelf Filing Date: The date on which the Issuer files the Initial Shelf Registration with the SEC pursuant to Section 3 hereof.

Shelf Filing Deadline: The Shelf Filing Deadline shall be the 90th day after the delivery of a Shelf Notice.

Shelf Notice: See Section 2(c) hereof.

Shelf Registration: See Section 3(b) hereof.

Shelf Registration Statement: Any Registration Statement relating to a Shelf Registration.

Subsequent Shelf Registration: See Section 3(b) hereof.

TIA: The Trust Indenture Act of 1939, as amended.

Trustee: The trustee under the Indenture and the trustee (if any) under any indenture governing the Exchange Notes and Private Exchange Notes.

Underwritten registration or underwritten offering: A registration in which securities of the Issuer are sold to an underwriter for reoffering to the public.

Except as otherwise specifically provided, all references in this Agreement to acts, laws, statutes, rules, regulations, releases, forms, no-action letters and other regulatory requirements (collectively, "Regulatory Requirements") shall be deemed to refer also to any amendments thereto and all subsequent Regulatory Requirements adopted as a replacement thereto having substantially the same effect therewith; provided that Rule 144 shall not be deemed to amend or replace Rule 144A.

2. Exchange Offer

(a) Unless the Exchange Offer would violate applicable law or any applicable interpretation of the staff of the SEC, the Issuer shall use its reasonable best efforts to file with the SEC, no later than the Exchange Filing Deadline, a Registration Statement (the "Exchange Offer Registration Statement") on an appropriate registration form with respect to a registered offer (the "Exchange Offer") to exchange any and all of the Registrable Notes for a like aggregate principal amount of debt securities of the Issuer (the "Exchange Notes") that are identical in all material respects to the Notes, except that (i) the Exchange Notes shall have been registered, contain no restrictive legend thereon and, other than with respect to an Exchange Note as to which Section 2(c)(iv) hereof is applicable, do not contain any provisions relating to the Additional Interest and (ii) interest thereon shall accrue from the last date on which interest was paid on the Notes or, if no such interest has been paid, from the Issue Date, and which are entitled to the benefits of the Indenture or a trust indenture which is identical in all material respects to the Indenture (other than such changes to the Indenture or any such identical trust indenture as are necessary to comply with the TIA) and which, in either case, has been qualified under the TIA. The Exchange Offer shall comply with all applicable tender offer rules and regulations under the Exchange Act and other applicable laws. The Issuer shall use its reasonable best efforts to (x) cause the Exchange Offer Registration Statement to be declared effective under the Securities Act on or before the Exchange Effectiveness Deadline; (y) keep the Exchange Offer open for at least 20 Business Days (or longer if required by applicable law) after the date that notice of the Exchange Offer is mailed to Holders; and (z) consummate the Exchange Offer no later than the 395th day following the Issue Date. Notwithstanding anything to the contrary in this Agreement, at any time, the Issuer may delay the filing of the Exchange Offer Registration Statement or delay or suspend the effectiveness thereof, for a reasonable period of time, but not in excess of 45 days in any consecutive twelve-month period, if the Board of Directors of the Issuer determine reasonably and in

good faith that the filing of any such Exchange Offer Registration Statement or the continuing effectiveness thereof would require the disclosure of non- public material information that, in the reasonable judgment of the Board of Directors of the Issuer, would be detrimental to the Issuer if so disclosed or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction. For the avoidance of doubt, notwithstanding the prior sentence, the Issuer shall remain obligated to pay Additional Interest if and when required by Section 4 of this Agreement.

Each Holder (including, without limitation, each Participating Broker-Dealer) who participates in the Exchange Offer will be required, as a condition to its participation in the Exchange Offer, to represent to the Issuer in writing (which may be contained in the applicable letter of transmittal) that: (i) any Exchange Notes acquired in exchange for Registrable Notes tendered are being acquired in the ordinary course of its business; (ii) at the time of the commencement or consummation of the Exchange Offer neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder has an arrangement or understanding with any Person to participate in the distribution of the Exchange Notes in violation of the provisions of the Securities Act; (iii) neither the Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder is an "affiliate" (as defined in Rule 405) of the Issuer or, if it is an affiliate of the Issuer, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable and will provide information to be included in the Shelf Registration Statement in accordance with Section 5 hereof in order to have its Notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest in Section 4 hereof; (iv) neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder is engaging in or intends to engage in a distribution of the Exchange Notes; and (v) if such Holder is a Participating Broker-Dealer, such Holder has acquired the Registrable Notes as a result of market-making activities or other trading activities and that it will comply with the applicable provisions of the Securities Act (including, but not limited to, the prospectus delivery requirements thereunder).

Upon consummation of the Exchange Offer in accordance with this Section 2, the provisions of this Agreement shall continue to apply, mutatis mutandis, solely with respect to Registrable Notes that are Private Exchange Notes, Exchange Notes as to which Section 2(c)(iv) is applicable and Exchange Notes held by Participating Broker-Dealers, and the Issuer shall have no further obligation to register Registrable Notes (other than Private Exchange Notes and Exchange Notes as to which clause 2(c)(iv) hereof applies) pursuant to Section 3 hereof.

No securities other than the Exchange Notes shall be included in the Exchange Offer Registration Statement.

(b) The Issuer shall include within the Prospectus contained in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," reasonably acceptable to the Initial Purchasers, which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that is the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of Exchange Notes received by such broker-dealer in the

Exchange Offer (a "Participating Broker-Dealer"), which have been publicly disseminated by the staff of the SEC. Such "Plan of Distribution" section shall also expressly permit, to the extent permitted by applicable policies and regulations of the SEC, the use of the Prospectus by all Persons subject to the prospectus delivery requirements of the Securities Act, including, to the extent permitted by applicable policies and regulations of the SEC, all Participating Broker-Dealers, and include a statement describing the means by which Participating Broker-Dealers may resell the Exchange Notes in compliance with the Securities Act.

The Issuer shall use its reasonable best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein in order to permit such Prospectus to be lawfully delivered by all Persons subject to the prospectus delivery requirements of the Securities Act, in each case, for such period of time as is necessary to comply with applicable law in connection with any resale of the Exchange Notes; provided, however, that such period shall not be required to exceed 90 days after such Exchange Offer Registration Statement is declared effective by the SEC or such longer period if extended pursuant to the last paragraph of Section 5 hereof (the "Applicable Period").

If, prior to consummation of the Exchange Offer, the Initial Purchasers hold any Notes acquired by them that have the status of an unsold allotment in the initial distribution, the Issuer upon the request of the Initial Purchasers shall simultaneously with the delivery of the Exchange Notes issue and deliver to the Initial Purchasers, in exchange (the "Private Exchange") for such Notes held by any such Holder, a like principal amount of notes (the "Private Exchange Notes") of the Issuer that are identical in all material respects to the Exchange Notes except for the placement of a restrictive legend on such Private Exchange Notes. The Private Exchange Notes shall be issued pursuant to the same indenture as the Exchange Notes. The Issuer shall use its reasonable best efforts to cause the Private Exchange Notes to bear the same CUSIP number as the Exchange Notes.

In connection with the Exchange Offer, the Issuer shall:

(1) mail, or cause to be mailed, to each Holder of record entitled to participate in the Exchange Offer a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(2) use its reasonable best efforts to keep the Exchange Offer open for not less than 20 Business Days after the date that notice of the Exchange Offer is mailed to Holders (or longer if required by applicable law);

(3) utilize the services of a depositary for the Exchange Offer with an address in the Borough of Manhattan, The City of New York;

(4) permit Holders to withdraw tendered Notes at any time prior to the close of business, New York time, on the last Business Day on which the Exchange Offer remains open; and

(5) otherwise comply in all material respects with all applicable laws, rules and regulations.

As soon as practicable after the close of the Exchange Offer and the Private

Exchange, if any, the Issuer shall:

(1) accept for exchange all Registrable Notes validly tendered and not validly withdrawn pursuant to the Exchange Offer and the Private Exchange, if any;

(2) deliver to the Trustee for cancellation all Registrable Notes so accepted for exchange; and

(3) cause the Trustee to authenticate and deliver promptly to each Holder of Notes, Exchange Notes or Private Exchange Notes, as the case may be, equal in principal amount to the Notes of such Holder so accepted for exchange; provided that, in the case of any Notes held in global form by a depositary, authentication and delivery to such depositary of one or more replacement Notes in global form in an equivalent principal amount thereto for the account of such Holders in accordance with the Indenture shall satisfy such authentication and delivery requirement.

The Exchange Offer and the Private Exchange shall not be subject to any conditions, other than that (i) the Exchange Offer or Private Exchange, as the case may be, does not violate applicable law or any applicable interpretation of the staff of the SEC; (ii) no action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair the ability of the Issuer to proceed with the Exchange Offer or the Private Exchange, and no material adverse development shall have occurred in any existing action or proceeding with respect to the Issuer; and (iii) all governmental approvals shall have been obtained, which approvals the Issuer deems necessary for the consummation of the Exchange Offer or Private Exchange.

The Exchange Notes and the Private Exchange Notes shall be issued under (i) the Indenture or (ii) an indenture identical in all material respects to the Indenture and which, in either case, has been qualified under the TIA or is exempt from such qualification and shall provide that the Exchange Notes shall not be subject to the transfer restrictions set forth in the Indenture. The Indenture or such indenture shall provide that the Exchange Notes, the Private Exchange Notes and the Notes shall vote and consent together on all matters as one class and that none of the Exchange Notes, the Private Exchange Notes or the Notes will have the right to vote or consent as a separate class on any matter.

(c) If (i) because of any change in law or in currently prevailing interpretations of the staff of the SEC, the Issuer is not permitted to effect the Exchange Offer, (ii) the Exchange Offer with respect to Notes validly tendered is not consummated within 395 days after the Issue Date, (iii) the Initial Purchasers or any holder of Private Exchange Notes so requests in writing to the Issuer at any time within 60 days after the consummation of the Exchange Offer, or (iv) in the case of any Holder that participates in the Exchange Offer, such Holder does not receive Exchange Notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such Holder as an affiliate of the Issuer within the meaning of the Securities Act) and so notifies the Issuer within 30 days after such Holder first becomes aware of such restrictions, in the case of each of clauses (i) to and including (iv) of this sentence, then the Issuer shall promptly deliver to the Holders and the Trustee written notice thereof (the "Shelf

Notice") and shall file a Shelf Registration pursuant to Section 3 hereof.

3. Shelf Registration

If at any time a Shelf Notice is delivered as contemplated by Section 2(c) hereof, then:

(a) Shelf Registration. The Issuer shall as promptly as practicable after the date of the Shelf Notice but in any case no later than the Shelf Filing Deadline use its reasonable best efforts to file with the SEC a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 covering all of the Registrable Notes (the "Initial Shelf Registration"). The Initial Shelf Registration shall be on Form S-1 or another appropriate form permitting registration of such Registrable Notes for resale by Holders in the manner or manners designated by them (including, without limitation, one or more underwritten offerings). The Issuer shall not permit any securities other than the Registrable Notes to be included in the Initial Shelf Registration or any Subsequent Shelf Registration (as defined below).

The Issuer shall use its reasonable best efforts to cause the Initial Shelf Registration to be declared effective under the Securities Act on or prior to the Shelf Effectiveness Deadline and to keep the Initial Shelf Registration continuously effective under the Securities Act until the date that is two years from the Issue Date or such shorter period ending when all Registrable Notes covered by the Initial Shelf Registration have been sold in the manner set forth and as contemplated in the Initial Shelf Registration or, if applicable, a Subsequent Shelf Registration (the "Shelf Effectiveness Period"); provided, however, that the Shelf Effectiveness Period in respect of the Initial Shelf Registration shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 under the Securities Act and as otherwise provided herein and shall be subject to reduction to the extent that the applicable provisions of Rule 144(k) are amended or revised to reduce the two year holding period set forth therein. Notwithstanding anything to the contrary in this Agreement, at any time, the Issuer may delay the filing of any Initial Shelf Registration Statement or delay or suspend the effectiveness thereof, for a reasonable period of time, but not in excess of an aggregate of 90 days in any consecutive twelve month period (a "Shelf Suspension Period"), if the Board of Directors of the Issuer determine reasonably and in good faith that the filing of any such Initial Shelf Registration Statement or the continuing effectiveness thereof would require the disclosure of non-public material information that, in the reasonable judgment of the Board of Directors of the Issuer, would be detrimental to the Issuer if so disclosed or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction.

(b) Withdrawal of Stop Orders; Subsequent Shelf Registrations. If the Initial Shelf Registration or any Subsequent Shelf Registration ceases to be effective for any reason at any time during the Shelf Effectiveness Period (other than because of the sale of all of the Notes registered thereunder), the Issuer shall use its reasonable best efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within 45 days of such cessation of effectiveness use its reasonable best efforts to amend such Shelf Registration Statement in a manner to obtain the withdrawal of the order suspending the effectiveness thereof, or use its reasonable best efforts to file an additional Shelf

Registration Statement pursuant to Rule 415 covering all of the Registrable Notes covered by and not sold under the Initial Shelf Registration or an earlier Subsequent Shelf Registration (each, a "Subsequent Shelf Registration"). If a Subsequent Shelf Registration is filed, the Issuer shall use its reasonable best efforts to cause the Subsequent Shelf Registration to be declared effective under the Securities Act as soon as practicable after such filing and to keep such subsequent Shelf Registration continuously effective for a period equal to the number of days in the Shelf Effectiveness Period less the aggregate number of days during which the Initial Shelf Registration or any Subsequent Shelf Registration was previously continuously effective. As used herein the term "Shelf Registration" means the Initial Shelf Registration and any Subsequent Shelf Registration.

(c) Supplements and Amendments. The Issuer shall promptly supplement and amend the Shelf Registration if required by the rules, regulations or instructions applicable to the registration form used for such Shelf Registration, if required by the Securities Act, or if reasonably requested by the Holders of a majority in aggregate principal amount of the Registrable Notes (or their counsel) covered by such Registration Statement with respect to the information included therein with respect to one or more of such Holders, or if reasonably requested by any underwriter of such Registrable Notes with respect to the information included therein with respect to such underwriter.

4. Additional Interest

(a) The Issuer and the Initial Purchasers agree that the Holders will suffer damages if the Issuer fails to fulfill its obligations under Section 2 or Section 3 hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Issuer agrees to pay, as liquidated damages, additional interest on the Notes ("Additional Interest") under the circumstances and to the extent set forth below (each of which shall be given independent effect):

(i) if (A) the Exchange Offer Registration Statement has not been filed on or prior to the Exchange Filing Deadline or (B) the Issuer is required to file the Initial Shelf Registration Statement and such Initial Shelf Registration Statement has not been filed on or before the Shelf Filing Deadline, then commencing on the day after (x) the Exchange Filing Deadline in the case of clause (A), and (y) the Shelf Filing Deadline in the case of clause (B), Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days immediately following the Exchange Filing Deadline or the Shelf Filing Deadline, as the case may be, and such Additional Interest subsequent 90-day period; or

(ii) if (A) the Exchange Offer Registration Statement has not been declared effective by the SEC on or prior to the Exchange Effectiveness Deadline or (B) the Issuer is required to file the Initial Shelf Registration Statement and such Initial Shelf Registration Statement has not been declared effective by the SEC on or prior to the Shelf Effectiveness Deadline, then commencing on the day after (x) the Exchange Effectiveness Deadline in the case of clause (A), and (y) the Shelf Effectiveness Deadline in the case of clause (B), Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days immediately following the day after the Exchange Effectiveness Deadline or the Shelf Effectiveness

Deadline, as the case may be, and such Additional Interest rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(iii) if (A) the Issuer has not exchanged Exchange Notes for all Notes validly tendered in accordance with the terms of the Exchange Offer on or prior to the 395th day after the Issue Date or (B) if applicable, a Shelf Registration has been declared effective and such Effectiveness Period, then Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days commencing on the (x) 395th day after the Issue Date, in the case of (A) above, or (y) the day such Shelf Registration ceases to be effective in the case of (B) above, and such Additional Interest rate shall increase by an additional 0.25% per annum at the beginning of each such subsequent 90-day period;

provided, however, that the Additional Interest rate on the Notes may not accrue under more than one of the foregoing clauses (i) - (iii) at any one time and at no time shall the aggregate amount of additional interest accruing exceed in the aggregate 0.50% per annum; provided, further, however, that (1) upon the filing of the applicable Exchange Offer Registration Statement or the Initial Shelf Registration as required hereunder (in the case of clause (i) above of this Section 4(a)), (2) upon the effectiveness of the Exchange Offer Registration Statement or the Initial Shelf Registration Statement as required hereunder (in the case of clause (ii) of this Section 4(a)), or (3) upon the exchange of the Exchange Notes for all Notes tendered (in the case of clause (iii)(A) of this Section 4(a)), or upon the effectiveness of the applicable Shelf Registration Statement which had ceased to remain effective or upon the effectiveness of a Subsequent Shelf Registration Statement, as the case may be, (in the case of (iii)(B) of this Section 4(a)), Additional Interest on the Notes in respect of which such events relate as a result of such clause (or the relevant subclause thereof, as the case may be) shall cease to accrue. Upon the occurrence of the events described in Section 4(a)(i), 4(a)(ii) or 4(a)(iii), so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Company shall provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) describing such event giving rise to the obligation to pay liquidated damages. Notwithstanding any other provision of this Section 4, the Issuer shall not be obligated to pay Additional Interest provided in Sections 4(a)(i)(B), 4(a)(ii)(B) or 4(a)(iii)(B) during a Shelf Suspension Period permitted by this Agreement.

(b) The Issuer shall notify the Trustee within two Business Days after each and every date on which an event occurs in respect of which Additional Interest is required to be paid (an "Event Date"). Any amounts of Additional Interest due pursuant to clause (a)(i), (a)(ii) or (a)(iii) of this Section 4 will be payable in cash semiannually on each January 15 and July 15 (to the Holders of record on the January 1 and July 1 immediately preceding such dates), commencing with the first such date occurring after any such Additional Interest commences to accrue. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest rate by the principal amount of the Registrable Notes, multiplied by a fraction, the numerator of which is the number of days such Additional Interest rate was applicable during such period (determined on the basis of a 360 day year comprised of twelve 30 day months and, in the case of a partial month, the actual number of days elapsed), and the denominator of which is 360.

5. Registration Procedures

In connection with the filing of any Registration Statement pursuant to Section 2 or 3 hereof, the Issuer shall use its reasonable best efforts to effect such registrations to permit the sale of the securities covered thereby in accordance with the intended method or methods of disposition thereof, and pursuant thereto and in connection with any Registration Statement filed by the Issuer hereunder the Issuer shall use its reasonable best efforts to:

(a) Prepare and file with the SEC prior to the applicable filing date a Registration Statement or Registration Statements as prescribed by Section 2 or 3 hereof, and to cause each such Registration Statement to become effective and remain effective as provided herein; provided, however, that if (1) such filing is pursuant to Section 3 hereof or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Issuer has received written notice that it will be a Participating Broker-Dealer in the Exchange Offer, then before filing any Shelf Registration Statement or Prospectus or any amendments or supplements thereto (not including documents that would be incorporated or deemed to be incorporated therein by reference), the Issuer shall furnish to and afford the Holders of the Registrable Notes covered by such Shelf Registration Statement (with respect to a Registration Statement filed pursuant to Section 3 hereof) or each such Participating Broker-Dealer (with respect to any such Exchange Offer Registration Statement), as the case may be, their counsel and the managing underwriters, if any, a reasonable opportunity to review copies of all such documents (including copies of any documents to be incorporated by reference therein and all exhibits thereto) proposed to be filed (in each case at least two Business Days prior to such filing), and the Holders of the Registrable Notes covered by such Shelf Registration Statement and such Participating Broker-Dealers, as the case may be, shall have the opportunity to object to any information pertaining to such Persons and their plan of distribution that is contained therein and the Issuer will make the corrections reasonably requested by such Persons prior to filing any such Registration Statement, Prospectus or any amendment or supplement thereto; provided, however, that the Issuer shall not be required to afford any such Person an opportunity to review a copy of any amendments or supplements to such Shelf Registration Statement or Prospectus which are made solely as a result of any filing by the Issuer of reports required to be filed pursuant to the Exchange Act.

(b) Prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration Statement or Exchange Offer Registration Statement, as the case may be, as may be necessary to keep such Registration Statement continuously effective for the Shelf Effectiveness Period, the Applicable Period or until consummation of the Exchange Offer, as the case may be; cause the related Prospectus to be supplemented by any prospectus supplement required by applicable law, and as so supplemented to be filed pursuant to Rule 424; and comply with the provisions of the Securities Act and the Exchange Act applicable to it with respect to the disposition of all securities covered by such Registration Statement as so amended or in such Prospectus as so supplemented and with respect to the subsequent resale of any securities being sold by an Participating Broker- Dealer covered by any such Prospectus. The Issuer shall be deemed not to have

used its reasonable best efforts to keep a Registration Statement effective if the Issuer voluntarily takes any action that would result in selling Holders of the Registrable Notes covered thereby or Participating Broker- Dealers seeking to sell Exchange Notes not being able to sell such Registrable Notes or such Exchange Notes during that period unless such action is required by applicable law or permitted by this Agreement.

(c) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Issuer has received written notice that it will be a Participating Broker-Dealer in the Exchange Offer, then notify the selling Holders of Registrable Notes (with respect to such Shelf Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their counsel and the managing underwriters, if any, promptly (but in any event within two Business Days after becoming aware thereof), and confirm such notice in writing, (i) when a Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective under the Securities Act (including in such notice a written statement that any Holder may, upon request, obtain, at the sole expense of the Issuer, one conformed copy of such Registration Statement or post-effective amendment including financial statements and schedules, documents incorporated or deemed to be incorporated by reference and exhibits), (ii) of the issuance by the SEC of any stop order suspending the effectiveness of such Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or the initiation of any proceedings for that purpose, (iii) if at any time when a prospectus is required by the Securities Act to be delivered in connection with sales of the Registrable Notes or resales of Exchange Notes by Participating Broker-Dealers the representations and warranties of the Issuer contained in any agreement (including any underwriting agreement) contemplated by Section 5(n) hereof cease to be true and correct, (iv) of the receipt by the Issuer of any notification with respect to the suspension of the qualification or exemption from qualification of such Registration Statement or any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer for offer or sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose, (v) of the happening of any event, the existence of any condition or any information becoming known that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in or amendments or supplements to such Registration Statement, Prospectus or documents so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (vi) of the Issuer's determination that a post-effective amendment to a Registration Statement would be appropriate.

(d) Prevent the issuance of any order suspending the effectiveness of a

Registration Statement or of any order preventing or suspending the use of a Prospectus or suspending the qualification (or exemption from qualification) of any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer, for sale in any jurisdiction, and, if any such order is issued, to obtain the withdrawal of any such order at the earliest practicable moment.

(e) If a Shelf Registration Statement is filed pursuant to Section 3 and if requested during the Effectiveness Period by the managing underwriter or underwriters (if any), the Holders of a majority in aggregate principal amount of the Registrable Notes being sold in connection with an underwritten offering or any Participating Broker-Dealer, (i) as promptly as practicable incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters (if any), such Holders, any Participating Broker-Dealer or counsel for any of them reasonably requests to be included therein, (ii) make all required filings of such prospectus supplement or such post-effective amendment as soon as practicable after the Issuer has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment, and (iii) supplement or make amendments to such Registration Statement.

(f) If (1) a Shelf Registration Statement is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, furnish to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof) and to each such Participating Broker-Dealer who so requests (with respect to any such Registration Statement) and to their respective counsel and each managing underwriter, if any, at the sole expense of the Issuer, one conformed copy of the Registration Statement or Registration Statements and each post-effective amendment thereto, including financial statements and schedules, and, if requested, all documents incorporated or deemed to be incorporated therein by reference and all exhibits.

(g) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, deliver to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their respective counsel, and the underwriters, if any, at the sole expense of the Issuer, as many copies of the Prospectus or Prospectuses (including each form of preliminary prospectus) and each amendment or supplement thereto and any documents incorporated by reference therein as such Persons may reasonably request; and, subject to the last paragraph of this Section 5, the Issuer hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, and the underwriters or agents, if any, and dealers, if any, in connection with the offering and sale of the Registrable Notes covered by, or the sale by Participating Broker-Dealers of the Exchange Notes pursuant to, such Prospectus and any amendment or supplement thereto.

(h) Prior to any public offering of Registrable Notes pursuant to a Shelf Registration Statement or any delivery of a Prospectus contained in the Exchange Offer Registration Statement by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, to register or qualify, and to cooperate with the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, the managing underwriter or underwriters, if any, and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Notes for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any selling Holder, Participating Broker-Dealer, or the managing underwriter or underwriters reasonably request in writing; provided, however, that where Exchange Notes held by Participating Broker-Dealers or Registrable Notes are offered other than through an underwritten offering, the Issuer agrees to cause its counsel to perform Blue Sky investigations and file registrations and qualifications required to be filed pursuant to this Section 5(h), keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Exchange Notes held by Participating Broker-Dealers or the Registrable Notes covered by the applicable Registration Statement; provided, however, that the Issuer shall not be required to (A) qualify generally to do business in any jurisdiction where it is not then so qualified, (B) take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or (C) subject itself to taxation in excess of a nominal dollar amount in any such jurisdiction where it is not then so subject.

(i) If a Shelf Registration is filed pursuant to Section 3 hereof, cooperate with the selling Holders of Registrable Notes and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Notes to be sold, which certificates shall not bear any restrictive legends and shall be in a form eligible for deposit with The Depository Trust Company; and enable such Registrable Notes to be in such denominations (subject to applicable requirements contained in the Indenture) and registered in such names as the managing underwriter or underwriters, if any, or Holders may request.

(j) Cause the Registrable Notes covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriter or underwriters, if any, to consummate the disposition of such Registrable Notes, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Issuer will cooperate in all reasonable respects with the filing of such Registration Statement and the granting of such approvals.

(k) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, upon the occurrence of any event contemplated by paragraph 5(c)(v) or 5(c)(vi) hereof, as promptly as practicable prepare and (subject to Section 5(a) hereof) file with the SEC, at the sole expense of the Issuer, a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or

any document incorporated or deemed to be incorporated therein by reference, or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Notes being sold thereunder (with respect to a Registration Statement filed pursuant to Section 3 hereof) or to the purchasers of the Exchange Notes to whom such Prospectus will be delivered by a Participating Broker-Dealer (with respect to any such Registration Statement), any such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(l) Cause the Registrable Notes covered by a Registration Statement or the Exchange Notes, as the case may be, to be rated with the appropriate rating agencies, if so requested by the Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement or the Exchange Notes, as the case may be, or the managing underwriter or underwriters, if any.

(m) Prior to the effective date of the first Registration Statement relating to the Registrable Notes, (i) provide the Trustee with certificates for the Registrable Notes in a form eligible for deposit with The Depository Trust Company and (ii) provide a CUSIP number for the Registrable Notes.

(n) In connection with any underwritten offering of Registrable Notes pursuant to a Shelf Registration, enter into an underwriting agreement as is customary in underwritten offerings of debt securities similar to the Notes, and take all such other actions as are reasonably requested by the managing underwriter or underwriters in order to expedite or facilitate the registration or the disposition of such Registrable Notes and, in such connection, (i) make such representations and warranties to, and covenants with, the underwriters with respect to the business of the Issuer (including any acquired business, properties or entity, if applicable), and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, as are customarily made by issuers to underwriters in underwritten offerings of debt securities similar to the Notes, and confirm the same in writing if and when requested; (ii) obtain the written opinions of counsel to the Issuer, and written updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters, addressed to the underwriters covering the matters customarily covered in opinions reasonably requested in underwritten offerings; (iii) obtain "cold comfort" letters and updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters from the independent certified public accountants of the Issuer (and, if necessary, any other independent certified public accountants of the Issuer, or of any business acquired by the Issuer, for which financial statements and financial data are, or are required to be, included or incorporated by reference in the Registration Statement), addressed to each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings of debt securities similar to the Notes; and (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the sellers and underwriters, if any, than those set forth in Section 7 hereof (or such other provisions and procedures reasonably acceptable to Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement and the managing underwriter or underwriters or agents, if any). The above shall be done at each closing

under such underwriting agreement, or as and to the extent required thereunder.

(o) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, make available for inspection by any Initial Purchaser, any selling Holder of such Registrable Notes being sold (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer, as the case may be, any underwriter participating in any such disposition of Registrable Notes, if any, and any attorney, accountant or other agent retained by any such selling Holder or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, or underwriter (any such Initial Purchasers, Holders, Participating Broker-Dealers, underwriters, attorneys, accountants or agents, collectively, the "Inspectors"), upon written request, at the offices where normally kept, during reasonable business hours, all pertinent financial and other records, pertinent corporate documents and instruments of the Issuer and subsidiaries of the Issuer (collectively, the "Records"), as shall be reasonably necessary to enable them to exercise any applicable due diligence responsibilities, and cause the officers, directors and employees of the Issuer and any of its subsidiaries to supply all information ("Information") reasonably requested by any such Inspector in connection with such due diligence responsibilities. Each Inspector shall agree in writing that it will keep the Records and Information confidential and that it will not disclose any of the Records or Information that the Issuer determines, in good faith, to be confidential and notifies the Inspectors in writing are confidential unless (i) the disclosure of such Records or Information is necessary to avoid or correct a misstatement or omission in such Registration Statement or Prospectus, (ii) the release of such Records or Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction, (iii) disclosure of such Records or Information is necessary or advisable, in the opinion of counsel for any Inspector, in connection with any action, claim, suit or proceeding, directly or indirectly, involving or potentially involving such Inspector and arising out of, based upon, relating to, or involving this Agreement or the Purchase Agreement, or any transactions contemplated hereby or thereby or arising hereunder or thereunder, or (iv) the information in such Records or Information has been made generally available to the public other than as a result of a disclosure or failure to safeguard by such Inspector or an "affiliate" (as defined in Rule 405) thereof; provided, however, that prior notice shall be provided as soon as practicable to the Issuer of the potential disclosure of any information by such Inspector pursuant to clauses (i) or (ii) of this sentence to permit the Issuer to obtain a protective order (or waive the provisions of this paragraph (o)) and that such Inspector shall take such actions as are reasonably necessary to protect the confidentiality of such information (if practicable) to the extent such action is otherwise not inconsistent with, an impairment of or in derogation of the rights and interests of the Holder or any Inspector.

(p) Provide an indenture trustee for the Registrable Notes or the Exchange Notes, as the case may be, and cause the Indenture or the trust indenture provided for in Section 2(a) hereof, as the case may be, to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Registrable Notes; and in connection therewith, cooperate with the trustee under any such indenture and the

Holders of the Registrable Notes, to effect such changes (if any) to such indenture as may be required for such indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable best efforts to cause such trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable such indenture to be so qualified in a timely manner.

(q) Comply with all applicable rules and regulations of the SEC and make generally available to its securityholders with regard to any applicable Registration Statement, a consolidated earnings statement satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any fiscal quarter (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Notes are sold to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company, after the effective date of a Registration Statement, which statements shall cover said 12-month periods.

(r) Upon consummation of the Exchange Offer or a Private Exchange, obtain an opinion of counsel to the Issuer, in a form customary for underwritten transactions, addressed to the Trustee for the benefit of all Holders of Registrable Notes participating in the Exchange Offer or the Private Exchange, as the case may be, that the Exchange Notes or Private Exchange Notes, as the case may be, and the related indenture constitute legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms, subject to customary exceptions and qualifications. If the Exchange Offer or a Private Exchange is to be consummated, upon delivery of the Registrable Notes by Holders to the Company (or to such other Person as directed by the Company), in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be, the Issuer shall mark, or cause to be marked, on such Registrable Notes that such Registrable Notes are being cancelled in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be; in no event shall such Registrable Notes be marked as paid or otherwise satisfied.

(s) Cooperate with each seller of Registrable Notes covered by any Registration Statement and each underwriter, if any, participating in the disposition of such Registrable Notes and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. (the "NASD").

(t) Take all other steps necessary to effect the registration of the Exchange Notes and/or Registrable Notes covered by a Registration Statement contemplated hereby.

(u) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notify the Luxembourg Stock Exchange in the case of any increase in the rate of interest on the securities and publish a notice regarding any increase in the rate of interest on the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort).

(v) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, provide a notice in a leading

newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the terms and effectiveness of the Exchange Offer Registration Statement.

(w) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, prior to the Exchange Offer, (i) notify the Luxembourg Stock Exchange of its intention to commence the Exchange Offer; (ii) provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the procedures to be followed in connection with the Exchange Offer; (iii) notify the Luxembourg Stock Exchange of the results of the Exchange Offer; and (iv) provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the results of the Exchange Offer.

(x) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in the event that definitive Exchange Notes are to be issued to the Holders in connection with the Exchange Offer, (i) make copies of the Exchange Offer documentation available to the Holders at the specified offices of the applicable paying and transfer agent in Luxembourg and conduct any Exchange Offer in accordance with the terms and procedures set forth in such Exchange Offer documentation and (ii) appoint an exchange agent in Luxembourg where the Holders of the definitive Notes will be able to tender for exchange their definitive Notes.

The Issuer may require each seller of Registrable Notes as to which any registration is being effected to furnish to the Issuer such information regarding such seller and the distribution of such Registrable Notes as the Issuer may, from time to time, reasonably request. The Issuer may exclude from such registration the Registrable Notes of any seller so long as such seller fails to furnish such information within a reasonable time after receiving such request. Notwithstanding Section 4, such seller shall not be entitled to Additional Interest with respect to their Registrable Notes solely by reason of such seller's failure to furnish such information. Each seller as to which any Shelf Registration is being effected agrees to furnish promptly to the Issuer all information required to be disclosed in order to make the information previously furnished to the Issuer by such seller not materially misleading.

If any such Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (i) the insertion therein of language, in form and substance reasonably satisfactory to such Holder, to the effect that the holding by such Holder of such securities is not to be construed as a recommendation by such Holder of the investment quality of the securities covered thereby and that such holding does not imply that such Holder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force, the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder of Registrable Notes and each Participating Broker-Dealer agrees by its acquisition of such Registrable Notes or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, that, upon actual receipt of any notice from the Company of the happening of any event of the

kind described in Section 5(c)(ii), 5(c)(iv), 5(c)(v), or 5(c)(vi) hereof, such Holder will forthwith discontinue disposition of such Registrable Notes covered by such Registration Statement or Prospectus or Exchange Notes to be sold by such Holder or Participating Broker-Dealer, as the case may be, until such Holder's or Participating Broker-Dealer's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Issuer that the use of the applicable Prospectus may be resumed, and has received copies of any amendments or supplements thereto. In the event that the Issuer shall give any such notice, each of the Applicable Period and the Effectiveness Period shall be extended by the number of days during such periods from and including the date of the giving of such notice to and including the date when each seller of Registrable Notes covered by such Registration Statement or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, shall have received (x) the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof or (y) the Advice.

6. Registration Expenses

All fees and expenses incident to the performance of or compliance with this Agreement by the Issuer shall be borne by the Issuer, whether or not the Exchange Offer Registration Statement or any Shelf Registration Statement is filed or becomes effective or the Exchange Offer is consummated, including, without limitation, (i) all registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with an underwritten offering and (B) fees and expenses of compliance with state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel in connection with Blue Sky qualifications of the Registrable Notes or Exchange Notes and determination of the eligibility of the Registrable Notes or Exchange Notes for investment under the laws of such jurisdictions (x) where the holders of Registrable Notes are located, in the case of the Exchange Notes, or (y) as provided in Section 5(h) hereof, in the case of Registrable Notes or Exchange Notes to be sold by a Participating Broker-Dealer during the Applicable Period)), (ii) printing expenses, including, without limitation, expenses of printing certificates for Registrable Notes or Exchange Notes in a form eligible for deposit with The Depository Trust Company and of printing prospectuses if the printing of prospectuses is reasonably requested by the managing underwriter or underwriters, if any, by the Holders of a majority in aggregate principal amount of the Registrable Notes included in any Registration Statement or in respect of Registrable Notes or Exchange Notes to be sold by any Participating Broker-Dealer during the Applicable Period, as the case may be, (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Issuer and, in the case of a Shelf Registration, reasonable fees and disbursements of one special counsel for all of the sellers of Registrable Notes (exclusive of any counsel retained pursuant to Section 7 hereof), (v) fees and disbursements of all independent certified public accountants referred to in Section 5(n)(iii) hereof (including, without limitation, the expenses of any "cold comfort" letters required by or incident to such performance), (vi) Securities Act liability insurance, if the Issuer desires such insurance, (vii) fees and expenses of all other Persons retained by the Issuer, (viii) internal expenses of the Issuer (including, without limitation, all salaries and expenses of officers and employees of the Issuer performing legal or accounting duties), (ix) the expense of any annual audit, (x) any fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange, and the obtaining of a rating of the securities, in each case, if

applicable, (xi) the expenses relating to printing, word processing and distributing all Registration Statements, underwriting agreements, indentures and any other documents necessary in order to comply with this Agreement, and (xii) all fees and expenses incurred in connection with the listing of the Notes and Exchange Notes on the Luxembourg Stock Exchange.

7. Indemnification and Contribution.

(a) The Issuer agrees to indemnify and hold harmless each Holder of Registrable Notes and each Participating Broker-Dealer selling Exchange Notes during the Applicable Period and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each, a "Participant") to the extent and in the manner set forth in clauses (i), (ii) and (iii) below:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, resulting from any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the case of a Prospectus, in light of circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 7(d) below) any such settlement is effected with the written consent of the Issuer; and

(iii) against any and all expense whatsoever, as incurred (including the reasonable fees and disbursements of counsel chosen by the Participants), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that (A) this indemnity agreement shall not apply to any loss, liability, claim, damage or expense of a Participant to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information pertaining to such Participant furnished to the Issuer by such Participant expressly for use in such Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus and (B) the Issuer shall not be liable to any Holder of Registrable Notes with respect to any preliminary prospectus forming part of a Shelf Registration Statement if the final Prospectus forming a part of such Shelf Registration Statement corrected any such untrue statement or omission, was delivered to such Holder of Registrable Notes (sufficiently in advance of the written confirmation of the sale of the Registrable Notes and in sufficient quantity to allow for distribution in advance of such written confirmation) and such

Holder failed to furnish a copy of such Prospectus to the applicable purchaser.

(b) Each Participant agrees, severally and not jointly, to indemnify and hold harmless the Issuer, the directors and officers of the Issuer, and each person, if any, who controls the Issuer within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus in reliance upon and in conformity with written information pertaining to such Participant furnished to the Issuer by such Participant expressly for use in such Registration Statement (or any amendment thereto), Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or preliminary prospectus.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 7(a) above, counsel to the indemnified parties shall be selected by the Participants who sold a majority in interest of the Registrable Notes and Exchange Notes sold by all such Participants, and, in the case of parties indemnified pursuant to Section 7(b) above, counsel to the indemnified parties shall be selected by the Issuer. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. If it so elects within a reasonable time after receipt of such notice, an indemnifying party, jointly with any other indemnifying parties receiving such notice, may assume the defense of such action with counsel chosen by it and which counsel is reasonably acceptable to the indemnified parties defendant in such action, unless such indemnified parties reasonably object to such assumption on the ground that there may be legal defenses available to them which are different from or in addition to those available to such indemnifying party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 7 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by

or on behalf of any indemnified party.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into, and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement, unless the indemnifying party shall in good faith contest the reasonableness of such fees and expenses (but only to the extent so contested) or the entitlement of the indemnified person to indemnification under the terms of this Section 7.

(e) If the indemnification provided for this Section 7 is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and the Participants on the other hand from the offering of the Notes or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Issuer on the one hand and of the Participants on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Issuer on the one hand and any Participant on the other hand shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Notes (before deducting expenses) received by the Issuer and the total gross profit received by such Participant in connection with the sale of the Notes, bear to the aggregate initial offering price of the Notes.

The relative fault of the Issuer on the one hand and any Participant on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Issuer or by such Participant and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Issuer and any Participant agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Participant shall be required to contribute any amount in excess of the amount by which the total net profit received by such Participant exceeds the amount of any damages which such Participant has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls a Participant within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Participant, and each officer and director of the Issuer and each person, if any, who controls the Issuer within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Issuer.

The Participants' respective obligations to contribute pursuant to this Section 7 are several and not joint.

8. Rules 144 and 144A

The Issuer covenants and agrees that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in a timely manner in accordance with the requirements of the Securities Act and the Exchange Act and, if at any time the Issuer is not required to file such reports, the Issuer will, upon the request of any Holder or beneficial owner of Registrable Notes, make available such information necessary to permit sales pursuant to Rule 144A. The Issuer further covenants and agrees, for so long as any Registrable Notes remain outstanding that it will take such further action as any Holder of Registrable Notes may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Notes without registration under the Securities Act within the limitation of the exemptions provided by Rule 144(k) under the Securities Act and Rule 144A.

9. Underwritten Registrations

If any of the Registrable Notes covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will manage the offering will be selected by the Holders of a majority in aggregate principal amount of such Registrable Notes included in such offering and shall be reasonably acceptable to the Issuer.

No Holder of Registrable Notes may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Notes on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements.

10. Miscellaneous

(a) No Inconsistent Agreements. The Issuer has not, as of the date hereof, and the Issuer shall not, after the date of this Agreement, enter

into any agreement with respect to any of its securities that is inconsistent with the rights granted to the Holders of Registrable Notes in this Agreement or otherwise conflicts with the provisions hereof. The Issuer will not enter into any agreement with respect to any of their securities which will grant to any Person piggy-back registration rights with respect to any Registration Statement.

(b) Adjustments Affecting Registrable Notes. The Issuer shall not, directly or indirectly, take any action with respect to the Registrable Notes as a class that would adversely affect the ability of the Holders of Registrable Notes to include such Registrable Notes in a registration undertaken pursuant to this Agreement.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, otherwise than with the prior written consent of (I) the Issuer and (II) (A) the Holders of not less than a majority in aggregate principal amount of the then outstanding Registrable Notes and (B) in circumstances that would adversely affect the Participating Broker-Dealers, the Participating Broker-Dealers holding not less than a majority in aggregate principal amount of the Exchange Notes held by all Participating Broker-Dealers; provided, however, that Section 7 and this Section 10(c) may not be amended, modified or supplemented without the prior written consent of each Holder and each Participating Broker-Dealer (including any person who was a Holder or Participating Broker-Dealer of Registrable Notes or Exchange Notes, as the case may be, disposed of pursuant to any Registration Statement) affected by any such amendment, modification or supplement. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Notes whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of other Holders of Registrable Notes may be given by Holders of at least a majority in aggregate principal amount of the Registrable Notes being sold pursuant to such Registration Statement.

(d) Notices. All notices and other communications (including, without limitation, any notices or other communications to the Trustee) provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, next-day air courier or facsimile:

(i) if to a Holder of the Registrable Notes or any Participating Broker-Dealer, at the most current address of such Holder or Participating Broker-Dealer, as the case may be, set forth on the records of the registrar under the Indenture, with a copy in like manner to the Initial Purchasers as follows:

Deutsche Banc Alex. Brown Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated Salomon Smith Barney Inc. ABN Amro Incorporated Banc One Capital Markets, Inc. Fleet Securities, Inc. PNC Capital Markets, Inc.

RBC Dominion Securities Corporation UBS Warburg LLC c/o Deutsche Banc Alex Brown Inc. 225 Franklin Street 25th Floor Boston, MA 02110 Facsimile No.: (617) 217 6100 Attention: Corporate Finance

-and-

J.P. Morgan Securities Inc. 270 Park Avenue New York, New York 10017
Facsimile No.: (212) 270 5567 Attention: Corporate Finance

with a copy to:

Cahill Gordon & Reindel 80 Pine Street New York, New York 10005
Facsimile No.: (212) 269-5420 Attention: Michael A. Becker, Esq.

(ii) if to the Initial Purchasers, at the address specified in Section 10(d)(i);

(iii) if to the Issuer, at the address as follows:

Xerox Corporation 800 Long Ridge Road Stamford, Connecticut 06904
Facsimile No.: (203) 968 3446 Attention: Martin S. Wagner, Assistant Secretary and Associate General Counsel

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York, New York 10036 Attention: Phyllis G. Korff

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; one Business Day after being timely delivered to a next-day air courier; and when receipt is acknowledged by the addressee, if sent by facsimile.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee at the address and in the manner specified in such Indenture.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, the Holders and the Participating Broker-Dealers; provided, however, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Notes in violation of the terms of the Purchase Agreement or the Indenture.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAW.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions,

covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Notes Held by the Issuer or Its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Notes is required hereunder, Registrable Notes held by the Issuer or its affiliates (as such term is defined in Rule 405 under the Securities Act) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(k) Third-Party Beneficiaries. Holders of Registrable Notes and Participating Broker-Dealers are intended third-party beneficiaries of this Agreement, and this Agreement may be enforced by such Persons.

(l) Entire Agreement. This Agreement, together with the Purchase Agreement and the Indenture, is intended by the parties as a final and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein and any and all prior oral or written agreements, representations, or warranties, contracts, understandings, correspondence, conversations and memoranda between the Holders on the one hand and the Issuer on the other, or between or among any agents, representatives, parents, subsidiaries, affiliates, predecessors in interest or successors in interest with respect to the subject matter hereof and thereof are merged herein and replaced hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

XEROX CORPORATION

By:
Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

DEUTSCHE BANC ALEX. BROWN INC.
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
SALOMON SMITH BARNEY INC.
ABN AMRO INCORPORATED
BANC ONE CAPITAL MARKETS, INC.
FLEET SECURITIES, INC.
PNC CAPITAL MARKETS, INC.
RBC DOMINION SECURITIES CORPORATION UBS WARBURG LLC

By: DEUTSCHE BANC ALEX. BROWN INC.

By:

Name:
Title:

J.P. MORGAN SECURITIES INC.

By:

Name:
Title:

Exhibit 4(h)(4)

REGISTRATION RIGHTS AGREEMENT

Dated as of January 17, 2002

Among

XEROX CORPORATION,

as Issuer,

and

DEUTSCHE BANC ALEX. BROWN INC.,
J.P. MORGAN SECURITIES INC.,
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
SALOMON SMITH BARNEY INC.,
ABN AMRO INCORPORATED,
BANC ONE CAPITAL MARKETS, INC.,
FLEET SECURITIES, INC.,
PNC CAPITAL MARKETS, INC.,
RBC DOMINION SECURITIES CORPORATION,
and
UBS WARBURG LLC,
as Initial Purchasers

(euro)225,000,000 9 3/4% Senior Notes due 2009

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REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is dated as of January 17, 2002, among XEROX CORPORATION, a New York corporation, (the "Issuer"), and DEUTSCHE BANC ALEX. BROWN INC., J.P. MORGAN SECURITIES INC., MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, SALOMON SMITH BARNEY INC., ABN AMRO INCORPORATED, BANC ONE CAPITAL MARKETS, INC., FLEET SECURITIES, INC., PNC CAPITAL MARKETS, INC., RBC DOMINION SECURITIES CORPORATION and UBS WARBURG LLC, as initial purchasers (the "Initial Purchasers").

This Agreement is entered into in connection with the Purchase Agreement by and among the Issuer and the Initial Purchasers, dated as of January 14, 2002 (the "Purchase Agreement"), which provides for, among other things, the sale by the Issuer to the Initial Purchasers of (euro)225,000,000 aggregate principal amount of the Issuer's 9 3/4% Senior Notes due 2009 (the "Notes"). In order to induce the Initial Purchasers to enter into the Purchase Agreement, the Issuer has agreed to provide the registration rights set forth in this Agreement for the benefit of the Initial Purchasers and any subsequent holder or holders of the Notes. The execution and delivery of this Agreement is a condition to the Initial Purchasers' obligation to purchase the Notes under the Purchase Agreement.

The parties hereby agree as follows:

1. Definitions

As used in this Agreement, the following terms shall have the following meanings:

Additional Interest: See Section 4(a) hereof.

Advice: See the last paragraph of Section 5 hereof.

Agreement: See the introductory paragraphs hereto.

Applicable Period: See Section 2(b) hereof.

Business Day: Any day that is not a Saturday, Sunday or a day on which banking institutions in New York or London, England are authorized or required by law to be closed.

Event Date: See Section 4 hereof.

Exchange Act: The Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

Exchange Effectiveness Deadline: The 365th day after the Issue Date.

Exchange Filing Date: The date on which the Issuer files the Exchange Offer Registration Statement with the SEC pursuant to Section 2 hereof.

Exchange Filing Deadline: The 90th day after the Issue Date.

/END

Exchange Notes: See Section 2(a) hereof.

Exchange Offer: See Section 2(a) hereof.

Exchange Offer Registration Statement: See Section 2(a) hereof.

Holder: Any holder of a Registrable Note or Registrable Notes.

Indenture: The Indenture, dated as of January 17, 2002, by and between the Issuer and Wells Fargo Bank Minnesota, National Association, as Trustee, pursuant to which the Notes are being issued, as amended or supplemented from time to time in accordance with the terms thereof.

Information: See Section 5(o) hereof.

Initial Purchasers: See the introductory paragraphs hereto.

Initial Shelf Registration: See Section 3(a) hereof.

Inspectors: See Section 5(o) hereof.

Issue Date: January 17, 2002, the date of original issuance of the Notes.

Issuer: See the introductory paragraphs hereto.

Judgment Currency: See Section 10(l) hereof.

NASD: See Section 5(s) hereof.

Notes: See the introductory paragraphs hereto.

Participant: See Section 7(a) hereof.

Participating Broker-Dealer: See Section 2(b) hereof.

Person: An individual, trustee, corporation, partnership, limited liability company, joint stock company, trust, unincorporated association, union, business association, firm or other legal entity.

Private Exchange: See Section 2(b) hereof.

Private Exchange Notes: See Section 2(b) hereof.

Prospectus: The prospectus included in any Registration Statement (including, without limitation, any prospectus subject to completion and a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A under the Securities Act, as amended or supplemented by any prospectus supplement, and all other amendments and supplements to the Prospectus, including post- effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

Purchase Agreement: See the introductory paragraphs hereof.

Records: See Section 5(o) hereof.

Registrable Notes: Each Note upon its original issuance and at all times

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subsequent thereto, each Exchange Note as to which Section 2(c)(iv) hereof is applicable upon original issuance and at all times subsequent thereto and each Private Exchange Note upon original issuance thereof and at all times subsequent thereto, until, in each case, the earliest to occur of (i) a Registration Statement (other than, with respect to any Exchange Note as to which Section 2(c)(iv) hereof is applicable, the Exchange Offer Registration Statement) covering such Note, Exchange Note or Private Exchange Note has been declared effective by the SEC and such Note, Exchange Note or such Private Exchange Note, as the case may be, has been disposed of in accordance with such effective Registration Statement, (ii) such Note has been exchanged pursuant to the Exchange Offer for an Exchange Note or Exchange Notes that may be resold without restriction under state and federal securities laws, (iii) such Note, Exchange Note or Private Exchange Note, as the case may be, ceases to be outstanding for purposes of the Indenture or (iv) such Note, Exchange Note or Private Exchange Note, as the case may be, is resold in compliance with Rule 144 (as amended or replaced) under the Securities Act or may be resold without restriction pursuant to Rule 144(k) (as amended or replaced) under the Securities Act.

Registration Statement: Any registration statement of the Issuer that covers any of the Notes, the Exchange Notes or the Private Exchange Notes filed with the SEC under the Securities Act, including the Prospectus, amendments and supplements to such registration statement, including post-effective amendments, all exhibits, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

Rule 144: Rule 144 under the Securities Act.

Rule 144A: Rule 144A under the Securities Act.

Rule 405: Rule 405 under the Securities Act.

Rule 415: Rule 415 under the Securities Act.

Rule 424: Rule 424 under the Securities Act.

SEC: The U.S. Securities and Exchange Commission.

Securities Act: The Securities Act of 1933, as amended, and the rules and regulations of the SEC promulgated thereunder.

Shelf Effectiveness Deadline: The Shelf Effectiveness Deadline shall be the 180th day after the delivery of a Shelf Notice; provided, that the Shelf Effectiveness Deadline shall be no earlier than that Exchange Effectiveness Deadline.

Shelf Effectiveness Period: See Section 3(a).

Shelf Filing Date: The date on which the Issuer files the Initial Shelf Registration with the SEC pursuant to Section 3 hereof.

Shelf Filing Deadline: The Shelf Filing Deadline shall be the 90th day after the delivery of a Shelf Notice.

Shelf Notice: See Section 2(c) hereof.

Shelf Registration: See Section 3(b) hereof.

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Shelf Registration Statement: Any Registration Statement relating to a Shelf Registration.

Subsequent Shelf Registration: See Section 3(b) hereof.

TIA: The Trust Indenture Act of 1939, as amended.

Trustee: The trustee under the Indenture and the trustee (if any) under any indenture governing the Exchange Notes and Private Exchange Notes.

Underwritten registration or underwritten offering: A registration in which securities of the Issuer are sold to an underwriter for reoffering to the public.

Except as otherwise specifically provided, all references in this Agreement to acts, laws, statutes, rules, regulations, releases, forms, no-action letters and other regulatory requirements (collectively, "Regulatory Requirements") shall be deemed to refer also to any amendments thereto and all subsequent Regulatory Requirements adopted as a replacement thereto having substantially the same effect therewith; provided that Rule 144 shall not be deemed to amend or replace Rule 144A.

2. Exchange Offer

(a) Unless the Exchange Offer would violate applicable law or any applicable interpretation of the staff of the SEC, the Issuer shall use its reasonable best efforts to file with the SEC, no later than the Exchange Filing Deadline, a Registration Statement (the "Exchange Offer Registration Statement") on an appropriate registration form with respect to a registered offer (the "Exchange Offer") to exchange any and all of the Registrable Notes for a like aggregate principal amount of debt securities of the Issuer (the "Exchange Notes") that are identical in all material respects to the Notes, except that (i) the Exchange Notes shall have been registered, contain no restrictive legend thereon and, other than with respect to an Exchange Note as to which Section 2(c)(iv) hereof is applicable, do not contain any provisions relating to the Additional Interest and (ii) interest thereon shall accrue from the last date on which interest was paid on the Notes or, if no such interest has been paid, from the Issue Date, and which are entitled to the benefits of the Indenture or a trust indenture which is identical in all material respects to the Indenture (other than such changes to the Indenture or any such identical trust indenture as are necessary to comply with the TIA) and which, in either case, has been qualified under the TIA. The Exchange Offer shall comply with all applicable tender offer rules and regulations under the Exchange Act and other applicable laws. The Issuer shall use its reasonable best efforts to (x) cause the Exchange Offer Registration Statement to be declared effective under the Securities Act on or before the Exchange Effectiveness Deadline; (y) keep the Exchange Offer open for at least 20 Business Days (or longer if required by applicable law) after the date that notice of the Exchange Offer is mailed to Holders; and (z) consummate the Exchange Offer no later than the 395th day following the Issue Date. Notwithstanding anything to the contrary in this Agreement, at any time, the Issuer may delay the filing of the Exchange Offer Registration Statement or delay or suspend the effectiveness thereof, for a reasonable period of time, but not in excess of 45 days in any consecutive twelve-month period, if the Board of Directors of the Issuer determine reasonably and in good faith that the filing of any such Exchange Offer Registration Statement

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or the continuing effectiveness thereof would require the disclosure of non-public material information that, in the reasonable judgment of the Board of Directors of the Issuer, would be detrimental to the Issuer if so disclosed or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction. For the avoidance of doubt, notwithstanding the prior sentence, the Issuer shall remain obligated to pay Additional Interest if and when required by Section 4 of this Agreement.

Each Holder (including, without limitation, each Participating Broker-Dealer) who participates in the Exchange Offer will be required, as a condition to its participation in the Exchange Offer, to represent to the Issuer in writing (which may be contained in the applicable letter of transmittal) that: (i) any Exchange Notes acquired in exchange for Registrable Notes tendered are being acquired in the ordinary course of its business; (ii) at the time of the commencement or consummation of the Exchange Offer neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder has an arrangement or understanding with any Person to participate in the distribution of the Exchange Notes in violation of the provisions of the Securities Act; (iii) neither the Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder is an "affiliate" (as defined in Rule 405) of the Issuer or, if it is an affiliate of the Issuer, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable and will provide information to be included in the Shelf Registration Statement in accordance with Section 5 hereof in order to have its Notes included in the Shelf Registration Statement and benefit from the provisions regarding Additional Interest in Section 4 hereof; (iv) neither such Holder nor, to the actual knowledge of such Holder, any other Person receiving Exchange Notes from such Holder is engaging in or intends to engage in a distribution of the Exchange Notes; and (v) if such Holder is a Participating Broker-Dealer, such Holder has acquired the Registrable Notes as a result of market-making activities or other trading activities and that it will comply with the applicable provisions of the Securities Act (including, but not limited to, the prospectus delivery requirements thereunder).

Upon consummation of the Exchange Offer in accordance with this Section 2, the provisions of this Agreement shall continue to apply, mutatis mutandis, solely with respect to Registrable Notes that are Private Exchange Notes, Exchange Notes as to which Section 2(c)(iv) is applicable and Exchange Notes held by Participating Broker-Dealers, and the Issuer shall have no further obligation to register Registrable Notes (other than Private Exchange Notes and Exchange Notes as to which clause 2(c)(iv) hereof applies) pursuant to Section 3 hereof.

No securities other than the Exchange Notes shall be included in the Exchange Offer Registration Statement.

(b) The Issuer shall include within the Prospectus contained in the Exchange Offer Registration Statement a section entitled "Plan of Distribution," reasonably acceptable to the Initial Purchasers, which shall contain a summary statement of the positions taken or policies made by the staff of the SEC with respect to the potential "underwriter" status of any broker-dealer that is the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of Exchange Notes received by such broker-dealer in the Exchange Offer (a "Participating Broker-Dealer"), which have been publicly

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disseminated by the staff of the SEC. Such "Plan of Distribution" section shall also expressly permit, to the extent permitted by applicable policies and regulations of the SEC, the use of the Prospectus by all Persons subject to the prospectus delivery requirements of the Securities Act, including, to the extent permitted by applicable policies and regulations of the SEC, all Participating Broker-Dealers, and include a statement describing the means by which Participating Broker-Dealers may resell the Exchange Notes in compliance with the Securities Act.

The Issuer shall use its reasonable best efforts to keep the Exchange Offer Registration Statement effective and to amend and supplement the Prospectus contained therein in order to permit such Prospectus to be lawfully delivered by all Persons subject to the prospectus delivery requirements of the Securities Act, in each case, for such period of time as is necessary to comply with applicable law in connection with any resale of the Exchange Notes; provided, however, that such period shall not be required to exceed 90 days after such Exchange Offer Registration Statement is declared effective by the SEC or such longer period if extended pursuant to the last paragraph of Section 5 hereof (the "Applicable Period").

If, prior to consummation of the Exchange Offer, the Initial Purchasers hold any Notes acquired by them that have the status of an unsold allotment in the initial distribution, the Issuer upon the request of the Initial Purchasers shall simultaneously with the delivery of the Exchange Notes issue and deliver to the Initial Purchasers, in exchange (the "Private Exchange") for such Notes held by any such Holder, a like principal amount of notes (the "Private Exchange Notes") of the Issuer that are identical in all material respects to the Exchange Notes except for the placement of a restrictive legend on such Private Exchange Notes. The Private Exchange Notes shall be issued pursuant to the same indenture as the Exchange Notes. The Issuer shall use its reasonable best efforts to cause the Private Exchange Notes to bear the same ISIN and/or Common Code number as the Exchange Notes.

In connection with the Exchange Offer, the Issuer shall:

(1) mail, or cause to be mailed, to each Holder of record entitled to participate in the Exchange Offer a copy of the Prospectus forming part of the Exchange Offer Registration Statement, together with an appropriate letter of transmittal and related documents;

(2) use its reasonable best efforts to keep the Exchange Offer open for not less than 20 Business Days after the date that notice of the Exchange Offer is mailed to Holders (or longer if required by applicable law);

(3) utilize the services of a depositary for the Exchange Offer with an address in the Borough of Manhattan, The City of New York and/or London England;

(4) permit Holders to withdraw tendered Notes at any time prior to the close of business, New York time, on the last Business Day on which the Exchange Offer remains open; and

(5) otherwise comply in all material respects with all applicable laws, rules and regulations.

As soon as practicable after the close of the Exchange Offer and the Private

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Exchange, if any, the Issuer shall:

(1) accept for exchange all Registrable Notes validly tendered and not validly withdrawn pursuant to the Exchange Offer and the Private Exchange, if any;

(2) deliver to the Trustee for cancellation all Registrable Notes so accepted for exchange; and

(3) cause the Trustee to authenticate and deliver promptly to each Holder of Notes, Exchange Notes or Private Exchange Notes, as the case may be, equal in principal amount to the Notes of such Holder so accepted for exchange; provided that, in the case of any Notes held in global form by a depositary, authentication and delivery to such depositary of one or more replacement Notes in global form in an equivalent principal amount thereto for the account of such Holders in accordance with the Indenture shall satisfy such authentication and delivery requirement.

The Exchange Offer and the Private Exchange shall not be subject to any conditions, other than that (i) the Exchange Offer or Private Exchange, as the case may be, does not violate applicable law or any applicable interpretation of the staff of the SEC; (ii) no action or proceeding shall have been instituted or threatened in any court or by any governmental agency which might materially impair the ability of the Issuer to proceed with the Exchange Offer or the Private Exchange, and no material adverse development shall have occurred in any existing action or proceeding with respect to the Issuer; and (iii) all governmental approvals shall have been obtained, which approvals the Issuer deems necessary for the consummation of the Exchange Offer or Private Exchange.

The Exchange Notes and the Private Exchange Notes shall be issued under (i) the Indenture or (ii) an indenture identical in all material respects to the Indenture and which, in either case, has been qualified under the TIA or is exempt from such qualification and shall provide that the Exchange Notes shall not be subject to the transfer restrictions set forth in the Indenture. The Indenture or such indenture shall provide that the Exchange Notes, the Private Exchange Notes and the Notes shall vote and consent together on all matters as one class and that none of the Exchange Notes, the Private Exchange Notes or the Notes will have the right to vote or consent as a separate class on any matter.

(c) If (i) because of any change in law or in currently prevailing interpretations of the staff of the SEC, the Issuer is not permitted to effect the Exchange Offer, (ii) the Exchange Offer with respect to Notes validly tendered is not consummated within 395 days after the Issue Date, (iii) the Initial Purchasers or any holder of Private Exchange Notes so requests in writing to the Issuer at any time within 60 days after the consummation of the Exchange Offer, or (iv) in the case of any Holder that participates in the Exchange Offer, such Holder does not receive Exchange Notes on the date of the exchange that may be sold without restriction under state and federal securities laws (other than due solely to the status of such Holder as an affiliate of the Issuer within the meaning of the Securities Act) and so notifies the Issuer within 30 days after such Holder first becomes aware of such restrictions, in the case of each of clauses (i) to and including (iv) of this sentence, then the Issuer shall promptly deliver to the Holders and the Trustee written notice thereof (the "Shelf

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Notice") and shall file a Shelf Registration pursuant to Section 3 hereof.

3. Shelf Registration

If at any time a Shelf Notice is delivered as contemplated by Section 2(c) hereof, then:

(a) Shelf Registration. The Issuer shall as promptly as practicable after the date of the Shelf Notice but in any case no later than the Shelf Filing Deadline use its reasonable best efforts to file with the SEC a Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 covering all of the Registrable Notes (the "Initial Shelf Registration"). The Initial Shelf Registration shall be on Form S-1 or another appropriate form permitting registration of such Registrable Notes for resale by Holders in the manner or manners designated by them (including, without limitation, one or more underwritten offerings). The Issuer shall not permit any securities other than the Registrable Notes to be included in the Initial Shelf Registration or any Subsequent Shelf Registration (as defined below).

The Issuer shall use its reasonable best efforts to cause the Initial Shelf Registration to be declared effective under the Securities Act on or prior to the Shelf Effectiveness Deadline and to keep the Initial Shelf Registration continuously effective under the Securities Act until the date that is two years from the Issue Date or such shorter period ending when all Registrable Notes covered by the Initial Shelf Registration have been sold in the manner set forth and as contemplated in the Initial Shelf Registration or, if applicable, a Subsequent Shelf Registration (the "Shelf Effectiveness Period"); provided, however, that the Shelf Effectiveness Period in respect of the Initial Shelf Registration shall be extended to the extent required to permit dealers to comply with the applicable prospectus delivery requirements of Rule 174 under the Securities Act and as otherwise provided herein and shall be subject to reduction to the extent that the applicable provisions of Rule 144(k) are amended or revised to reduce the two year holding period set forth therein. Notwithstanding anything to the contrary in this Agreement, at any time, the Issuer may delay the filing of any Initial Shelf Registration Statement or delay or suspend the effectiveness thereof, for a reasonable period of time, but not in excess of an aggregate of 90 days in any consecutive twelve month period (a "Shelf Suspension Period"), if the Board of Directors of the Issuer determine reasonably and in good faith that the filing of any such Initial Shelf Registration Statement or the continuing effectiveness thereof would require the disclosure of non-public material information that, in the reasonable judgment of the Board of Directors of the Issuer, would be detrimental to the Issuer if so disclosed or would otherwise materially adversely affect a financing, acquisition, disposition, merger or other material transaction.

(b) Withdrawal of Stop Orders; Subsequent Shelf Registrations. If the Initial Shelf Registration or any Subsequent Shelf Registration ceases to be effective for any reason at any time during the Shelf Effectiveness Period (other than because of the sale of all of the Notes registered thereunder), the Issuer shall use its reasonable best efforts to obtain the prompt withdrawal of any order suspending the effectiveness thereof, and in any event shall within 45 days of such cessation of effectiveness use its reasonable best efforts to amend such Shelf Registration Statement in a manner to obtain the withdrawal of the order suspending the effectiveness thereof, or use its reasonable best efforts to file an additional Shelf

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Registration Statement pursuant to Rule 415 covering all of the Registrable Notes covered by and not sold under the Initial Shelf Registration or an earlier Subsequent Shelf Registration (each, a "Subsequent Shelf Registration"). If a Subsequent Shelf Registration is filed, the Issuer shall use its reasonable best efforts to cause the Subsequent Shelf Registration to be declared effective under the Securities Act as soon as practicable after such filing and to keep such subsequent Shelf Registration continuously effective for a period equal to the number of days in the Shelf Effectiveness Period less the aggregate number of days during which the Initial Shelf Registration or any Subsequent Shelf Registration was previously continuously effective. As used herein the term "Shelf Registration" means the Initial Shelf Registration and any Subsequent Shelf Registration.

(c) Supplements and Amendments. The Issuer shall promptly supplement and amend the Shelf Registration if required by the rules, regulations or instructions applicable to the registration form used for such Shelf Registration, if required by the Securities Act, or if reasonably requested by the Holders of a majority in aggregate principal amount of the Registrable Notes (or their counsel) covered by such Registration Statement with respect to the information included therein with respect to one or more of such Holders, or if reasonably requested by any underwriter of such Registrable Notes with respect to the information included therein with respect to such underwriter.

4. Additional Interest

(a) The Issuer and the Initial Purchasers agree that the Holders will suffer damages if the Issuer fails to fulfill its obligations under Section 2 or Section 3 hereof and that it would not be feasible to ascertain the extent of such damages with precision. Accordingly, the Issuer agrees to pay, as liquidated damages, additional interest on the Notes ("Additional Interest") under the circumstances and to the extent set forth below (each of which shall be given independent effect):

(i) if (A) the Exchange Offer Registration Statement has not been filed on or prior to the Exchange Filing Deadline or (B) the Issuer is required to file the Initial Shelf Registration Statement and such Initial Shelf Registration Statement has not been filed on or before the Shelf Filing Deadline, then commencing on the day after (x) the Exchange Filing Deadline in the case of clause (A), and (y) the Shelf Filing Deadline in the case of clause (B), Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days immediately following the Exchange Filing Deadline or the Shelf Filing Deadline, as the case may be, and such Additional Interest rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(ii) if (A) the Exchange Offer Registration Statement has not been declared effective by the SEC on or prior to the Exchange Effectiveness Deadline or (B) the Issuer is required to file the Initial Shelf Registration Statement and such Initial Shelf Registration Statement has not been declared effective by the SEC on or prior to the Shelf Effectiveness Deadline, then commencing on the day after (x) the Exchange Effectiveness Deadline in the case of clause (A), and (y) the Shelf Effectiveness Deadline in the case of clause (B), Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days immediately following the day

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after the Exchange Effectiveness Deadline or the Shelf Effectiveness Deadline, as the case may be, and such Additional Interest rate shall increase by an additional 0.25% per annum at the beginning of each subsequent 90-day period; or

(iii) if (A) the Issuer has not exchanged Exchange Notes for all Notes validly tendered in accordance with the terms of the Exchange Offer on or prior to the 395th day after the Issue Date or (B) if applicable, a Shelf Registration has been declared effective and such Shelf Registration ceases to be effective at any time during the Shelf Effectiveness Period, then Additional Interest shall accrue on the principal amount of the Notes at a rate of 0.25% per annum for the first 90 days commencing on the (x) 395th day after the Issue Date, in the case of (A) above, or (y) the day such Shelf Registration ceases to be effective in the case of (B) above, and such Additional Interest rate shall increase by an additional 0.25% per annum at the beginning of each such subsequent 90-day period;

provided, however, that the Additional Interest rate on the Notes may not accrue under more than one of the foregoing clauses (i) - (iii) at any one time and at no time shall the aggregate amount of additional interest accruing exceed in the aggregate 0.50% per annum; provided, further, however, that (1) upon the filing of the applicable Exchange Offer Registration Statement or the Initial Shelf Registration as required hereunder (in the case of clause (i) above of this Section 4(a)), (2) upon the effectiveness of the Exchange Offer Registration Statement or the Initial Shelf Registration Statement as required hereunder (in the case of clause (ii) of this Section 4(a)), or (3) upon the exchange of the Exchange Notes for all Notes tendered (in the case of clause (iii)(A) of this Section 4(a)), or upon the effectiveness of the applicable Shelf Registration Statement which had ceased to remain effective or upon the effectiveness of a Subsequent Shelf Registration Statement, as the case may be, (in the case of (iii)(B) of this Section 4(a)), Additional Interest on the Notes in respect of which such events relate as a result of such clause (or the relevant subclause thereof, as the case may be) shall cease to accrue. Upon the occurrence of the events described in Section 4(a)(i), 4(a)(ii) or 4(a)(iii), so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, the Company shall provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) describing such event giving rise to the obligation to pay liquidated damages. Notwithstanding any other provision of this Section 4, the Issuer shall not be obligated to pay Additional Interest provided in Sections 4(a)(i)(B), 4(a)(ii)(B) or 4(a)(iii)(B) during a Shelf Suspension Period permitted by this Agreement.

(b) The Issuer shall notify the Trustee within two Business Days after each and every date on which an event occurs in respect of which Additional Interest is required to be paid (an "Event Date"). Any amounts of Additional Interest due pursuant to clause (a)(i), (a)(ii) or (a)(iii) of this Section 4 will be payable in cash semiannually on each January 15 and July 15 (to the Holders of record on the January 1 and July 1 immediately preceding such dates), commencing with the first such date occurring after any such Additional Interest commences to accrue. The amount of Additional Interest will be determined by multiplying the applicable Additional Interest rate by the principal amount of the Registrable Notes, multiplied by a fraction, the numerator of which is the number of days such Additional Interest rate was applicable during such period (determined on the basis of a 360 day year

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comprised of twelve 30 day months and, in the case of a partial month, the actual number of days elapsed), and the denominator of which is 360.

5. Registration Procedures

In connection with the filing of any Registration Statement pursuant to Section 2 or 3 hereof, the Issuer shall use its reasonable best efforts to effect such registrations to permit the sale of the securities covered thereby in accordance with the intended method or methods of disposition thereof, and pursuant thereto and in connection with any Registration Statement filed by the Issuer hereunder the Issuer shall use its reasonable best efforts to:

(a) Prepare and file with the SEC prior to the applicable filing date a Registration Statement or Registration Statements as prescribed by Section 2 or 3 hereof, and to cause each such Registration Statement to become effective and remain effective as provided herein; provided, however, that if (1) such filing is pursuant to Section 3 hereof or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Issuer has received written notice that it will be a Participating Broker-Dealer in the Exchange Offer, then before filing any Shelf Registration Statement or Prospectus or any amendments or supplements thereto (not including documents that would be incorporated or deemed to be incorporated therein by reference), the Issuer shall furnish to and afford the Holders of the Registrable Notes covered by such Shelf Registration Statement (with respect to a Registration Statement filed pursuant to Section 3 hereof) or each such Participating Broker-Dealer (with respect to any such Exchange Offer Registration Statement), as the case may be, their counsel and the managing underwriters, if any, a reasonable opportunity to review copies of all such documents (including copies of any documents to be incorporated by reference therein and all exhibits thereto) proposed to be filed (in each case at least two Business Days prior to such filing), and the Holders of the Registrable Notes covered by such Shelf Registration Statement and such Participating Broker-Dealers, as the case may be, shall have the opportunity to object to any information pertaining to such Persons and their plan of distribution that is contained therein and the Issuer will make the corrections reasonably requested by such Persons prior to filing any such Registration Statement, Prospectus or any amendment or supplement thereto; provided, however, that the Issuer shall not be required to afford any such Person an opportunity to review a copy of any amendments or supplements to such Shelf Registration Statement or Prospectus which are made solely as a result of any filing by the Issuer of reports required to be filed pursuant to the Exchange Act.

(b) Prepare and file with the SEC such amendments and post-effective amendments to each Shelf Registration Statement or Exchange Offer Registration Statement, as the case may be, as may be necessary to keep such Registration Statement continuously effective for the Shelf Effectiveness Period, the Applicable Period or until consummation of the Exchange Offer, as the case may be; cause the related Prospectus to be supplemented by any prospectus supplement required by applicable law, and as so supplemented to be filed pursuant to Rule 424; and comply with the provisions of the Securities Act and the Exchange Act applicable to it with respect to the disposition of all securities covered by such Registration Statement as so amended or in such Prospectus as so supplemented and with respect to the

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subsequent resale of any securities being sold by an Participating Broker-Dealer covered by any such Prospectus. The Issuer shall be deemed not to have used its reasonable best efforts to keep a Registration Statement effective if the Issuer voluntarily takes any action that would result in selling Holders of the Registrable Notes covered thereby or Participating Broker- Dealers seeking to sell Exchange Notes not being able to sell such Registrable Notes or such Exchange Notes during that period unless such action is required by applicable law or permitted by this Agreement.

(c) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period relating thereto from whom the Issuer has received written notice that it will be a Participating Broker-Dealer in the Exchange Offer, then notify the selling Holders of Registrable Notes (with respect to such Shelf Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their counsel and the managing underwriters, if any, promptly (but in any event within two Business Days after becoming aware thereof), and confirm such notice in writing, (i) when a Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to a Registration Statement or any post-effective amendment, when the same has become effective under the Securities Act (including in such notice a written statement that any Holder may, upon request, obtain, at the sole expense of the Issuer, one conformed copy of such Registration Statement or post-effective amendment including financial statements and schedules, documents incorporated or deemed to be incorporated by reference and exhibits), (ii) of the issuance by the SEC of any stop order suspending the effectiveness of such Registration Statement or of any order preventing or suspending the use of any preliminary prospectus or the initiation of any proceedings for that purpose, (iii) if at any time when a prospectus is required by the Securities Act to be delivered in connection with sales of the Registrable Notes or resales of Exchange Notes by Participating Broker-Dealers the representations and warranties of the Issuer contained in any agreement (including any underwriting agreement) contemplated by Section 5(n) hereof cease to be true and correct, (iv) of the receipt by the Issuer of any notification with respect to the suspension of the qualification or exemption from qualification of such Registration Statement or any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer for offer or sale in any jurisdiction, or the initiation or threatening of any proceeding for such purpose, (v) of the happening of any event, the existence of any condition or any information becoming known that makes any statement made in such Registration Statement or related Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires the making of any changes in or amendments or supplements to such Registration Statement, Prospectus or documents so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and (vi) of the Issuer's determination that a post-effective amendment to a Registration Statement would be appropriate.

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(d) Prevent the issuance of any order suspending the effectiveness of a Registration Statement or of any order preventing or suspending the use of a Prospectus or suspending the qualification (or exemption from qualification) of any of the Registrable Notes or the Exchange Notes to be sold by any Participating Broker-Dealer, for sale in any jurisdiction, and, if any such order is issued, to obtain the withdrawal of any such order at the earliest practicable moment.

(e) If a Shelf Registration Statement is filed pursuant to Section 3 and if requested during the Effectiveness Period by the managing underwriter or underwriters (if any), the Holders of a majority in aggregate principal amount of the Registrable Notes being sold in connection with an underwritten offering or any Participating Broker-Dealer, (i) as promptly as practicable incorporate in a prospectus supplement or post-effective amendment such information as the managing underwriter or underwriters (if any), such Holders, any Participating Broker-Dealer or counsel for any of them reasonably requests to be included therein, (ii) make all required filings of such prospectus supplement or such post-effective amendment as soon as practicable after the Issuer has received notification of the matters to be incorporated in such prospectus supplement or post-effective amendment, and (iii) supplement or make amendments to such Registration Statement.

(f) If (1) a Shelf Registration Statement is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, furnish to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof) and to each such Participating Broker-Dealer who so requests (with respect to any such Registration Statement) and to their respective counsel and each managing underwriter, if any, at the sole expense of the Issuer, one conformed copy of the Registration Statement or Registration Statements and each post-effective amendment thereto, including financial statements and schedules, and, if requested, all documents incorporated or deemed to be incorporated therein by reference and all exhibits.

(g) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, deliver to each selling Holder of Registrable Notes (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, their respective counsel, and the underwriters, if any, at the sole expense of the Issuer, as many copies of the Prospectus or Prospectuses (including each form of preliminary prospectus) and each amendment or supplement thereto and any documents incorporated by reference therein as such Persons may reasonably request; and, subject to the last paragraph of this Section 5, the Issuer hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, and the underwriters or agents, if any, and dealers, if any, in connection with the offering and sale of the Registrable Notes covered by, or the sale by Participating Broker-Dealers of the Exchange Notes pursuant to, such

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Prospectus and any amendment or supplement thereto.

(h) Prior to any public offering of Registrable Notes pursuant to a Shelf Registration Statement or any delivery of a Prospectus contained in the Exchange Offer Registration Statement by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, to register or qualify, and to cooperate with the selling Holders of Registrable Notes or each such Participating Broker-Dealer, as the case may be, the managing underwriter or underwriters, if any, and their respective counsel in connection with the registration or qualification (or exemption from such registration or qualification) of such Registrable Notes for offer and sale under the securities or Blue Sky laws of such jurisdictions within the United States as any selling Holder, Participating Broker-Dealer, or the managing underwriter or underwriters reasonably request in writing; provided, however, that where Exchange Notes held by Participating Broker-Dealers or Registrable Notes are offered other than through an underwritten offering, the Issuer agrees to cause its counsel to perform Blue Sky investigations and file registrations and qualifications required to be filed pursuant to this Section 5(h), keep each such registration or qualification (or exemption therefrom) effective during the period such Registration Statement is required to be kept effective and do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Exchange Notes held by Participating Broker-Dealers or the Registrable Notes covered by the applicable Registration Statement; provided, however, that the Issuer shall not be required to (A) qualify generally to do business in any jurisdiction where it is not then so qualified, (B) take any action that would subject it to general service of process in any such jurisdiction where it is not then so subject or (C) subject itself to taxation in excess of a nominal dollar amount in any such jurisdiction where it is not then so subject.

(i) If a Shelf Registration is filed pursuant to Section 3 hereof, cooperate with the selling Holders of Registrable Notes and the managing underwriter or underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Notes to be sold, which certificates shall not bear any restrictive legends and shall be in a form eligible for deposit with the Euroclear System, as operated by Euroclear Bank S.A./N.V. ("Euroclear") or Clearstream Banking, S.A. ("Clearstream"); and enable such Registrable Notes to be in such denominations (subject to applicable requirements contained in the Indenture) and registered in such names as the managing underwriter or underwriters, if any, or Holders may request.

(j) Cause the Registrable Notes covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be necessary to enable the seller or sellers thereof or the underwriter or underwriters, if any, to consummate the disposition of such Registrable Notes, except as may be required solely as a consequence of the nature of such selling Holder's business, in which case the Issuer will cooperate in all reasonable respects with the filing of such Registration Statement and the granting of such approvals.

(k) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, upon the occurrence of any event

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contemplated by paragraph 5(c)(v) or 5(c)(vi) hereof, as promptly as practicable prepare and (subject to Section 5(a) hereof) file with the SEC, at the sole expense of the Issuer, a supplement or post-effective amendment to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Notes being sold thereunder (with respect to a Registration Statement filed pursuant to Section 3 hereof) or to the purchasers of the Exchange Notes to whom such Prospectus will be delivered by a Participating Broker-Dealer (with respect to any such Registration Statement), any such Prospectus will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(l) Cause the Registrable Notes covered by a Registration Statement or the Exchange Notes, as the case may be, to be rated with the appropriate rating agencies, if so requested by the Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement or the Exchange Notes, as the case may be, or the managing underwriter or underwriters, if any.

(m) Prior to the effective date of the first Registration Statement relating to the Registrable Notes, (i) provide the Trustee with certificates for the Registrable Notes in a form eligible for deposit with Euroclear or Clearstream and (ii) provide an ISIN and/or Common Code number for the Registrable Notes.

(n) In connection with any underwritten offering of Registrable Notes pursuant to a Shelf Registration, enter into an underwriting agreement as is customary in underwritten offerings of debt securities similar to the Notes, and take all such other actions as are reasonably requested by the managing underwriter or underwriters in order to expedite or facilitate the registration or the disposition of such Registrable Notes and, in such connection, (i) make such representations and warranties to, and covenants with, the underwriters with respect to the business of the Issuer (including any acquired business, properties or entity, if applicable), and the Registration Statement, Prospectus and documents, if any, incorporated or deemed to be incorporated by reference therein, in each case, as are customarily made by issuers to underwriters in underwritten offerings of debt securities similar to the Notes, and confirm the same in writing if and when requested; (ii) obtain the written opinions of counsel to the Issuer, and written updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters, addressed to the underwriters covering the matters customarily covered in opinions reasonably requested in underwritten offerings; (iii) obtain "cold comfort" letters and updates thereof in form, scope and substance reasonably satisfactory to the managing underwriter or underwriters from the independent certified public accountants of the Issuer (and, if necessary, any other independent certified public accountants of the Issuer, or of any business acquired by the Issuer, for which financial statements and financial data are, or are required to be, included or incorporated by reference in the Registration Statement), addressed to each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with underwritten offerings of debt securities similar to the Notes; and (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to

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the sellers and underwriters, if any, than those set forth in Section 7 hereof (or such other provisions and procedures reasonably acceptable to Holders of a majority in aggregate principal amount of Registrable Notes covered by such Registration Statement and the managing underwriter or underwriters or agents, if any). The above shall be done at each closing under such underwriting agreement, or as and to the extent required thereunder.

(o) If (1) a Shelf Registration is filed pursuant to Section 3 hereof, or (2) a Prospectus contained in the Exchange Offer Registration Statement filed pursuant to Section 2 hereof is required to be delivered under the Securities Act by any Participating Broker-Dealer who seeks to sell Exchange Notes during the Applicable Period, make available for inspection by any Initial Purchaser, any selling Holder of such Registrable Notes being sold (with respect to a Registration Statement filed pursuant to Section 3 hereof), or each such Participating Broker-Dealer, as the case may be, any underwriter participating in any such disposition of Registrable Notes, if any, and any attorney, accountant or other agent retained by any such selling Holder or each such Participating Broker-Dealer (with respect to any such Registration Statement), as the case may be, or underwriter (any such Initial Purchasers, Holders, Participating Broker-Dealers, underwriters, attorneys, accountants or agents, collectively, the "Inspectors"), upon written request, at the offices where normally kept, during reasonable business hours, all pertinent financial and other records, pertinent corporate documents and instruments of the Issuer and subsidiaries of the Issuer (collectively, the "Records"), as shall be reasonably necessary to enable them to exercise any applicable due diligence responsibilities, and cause the officers, directors and employees of the Issuer and any of its subsidiaries to supply all information ("Information") reasonably requested by any such Inspector in connection with such due diligence responsibilities. Each Inspector shall agree in writing that it will keep the Records and Information confidential and that it will not disclose any of the Records or Information that the Issuer determines, in good faith, to be confidential and notifies the Inspectors in writing are confidential unless (i) the disclosure of such Records or Information is necessary to avoid or correct a misstatement or omission in such Registration Statement or Prospectus, (ii) the release of such Records or Information is ordered pursuant to a subpoena or other order from a court of competent jurisdiction, (iii) disclosure of such Records or Information is necessary or advisable, in the opinion of counsel for any Inspector, in connection with any action, claim, suit or proceeding, directly or indirectly, involving or potentially involving such Inspector and arising out of, based upon, relating to, or involving this Agreement or the Purchase Agreement, or any transactions contemplated hereby or thereby or arising hereunder or thereunder, or (iv) the information in such Records or Information has been made generally available to the public other than as a result of a disclosure or failure to safeguard by such Inspector or an "affiliate" (as defined in Rule 405) thereof; provided, however, that prior notice shall be provided as soon as practicable to the Issuer of the potential disclosure of any information by such Inspector pursuant to clauses (i) or (ii) of this sentence to permit the Issuer to obtain a protective order (or waive the provisions of this paragraph (o)) and that such Inspector shall take such actions as are reasonably necessary to protect the confidentiality of such information (if practicable) to the extent such action is otherwise not inconsistent with, an impairment of or in derogation of the rights and interests of the Holder or any Inspector.

(p) Provide an indenture trustee for the Registrable Notes or the

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Exchange Notes, as the case may be, and cause the Indenture or the trust indenture provided for in Section 2(a) hereof, as the case may be, to be qualified under the TIA not later than the effective date of the first Registration Statement relating to the Registrable Notes; and in connection therewith, cooperate with the trustee under any such indenture and the Holders of the Registrable Notes, to effect such changes (if any) to such indenture as may be required for such indenture to be so qualified in accordance with the terms of the TIA; and execute, and use its reasonable best efforts to cause such trustee to execute, all documents as may be required to effect such changes, and all other forms and documents required to be filed with the SEC to enable such indenture to be so qualified in a timely manner.

(q) Comply with all applicable rules and regulations of the SEC and make generally available to its securityholders with regard to any applicable Registration Statement, a consolidated earnings statement satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder (or any similar rule promulgated under the Securities Act) no later than 45 days after the end of any fiscal quarter (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Notes are sold to underwriters in a firm commitment or best efforts underwritten offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company, after the effective date of a Registration Statement, which statements shall cover said 12-month periods.

(r) Upon consummation of the Exchange Offer or a Private Exchange, obtain an opinion of counsel to the Issuer, in a form customary for underwritten transactions, addressed to the Trustee for the benefit of all Holders of Registrable Notes participating in the Exchange Offer or the Private Exchange, as the case may be, that the Exchange Notes or Private Exchange Notes, as the case may be, and the related indenture constitute legal, valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms, subject to customary exceptions and qualifications. If the Exchange Offer or a Private Exchange is to be consummated, upon delivery of the Registrable Notes by Holders to the Company (or to such other Person as directed by the Company), in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be, the Issuer shall mark, or cause to be marked, on such Registrable Notes that such Registrable Notes are being cancelled in exchange for the Exchange Notes or the Private Exchange Notes, as the case may be; in no event shall such Registrable Notes be marked as paid or otherwise satisfied.

(s) Cooperate with each seller of Registrable Notes covered by any Registration Statement and each underwriter, if any, participating in the disposition of such Registrable Notes and their respective counsel in connection with any filings required to be made with the National Association of Securities Dealers, Inc. (the "NASD").

(t) Take all other steps necessary to effect the registration of the Exchange Notes and/or Registrable Notes covered by a Registration Statement contemplated hereby.

(u) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, notify the Luxembourg Stock Exchange in the case of any increase in the rate of interest on the securities and publish a notice regarding any increase in the rate of

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interest on the Notes in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort).

(v) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the terms and effectiveness of the Exchange Offer Registration Statement.

(w) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, prior to the Exchange Offer, (i) notify the Luxembourg Stock Exchange of its intention to commence the Exchange Offer; (ii) provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the procedures to be followed in connection with the Exchange Offer; (iii) notify the Luxembourg Stock Exchange of the results of the Exchange Offer; and (iv) provide a notice in a leading newspaper having general circulation in Luxembourg (which is expected to be the Luxemburg Wort) indicating the results of the Exchange Offer.

(x) So long as the Notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so require, in the event that definitive Exchange Notes are to be issued to the Holders in connection with the Exchange Offer, (i) make copies of the Exchange Offer documentation available to the Holders at the specified offices of the applicable paying and transfer agent in Luxembourg and conduct any Exchange Offer in accordance with the terms and procedures set forth in such Exchange Offer documentation and (ii) appoint an exchange agent in Luxembourg where the Holders of the definitive Notes will be able to tender for exchange their definitive Notes.

The Issuer may require each seller of Registrable Notes as to which any registration is being effected to furnish to the Issuer such information regarding such seller and the distribution of such Registrable Notes as the Issuer may, from time to time, reasonably request. The Issuer may exclude from such registration the Registrable Notes of any seller so long as such seller fails to furnish such information within a reasonable time after receiving such request. Notwithstanding Section 4, such seller shall not be entitled to Additional Interest with respect to their Registrable Notes solely by reason of such seller's failure to furnish such information. Each seller as to which any Shelf Registration is being effected agrees to furnish promptly to the Issuer all information required to be disclosed in order to make the information previously furnished to the Issuer by such seller not materially misleading.

If any such Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (i) the insertion therein of language, in form and substance reasonably satisfactory to such Holder, to the effect that the holding by such Holder of such securities is not to be construed as a recommendation by such Holder of the investment quality of the securities covered thereby and that such holding does not imply that such Holder will assist in meeting any future financial requirements of the Company, or (ii) in the event that such reference to such Holder by name or otherwise is not required by the Securities Act or any similar federal statute then in force, the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

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Each Holder of Registrable Notes and each Participating Broker-Dealer agrees by its acquisition of such Registrable Notes or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, that, upon actual receipt of any notice from the Company of the happening of any event of the kind described in Section 5(c)(ii), 5(c)(iv), 5(c)(v), or 5(c)(vi) hereof, such Holder will forthwith discontinue disposition of such Registrable Notes covered by such Registration Statement or Prospectus or Exchange Notes to be sold by such Holder or Participating Broker-Dealer, as the case may be, until such Holder's or Participating Broker-Dealer's receipt of the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof, or until it is advised in writing (the "Advice") by the Issuer that the use of the applicable Prospectus may be resumed, and has received copies of any amendments or supplements thereto. In the event that the Issuer shall give any such notice, each of the Applicable Period and the Effectiveness Period shall be extended by the number of days during such periods from and including the date of the giving of such notice to and including the date when each seller of Registrable Notes covered by such Registration Statement or Exchange Notes to be sold by such Participating Broker-Dealer, as the case may be, shall have received (x) the copies of the supplemented or amended Prospectus contemplated by Section 5(k) hereof or (y) the Advice.

6. Registration Expenses

All fees and expenses incident to the performance of or compliance with this Agreement by the Issuer shall be borne by the Issuer, whether or not the Exchange Offer Registration Statement or any Shelf Registration Statement is filed or becomes effective or the Exchange Offer is consummated, including, without limitation, (i) all registration and filing fees (including, without limitation, (A) fees with respect to filings required to be made with the NASD in connection with an underwritten offering and (B) fees and expenses of compliance with state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel in connection with Blue Sky qualifications of the Registrable Notes or Exchange Notes and determination of the eligibility of the Registrable Notes or Exchange Notes for investment under the laws of such jurisdictions (x) where the holders of Registrable Notes are located, in the case of the Exchange Notes, or (y) as provided in Section 5(h) hereof, in the case of Registrable Notes or Exchange Notes to be sold by a Participating Broker-Dealer during the Applicable Period)), (ii) printing expenses, including, without limitation, expenses of printing certificates for Registrable Notes or Exchange Notes in a form eligible for deposit with Euroclear or Clearstream and of printing prospectuses if the printing of prospectuses is reasonably requested by the managing underwriter or underwriters, if any, by the Holders of a majority in aggregate principal amount of the Registrable Notes included in any Registration Statement or in respect of Registrable Notes or Exchange Notes to be sold by any Participating Broker-Dealer during the Applicable Period, as the case may be, (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Issuer and, in the case of a Shelf Registration, reasonable fees and disbursements of one special counsel for all of the sellers of Registrable Notes (exclusive of any counsel retained pursuant to Section 7 hereof), (v) fees and disbursements of all independent certified public accountants referred to in Section 5(n)(iii) hereof (including, without limitation, the expenses of any "cold comfort" letters required by or incident to such performance), (vi) Securities Act liability insurance, if the Issuer desires such insurance, (vii) fees and expenses of all other Persons retained by the Issuer, (viii) internal expenses of the Issuer

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(including, without limitation, all salaries and expenses of officers and employees of the Issuer performing legal or accounting duties), (ix) the expense of any annual audit, (x) any fees and expenses incurred in connection with the listing of the securities to be registered on any securities exchange, and the obtaining of a rating of the securities, in each case, if applicable, (xi) the expenses relating to printing, word processing and distributing all Registration Statements, underwriting agreements, indentures and any other documents necessary in order to comply with this Agreement, and (xii) all fees and expenses incurred in connection with the listing of the Notes and Exchange Notes on the Luxembourg Stock Exchange.

7. Indemnification and Contribution.

(a) The Issuer agrees to indemnify and hold harmless each Holder of Registrable Notes and each Participating Broker-Dealer selling Exchange Notes during the Applicable Period and each person, if any, who controls any such person within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each, a "Participant") to the extent and in the manner set forth in clauses (i), (ii) and (iii) below:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, resulting from any untrue statement or alleged untrue statement of a material fact contained in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus, or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the case of a Prospectus, in light of circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 7(d) below) any such settlement is effected with the written consent of the Issuer; and

(iii) against any and all expense whatsoever, as incurred (including the reasonable fees and disbursements of counsel chosen by the Participants), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above;

provided, however, that (A) this indemnity agreement shall not apply to any loss, liability, claim, damage or expense of a Participant to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in reliance upon and in conformity with written information pertaining to such Participant furnished to the Issuer by such Participant expressly for use in such Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus and (B) the Issuer shall not be liable to any Holder of Registrable Notes with

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respect to any preliminary prospectus forming part of a Shelf Registration Statement if the final Prospectus forming a part of such Shelf Registration Statement corrected any such untrue statement or omission, was delivered to such Holder of Registrable Notes (sufficiently in advance of the written confirmation of the sale of the Registrable Notes and in sufficient quantity to allow for distribution in advance of such written confirmation) and such Holder failed to furnish a copy of such Prospectus to the applicable purchaser.

(b) Each Participant agrees, severally and not jointly, to indemnify and hold harmless the Issuer, the directors and officers of the Issuer, and each person, if any, who controls the Issuer within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in any Registration Statement (or any amendment thereto) or Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or any preliminary prospectus in reliance upon and in conformity with written information pertaining to such Participant furnished to the Issuer by such Participant expressly for use in such Registration Statement (or any amendment thereto), Prospectus (as amended or supplemented if the Issuer shall have furnished any amendments or supplements thereto) or preliminary prospectus.

(c) Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 7(a) above, counsel to the indemnified parties shall be selected by the Participants who sold a majority in interest of the Registrable Notes and Exchange Notes sold by all such Participants, and, in the case of parties indemnified pursuant to Section 7(b) above, counsel to the indemnified parties shall be selected by the Issuer. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. If it so elects within a reasonable time after receipt of such notice, an indemnifying party, jointly with any other indemnifying parties receiving such notice, may assume the defense of such action with counsel chosen by it and which counsel is reasonably acceptable to the indemnified parties defendant in such action, unless such indemnified parties reasonably object to such assumption on the ground that there may be legal defenses available to them which are different from or in addition to those available to such indemnifying party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for all indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which

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indemnification or contribution could be sought under this Section 7 (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(d) If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into, and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement, unless the indemnifying party shall in good faith contest the reasonableness of such fees and expenses (but only to the extent so contested) or the entitlement of the indemnified person to indemnification under the terms of this Section 7.

(e) If the indemnification provided for this Section 7 is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Issuer on the one hand and the Participants on the other hand from the offering of the Notes or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Issuer on the one hand and of the Participants on the other hand in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Issuer on the one hand and any Participant on the other hand shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Notes (before deducting expenses) received by the Issuer and the total gross profit received by such Participant in connection with the sale of the Notes, bear to the aggregate initial offering price of the Notes.

The relative fault of the Issuer on the one hand and any Participant on the other hand shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Issuer or by such Participant and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Issuer and any Participant agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses

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incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, no Participant shall be required to contribute any amount in excess of the amount by which the total net profit received by such Participant exceeds the amount of any damages which such Participant has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls a Participant within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Participant, and each officer and director of the Issuer and each person, if any, who controls the Issuer within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Issuer.

The Participants' respective obligations to contribute pursuant to this Section 7 are several and not joint.

8. Rules 144 and 144A

The Issuer covenants and agrees that it will file the reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the SEC thereunder in a timely manner in accordance with the requirements of the Securities Act and the Exchange Act and, if at any time the Issuer is not required to file such reports, the Issuer will, upon the request of any Holder or beneficial owner of Registrable Notes, make available such information necessary to permit sales pursuant to Rule 144A. The Issuer further covenants and agrees, for so long as any Registrable Notes remain outstanding that it will take such further action as any Holder of Registrable Notes may reasonably request, all to the extent required from time to time to enable such holder to sell Registrable Notes without registration under the Securities Act within the limitation of the exemptions provided by Rule 144(k) under the Securities Act and Rule 144A.

9. Underwritten Registrations

If any of the Registrable Notes covered by any Shelf Registration are to be sold in an underwritten offering, the investment banker or investment bankers and manager or managers that will manage the offering will be selected by the Holders of a majority in aggregate principal amount of such Registrable Notes included in such offering and shall be reasonably acceptable to the Issuer.

No Holder of Registrable Notes may participate in any underwritten registration hereunder unless such Holder (a) agrees to sell such Holder's Registrable Notes on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (b) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the

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terms of such underwriting arrangements.

10. Miscellaneous

(a) No Inconsistent Agreements. The Issuer has not, as of the date hereof, and the Issuer shall not, after the date of this Agreement, enter into any agreement with respect to any of its securities that is inconsistent with the rights granted to the Holders of Registrable Notes in this Agreement or otherwise conflicts with the provisions hereof. The Issuer will not enter into any agreement with respect to any of their securities which will grant to any Person piggy-back registration rights with respect to any Registration Statement.

(b) Adjustments Affecting Registrable Notes. The Issuer shall not, directly or indirectly, take any action with respect to the Registrable Notes as a class that would adversely affect the ability of the Holders of Registrable Notes to include such Registrable Notes in a registration undertaken pursuant to this Agreement.

(c) Amendments and Waivers. The provisions of this Agreement may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, otherwise than with the prior written consent of (I) the Issuer and (II) (A) the Holders of not less than a majority in aggregate principal amount of the then outstanding Registrable Notes and (B) in circumstances that would adversely affect the Participating Broker-Dealers, the Participating Broker-Dealers holding not less than a majority in aggregate principal amount of the Exchange Notes held by all Participating Broker-Dealers; provided, however, that Section 7 and this Section 10(c) may not be amended, modified or supplemented without the prior written consent of each Holder and each Participating Broker-Dealer (including any person who was a Holder or Participating Broker-Dealer of Registrable Notes or Exchange Notes, as the case may be, disposed of pursuant to any Registration Statement) affected by any such amendment, modification or supplement. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders of Registrable Notes whose securities are being sold pursuant to a Registration Statement and that does not directly or indirectly affect, impair, limit or compromise the rights of other Holders of Registrable Notes may be given by Holders of at least a majority in aggregate principal amount of the Registrable Notes being sold pursuant to such Registration Statement.

(d) Notices. All notices and other communications (including, without limitation, any notices or other communications to the Trustee) provided for or permitted hereunder shall be made in writing by hand-delivery, registered first-class mail, next-day air courier or facsimile:

(i) if to a Holder of the Registrable Notes or any Participating Broker-Dealer, at the most current address of such Holder or Participating Broker-Dealer, as the case may be, set forth on the records of the registrar under the Indenture, with a copy in like manner to the Initial Purchasers as follows:

Deutsche Banc Alex. Brown Inc. Merrill Lynch, Pierce, Fenner & Smith Incorporated Salomon Smith Barney Inc. ABN Amro Incorporated

Banc One Capital Markets, Inc.

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Fleet Securities, Inc.
PNC Capital Markets, Inc.
RBC Dominion Securities Corporation
UBS Warburg LLC
c/o Deutsche Banc Alex Brown Inc.
225 Franklin Street
25th Floor
Boston, MA 02110
Facsimile No.: (617) 217 6100
Attention: Corporate Finance

-and-

J.P. Morgan Securities Inc.
270 Park Avenue
New York, New York 10017
Facsimile No.: (212) 270 5567
Attention: Corporate Finance

with a copy to:

Cahill Gordon & Reindel 80 Pine Street New York, New York 10005
Facsimile No.: (212) 269-5420 Attention: Michael A. Becker, Esq.

(ii) if to the Initial Purchasers, at the address specified in Section 10(d)(i);

(iii) if to the Issuer, at the address as follows:

Xerox Corporation 800 Long Ridge Road Stamford, Connecticut 06904 Facsimile No.: (203) 968 3446 Attention: Martin S. Wagner, Assistant Secretary and Associate General Counsel

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP Four Times Square New York, New York 10036 Attention: Phyllis G. Korff

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; one Business Day after being timely delivered to a next-day air courier; and when receipt is acknowledged by the addressee, if sent by facsimile.

Copies of all such notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Trustee at the address and in the manner specified in such Indenture.

(e) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, the Holders and the Participating Broker-Dealers; provided, however, that nothing herein shall be deemed to permit any assignment, transfer or other disposition of Registrable Notes in violation of the terms of the Purchase Agreement or the Indenture.

(f) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of

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which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(g) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(h) Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, AS APPLIED TO CONTRACTS MADE AND PERFORMED ENTIRELY WITHIN THE STATE OF NEW YORK, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW THAT WOULD REQUIRE THE APPLICATION OF ANY OTHER LAW.

(i) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their best efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(j) Notes Held by the Issuer or Its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Notes is required hereunder, Registrable Notes held by the Issuer or its affiliates (as such term is defined in Rule 405 under the Securities Act) shall not be counted in determining whether such consent or approval was given by the Holders of such required percentage.

(k) Third-Party Beneficiaries. Holders of Registrable Notes and Participating Broker-Dealers are intended third-party beneficiaries of this Agreement, and this Agreement may be enforced by such Persons.

(l) Judgment Currency. The Issuer agrees to indemnify each Holder and each person, if any, who controls any Holder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any loss incurred by such party as a result of any judgment or order being given or made against the Issuer, for any euro amount due under this Agreement and such judgment or order being expressed and paid in a currency (the "Judgment Currency") other than euro and as a result of any variation as between (i) the rate of exchange at which the euro amount is converted into the Judgment Currency for the purpose of such judgment or order and (ii) the spot rate of exchange in The City of New York at which such party on the date of payment of such judgment or order is able to purchase euro with the amount of the Judgment Currency actually received by such party if such party had utilized such amount of Judgment Currency to purchase euro as promptly as practicable upon such party's receipt thereof. The foregoing indemnity shall continue in full force and effect notwithstanding any such judgment or order as aforesaid. The term "spot rate of exchange" shall include any premiums and costs of exchange payable in connection with the purchase of, or conversion into, euro.

(m) Entire Agreement. This Agreement, together with the Purchase Agreement and the Indenture, is intended by the parties as a final and exclusive statement of the agreement and understanding of the parties hereto

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in respect of the subject matter contained herein and therein and any and all prior oral or written agreements, representations, or warranties, contracts, understandings, correspondence, conversations and memoranda between the Holders on the one hand and the Issuer on the other, or between or among any agents, representatives, parents, subsidiaries, affiliates, predecessors in interest or successors in interest with respect to the subject matter hereof and thereof are merged herein and replaced hereby.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

XEROX CORPORATION

By:
Name:
Title:

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

DEUTSCHE BANC ALEX. BROWN INC.
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
SALOMON SMITH BARNEY INC.
ABN AMRO INCORPORATED
BANC ONE CAPITAL MARKETS, INC.
FLEET SECURITIES, INC.
PNC CAPITAL MARKETS, INC.
RBC DOMINION SECURITIES CORPORATION UBS WARBURG LLC

By: DEUTSCHE BANC ALEX. BROWN INC.

By:

Name:
Title:

J.P. MORGAN SECURITIES INC.

By:

Name:
Title:

EXHIBIT 4 (m)

MASTER NOTE

U.S. $2,250,000,000 November 20, 2001

FOR VALUE RECEIVED, Xerox Corporation, a New York corporation ("Xerox"), hereby promises to pay to the order of Xerox Credit Corporation, a Delaware corporation ("XCC"), ON DEMAND, in lawful money of the United States of America, at such place as XCC may from time to time designate to Xerox, the lesser of (i) the principal sum of U.S. $2,250,000,000 or (ii) the aggregate unpaid principal balance of all indebtedness of Xerox to XCC on account of loans from time to time made by XCC to Xerox under this Master Note (each a "Loan" and collectively the "Loans").

Xerox promises to pay interest on the unpaid principal amount of each Loan, from the date of such Loan until the principal amount thereof is paid in full, at an annual interest rate equal to the result of: adding the H.15 Two-Year Swap Rate and H.15 Three-Year Swap Rate and dividing by two (2) and then adding 2.00% (200 basis points). Interest on outstanding principal of each Loan will be calculated monthly (an "Interest Period") and payable quarterly on March 31, June 30, September 30 and December 31 of each year (each an "Interest Payment Date") and at the date of repayment, if not an Interest Payment Date. Interest will be calculated on the basis of the actual number of days elapsed in a year of 360 days.

"H.15 Two-Year Swap Rate" means, with respect to an Interest Period for a Loan, the rate which appears in the relevant H.15 Release under the heading "Interest Rate Swaps", "H15I2Y 2-Year" and "Week Ending" immediately prior to publication of such H.15 Release. "H.15 Three-Year Swap Rate" means, with respect to an Interest Period for a Loan, the rate which appears in the relevant H.15 Release under the heading "Interest Rate Swaps", "H15I3Y 3-Year" and "Week Ending" immediately prior to publication of such H.15 Release. "H.15 Release" means the weekly statistical release designated as such, or any successor publication, published by the Federal Reserve System Board of Governors. The "relevant H.15 Release" for an Interest Period shall be the H.15 Release published on the second to the last Monday of such Interest Period and the interest rate calculated using such H.15 Release shall be applicable to the entire such Interest Period. If the relevant H.15 Release for an Interest Period is not published for any reason, then the interest rate applicable for such Interest Period shall be the interest rate in effect for the immediately preceding Interest Period. The interest rate in effect from time to time hereunder shall be determined by XCC, whose determination of such rate shall be conclusive absent manifest error.

If any Interest Payment Date or repayment date falls on a date which is not a Business Day, then the payment(s) due on such date shall be due on the preceding Business Day, with no adjustment to interest periods. For purposes of this Master Note, a Business Day shall be any day other than a Saturday, Sunday or other day on which commercial banks are required or authorized to close in New York, New York.

Xerox may, at any time and from time to time, repay the outstanding principal amount of the Loans, in whole or in part, together with accrued interest to the date of such repayment on the principal amount prepaid. Amounts repaid under this Master Note may be reborrowed, with the consent of XCC.

XCC is hereby authorized by Xerox to endorse on the schedule forming a part of this Master Note appropriate notations evidencing the date and amount of each Loan, the monthly interest rate, the date and amount of each payment of principal made by Xerox with respect to such Loan and the unpaid aggregate

principal amount of all the Loans. XCC is hereby authorized by Xerox to attach to and make a part hereof a continuation of such schedule as and when required pursuant to the terms of this Master Note. The information endorsed by XCC on the schedule forming a part of this Master Note shall be prima facie evidence of the matters covered thereby in the absence of manifest error; provided, however, that the failure to endorse, or any error in endorsing, any such information on such schedule shall not affect the obligation of Xerox hereunder to repay the principal amount of each Loan made by XCC to Xerox and to pay accrued interest thereon.

Any amount due to XCC under this Master Note that is not paid when due shall bear interest at a rate per annum equal to the sum of the interest rate then in effect with respect to such amount plus 2.00%. Such interest shall be computed on the basis of the actual number of days elapsed in a year of 360 days and shall be payable on demand.

This Master Note and the rights of XCC hereunder may not be assigned or otherwise transferred without the prior written consent of Xerox.

The obligations of Xerox hereunder shall be governed by the laws of the State of New York without regard to the principles of conflict of laws thereof (other than General Obligations Law ss.5-1401).

IN WITNESS WHEREOF, the undersigned has executed this Master Note as of the date first written above.

XEROX CORPORATION

By: /s/ Gregory B. Tayler

Name: Gregory B. Tayler
Title: Vice President and Treasurer

SCHEDULE

Date	Amount	Aggregate Outstanding Principal Amount	Interest Rate	Amount of Principal Repaid	Notation Made By

Exhibit 10(a)

THE DOCUMENT COMPANY

XEROX

FORM OF SALARY CONTINUANCE AGREEMENT

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

Last day of active employment: To be determined by the Chairman & CEO and/or President and COO
Salary Continuance: 12 [24] months
Salary Continuance Amount: $xxxxxxx per month or, if greater, monthly salary rate on last day of employment
Retirement Date: Day following end of Salary Continuance

Notwithstanding anything else contained in this letter if you engage in Detrimental Activity as defined in the attached Exhibit the consequences set forth therein shall apply.

Summarized below are the relevant provisions that apply to your long-term incentive awards, profit sharing and savings accounts, pension benefits, life insurance benefits and other benefits arrangements. In case of inconsistencies between this summary and the relevant plan, the terms of the plan will govern.

STOCK AWARDS

Stock grants (including stock options) awarded to you prior to the commencement of salary continuance shall continue to vest and/or remain exercisable per the terms of the awards and the relevant plans. You will not be eligible for additional stock awards during salary continuation.

PROFIT SHARING AND SAVINGS ACCOUNT

As you know, under relevant plan provisions, you have choices available regarding the continued investment of your account balances and the time and form of distribution. Please refer to You and Xerox: Wealthwise for a description. A calculation of your account balances will be completed at the end of your salary continuance period at which time you will have the opportunity to elect how and when the proceeds will be distributed.

EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

At separation, your ESOP account can be taken as cash, in stock, or rolled over to the Xerox 401(k) savings plan. A determination of your final plan benefit will be made at the end of salary continuance period.

PENSION BENEFITS

Effective on your retirement date, you will become a retiree of Xerox. As a retiree, you will receive pension benefits accrued in the Retirement Income Guarantee Plan (RIGP). In addition to your vested RIGP benefit, depending on your age on your retirement date, you may be eligible to receive a benefit under the Supplemental Executive Retirement Plan (SERP), which as you know,

will allow you to begin to receive retirement income benefits unreduced for commencement prior to attainment of age 65 and will be offset by your RIGP benefits. If you are eligible, this benefit will commence on your retirement date, and will be paid in monthly installments reflecting your survivor election. This benefit is unfunded and is not tax qualified. This means you are an unsecured general creditor of the Company with respect to this benefit. A determination of your benefit will be made at retirement. We can prepare an estimate prior to that time if you so desire.

MEDICAL BENEFITS
- ----------------
As a retiree, you will receive medical coverage under Xerox Retiree Flex as it is in effect from time to time. This program will include, among other things, coordination of benefits if you are covered by more than one plan including Medicare. As you get closer to your retirement date, an information package will be sent to you from our medical insurance partner.

BONUS
- -----
You will be eligible to receive a cash bonus and/or other cash award earned for any year in which you are actively employed. If earned, any such cash awards will be prorated based on the number of months of active employment during the year.

LIFE INSURANCE
- --------------
Your Contributory Life Insurance coverage of $xxxxxxx will continue during your salary continuance period. During this period, both you and the Company will continue to share in the cost of premiums according to the original plan agreement. In the event of your death during salary continuance, salary would cease and your beneficiaries will, subject to applicable plan provisions, receive the proceeds of your life insurance coverage. Upon termination, the Company will recover its cumulative premiums paid into the Contributory Life Insurance Plan, plus an amount for administrative expenses as stated in the Plan Agreement. At that time you will become sole owner of the policy along with any remaining cash value, with the option to continue the coverage at your own expense.

OTHER ARRANGEMENTS
- ------------------
You will relinquish your position as a Director and Officer of Xerox Corporation and as a director and officer of any subsidiary company when your active employment ends.

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

Your company financial counseling and tax preparation programs will be continued through the end of the year in which your active employment ends.

You will not be entitled to any future Executive Expense Allowance payments while on salary continuance.

You will not be eligible to receive long-term incentive awards while on salary continuation. You will be eligible for your physical under the Executive Physical program for any year during which you are actively employed.

INDEMNITY
- ---------
You will be entitled to be indemnified with respect to all periods of your service as a director or officer of the Company or any of its subsidiaries in accordance with 1) the provisions of Sections 721 through 725 of the Business Corporation Law of the State of New York and provisions of California Labor Code Section 2802 2) Section 2 of Article VIII of the by-laws of the Company as in effect on the date of commencement of salary continuance and 3) the Company directors and officers liability insurance policies with Federal Insurance Company, National Union Fire Insurance Company of Pittsburgh P.A., Reliance Insurance Company, Chubb Atlantic Ltd., Gulf Insurance Company and A.C.E. Insurance, Ltd., or any replacement or substitute thereof or any addition thereto.

RELEASE
- -------
This salary continuance payments provided for in this letter shall not become effective until you execute and deliver to the Company the release in the form attached immediately prior to the scheduled commencement thereof.

COOPERATION IN LITIGATION
- -------------------------
You will cooperate fully with the Company and its counsel in any litigation that arises out of or is related to your service with the Company or any of its subsidiaries, or in which you are named as a party. That cooperation includes making yourself available for reasonable periods of time upon reasonable notice for consultation with the Company's counsel in any such litigation and to testify in such litigation.

At the appropriate time, a representative of Xerox Corporation will contact you regarding your resignation as a Corporate Officer.

Sincerely,

AGREED AND ACCEPTED

_____
Date:

Exhibit to Letter Agreement
Engagement in Detrimental Activity

Definition of Detrimental Activity
- ----------

"Detrimental Activity" shall mean:

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

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

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

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

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

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

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

Consequences of Engagement in Detrimental Activity
- ----------

If the executive who is a party to the Letter Agreement engages in any Detrimental Activity any salary continuance provided for therein shall not become payable or shall immediately terminate if payments have started, employment with the Company will terminate and any benefits described in the Letter Agreement, or otherwise, that are dependent upon continued employment, including without limitation, continued vesting of benefits and determination of years of service will also terminate.

If the executive who is a party to the Letter Agreement engages in Detrimental Activity, that in the Company's sole discretion constitutes an act of disloyalty towards the Company either before becoming entitled to salary continuance or after commencement of salary continuance payments, as the case may be, in accordance with the Letter Agreement, the following additional consequences shall apply:

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

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

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

THE DOCUMENT COMPANY

XEROX

GENERAL RELEASE

1. In consideration of Xerox' agreement to provide salary continuance and other benefits as set forth in the letter agreement dated June 13, 2001, attached hereto and incorporated herein, and other good and valuable consideration the adequacy and receipt of which are hereby acknowledged, I, Barry D. Romeril release Xerox and its employees, directors, officers, agents, stockholders, subsidiaries, affiliates, successors and assigns, and the Xerox employee benefits plans in which I am now or have been a participant and their trustees, administrators, successors, assigns, agents and, employees (the "Releasees"), from any and all claims of any kind, known or unknown, which I now have or may have against the Releasees by reason of facts which have occurred prior to the date of this Release. Such released claims include, without limitation, any and all claims of age discrimination under the Age Discrimination in Employment Act of 1967, the Older Workers' Benefits Protection Act of 1990, any claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Acts of 1866, 1870, 1871 and 1991, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act of 1938, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act of 1989, the Uniformed Services Reemployment Rights Act of 1994, and the Vietnam Era Veteran's Readjustment Assistance Act of 1974 (all as amended), and the laws of the state(s) where I am employed and reside, including by example and not limitation the state fair employment practices law(s) or any other federal, state or local statute or regulation regarding employment or discrimination in employment, as well as any and all claims arising out of, based upon or relating to the hire, offer of employment by Releasees, employment contract, if any, between myself and Releasees, any representations or commitments made by the Releasees regarding future employment, remuneration, promotion, discipline, termination from employment, or benefits payable by Releasees to me including but not limited to any and all claims under State contract or tort law such as breach of the implied covenant of good faith and fair dealing, negligent or intentional infliction of emotional distress and defamation, all claims for punitive or compensatory damages, costs or attorneys fees, and any and all claims I have, against Xerox based upon its employee relocation policy.

2. I acknowledge and agree that the consideration set forth in this Release is in addition to anything of value to which I am otherwise entitled by law and Xerox policy.

3. I understand and agree that this Release and Releasees' agreement to provide consideration as set forth above are not intended and should not be construed, in any way, as an admission by Releasees of wrongdoing or liability.

4. I agree that I will not file or pursue any charge, claim or action with any government agency or any court against the Releasees based upon any event or occurrence which took place prior to the date of this Release. However, I understand that nothing set forth in this Release shall be construed as a condition precedent, penalty or other limitation of my right to file a charge or complaint with, or participate in an investigation or proceeding conducted by, the EEOC or any comparable state agency.

5. I agree that if I act contrary to the representations and obligations set forth in this Release, I shall repay to Xerox upon demand any and all moneys paid to me by Xerox in consideration of this release. Moreover, if I act contrary to paragraph 4 of this Release, I agree to pay all costs and expenses of defending the charge, claim or action incurred by Releasees, including reasonable attorneys fees.

6. Should any provision of this Release, with the exception of paragraph I, be declared or be determined by any court to be illegal or invalid, the validity of the remaining parts, terms or provisions shall not be affected thereby and said illegal or invalid part, term, or provision shall be deemed not to be a part of this Agreement. Should paragraph I be declared or be determined by any court to be illegal or invalid, the purpose of this entire Agreement shall be deemed to have failed and I shall return all consideration paid by Xerox hereunder.

7. I agree to treat the existence and substance of this Release as Confidential and shall not disclose it to other persons within or outside the Releasees except as required by law.

8. I understand and acknowledge that for a period of one year following my separation from service with Xerox, I will not be eligible for rehire as an employee, or retention as a contract worker or consultant.

9. The undersigned and the Company agree that this release shall not release the payments, benefits and other provisions contained in the attached letter agreement between the undersigned and the Company.

10. I acknowledge that I have been advised by Xerox as follows:

- TO CONSULT WITH AN ATTORNEY OF MY CHOOSING TO COUNSEL ME AS TO MY RIGHTS BEFORE I SIGN THIS RELEASE;
- TO TAKE SUFFICIENT TIME TO DECIDE WHETHER TO SIGN THIS RELEASE. I HAVE 21 DAYS FROM THE DATE THIS RELEASE IS PROVIDED TO ME TO CONSIDER IT BEFORE I SIGN AND RETURN IT TO XEROX;
- THAT EVEN AFTER I SIGN AND RETURN THIS RELEASE TO XEROX, I WILL HAVE 7 DAYS THEREAFTER TO CHANGE MY MIND AND REVOKE MY RELEASE BY ASKING XEROX FOR ITS RETURN.

11. I understand and agree that this release waives all claims I may have at the time I sign it, including claims I do not then know about or suspect. I further understand and acknowledge that California Civil Code, Section 1542 provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." I hereby expressly waive any rights I may have under that Code section, if applicable, or any other similar state or federal statute or common law principle of similar effect.

Date release provided to employee:

Date Signed and Returned to Xerox: _____, _____
(To be filled in by employee)

By: _____
employee signature

XEROX CORPORATION

By: _____

EXHIBIT 10(d)

Annual Performance Incentive Plan

Under the Annual Performance Incentive Plan (APIP), executive officers of the Company may be entitled to receive performance related cash payments provided that performance thresholds, established annually by the Executive Compensation and Benefits Committee, are met. At the beginning of the year, the Committee approves for each officer not participating in the Executive Performance Incentive Plan, an annual incentive target and maximum opportunity expressed as a percentage of annual base salary. The Committee also establishes overall threshold, target and maximum measures of performance and associated payment schedules. For 2001, the performance measures were cash management (40%), performance profit (40%) and revenue growth (20%). Additional goals are also established for each officer that include business unit specific and/or individual performance goals and objectives. The weights associated with each business unit specific or individual performance goal and objective used vary and range from 20 percent to 50 percent of the total. Actual performance payments to corporate officers are subject to approval by the Committee following the end of the year. As a result of the Company's performance during 2001, no cash bonuses under APIP were paid to officers with respect to 2001 business performance. However, three officers received bonuses based exclusively on individual performance.

April 6, 1995

XEROX EXECUTIVE PERFORMANCE INCENTIVE PLAN

Section 1. Purpose. The purposes of the Xerox Executive Performance Incentive Plan (the "Plan") are (i) to compensate certain Eligible Executives who are selected to be Participants on an individual basis for significant contributions to Xerox Corporation (the "Company") and its subsidiaries and (ii) to stimulate the efforts of such executives by giving them a direct financial interest in the performance of the Company.

Section 2. Definitions. The following terms utilized in the Plan shall have the following meanings:

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

(b) "Committee" shall mean the Executive Compensation and Benefits Committee of the Board of Directors of the Company, or such other committee of such Board as such Board may from time to time designate, comprised of three or more outside Directors as defined under Section 162(m).

(c) "Eligible Executives" shall mean all salaried key employees of the Company and its subsidiaries.

(d) "Financial Services Debt" shall mean the Debt of Xerox Financial Services, Inc. ("XFSI") and its subsidiaries, other than Xerox Credit Corporation, including Talegen Holdings, Inc. or any of Talegen Holdings, Inc. direct or indirect subsidiaries for so long as they are direct or indirect subsidiaries ("Talegen") outstanding to unrelated third-parties, Debt of XFSI, Xerox Credit Corporation or the Company outstanding to Talegen and Allocated Debt. "Debt" shall mean any obligations for the payment of money whether payable on demand or having a fixed term and whether evidenced by open-book accounts, promissory notes, bonds or any other evidences of indebtedness but excluding intercompany tax receivables and payables, and trade debt to unrelated third-parties incurred in the ordinary course of business. "Allocated Debt" shall mean Debt of the Company allocated to Insurance and Other Financial Services, as included in "Other Long-Term Debt and Obligations" or such successor caption contained within the Company's consolidated balance sheet. Allocated Debt shall be determined for the first and last days of the relevant Performance Period on the basis used to calculate Allocated Debt in the Company's consolidated balance sheet as of December 31, 1994. The foregoing amounts shall be determined from the accounts, books and records of the Company, XFSI and Talegen used in the preparation of the audited annual financial statements of such companies. For the purposes of reference the Financial Services Debt as of December 31, 1994 was $3,438 million.

(e) "Incentive Award" shall mean awards made under Section 4.1 of the Plan.

(f) "Incentive Pool" shall mean the Long-Term PBT Incentive Pool, Short-Term PBT Incentive Pool, Long-Term Debt Reduction Incentive Pool and Short-Term Debt Reduction Incentive Pool.

(g) "Long-Term Debt Reduction Incentive Pool" shall mean 2.5% of the excess of Financial Services Debt as of the first day of the relevant Performance Period over the Financial Services Debt as of the last day of the relevant Performance Period.

(h) "Long-Term PBT Incentive Pool" shall mean 1.5% of the cumulative Profit Before Tax during a Long-Term Performance Period.

(i) "Long-Term Performance Period" shall mean a period of time of more than twelve months but not more than sixty months as shall be determined by the Committee, provided, however, that a Performance Period relating to a Long-Term Debt Reduction Incentive Pool shall begin on the first day of a fiscal year and shall end on the last day of a fiscal year.

(j) "Participant" shall mean each Eligible Employee who is designated as a Participant by the Committee for an award under the Plan, provided, however, that Participants must be selected prior to the Predetermination Date.

(k) "Performance Measures" shall mean for a Performance Period the Profit Before Taxes or Financial Services Debt.

(l) "Performance Period" shall mean a Long-Term Performance Period or a Short-Term Performance Period.

(m) "Predetermination Date" shall mean a date not later than the earlier of 90 days after commencement of the Performance Period or the expiration of 25% of the Performance Period, or such later date on which a performance goal is considered to be preestablished pursuant to Section 162(m).

(n) "Profit Before Taxes" shall mean the amount of Document Processing income (loss) before income taxes, equity income and minorities' interests plus the amount included as equity in net income of unconsolidated affiliates, as included in such year's audited consolidated financial statements of the Company plus the income (loss) before income taxes from Document Processing-related (1) discontinued operations, (2) cumulative effect of changes in accounting principles, and (3) extraordinary items. There shall be automatically excluded from the determination of Profit Before Tax all separately indentified events or transactions shown on the face of the Document Processing Statements of Income other than those events or transactions referred to in (1), (2) and (3) of this subsection (n). All amounts shall be ascertained from the Company's annual audited financial statements, accompanying notes and related management discussion and analysis.

(o) "Section 162(m)" shall mean Section 162(m) of the Internal Revenue Code of 1986, and the regulations promulgated thereunder, all as amended from time to time.

(p) "Short-Term PBT Incentive Pool" shall mean 2% of the Profit Before Tax during a Short-Term Performance Period.

(q) "Short-Term Debt Reduction Incentive Pool" shall mean 3% of the excess of Financial Services Debt as of the first day of the relevant Short-Term Performance Period, over the Financial Services Debt as of the last day of the relevant Short-Term Performance Period.

(r) "Short-Term Performance Period" shall mean a period of time of from six months to twelve months as shall be determined by the Committee.

Section 3. Term. Subject to Section 9, the Plan shall be effective as of January 1, 1995 (the "Effective Date"), and shall be applicable for all future fiscal years of the Company unless amended or terminated by the Committee pursuant to Section 6.

Section 4.1 Incentive Awards. Awards may be made to Participants which will entitle them to receive a cash payment in an amount determined by the Committee as provided in the Plan. Participants may receive concurrent or consecutive Incentive Awards which may relate to a single Performance Period and/or different Performance Periods. Prior to the Predetermination Date, the Committee will designate or approve (i) the Eligible Executives who will be Participants who will receive Incentive Awards, (ii) the Performance Measures with respect to such awards, (iii) the Performance Period and (iv) the percentage of the Incentive Pool to which each Participant shall be entitled at the end of the Performance Period. The percentage of the Incentive Pool awarded to any Participant shall not exceed 10% of the Incentive Pool in the case of the Chief Executive Officer and 5% in the case of any other Participant.

4.2 Determination of Amount of Incentive Awards. After the conclusion of the relevant Performance Period, the Committee shall determine the amount of the Incentive Award for each participant by:

(i) determining the actual results of performance for each Performance Measure to determine the amount of the relevant Incentive Pool,

(ii) determining the portion of the relevant Incentive Pool to which each Participant is entitled based upon the percentage allocated to each Participant by the Committee at the time of the award, and

(iii) certifying by resolution duly adopted by the Committee the value for each Participant so determined.

4.3 Termination of Employment. A Participant whose employment is terminated for cause in accordance with the Company's established policies or whose employment terminates without the prior written consent of the Committee during a Performance Period shall forfeit such Participant's Incentive Award for such Performance Period. In the event of a Participant's death during a Short-Term Incentive Period or during the last year of a Long-Term Incentive Period, the full value of the Incentive Award at the end of the Performance Period shall be payable to the Participant's estate. In the event of a Participant's death prior to the last year of a Long-Term Incentive Period, such Participant's Incentive Award for such Performance Period shall be forfeited. In the event of an involuntary termination of employment of a Participant during a Performance Period (other than for cause), the Participant shall be entitled to receive a pro rata portion of the value of the Incentive Award at the end of the Performance Period based upon a fraction, the numerator of which shall be the number of full months during the Performance Period that the Participant is employed by the Company and the denominator of which shall be the number of full months in the Performance Period. Long-term disability shall not be deemed to be a termination of employment for purposes of the Plan.

4.4 Payment of Awards. Incentive Awards shall be payable in a single lump sum except to the extent deferred under any applicable plan of the Company.

4.5 Taxes. The Company shall withhold from any Incentive Award or payments made or to be made under the Plan any amount of federal, state and, where applicable, local withholding taxes due in respect of an Incentive Award.

4.6 Other Benefits. Participation in the Plan does not exclude Participants from participation in any other benefit or compensation plans or arrangements of the Company, including other bonus or incentive plans.

Section 5. Administrative Expenses. Any expense incurred in the administration of the Plan shall be borne by the Company out of its general funds.

Section 6. Administrative Guidelines of the Plan.

(a) The Plan shall be administered by the Committee, which shall have the sole authority to make rules and regulations for the administration of the Plan. The interpretations and decisions of the Committee with regard to the Plan shall be final, binding and conclusive upon the Company, its shareholders, employees, Participants and their respective legal representatives, successors, and assigns.

(b) The Committee may from time to time amend the Plan in any respect or terminate the Plan in whole or in part, provided that no such action shall increase the amount of any Incentive Award for which performance goals have been established but which has not yet been earned or paid; provided further that such action will not cause an Incentive Award to become subject to the deduction limitations contained in Section 162(m). No such termination shall adversely affect any outstanding awards under the Plan without the consent of the holders thereof.

(c) Except as otherwise provided in Section 14, the Committee in its sole discretion may reduce any Incentive Award to any Participant to any amount, including zero.

Section 7. No Assignment. The rights hereunder, including without limitation rights to receive an Incentive Award, shall not be pledged, assigned, transferred, encumbered or hypothecated by a Participant, and during the lifetime of any Participant an Incentive Award shall be payable only to such Participant.

Section 8. The Company. For purposes of this Plan, the "Company" shall include the successors and assigns of the Company, and this Plan shall be binding on any corporation or other person with which the Company is merged or consolidated.

Section 9. Shareholder Approval. This Plan shall be subject to approval by a vote of the shareholders of the Company at the 1995 Annual Shareholders meeting, and such shareholder approval shall be a condition to the right of a Participant to receive any benefits hereunder.

Section 10. No Right to Employment. The designation of an Eligible Executive as a Participant or grant of an Incentive Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any affiliate or subsidiary.

Section 11. Governing Law. The validity, construction and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of New York, without reference to its conflicts of laws rules, and applicable federal law.

Section 12. No Trust. Neither the Plan nor any Incentive Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Participant. To the extent any Participant acquires a right to receive payments from the Company in respect to any Incentive Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

Section 13. Section 162(m). It is the intention of the Company that all payments made under the Plan shall be excluded from the deduction limitations contained in Section 162(m). Therefore, if any Plan provision is found not to be in compliance with the "performance-based" compensation exception contained in Section 162(m), that provision shall be deemed amended so that the Plan does comply to the extent permitted by law and deemed advisable by the Committee, and in all events the Plan shall be construed in favor of its meeting the "performance-based" compensation exception contained in Section 162(m).

Section 14. Change in Control. Upon the occurrence of an event constituting a Change in Control, all Incentive Awards outstanding hereunder for the Performance Period during which such event occurs shall become immediately due and payable at the maximum value of such Awards as determined by the Committee at the time of award.

Exhibit 10 (h)

XEROX CORPORATION
RESTRICTED STOCK PLAN FOR DIRECTORS
1996 AMENDMENT AND RESTATEMENT

1. NAME OF PLAN. This plan shall be known as the "Xerox Corporation Restricted Stock Plan For Directors" and is hereinafter referred to as the "Plan".

2. EFFECTIVE DATE AND TERM. The Plan was originally effective as of January 1, 1988. This amendment and restatement is effective July 1, 1996. The Plan shall remain in effect until amended or terminated by action of the Board of Directors (the "Board") of Xerox Corporation, a New York corporation (the "Company").

3. ELIGIBLE PARTICIPANTS. Each member of the Board from time to time who is not a full time employee of the Company or any of its subsidiaries shall be eligible participants in the Plan (the "Participants").

4. Automatic Receipt of Restricted Shares. In accordance with Section 14 of Article II of the By-Laws of the Company, until further action by the Board commencing with the calendar quarter beginning on July 1, 1996 in addition to any cash compensation established by the Board of Directors, each Participant shall be paid annual fees at the rate of $25,000 for service on the Board payable in shares of Common Stock, par value $1 per share, of the Company (the "Common Stock") subject to the restrictions set forth in Section 6 hereof. Such fee shall be payable in equal quarterly installments on the first day of the month next following the end of each calendar quarter for services on the Board and any Committee(s) thereof in such calendar quarter. The number of shares of Common Stock to be issued to each Participant on each payment date shall be determined by dividing such quarterly installment by the Fair Market Value of such shares as hereinafter defined. The Board shall have the authority to change the amount of annual fees for service on the Board payable in shares of Common Stock under this Section 4 not more frequently than annually.

5. ELECTION TO RECEIVE ADDITIONAL RESTRICTED SHARES. Each Participant shall have the right to elect, on forms provided by the Company, to receive up to one hundred percent of their annual fee for services on the Board which would otherwise be payable in cash (other than fees which have been deferred under the Company's 1981 Deferred Compensation Plan For Directors), in the form of shares of Common Stock. Any part of the fee elected to be paid in shares shall be payable in equal quarterly installments on the first day of the month next following the end of each calendar quarter for services on the Board in such calendar quarter. The number of shares to be issued at the time of payment shall be determined by dividing the amount elected to be taken in the form of shares by the Fair Market Value of such shares. Such election must be made prior to the calendar year the fees for which are to be paid in shares but not less than six months prior to the date any shares are to be distributed in accordance with such election. The shares receivable under this Section may be made subject to the restrictions set forth in Section 6 at the election of the Participant made at the same time the Participant elects to receive shares under this Section. Elections under this Section shall remain in effect from year to year until changed by the Participant. No change shall be effective until the next calendar year and no change shall be effective any earlier than six months after the date of making such election to change.

6. RESTRICTIONS ON SHARES. The shares issued under Section 4, and those issued under Section 5 which are elected to be covered by this Section, shall be restricted and may not be sold, hypothecated or transferred (including, without limitation, transfer by gift or donation) except that such restrictions shall lapse upon:

(a) Death of the Participant;

(b) Disability of the Participant preventing continued service on the Board;

(c) Retirement of the Participant from service as a Director of the Company in accordance with the policy on retirement of non-employee Directors then in effect;

(d) Termination of service as a Director with the consent of a majority of the members of the Board other than the Participant; or

(e) A Change in Control as hereinafter defined.

If a Participant ceases to be a Director of the Company for any other reason, the shares issued to such Director subject to this Section shall be forfeited and revert to the Company.

The certificates for shares which are subject to this Section shall be held by the Company until lapse of restrictions as provided in this Section, provided, however, the Participant shall be entitled to all voting, dividend and distribution rights for such shares.

Participants shall have the right to direct in writing, on forms provided by the Company, that upon lapse of restrictions in accordance with subsections (a) through (e) above, the shares held by such Participant under the Plan shall be transferred and delivered by the Company to the individuals or entities as specified by the Participant in such form.

7. FAIR MARKET VALUE. The term "Fair Market Value" shall mean the closing price of the Common Stock in consolidated trading on the last trading day preceding the relevant payment date as reported in the Wall Street Journal.

8. FRACTIONS OF SHARES. Whenever under the terms of the Plan a fractional share would be required to be issued, the number of shares shall be rounded up to the next highest whole number of shares.

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

10. WITHHOLDING TAXES. Whenever under the Plan shares are to be issued, the Company shall have the right to require the recipient to remit to the Company an amount sufficient to satisfy federal, state and local withholding tax requirements prior to the issuance or delivery of any certificate or certificates for such shares.

11. GENERAL RESTRICTION. The issuance of shares or the delivery of certificates for such shares to recipients hereunder shall be subject to the requirement that, if at any time the Chief Financial Officer of the Company shall reasonably determine, in his discretion, that the listing, registration or qualification of such shares upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, such issuance or delivery thereunder, such issuance or delivery shall not take place unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not reasonably acceptable to the Chief Financial Officer.

12. AUTHORIZED OR TREASURY SHARES. Shares issuable under the Plan may be authorized but unissued shares or may be treasury shares as shall be determined from time to time by the Chief Financial Officer of the Company.

13. RULE 16B-3. It is the intention that the Plan and the operation thereof qualify for the exemption provisions contained in Rule 16b-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, as in effect from time to time or any successor rule ("Rule"). To the extent that the implementation or operation of any provision hereof does not comply with the requirements of the Rule as applicable to the Plan, such provision shall be inoperative or shall be interpreted, to the extent practicable, to apply in a manner not inconsistent with the requirements of the Rule.

Exhibit 10(r)(1)

THE DOCUMENT COMPANY
XEROX

October 3, 2001

Mr. Barry D. Romeril
17 Thomas Place
Rowayton, CT 06853

Dear Barry,

This agreement sets forth the arrangements for your retirement from Xerox Corporation (together with its successors, the "Company"). This agreement supersedes the agreement between you and the Company dated June 13, 2001. This agreement, and the Company's undertakings and obligations hereunder, have been approved by the Executive Compensation and Benefits Committee of the Company's Board (the "ECBC").

Last day of active employment:	December 31, 2001
Compensation Continuance:	24 months from the last day of active employment, subject to earlier expiration to the extent provided in this agreement
Compensation Continuance Amount:	$101,250 per month, paid no less frequently than monthly
Retirement Date:	The day following the day on which your Compensation Continuance expires

If you commence employment as an employee of, or consultant to, another firm or corporation (other than the Company or any of its affiliates) that is, as of the date of such commencement, (a) a direct competitor of the Company in any material business presently engaged in by Xerox Corporation or in which it is probable, as of the date of this letter, that Xerox Corporation will materially engage prior to December 31, 2003 or (b) such a competitor indirectly through a partnership, joint venture or other material business arrangement with, or as a material supplier or consultant to, such a direct competitor (any firm or corporation described in (a) or (b) being a "Competitor"), your Compensation Continuance will immediately expire. However, if the Company advises you in writing that in its reasonable

judgment such other firm or corporation is not a Competitor, the remaining Compensation Continuance will continue to be paid. In this connection, the Company will (x) advise you, promptly upon your request, whether any prospective employer you identify is a Competitor and (y) keep your request confidential.

The Company may also terminate the Compensation Continuance in the event that you (i) willfully violate your obligations under Sections 13, 14, 15 or 16 below (relating, respectively, to a release of claims, cooperation in litigation, confidential information and non-disparagement), (ii) willfully fail to resign as an officer and director of the Company promptly upon request in accordance with this agreement, (iii) solicit for employment, by any person or entity other than the Company or any of its affiliates, any individual (other than your present, or any former, secretary) who you know to be an employee of the Company or any of its affiliates or (iv) are convicted of, or enter a guilty plea with respect to, a crime that constitutes a felony, whether or not connected with the Company. In addition, your Compensation Continuance will automatically terminate in the event of your death.

If your Compensation Continuance expires early pursuant to either of the two immediately preceding paragraphs, then: your Retirement Date will (as provided above) be deemed to have occurred on the day following the day that your Compensation Continuance expires; certain benefits will accordingly (as provided in the following Sections of this agreement) either terminate or be reduced; and in the event that your Compensation Continuance expires early for any reason other than your death, all your then unvested stock options and unvested stock-based awards listed in 3A and 3B below will immediately expire and be forfeited and your benefits (if any) under the SERP (as defined below) will be determined based solely on compensation you receive through December 31, 2001.

1. CONSULTING ARRANGEMENT

While you are receiving Compensation Continuance, you agree to provide up to 100 days of consulting services to the Company with regard to strategic, business development and financial matters, including without limitation consummation and implementation of third party financing arrangements of customer equipment purchases on a worldwide basis and debt restructuring (the "Services"). The Services will be provided at such times and places as may from time to time be reasonably requested by the Company. The Company will reimburse you for your documented, reasonable, out-of-pocket expenses in connection with the rendering of the Services, including without limitation reasonable travel expenses. No additional compensation will be provided to you for the Services.

2. INCENTIVE STOCK RIGHTS AWARD

You have been granted an award of 50,000 Incentive Stock Rights (ISRs) as of September 26, 2001, as memorialized in a form of award agreement of which you have received a copy. This ISR award will fully vest no later than January 1, 2004 unless (i) your Compensation Continuance terminates prior to the expiration of its scheduled two-year period pursuant to the second or third paragraph of this agreement for a reason other than your death or (ii) you have willfully breached any material provision of this agreement prior to the vesting date; provided that, to the extent that the 1991 Long-Term Incentive Plan (the "LTIP") requires further action by the ECBC to fully implement the foregoing, such full implementation shall be contingent on the ECBC taking such further action. This ISR award will settle promptly following vesting.

3. STOCK AWARDS

Other stock-based grants awarded to you prior to the commencement of Compensation Continuance and still outstanding will continue to vest and/or remain exercisable as set forth below and consistent with the terms and conditions of the LTIP and the relevant award agreement relating to each such award ("LTIP Terms"); provided, however, that for purposes of the foregoing (x) you will be treated as having retired with the consent of the ECBC, under the retirement plans and policies of the Company, on your Retirement Date and (y) in the event that your Compensation Continuance expires either due to your death, or by expiration of its scheduled two-year term, you will continue to vest, no later than the scheduled vesting date(s) set forth below and irrespective of your date of death, in any stock option or other stock- based award that is not yet fully vested as of your Retirement Date (including, without limitation, the 02/07/00 and 01/01/01 NQSOs) provided that, to the extent that the LTIP requires further action by the ECBC to fully implement the provisions of this clause (y) with respect to any particular stock option or other stock-based award, such implementation, with respect to such option or award, shall be contingent on the ECBC taking such further action. Except to the extent otherwise expressly provided in this agreement and subject to the foregoing sentence: each stock option that is, or becomes, vested will remain exercisable for the balance of its maximum stated term; each stock option and other stock-based grant will, once vested, be wholly non-forfeitable; each stock-based grant, other than stock options, will settle promptly following vesting; and each unvested stock option and other unvested stock-based award will become vested on the dates indicated. You will not be eligible for additional stock-based grants during Compensation Continuance.

A. Outstanding Stock Options

Award and Grant Date	Grant Price (split adjusted)	Shares Remaining (split	Vesting Status	Expiration Date

		adjusted)		
NQSO 12/31/97	$36.7032	173,558	fully vested	12/31/05
NQSO 10/12/98	$46.875	74,382	fully vested	12/31/08
NQSO 12/07/98	$54.8594	104,440	fully vested	12/31/08
NQSO 01/01/99	$59.4375	2,852	partially vested; 100% vested on 01/01/02	12/31/06
NQSO 11/09/99	$25.8125	21,563	unvested; 100% vested on 03/01/03	12/31/09
NQSO 02/07/00	$21.7812	50,000	unvested; 100% vested on 01/01/05	12/31/09
NQSO 5/18/00	$27.00	100,000	50% vested; 100% vested on 01/01/02	12/31/09
NQSO 01/01/01	$4.75	467,300	unvested; one-third vesting on each of 01/01/02, 01/01/03 and 01/01/04	12/31/10

B. Other Outstanding Stock-Based Grants

Award and Grant Date	Shares Remaining (split adjusted)	Vesting Status
ISR 06/16/93	10,801	4803 shares vested; 100% vested on 09/25/03
ISR 10/	23,652	unvested; 100% vested on
....ISR 10/13/97	25,000	unvested; 100% vested on 03/01/02
ISR 05/18/00	15,000	unvested; 100% vested on 01/01/02
RESO	125,000	unvested; 100% vested on

4. PROFIT SHARING AND SAVINGS ACCOUNT

As you know, under relevant provisions of Xerox's Profit Sharing and Savings Plan (as from time to time amended in accordance with its terms and together with any successor plan, the "Savings Plan"), you have choices available regarding (x) the continued investment of your Savings Plan account balances and (y) the time and form of distributions from those accounts. Please refer to "You and Xerox: Wealthwise" for a description. A calculation of your Savings Plan account balances will be completed at the end of your Compensation Continuance period, at which time you will have the opportunity to elect how and when the proceeds will be distributed. The aggregate balance in your Savings Plan accounts as of September 26, 2001 was $132,957.39.

5. EMPLOYEE STOCK OWNERSHIP PLAN (ESOP)

You are a participant in Xerox's Employee Stock Ownership Plan (as from time to time amended in accordance with its terms and together with any successor plan, the "ESOP"). Upon the expiration of the Compensation Continuance period, your ESOP account can be taken as cash, in stock, or rolled over to the Savings Plan in accordance with elections made by you under the ESOP. A determination of your final ESOP benefit will be made at the end of your Compensation Continuance period. The aggregate balance in your ESOP accounts as of September 26, 2001 was 277.371647 shares.

6. PENSION BENEFITS

Effective on your Retirement Date, you will become a retiree of the Company. As a retiree, you will be entitled to receive pension and survivor benefits determined under Xerox's funded and unfunded Retirement Income Guarantee Plans (as from time to time amended in accordance with their terms and together with any successor plans, the "RIGPs") and Xerox's unfunded Supplemental Executive Retirement Plan (as from time to time amended in accordance with its terms and together with any successor plan, the "SERP"). These benefits will be determined, in the case of the unfunded plans, (A) based on (i) crediting you for service, and participation, for the entire period from the commencement of your employment with the Company on June 16, 1993 through the Retirement Date, (ii) treating you as a Grandfathered Mid- Career Officer, and (iii) including, for purposes of determining your final average pay, any bonus payable pursuant to Section 8 below, (B) without regard to changes in the plans after the date of this letter that would reduce your benefits thereunder and (C) otherwise on no less favorable a basis than applies generally to retired executives of the Company that are covered by the plans. The foregoing pension and survivor benefits will

commence on your Retirement Date, and will be paid in monthly installments reflecting, to the extent applicable, any eligible survivor elections you have made in accordance with the applicable plans. Except for amounts paid under the funded RIGP, these pension and survivor benefits are unfunded and are not tax qualified. This means you will be an unsecured general creditor of the Company with respect to the unpaid portion of the benefits. A determination of your benefits will be made at retirement. The Company will, upon your written request, promptly prepare an estimate of your benefits, with back up, at any time prior to your Retirement Date. An illustrative calculation of your benefits, assuming a Retirement Date of January 1, 2004, has recently been supplied to you.

7. MEDICAL BENEFITS

You will continue to be covered, until the end of the Compensation Continuance period, under all of the Company's welfare benefit plans applying to employees of the Company generally. After the end of the Compensation Continuance period, you and your dependents will receive retiree welfare benefit coverage under Xerox Retiree Flex and other retiree welfare benefit plans (if any) of the Company as in effect from time to time, in each case on no less favorable a basis than other retired senior executives of the Company generally. This program will include, among other things, coordination of benefits if you are covered by more than one plan including Medicare. As you get closer to your Retirement Date, an information package will be sent to you from our medical insurance partner.

8. BONUS

You are entitled to receive additional cash bonus awards for the year 2001. The portion of your regular cash bonus for 2001 that has not yet been paid to you will be paid to you "at target" in two quarterly payments of $135,000 each no later than the date that corresponding payments are made to other senior executives of the Company. In addition, provided that applicable EPS targets are met, your CEO Challenge Bonus amounts for the third and fourth quarters of 2001 ($67,500 each) will be paid promptly following the public release of the pertinent earnings. You will not be eligible for bonus payments for any year after 2001.

You are also entitled to receive a cash bonus of not less than $500,000 in connection with the Third Party Financings and FX Sale. Any bonus amount in excess of $500,000 which is determined to be recommended by management will be subject to approval by the Executive Compensation and Benefits Committee at its regularly scheduled meeting in February, 2002. The final bonus will be paid to you no later than March 1, 2002.

9. LIFE INSURANCE

Your Contributory Life Insurance coverage of $1,500,000 will continue during your Compensation Continuance period. During this period, both you and the Company will continue to share in the cost of premiums according to the original plan agreement. In the event of your death during your Compensation Continuance period, your beneficiaries will, subject to applicable plan provisions, receive the proceeds of your life insurance coverage. As of your Retirement Date, if you agree in writing, the Company will extend the funding of the coverage in accordance with the Modification of Program Benefits issued in 1999.

10. DEFERRED COMPENSATION PLAN

Your deferred compensation accounts under Xerox's Deferred Compensation Plan for Executives (as from time to time amended in accordance with its terms and together with any successor plan, the "Deferred Compensation Plan") will be paid out following your Retirement Date in the manner, and at the time(s), provided under the Deferred Compensation Plan and your applicable elections (if any). The balance in your Deferred Compensation Plan accounts as of September 26, 2001 was $2,548,509.21, which balance is subject to fluctuation based upon your deferral of additional amounts (if any) into the accounts prior to the Retirement Date and upon hypothetical investment results through the date(s) of distribution. The benefits under the Deferred Compensation Plan are unfunded and are not tax qualified. This means you will be an unsecured general creditor of the Company with respect to the unpaid portion of the benefits.

11. OTHER ARRANGEMENTS

You will relinquish your position as a Director and Officer of Xerox Corporation and as a director and officer of any of its subsidiaries, effective on December 31, 2001.

You will be paid for any accrued and unused vacation upon commencement of Compensation Continuance. You will not accrue any further vacation during Compensation Continuance or thereafter.

Your company financial counseling and tax preparation programs will be continued through the end of the year 2003 (and will include tax preparation services in 2004 for year 2003).

You will not be entitled to any future Executive Expenses Allowance payments during Compensation Continuance or thereafter.

You will, during Compensation Continuance, be entitled to appropriate office space, and appropriate secretarial assistance, provided at the Company's sole expense at a location reasonably convenient to your current residence in Rowayton.

You will not be eligible to receive additional long-term incentive awards from the Company during Compensation Continuance.

You will be entitled to your physical under the Company's Executive Physical program for the year 2001, but not thereafter.

You will be treated, during the Compensation Continuance period and through your Retirement Date, as an employee of the Company for purposes of (x) Sections 2 through 7, 9 and 10, and (y) the plans, programs and arrangements referred to therein.

Your entitlements under the Savings Plan, the ESOP and the Deferred Compensation Plan are, and will continue to be, fully vested and not subject to forfeiture in any circumstance (except to the extent, if any, that they are subject to the claims of the Company's creditors). You will remain a participant in the Savings Plan, the ESOP and the Deferred Compensation Plan from the date hereof through the expiration of the Compensation Continuance period, to the same extent as if you had remained an officer and active employee of the Company.

You will also receive, to the extent not inconsistent with this agreement, any other or additional benefits to which you are entitled in accordance with applicable plans, programs and arrangements of the Company or any of its affiliates, including without limitation: reimbursement, in accordance with Company policy, of business expenses incurred while an active employee of the Company; dividends, and/or dividend equivalents, on outstanding stock-based awards and option surrender rights on outstanding options; and benefits in accordance with any agreement or arrangement you may currently have with the Company, or any insurer, relating to indemnification or advancement of legal expenses (including, without limitation, the understanding concerning the Company's payment of the fees and expenses of Wilmer Cutler & Pickering that is set forth in that firm's September 28, 2001 letter to you).

You will be under no obligation to seek other employment, or to become self-employed, following the expiration of your active employment with the Company and there will be no offset against amounts due you, under this agreement or otherwise, on account of any remuneration you may subsequently receive, or on account of any claim that the Company or any of its affiliates may have against you (other than as expressly provided in this agreement).

The Company and its affiliates may withhold from any amounts or benefits payable under this agreement, or otherwise, taxes that are required to be withheld pursuant to any applicable law or regulation.

The provisions of Sections 1, 12, 15 and 16 of this agreement supersede any term in any plan, policy, agreement, award or other arrangement of the

Company or any of its affiliates relating to non-competition, non- solicitation, non-hire, indemnification, confidentiality, disparagement or other restrictions on conduct following the termination of your active employment with the Company to the extent that such provisions are more favorable to you than such term.

The Company represents and warrants that: it is fully authorized by action of the ECBC (and of any other person or body whose action is required) to enter into this agreement and to perform its obligations under it (including without limitation obligations relating to plans for which the ECBC is the administrator); the execution, delivery and performance of this agreement by it does not violate any applicable law, regulation, order, judgment or decree or any agreement, plan or corporate governance document to which it is a party or by which it is bound; and upon the execution and delivery of this agreement by you, this agreement will be a valid and binding obligation of the Company, enforceable against it in accordance with its terms, except to the extent that enforceability may be limited by applicable bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

No provision in this agreement may be amended unless such amendment is set forth in a writing that expressly refers to this agreement and that is signed by you and by an authorized (or apparently authorized) officer of the Company. No waiver by any person of any breach of any condition or provision contained in this agreement will be deemed a waiver of any similar or dissimilar condition or provision at the same or any prior or subsequent time. To be effective, any waiver must be set forth in a writing signed by the waiving person and must specifically refer to the condition(s) or provision(s) of this agreement being waived.

Other than the LTIP Terms, in the event of any inconsistency between this agreement and the terms of any plan, program, arrangement, agreement or other document of the Company or any of its affiliates, the terms of this agreement will govern and control.

The headings of the Sections and sub-sections contained in this agreement are for convenience only and will not be deemed to control or affect the meaning or construction of any provision of this agreement.

This agreement will be governed, construed and enforced in accordance with its express terms, and otherwise in accordance with the laws of the State of New York, without regard to conflict of laws principles.

12. INDEMNITY, ETC.

You will be entitled to prompt indemnification, and prompt advancement of legal and other expenses, with respect to any proceeding or claim (including,

without limitation, discovery requests, requests for information, and proceedings and claims that are threatened or reasonably anticipated, whether civil, criminal, administrative, investigative or otherwise) arising out of or relating to your service or status as a director, officer, employee, consultant, trustee, representative, or agent of the Company or any of its affiliates (including, without limitation, joint ventures and employee benefit plans) or any position or services undertaken on behalf of, or at the request of, any of the foregoing (collectively, "Covered Proceedings and Claims"), to the fullest extent permitted under the provisions of (i) Sections 721 through 725 of the Business Corporation Law of the State of New York (or any successor thereto), or (ii) Section 2 of Article VIII of the By- laws of the Company as amended through August 1, 2001 (or any successor thereto). The foregoing indemnification shall include (without limitation) indemnification, to the extent permitted, against any and all costs, expenses, liabilities and losses (including, without limitation, attorneys' fees reasonably incurred, judgments, fines, ERISA excise taxes or penalties, amounts paid or to be paid in settlement, and any costs and fees reasonably incurred in enforcing your rights to indemnification or contribution) incurred or suffered by you in connection with a Covered Proceeding or Claim, and such indemnification will continue as to you even though you have ceased to be a director, officer, employee, consultant, trustee, representative or agent of the Company or other entity. The foregoing advancement shall include (without limitation) reimbursement, to the extent permitted, for any and all costs and expenses (including, without limitation, attorneys' fees) incurred by you in connection with any Covered Proceeding or Claim within a reasonable time after receipt by the Company of a written request for such reimbursement and appropriate documentation associated with these costs and expenses. In addition, you will in all cases remain entitled to indemnification, and contribution, to the extent provided by applicable law.

The Company agrees to continue and maintain a directors' and officers' liability insurance policy (or policies) covering you at a level, and on terms and conditions, no less favorable to you than the coverage then provided to the Company's directors and/or senior-level officers generally, until such time as suits against you are no longer permitted by law. Such coverage will include coverage under the Company's directors' and officers' liability insurance policies with Federal Insurance Company, National Union Fire Insurance Company of Pittsburgh P.A., Reliance Insurance Company, Chubb Atlantic Ltd., Gulf Insurance Company and A.C.E. Insurance, Ltd., and any replacement or substitute therefor and any addition thereto.

13. RELEASE

Prior to your last day of active employment, the Company will provide you with a release in the form attached (the "Release") that has been executed by an authorized officer of the Company. Within seven days thereafter, you will execute and return to the Company such Release and, if you fail to do so, the

Compensation Continuance provided for in this agreement will not commence. The Release, once executed and delivered by you, will be deemed a part of this agreement for all purposes. The execution of the Release on behalf of the Company is subject to prior approval by the Board of Directors.

14. COOPERATION IN LITIGATION

You will, at the Company's reasonable request and sole expense, cooperate fully with the Company and its counsel in any litigation that arises out of or is related to your service with the Company or any of its subsidiaries, or in which you are named as a party. That cooperation will include making yourself available for reasonable periods of time upon reasonable notice for consultation with the Company's counsel in any such litigation and to testify in such litigation. The Company will promptly reimburse you for, or promptly advance to you, all costs and expenses reasonably incurred by you in connection with rendering assistance to the Company under this Section 14, including without limitation fees and disbursements of separate counsel for you if you reasonably determine, on advice of counsel, that you should have separate representation. Such expenses will be reimbursed or advanced promptly after your submission to the Company of statements in such reasonable detail as the Company may reasonably require.

15. CONFIDENTIAL INFORMATION

You will not at any time disclose confidential or proprietary information of the Company or any of its affiliates ("Confidential Information"). The foregoing prohibition will not apply (a) to any disclosure of Confidential Information in connection with providing services or assistance to or for the benefit of, or at the request of any agent, attorney or other apparently authorized representative of, the Company or any of its affiliates, under Section 1, Section 14 or otherwise, (b) to disclosure required by law or by any court, arbitrator, agency, administrative or legislative body (including any committee thereof), or other person or body with apparent jurisdiction to order you to disclose or make accessible any information, (c) in connection with enforcing this agreement, (d) as to Confidential Information that becomes generally known to the public or within the relevant trade or industry other than through a violation by you of this Section 15, or (e) to disclosure in confidence to an attorney or other professional for the purpose of securing professional advice.

16. NON-DISPARAGEMENT

You will not intentionally make any public statement to third parties, the public, the press, the media, or any administrative agency that disparages, or is likely to cause injury to, the Company. The Company will use its best reasonable efforts to cause its directors, officers, senior executives and other employees, agents and representatives not to intentionally make any

public statement to third parties, the public, the press, the media, or any administrative agency that disparages, or is likely to cause injury to, you.

Notwithstanding the foregoing, nothing in this Section 16 shall prevent any person from making truthful public statements (a) in response to incorrect, disparaging or derogatory public statements or (b) to the extent (i) necessary to enforce this agreement or (ii) required by law or by any court, arbitrator, administrative or legislative body (including without limitation any committee thereof), or other person or entity with apparent jurisdiction to order such person to disclose information.

You will be entitled to review and approve any internal announcement, and any press release or other public statement, made in connection with the execution of this agreement, the termination of your active employment, the termination of your service as a director of the Company or your retirement (which approval shall not be unreasonably delayed or withheld).

17. DISPUTE RESOLUTION

Any claim or dispute arising out of or relating to this agreement or your employment with (or retirement from) the Company will be resolved by confidential arbitration, in New York City, in accordance with the Commercial Arbitration Rules (and not the National Rules for the Resolution of Employment Disputes) of the American Arbitration Association. Judgment upon the award rendered by the arbitrator(s) may be entered and enforced in any court of competent jurisdiction.

18. SUCCESSORS

You may not transfer any of your rights or obligations under this agreement other than your rights to compensation and benefits, which may be transferred only by will or by operation of law, or as provided under applicable plans, programs or arrangements of the Company or its affiliates.

In the event of your death or a judicial determination of your incompetence, references in this agreement to you shall be deemed, where appropriate, to refer to your beneficiary, estate or other legal representative.

Neither the Company nor any of its affiliates (a "Company Transferor") may assign or transfer any of its rights or obligations under this agreement except that such rights or obligations may be assigned or transferred pursuant to a merger, consolidation or other combination in which the Company Transferor is not the continuing entity, or a sale or liquidation of all or substantially all of the business and assets of the Company Transferor, provided that the assignee or transferee is the successor to all or substantially all of the business and assets of the Company Transferor and such assignee or transferee assumes the liabilities, obligations and duties

of the Company Transferor under this agreement, either expressly or by operation of law.

At the appropriate time, a representative of the Company will contact you regarding your resignation as a Corporate Officer and as a member of the Company's Board.

Sincerely,

/s/ Paul A. Allaire

Paul A. Allaire

PAA/rls

AGREED AND ACCEPTED

/s/ Barry D. Romeril
Barry D. Romeril

Date: 3 Oct. 2001

Exhibit 10(r)(2)

Name: Barry D. Romeril

THE DOCUMENT COMPANY
XEROX

RELEASE

1. In consideration of Xerox' agreement to enter into this Release and the letter agreement dated October 3, 2001, attached hereto and incorporated herein, and other good and valuable consideration the adequacy and receipt of which are hereby acknowledged, Barry D. Romeril ("Romeril") releases Xerox Corporation ("Xerox") and its employees, directors, officers, agents, stockholders, subsidiaries, affiliates, successors and assigns, together with the Xerox employee benefits plans in which he is now or has been a participant and their trustees, administrators, successors, assigns, agents and employees (collectively, the "Company Releasees"), from any and all claims of any kind, known or unknown, which he now has or may have against any of the Company Releasees by reason of facts which have occurred prior to the date of this Release and that arise out of or relate to his employment, service or status as a director, officer or employee of Xerox or the termination thereof, other than claims arising under, or preserved by, the attached letter agreement and claims that are based on willful gross misconduct or willful fraud. Such released claims include, without limitation: any and all such claims that are based on age discrimination under the Age Discrimination in Employment Act of 1967 or the Older Workers' Benefits Protection Act of 1990; any and all such claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Acts of 1866, 1870, 1871 and 1991, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Family and Medical Leave Act of 1993, the Equal Pay Act of 1963, the Fair Labor Standards Act of 1938, the Employee Retirement Income Security Act of 1974, the Worker Adjustment and Retraining Notification Act of 1989, the Uniformed Services Reemployment Rights Act of 1994 and the Vietnam Era Veteran's Readjustment Assistance Act of 1974 (all as amended); any and all such claims based on the laws of the state(s) where Romeril is employed and resides, including by example and not limitation state fair employment practices law(s), and any other federal, state or local statute or regulation regarding employment or discrimination in employment; any and all such claims arising out of, based upon or relating to the hiring or employment by Xerox of Romeril or any representations or commitments made by any of the Company Releasees regarding future employment, remuneration, promotion, discipline, termination from employment, or benefits payable by any of the Company

Releasees to Romeril; any and all such claims under State contract or tort law, such as breach of the implied covenant of good faith and fair dealing, and negligent or intentional infliction of emotional distress and defamation; any and all such claims for punitive or compensatory damages, costs or attorneys fees; and any and all claims Romeril has against Xerox based upon its employee relocation policy, in each case other than claims arising under, or preserved by, the attached letter agreement or otherwise excluded from the release set forth in this Section 1.

2. In consideration of Romeril's agreement to enter into this Release and the attached letter agreement, and other good and valuable consideration the adequacy and receipt of which are hereby acknowledged, Xerox, on behalf of each of the Company Releasees, hereby releases Romeril and his estate, legal representatives, agents, attorneys, heirs, executors, family members, successors and assigns (collectively, the "Romeril Releasees") from any and all claims of any kind, known or unknown, which any Company Releasee now has or may have against any of the Romeril Releasees by reason of facts which have occurred prior to the date of this Release and that arise out of or relate to Romeril's employment, service or status as a director, officer or employee of the Company or the termination thereof, other than (i) claims arising under, or preserved by, the attached letter agreement, (ii) claims that are based on gross misconduct or fraud and (iii) claims as to which Xerox can not in accordance with the law of the State of New York provide indemnification to Romeril.

3. Romeril and Xerox each acknowledge and agree that the consideration set forth in this Release includes consideration that is in addition to anything of value to which either is otherwise entitled by law or Xerox policy.

4. Romeril and Xerox each understand and agree that this Release, and the agreement to provide consideration as set forth above, are not intended and should not be construed, in any way, as an admission by any of the Company Releasees or Romeril Releasees of any wrongdoing or liability.

5. Romeril and Xerox each agree not to file or pursue any charge, claim or action with any government agency, court, arbitrator or other person or body with apparent jurisdiction based on any claim that is released by this Release. However, Romeril understands that nothing set forth in this Release shall be construed as a condition precedent, penalty or other limitation of his right to file a charge or complaint with, or participate in an investigation or proceeding conducted by, the EEOC or any comparable state agency.

6. Romeril agrees to promptly and fully indemnify each of the Company Releasees against the bringing of any claim that is released pursuant to Section 1 of this Release, and Xerox agrees to promptly and fully indemnify each of the Romeril Releasees against the bringing of any claim that is

released pursuant to Section 2 of this Release. The foregoing indemnification shall extend to all liability, losses, costs and expenses (including reasonable attorneys' fees) incurred by any Company or Romeril Releasee in connection with defending against any claim released under those Sections.

7. Should any part, term or provision of this Release be declared or determined by any court, arbitrator or other person or body with apparent jurisdiction to be illegal or invalid, the validity of the remaining parts, terms and provisions shall not be affected thereby.

8. Romeril understands and acknowledges that for a period of one year following the Retirement Date, he will not be eligible for rehire as an employee, or retention as a contract worker or consultant, of Xerox.

9. Romeril and Xerox agree that this Release shall not release the payments, benefits and other provisions contained in the attached letter agreement or any claim or right under this Release.

10. Romeril acknowledges that he has been advised by Xerox as follows:

- TO CONSULT WITH AN ATTORNEY OF HIS CHOOSING TO COUNSEL HIM AS TO HIS RIGHTS BEFORE HE SIGNS THIS RELEASE;

- TO TAKE SUFFICIENT TIME TO DECIDE WHETHER TO SIGN THIS RELEASE. HE HAS 21 DAYS FROM THE DATE THIS RELEASE IS FIRST PROVIDED TO HIM TO CONSIDER IT BEFORE HE SIGNS IT AND RETURNS IT TO XEROX;

- THAT EVEN AFTER HE SIGNS AND RETURNS THIS RELEASE TO XEROX, HE WILL HAVE 7 DAYS THEREAFTER TO CHANGE HIS MIND AND REVOKE HIS RELEASE BY ASKING XEROX FOR ITS RETURN.

11. Romeril and Xerox each understand and agree that this release waives, to the extent provided, all claims either of them may have at the time they sign it, including claims they do not then know about or suspect. They each further understand and acknowledge that California Civil Code, Section 1542 provides: "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM MUST HAVE MATERIALLY AFFECTED HIS SETTLEMENT WITH THE DEBTOR." Each of them hereby expressly waives any rights he/it may have under that Code section, if applicable, or any other similar state or federal statute or common law principle of similar effect.

XEROX CORPORATION

By:

Name:
Title:

Date Release first provided to Romeril: October 3, 2001

Date counterpart of this Release, executed by Xerox, is provided to Romeril:

(To be filled in by Xerox)

Date Release signed by Romeril and returned to Xerox:

(To be filled in by Romeril)

Barry D. Romeril

Exhibit 10(t)(1)

Conformed Composite Copy

MASTER SUPPLY AGREEMENT

BY AND BETWEEN

XEROX CORPORATION

AND

FLEXTRONICS INTERNATIONAL LTD.

DATED AS OF

NOVEMBER 30, 2001

Confidential portions of this exhibit have been omitted and filed separately with the Securities and Exchange Commission with a request for confidential treatment pursuant to Rule 24b-2. The location of an omitted portion is indicated by an asterisk within brackets ("[*]").

STRICTLY CONFIDENTIAL

Master Supply Agreement

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MASTER SUPPLY AGREEMENT

This Master Supply Agreement (this "Agreement") is made and entered into as of November 30, 2001 by and between Flextronics International Ltd., a limited liability company formed in the Republic of Singapore (hereinafter "Flextronics"), acting through its Hong Kong branch office with offices at Room 908, Dominion Centre, 43-59 Queen's Road East, Wanchai, Hong Kong, and Xerox Corporation, a corporation organized under the laws of the State of New York, with offices in Webster, New York (hereinafter "Xerox").

For valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement hereby agree as follows:

ARTICLE 1

BACKGROUND

Section 1.1 Flextronics and Xerox are parties to a Master Purchase Agreement dated as of October 1, 2001 (the "Master Purchase Agreement"). As set forth in the Master Purchase Agreement and the Ancillary Agreements (as defined in the Master Purchase Agreement), as contemplated by the Master Purchase Agreement, Xerox and certain Xerox Affiliated Companies (as defined herein) have transferred to certain Flextronics Affiliated Companies (as defined herein) substantially all of their Product (as defined herein) manufacturing assets. As contemplated by the Master Purchase Agreement, Flextronics and Xerox have agreed to enter into this Agreement for, among other things, Flextronics and the Flextronics Affiliated Companies to provide the services necessary to supply the Purchasers (as defined below) with Products for the Term (as defined herein), all upon the terms and subject to the conditions set forth in this Agreement.

Section 1.2 Xerox is engaged in the document management business and through a network of affiliated companies designs, manufactures and markets printing and copying equipment and supplies. Xerox is now interested in outsourcing certain manufacturing and other services in connection with the operation of its General Office Business Segment (as defined below) and electronics production. Xerox's objective for outsourcing these manufacturing and services needs is to work with a contract manufacturer to reduce costs and investments and to retain an appropriate level of risk related to the marketing and sales of such products and services.

Section 1.3 Flextronics and the Flextronics Affiliated Companies comprise the Flextronics group, which collectively is a global supplier of pre-manufacturing, manufacturing and post-manufacturing services to global original equipment manufacturers. The objective of Flextronics when entering into this Agreement with Xerox is to build a viable and sustainable services business model, including an appropriate level of risk, and work with Xerox and the Xerox Affiliated Companies to aid in the achievement of time to customer, quality and cost objectives through cooperation on services from the beginning to the end of the Product Life (as defined below) of the Products, throughout the business units of Xerox.

ARTICLE 2

AGREEMENT

Section 2.1 The Agreement. The following documents, exhibits, attachments and schedules shall be deemed to be and form part of this Agreement:

(a) PSAs (as defined herein), including without limitation, the final product quality acceptance tests, if any, applicable to each Product, and any other attachments thereto;

(b) Schedule A hereto, containing, at the applicable Closing Date (as defined in the Master Purchase Agreement) for the Facility that manufactures such Product, Product information, including without limitation, the then-effective Quarterly Purchase Price, the estimated average cost to repair each Component, Product Lead Time, UMC, Failure Rate Threshold, current Forecast and designation as PO Product or Kanban Product (each as defined herein) for each Product;

(c) Schedule B hereto, including without limitation, the lists of freight carriers, customs agents, Designated Locations and Facilities (each as defined herein);

(d) Schedule C hereto, including without limitation, the descriptions of certain of the management processes referred to in this Agreement;

(e) Schedule D hereto, containing the methods to be used to calculate the UMC and the Quarterly Statements (each as defined herein) for each Product;

(f) Schedule E hereto, containing certain KPIs (as defined herein) to be used in measuring certain aspects of the performance of Flextronics and the Flextronics Affiliated Companies under this Agreement;

(g) Schedule F hereto, containing a list and description of reports that Flextronics shall deliver to Xerox during the Term;

(h) Schedule G hereto, containing an example of the calculation to be made pursuant to Section 6.2(c) hereof;

(i) Schedule H hereto, containing, at the applicable Closing Date (as defined in the Master Purchase Agreement) for the Facility that manufactures such Electronic Component, Product information with respect to each Electronic Component;

(j) Schedule I hereto, containing a list of each Approved Sub-Tier Supplier and indicating whether such supplier is a Xerox Sub-Tier Supplier or a Flextronics Sub-Tier Supplier;

(k) Purchase Orders (as defined below) issued by any Purchaser under this Agreement;

(l) SSAs (as defined below) pursuant to which certain Affiliates of Flextronics and Xerox shall conduct the supply and purchase of Products in their respective locations; and

(m) Any other document, exhibit, attachment or schedule referenced herein and specifically made a part hereof.

Section 2.2 Conflicting Terms; Changes to Schedules, Etc. All such documents, exhibits, attachments and schedules shall together be deemed to contain the terms of this Agreement; provided, however, any printed term or condition contained in any Purchase Order or on any order confirmation or similar document received by a Purchaser from Flextronics or any Flextronics Affiliated Company, which term or condition is otherwise in conflict with the other terms and conditions set forth in this Agreement, shall be superseded by the terms and conditions otherwise set forth in this Agreement. The PSAs and Schedule A and the information contained therein (except for the Quarterly Purchase Price set forth in Schedule A, which is governed by Article 6 hereof, and except as provided in the next sentence) may be changed or amended by Xerox, in its reasonable discretion, upon written notice to Flextronics. Unless otherwise specifically set forth in this Agreement, (a) the information with respect to Product Lead Time, UMC, Failure Rate Threshold and the estimated average cost to repair each Component set forth in Schedule A, (b) Schedules B, C, D, E, F, G, H and I and the information contained therein, and (c) any other document, exhibit, attachment or schedule referenced herein, may be changed or amended only by mutual written consent of Flextronics and Xerox, which consent may not be unreasonably withheld. The change or amendment of the SSAs shall be governed by Section 2.3 below. Any references in this Agreement to the PSAs, the SSAs, Schedules A, B, C, D, E, F, G, H and I and the information contained therein (or to any other document, exhibit, attachment or schedule referenced herein) shall be deemed to be references to the then-current PSAs, SSAs, Schedules and information (or other document, exhibit, attachment or schedule), unless otherwise indicated in such reference.

Section 2.3 Specific Supply Agreements. Flextronics and Xerox anticipate that their respective Affiliates will enter into SSAs in order to conduct the supply and purchase of Products in their respective locations. The terms and conditions of this Agreement shall be incorporated into all SSAs, except Independent SSAs, with reference to this Agreement. Independent SSAs shall include all of the relevant terms and conditions of this Agreement. Different or additional terms and conditions may be negotiated and included in any SSA. In the event of any conflict or inconsistency between the terms and conditions of this Agreement and such SSA, which conflict or inconsistency is contrary to the intent of the parties hereto, the terms and conditions of this Agreement shall control. In the event of any conflict or inconsistency between the terms and conditions of this Agreement and such SSA, which conflict or inconsistency is consistent with the intent of the parties hereto, the terms and conditions of such SSA shall control. Xerox and Flextronics agree that the SSAs will provide that any disputes thereunder will be resolved by Xerox and Flextronics rather than by the parties to the SSAs. Notwithstanding the foregoing or anything contained in any SSA to the contrary, no SSA and no amendment to any SSA shall be valid or enforceable unless and until Xerox shall have been made a party thereto (evidenced by the execution of such document by Xerox's MSA Contract Manager) and shall have duly executed and delivered such SSA or such amendment, as the case may be.

Section 2.4 Inducement Payment by Flextronics. As additional consideration to Purchasers to enter into this Agreement, Flextronics and the Flextronics Affiliated Companies are hereby paying to certain Purchasers the sum of [*], receipt of which is hereby acknowledged by the relevant Purchasers, allocated as set forth in Schedule 2.4 hereto. The amounts paid to such Purchasers are exclusive of Certain Taxes, duties or other governmental

charges. Any Certain Taxes, duties or other governmental charges imposed on the payments made under this Section 2.4 shall be paid by and allocated solely for the account of the party which could have used commercially reasonable actions to avoid or recover any such amounts, or, if specifically addressed in the applicable SSA, to the party identified in such SSA. Any Certain Taxes, duties or other governmental charges not specifically allocated to a specific party under the provisions of the prior sentence shall be paid and borne by the parties in a manner that splits these Certain Taxes, duties or other governmental charges (including any Certain Taxes, duties or other governmental charges imposed on the payment of these additional amounts) equally between the parties, i.e., 50/50. In consideration of the above payment, during the Term, Xerox agrees (and shall cause Purchasers to agree) that a majority of the consolidated annual net sales revenue of Xerox and all companies Controlled by Xerox will not be derived from a business of electronics contract manufacturing that is substantially similar to and competitive with the core services provided by Flextronics and the Flextronics Affiliated Companies as of the date of this Agreement. For purposes of clarity, net sales revenue that is derived from goods and services related to the field of Printing and Publishing shall not be deemed derived from the business of electronics contract manufacturing. In the event that Xerox together with companies Controlled by Xerox fail to meet the criteria set forth in this Section 2.4, then, notwithstanding anything contained herein to the contrary, the sole remedy of Flextronics shall be termination of this Agreement as if termination occurred at the end of the Initial Term, Mandatory Extension Term, or a Renewal Term as such termination is provided pursuant to Section 15.1 hereof.

ARTICLE 3

DEFINITIONS

"Actual Total Quarterly UMC" shall have the meaning set forth in Section 6.2(a)(iii) hereof.

"Actual UMC" shall have the meaning set forth in Section 6.1(a) hereof.

"Affiliate" shall mean any entity that directly or indirectly, through one or more intermediaries, Controls, is Controlled by, or is under common Control with a party to this Agreement.

"Agreement" shall mean this Agreement, including the documents, exhibits, attachments and schedules referred to in Article 2 above.

"Applicable Benchmark Cost" shall mean the lowest cost for which a specific Product, as designed, can be obtained, given the Facility in which such Product is manufactured, provided such Facility is specified by Xerox, with Components sourced at the lowest worldwide Landed Costs to the respective Facility. The Applicable Benchmark Cost shall be as determined from time to time by Xerox in its commercially reasonable discretion in the ordinary course of business in accordance with past practices. Xerox shall provide Flextronics with written documentation of the Applicable Benchmark Cost, or any changes thereto, at the Quarterly Pricing Meeting.

"Applicable Laws" shall mean all (a) applicable common law and principles of equity, and (b) applicable provisions of all constitutions, treaties, decrees, conventions, laws, statutes, ordinances, rules, regulations, orders or other enforceable requirements of any Governmental Authority.

"Approved Sub-Tier Supplier" shall mean, with respect to a Component, any Sub-Tier Supplier that has been qualified to provide such Component for inclusion into a Product, all in accordance with Section 5.2 hereof.

"Assessment" shall have the meaning set forth in Section 6.7(b) hereof.

"Batch-Produced Products" means any PO Product with delivery to Purchaser scheduled in batches.

"Business Day" shall mean any day other than a Saturday, Sunday or a statutory or civic holiday in the United States.

"Buy Back Period" shall have the meaning set forth in Section 7.5 hereof.

"Buy Back Price" shall mean the price that Flextronics or the relevant Flextronics Affiliated Company shall pay to any Purchaser for any Component that requires repair and shall be predetermined at meetings between Flextronics and Xerox by subtracting the estimated average cost to repair such Component plus the applicable Margin Amount (calculated in accordance with Section 6.1(a) hereof) from the price that any Purchaser shall pay to repurchase such repaired Component; provided, however, for purposes of this definition, the applicable Margin Amount with respect to Electronic Components shall be calculated pursuant to the formula provided in Section 6.1(a) hereof for Products manufactured by Flextronics or the relevant Flextronics Affiliated Company in the Facilities in Mexico, Malaysia and Hungary. The estimated average cost to repair each Component is set forth on Schedule A hereto.

"Cancelled Electronic Components Purchase Order" shall mean a Purchase Order for Electronic Components (or portion thereof) that a Purchaser has notified Flextronics or the relevant Flextronics Company in writing is cancelled.

"Certain Taxes" shall mean any and all taxes imposed or collected by any governmental entity worldwide, or any political subdivision thereof, however designated or levied, on amounts payable to Purchasers by Flextronics or any Flextronics Affiliated Company, and any taxes or amounts in lieu thereof paid or payable in respect of the foregoing; exclusive, however, of: (i) withholding taxes; (ii) taxes imposed upon the net income of Purchasers or taxes in lieu of such net income taxes including but not limited to franchise taxes; and (iii) exclusive of any value added taxes ("VAT"), goods and services taxes ("GST") and other similar types of taxes that are recoverable by Purchasers by invoice credit or other similar credit in a taxing jurisdiction in which Purchasers may file for such credit.

"Change Request" shall have the meaning set forth in Section 9.2 hereof.

"Commodities" shall mean market-driven commodities used in manufacturing Products, including, for example, plastic resins, sheet steel, bar stock, memory chips, standard electrical circuits and active or passive electrical components.

"Completed Machine" shall mean any fully assembled Xerox copying or printing machine or other equipment fully configured for resale and assigned a serial number, which shall have certain performance characteristics as set

forth in the applicable Specifications. Completed Machines can be New Build Products, Remanufactured Products or Conversion Products.

"Component" shall mean any components, parts, Commodities or other materials (including, without limitation, any Module (such as an Electronic Component) and any label, insert and packaging for the Products) included in or used in connection with a Product in accordance with the Specifications that is obtained from a Sub-Tier Supplier.

"Component Lead Time" shall mean the aggregate amount of time necessary for Flextronics or any of the Flextronics Affiliated Companies to: (i) process an order for any Component, (ii) receive such order from the supplier thereof, and (iii) manufacture the Product containing such Component; provided, however, that the aggregate time necessary with respect to (i) and (iii) above shall not exceed ten (10) Business Days, unless otherwise agreed by the parties.

"Confidential Information" shall mean any information of a party concerning its business, finances, products, services, processes, methods and customers, including without limitation any information contained in this Agreement, whether in written, electronic or other form and whether or not now or hereafter existing.

"Configuration Database" shall mean a computerized database of Products, including every Component thereof and each part number thereof.

"Control" or "Controlled" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether by voting power, contract or credit arrangement, or otherwise and, in any event and without limiting the foregoing, any entity owning more than fifty percent (50%) of the voting securities of another entity shall be deemed to control that entity.

"Conversion Product" shall mean a Product that is disassembled, cleaned and reassembled as a different type or model of Product bearing a different serial number and that contains both new and Used Components.

[*] shall have the meaning set forth in Section [*] hereof.

"Damages" shall have the meaning set forth in Section 17.1 hereof.

"Designated Location" shall mean a location that has been designated by Xerox for the holding of Products. The locations of all Designated Locations designated by Xerox as of the date hereof are set forth on Schedule B hereto.

"Direct Material Cost" shall mean the direct material cost component of the UMC.

"Disputes" shall have the meaning set forth in Section 20.9(a) hereof.

"Electronic Components" shall mean Modules consisting of electronic parts and assemblies for use in Xerox products including, but not limited to, printed circuit board assemblies, user interface devices, network controllers and electronic sub-systems, in each case that are either manufactured or repaired by Flextronics or a Flextronics Affiliated Company as further provided in this Agreement.

"End-of-Life/Discontinued Product" shall have the meaning set forth in Section 4.10(a) hereof.

"Escalation Procedure" shall have the meaning set forth in Section 20.9(h) hereof.

"Estimated Mid-Point" shall mean the date that, pursuant to the plan agreed upon by the parties for the process of transferring the manufacturing of any Electronic Component from the relevant Xerox Affiliated Company to the relevant Flextronics Affiliated Company, is estimated at the time such plan is agreed to be the mid-point in such process.

"Ex Works" shall have the meaning set forth in Section 4.7(b) hereof.

"Express Warranties" shall have the meaning set forth in Section 14.1 hereof.

"Extraordinary Mitigation Steps" shall have the meaning set forth in Section 4.5 hereof.

"Facility" shall mean each of the Flextronics Affiliated Companies' manufacturing facilities listed on Schedule B hereto from time to time.

"Failure" shall mean, with respect to any Product, an occurrence requiring unscheduled field technical resources in respect of the repair or replacement of such Product.

"Failure Rate Threshold" shall mean, with respect to any Product, a Failure rate, which Failure rate is set forth on Schedule A hereto (or if no such Failure rate is set forth on Schedule A, a Failure rate that indicates that the Failure rate for such Product is statistically out of control). Defects in a Product the Failure rate of which has not then reached the Failure Rate Threshold shall be governed by Section 7.5 hereof. Defects in a Product the Failure rate of which is equal to or exceeds the Failure Rate Threshold shall be governed by the provisions of Article 14 hereof.

"Financing Charge" shall mean a charge fixed at [*] per month.

"Financing Charge Amount" shall have the meaning set forth in Section 4.7(a) hereof.

"Flextronics Affiliated Companies" shall mean any entity that is owned or otherwise Controlled, directly or indirectly, by Flextronics.

"Flextronics Confidential Information" shall mean Confidential Information of Flextronics and any Flextronics Affiliated Company.

"Flextronics Event of Default" shall have the meaning set forth in Section 15.2 hereof.

"Flextronics Guaranteed Obligations" shall have the meaning set forth in Section 20.17 hereof.

"Flextronics Indemnitee" shall have the meaning set forth in Section 17.2 hereof.

"Flextronics Intellectual Property" shall mean any software, equipment,

development, design, method, process, know-how, formula, algorithm, discovery, invention, technical data, specification, drawing or design tool, that is developed, invented, conceived or otherwise acquired by Flextronics prior to the date of this Agreement.

"Flextronics Sub-Tier Suppliers" shall mean the Flextronics Sub-Tier Suppliers identified on Schedule I hereto.

"Force Majeure Event" shall mean any event caused by circumstances beyond the reasonable control of a party, including, but not limited to, fire, flood, earthquake, typhoon or other acts of God, war, embargo, general labor strike or work stoppage, riot or piracy. For the avoidance of doubt, any failure by Flextronics or any Flextronics Affiliated Company to comply in any material respect with the Recovery Plan and any labor strike or work stoppage that is particular to one or more of the Facilities (instead of general in nature) shall be deemed not to be a Force Majeure Event.

"Forecast" shall mean, with respect to any Product, (i) when used as a noun, a good faith estimate of the quantity of such Product that the Purchasers then believe they will require during a stated period of time and (ii) when used as a verb, the act of making such estimate.

"General Office Business Segment" shall mean that segment of Xerox's business that specifically targets general offices of medium-sized businesses as customers for Xerox's products.

"Governmental Authority" shall mean any federal, state, local or foreign governmental or quasi-governmental agency or other body, including without limitation governmental agencies regulating product safety and electromagnetic emissions.

"Hulks" shall have the meaning set forth in Section 7.4(a) hereof.

"Improved Product" shall mean a variant (including, without limitation, all upgrades and downgrades) of a Product, which variant (a) is not in existence as of the date of this Agreement, and (b) has at least fifty percent (50%) of the total number of its Components in common with the Product upon which such variant is based; Improved Products shall become Products and shall be governed as such under the terms and conditions of this Agreement only as provided in Section 4.9 hereof.

"Improvements" shall mean any enhancement of, modification to, derivation of, or method for producing, any of the Products (including without limitation, Improved and New Products), whether or not eligible for patent, copyright or other form of intellectual property protection, which modification, derivation or method is developed, invented or conceived after the date hereof.

"Incoterms" shall have the meaning set forth in Section 4.7(b) hereof.

"Independent SSA" shall have the meaning set forth in the definition of SSA.

"Initial Cost Savings Amount" shall mean the aggregate dollar amount of reductions in the cost of Products agreed to by the parties in writing.

"Initial Quarterly Purchase Price" shall have the meaning set forth in Section 6.1(c) hereof.

"Initial Term" shall have the meaning set forth in Section 15.1 hereof.

"Inventory Repurchase Procedure" shall have the meaning set forth in Section 4.6(b) hereof.

"Kanban Process" shall mean the product replenishment process to be followed by Flextronics, the Flextronics Affiliated Companies and the Purchasers with respect to Kanban Products, all as set forth in Section 4.3 hereof.

"Kanban Products" shall mean those Products that have been designated on Schedule A hereto as Kanban Products, which Products shall be subject to the Kanban Process set forth in Section 4.3 hereof.

"KPIs" shall have the meaning set forth in Section 13.1(g) hereof.

"Labor and Overhead Reduction Amount" shall have the meaning set forth in Section 6.1(e)(ii) hereof.

"Landed Cost" shall mean the cost of a Product or Component landed at its destination including, without limitation, the price of transportation and any applicable customs duties and related processing fees, insurance, Taxes (other than Taxes that are recoverable by Purchasers), other governmental charges and related costs.

"Light Remanufacturing and Conversion Operations" shall mean the remanufacturing and/or conversion processes that are generally performed by field service technicians with respect to Products that have experienced limited customer and/or market use (including without limitation, demonstration Products or trial install Products), without delivering such Products to a Facility.

"Long Lead Time Component" shall mean any Component with a Component Lead Time in excess of eight (8) weeks.

"Major Change" shall mean any change to the Product Configuration of a Product that (i) impacts the form, fit, function or compatibility of a Product, (ii) relates to the safety of a Product, (iii) relates to the approval of a Product by any Governmental Authority, or (iv) Xerox has designated as a Major Change.

"Mandatory Extension Term" shall have the meaning set forth in Section 15.1 hereof.

"Margin Amount" shall have the meaning set forth in Section 6.1(a) hereof.

"Master Purchase Agreement" shall have the meaning set forth in Section 1.1 hereof.

"Maximum Reschedule Quantity" shall mean, with respect to Kanban Products, the applicable percentage set forth in the table in Section 4.3(e) hereof, and, with respect to PO Products, the applicable percentage set forth in the tables in Sections 4.4(c)(i) and (ii) hereof.

"Minor Change" shall mean any change to the Product Configuration of a

Product that is not a Major Change.

"Minimum Percentage" shall mean, with respect to a product family (i.e., "Lakes," "Silverstone," [*] and "Phaser 860"), the minimum percentage of business to be awarded to Flextronics and the Flextronics Affiliated Companies for each Product calculated based on volume.

"Module" shall mean two or more parts or components that have been combined to form a sub-assembly.

"MSA Contract Manager" shall mean (a) with respect to Xerox, the Vice President of Strategic Contracts, and (b) with respect to Flextronics, the Director of Strategic Accounts. The initial MSA Contract Manager for Xerox shall be Gilbreath Zealey and the initial MSA Contract Manager for Flextronics shall be Douglas Brunner.

"New Build Product" shall mean a Product that may contain both new and Used Components, the majority of which Components are new.

"New Product" shall mean (a) a fully assembled Xerox copying or printing machine or other equipment fully configured for resale and assigned a serial number, (b) any spare part, assembly or component required for the repair and maintenance of the items listed in (a) above, (c) any consumable or other customer replaceable component, (d) any accessory, service tool or similar item for a Completed Machine or for any item listed in (a) above and all modifications, enhancements and improvements thereto, and (e) any component, part, Raw Material or other material (including labels, product inserts, packaging and other labeling) included in an item listed in (a) above, which, in the case of (a) through (e) above: (i) is not listed on Schedule A hereto as of the date of this Agreement, (ii) has less than fifty percent (50%) of the total number of its parts in common with any other then-existing Product, and (iii) has been designed by Xerox and falls within Xerox's General Office Business Segment. New Products shall become Products and shall be governed as such under the terms and conditions of this Agreement only as provided in Section 4.9 hereof.

"One Day of Supply" shall mean the amount that is obtained by dividing the then-current projected Actual Total Quarterly UMC for any calendar quarter divided by the number of calendar days in such quarter. Any reference herein to a specified number of "Days of Supply" shall mean the product of One Day of Supply multiplied by such specified number.

"One Day's Worth of Sales" shall mean the amount that is obtained by dividing the relevant quarterly aggregate amount of the invoice value by the number of calendar days in such quarter. Any reference herein to a specified number of "Days' Worth of Sales" shall mean the product of One Day's Worth of Sales multiplied by such specified number.

"Ongoing Mitigation Steps" shall have the meaning set forth in Section 4.5 hereof.

"Option" shall mean any Module supplied as an accessory or any other accessory (including without limitation, any finishing, digital front-end and paper handling apparatus), any service tool and similar item for Completed Machines, as set forth in the applicable Specifications, and modifications, enhancements and improvements thereto.

"Packaging Test Plan" shall have the meaning set forth in Section 8.4 hereof.

"Permitted Number of Components" shall mean, with respect to any Component, the sum of (a) the number of such Component that is necessary to meet up to the first eight (8) weeks of the demand therefor existing at the time Flextronics or the relevant Flextronics Affiliated Company ordered any such Component, as indicated by a combination of the then-current Purchase Orders and the then-current Forecast, and (b) the number of Long Lead Time Components that is necessary to meet the Forecasted demand therefor existing at the time Flextronics or the relevant Flextronics Affiliated Company ordered any such Component for a period that is equal to such Component's Component Lead Time.

"Permitted Number of Products" shall mean, with respect to any Product, the number of such finished Products for which any Purchase Order has been issued but not yet filled and that are required within the Product Lead Time. Any Component included in the calculation of the "Permitted Number of Products" shall also be included in the calculation of the "Permitted Number of Components."

"PO Process" shall mean the purchase order fulfillment process to be followed by Flextronics, the Flextronics Affiliated Companies and the Purchasers with respect to PO Products, all as set forth in Section 4.4 hereof.

"PO Products" shall mean those Products that have been designated on Schedule A hereto as PO Products, which Products shall be subject to the PO Process set forth in Section 4.4 hereof.

"Possessing Party" shall mean, in the case of (a) Xerox, Xerox, any Xerox Affiliated Company and any of their respective directors, officers, employees, agents and representatives that are in possession of Flextronics Confidential Information and any other person or entity to whom any Flextronics Confidential Information has been disclosed on behalf of Xerox, and (b) Flextronics, Flextronics, any Flextronics Affiliated Company and any of their respective directors, officers, employees, agents and representatives that are in possession of Xerox Confidential Information and any other person or entity to whom any Xerox Confidential Information has been disclosed on behalf of Flextronics.

"Printing and Publishing" shall have the meaning set forth in Section 19.4 hereof.

"Prior Total Quarterly UMC" shall have the meaning set forth in Section 6.2(a)(iv) hereof.

"Problem Management Process" shall have the meaning set forth in Section 8.5 hereof.

"Product" shall mean any Completed Machine, Option, Spare, Supply or Module that any Purchaser purchases from Flextronics or any Flextronics Affiliated Company under this Agreement as set forth in Schedule A hereto.

"Product Configuration" shall mean, with respect to each Product, the list of Components comprising such Product, including without limitation the part number in respect of each such Component and a list of all Supplies,

Options and Spares. The Product Configuration for each Product shall be set forth in the applicable Specifications.

"Product Forecasts" shall mean the Forecasts of Products that Xerox shall deliver to Flextronics or any Flextronics Affiliated Company on a monthly basis as provided in Sections 4.3(d) and 4.4(b), respectively, hereof.

"Product Lead Time" shall mean the amount of time agreed for order fulfillment for each Product as set forth on Schedule A hereto.

"Product Life" shall mean, with respect to a Product, the period of time during which such Product shall be in new-build or subject to remanufacturing or conversion, as estimated in good faith by Xerox.

"PSA" shall mean the Product Specific Attachments attached hereto, which PSAs may be amended and modified from time to time by the parties as provided herein and which shall include, without limitation, the final product quality acceptance tests, if any, applicable to each Product based on product performance specifications for the then-current Product Configurations for such Product, which may take the form of Product Verification Tests (PVTs) or the equivalent, and the KPIs, if any, applicable to each Product.

"Pull Signal(s)" shall mean the electronic or paper document(s) pursuant to which a Purchaser may demand the replacement of a unit or units of Product.

"Purchase Order" shall mean a written order or any associated release (including, without limitation, a Pull Signal) issued by a Purchaser to Flextronics or any Flextronics Affiliated Company by mail, facsimile or electronically for (i) the purchase of PO Products or Kanban Products under this Agreement or (ii) a cancellation settlement with respect to orders to purchase PO Products or Kanban Products under this Agreement.

"Purchase Price" shall mean, with respect to each unit of Product, the transfer price for such unit. Purchase Price to be charged by Flextronics or any Flextronics Affiliated Company to Purchasers for Products (other than Electronic Components) shall be calculated and paid in accordance with Article 6 herein.

"Purchaser" shall mean Xerox and/or any of the Xerox Affiliated Companies that has been designated in writing by Xerox as a "Purchaser" in respect of this Agreement.

"Quality Plan for Products" shall have the meaning set forth in Section 8.3 hereof.

"Quarterly Measurement Amount" shall have the meaning set forth in Section 6.2(b) hereof.

"Quarterly Price Paid" shall have the meaning set forth in Section 6.2(a) hereof.

"Quarterly Pricing Meeting" shall have the meaning set forth in Section 6.1(b) hereof.

"Quarterly Purchase Price" shall have the meaning set forth in Section

6.1(b) hereof.

"Quarterly Statement" shall have the meaning set forth in Section 6.2(a) hereof.

"Recovery Plan" shall have the meaning set forth in Section 7.8 hereof.

"Remanufactured Product" shall mean a Product that (a) is returned to a Purchaser or its agent after use thereof by the customer, (b) is disassembled, cleaned and reassembled as the same type and model of Product bearing the same serial number, and (c) contains both new and Used Components, the majority of which Components are Used Components.

"Renewal Term" shall have the meaning set forth in Section 15.1 hereof.

"Repurchase Right" shall have the meaning set forth in Section 16.5 hereof.

"Repurchase Right Agreement" shall mean that certain Repurchase Right Agreement between Xerox and Flextronics, substantially in the form of Exhibit A attached hereto.

"Shared Incentive Items" shall mean those items of reductions in cost set forth in Section 6.2(c) hereof.

"Spares" shall mean spare parts, assemblies and other components required for the repair and maintenance of Products and modifications, enhancements and improvements thereto.

"Specific Supply Agreement" or "SSA" shall mean an agreement signed by a Flextronics Affiliated Company, a Xerox Affiliated Company and Xerox pursuant to which the Affiliates agree to be bound by the terms and provisions of this Agreement (except where the parties determine that any particular jurisdiction requires a fully integrated agreement (each, an "Independent SSA") and any other additional or different terms set forth in such SSA with respect to the supply of Products, including any applicable currency price adjustment agreements, which SSA (and any amendment thereto) shall only become valid and enforceable in accordance with Section 2.3 herein.

"Specifications" shall mean, the models, drawings and specifications (including without limitation the manufacturing specifications) for a Product, as the same may be amended or modified by Xerox from time to time pursuant to the terms and conditions of this Agreement, including without limitation, engineering standards, technical and test instructions and procedures (including those set forth in the PSAs), functional information and related data, Product Configurations, Approved Sub-Tier Suppliers, technical information and processes, quality control regulations and quality standards, a list of Governmental Authority approvals, all as replaced, substituted, amended and in effect from time to time.

"Sub-Tier Suppliers" shall mean all suppliers that provide Components for inclusion into Products or for use therewith.

"Supplies" shall mean consumables and other customer replaceable components (including, for example, toner cartridges, developer cartridges, photoreceptor assemblies and the like), as set forth in the applicable Specifications, and Improvements thereto.

"Systemic Defect Period" shall have the meaning set forth in Section 14.3 hereof.

"Taxes" shall mean any and all taxes imposed or collected by any governmental entity worldwide, or any political subdivision thereof, however designated or levied, on amounts payable to Flextronics or any Flextronics Affiliated Company by Purchasers for the billing of Products, and any taxes or amounts in lieu thereof paid or payable in respect of the foregoing; exclusive, however, of: (i) withholding taxes; (ii) taxes imposed upon the net income of Flextronics or taxes in lieu of such net income taxes including but not limited to franchise taxes; and (iii) exclusive of any value added taxes ("VAT"), goods and services taxes ("GST") and other similar types of taxes that are recoverable by Flextronics or any Flextronics Affiliated Company by invoice credit or other similar credit in a taxing jurisdiction in which Flextronics or such Flextronics Affiliated Company may file for such credit.

"Term" shall have the meaning set forth Section 15.1 hereof.

"TTM" shall have the meaning set forth in Section 4.9(e) hereof.

"UMC" shall mean, with respect to each Product, the per unit cost to Flextronics or the relevant Flextronics Affiliated Company to manufacture a Product, as the case may be, which cost shall be calculated as set forth on Schedule D hereto. Schedule D shall contain the definitive and comprehensive method for calculating UMC.

"Used Components" shall mean Components that have previously been included in a Product.

"Workmanship" shall mean, with respect to any Product or Component, the adherence by Flextronics or any Flextronics Affiliated Company to the manufacturing processes and test processes mutually agreed by the parties hereto.

"Xerox Affiliated Company" shall mean any entity that is owned or otherwise Controlled, directly or indirectly, by Xerox, or that is otherwise designated in writing by Xerox to Flextronics as a Xerox Affiliated Company.

"Xerox Confidential Information" shall mean Confidential Information of Xerox, any Xerox Affiliated Company, Fuji Xerox Co., Ltd. and any customer of any of the foregoing.

"Xerox Event of Default" shall have the meaning set forth in Section 15.3 hereof.

"Xerox Guaranteed Obligations" shall have the meaning set forth in Section 20.18 hereof.

"Xerox Indemnitee" shall have the meaning set forth in Section 17.1 hereof.

"Xerox Intellectual Property" shall mean rights of Xerox, any of the Xerox Affiliated Companies and/or Fuji Xerox Co., Ltd. in and to all intellectual property related to Xerox, such Xerox Affiliated Companies and/or Fuji Xerox Co., Ltd. and their businesses and operations, including

without limitation, any and all patents, copyrights, trademarks, trade secrets and any other proprietary rights of Xerox, the Xerox Affiliated Companies and/or Fuji Xerox Co., Ltd., Xerox Confidential Information, Specifications, plans, technical information, engineering and assembly drawings, schematics, diagrams, firmware, software source code and object code, circuit diagrams, gerber files, masks, testing methods, pricing terms, bills of materials, routing and cost information, proprietary property (including know-how) and all proprietary rights with respect thereto, business and technical plans, all information and documentation pertaining to Xerox's development of Products and methods and processes related thereto, whether or not existing as of the date hereof or hereafter existing. For purposes of this Agreement, "Xerox Intellectual Property" shall include, without limitation, any tangible assets whenever acquired by Flextronics or any Flextronics Affiliated Company that incorporate or are designed or based upon Xerox Intellectual Property, including any modifications to such assets.

"Xerox-Owned Assets" shall mean all tangible and intangible assets of Xerox or any Xerox Affiliated Company provided or purchased by Xerox or any Xerox Affiliated Company for the use by Flextronics or any such Flextronics Affiliated Company in manufacturing and delivering Products to Purchasers hereunder, but as to which Xerox or a Xerox Affiliated Company retains or acquires ownership rights.

"Xerox Sub-Tier Suppliers" shall mean the Xerox Sub-Tier Suppliers identified on Schedule I hereto.

"Xerox Unique Property" shall mean any customized items of (i) tooling, (ii) software, and (iii) testing and other equipment and tangible personal property that are not Xerox-Owned Assets and that are used or held for use by Flextronics or any Flextronics Affiliated Company substantially solely for the manufacture of Products for Purchasers hereunder (and are subject to any restrictions set forth herein).

ARTICLE 4

PURCHASE AND SALE

Section 4.1 Purchase and Sale of Products.

(a) Subject to the terms and conditions of this Agreement, during the Term, Flextronics shall or shall cause the Flextronics Affiliated Companies to manufacture and sell to any Purchaser who has entered into an SSA, and Xerox shall or shall cause such Purchasers to purchase from Flextronics or such Flextronics Affiliated Companies, all such Products as such Purchasers may order from time to time in accordance with this Agreement.

(b) Purchasers shall not have any obligation to purchase from Flextronics or any Flextronics Affiliated Company any minimum amount of Products or any particular mix of Products, or be subject to any limitation on the amount of any Products ordered pursuant hereto, for any period during the Term; provided, however, that, unless otherwise specifically set forth in this Agreement, during each calendar year during the Term (or portion thereof, as the case may be), Purchasers shall be required to collectively purchase from Flextronics and the Flextronics Affiliated Companies no less than a certain number of units of each Product, which number shall be equal to (i) the total number of units of such Product that Xerox and the Xerox Affiliated Companies collectively require in such calendar year (or portion

thereof, as the case may be), times (ii) the Minimum Percentage applicable to such Product. The Minimum Percentage for each Product is as hereinafter set forth:

(A) Lakes, Muskegon and Aldebaron

As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the 240V systems in the Lakes, Muskegon and Aldebaron product family shall be one hundred percent (100%). As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the 110V systems currently built in Webster and Manaus in such product family shall be zero percent (0%). Xerox shall not manufacture or have manufactured the 240V systems in such product family anywhere other than at a Facility.

(B) Silverstone

As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the 110V systems in the Silverstone product family shall be one hundred percent (100%). As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the 240V systems in such product family shall be zero percent (0%). Xerox shall not manufacture or have manufactured the 110V systems in such product family anywhere other than at a Facility; provided, however, that Xerox may continue to manufacture such Products in Manaus for the Brazil, Argentina, Paraguay and Uruguay market.

(C) [*]

As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the [*] product family shall be one hundred percent (100%) when [*] production begins (after pilot production). If Xerox requires Flextronics or any Flextronics Affiliated Company to manufacture 110V and 240V systems in such product family in their respective marketplaces, Flextronics hereby agrees to do so or to cause such Flextronics Affiliated Company to do so. Xerox may continue to manufacture such Products in Manaus for the Brazil, Argentina, Paraguay and Uruguay market.

(D) Phaser 860

As of the date of this Agreement, the Minimum Percentage of the worldwide demand for the Phaser 860 product family manufactured in Penang, Malaysia as of the date hereof shall be one hundred percent (100%). The Minimum Percentage of the worldwide demand for the next generation, known as Bandit [*], shall be one hundred percent (100%).

(c) Notwithstanding any rights any entity may have in and to Xerox Intellectual Property, Flextronics shall not, and no Flextronics Affiliated Company shall, manufacture or supply to any entity other than the Purchasers: (i) any product, including, without limitation, finished goods, supplies, components, and spares, the manufacture, use, or sale of which is covered by or manufactured using Xerox Intellectual Property, nor (ii) any spare part or supply product that (A) is designed based upon or using Xerox Intellectual Property, Xerox-Owned Assets or Xerox Unique Property or (B) is covered by Xerox Intellectual Property. Notwithstanding the above, Flextronics may at any time request a waiver of this Section 4.1(c) with respect to any specific

product proposed for sale to an identified entity other than the Purchasers, and Xerox may, in its sole discretion, grant such waiver by written approval signed by authorized personnel of Xerox.

Section 4.2 Order Fulfillment Process. Flextronics and the Flextronics Affiliated Companies shall employ two processes in fulfilling Product orders submitted by Purchaser under this Agreement, the Kanban Process and the PO Process. The Kanban Process shall be used for all Products designated as Kanban Products on Schedule A hereto and the PO Process shall be used for all Products designated as PO Products on Schedule A hereto.

Section 4.3 The Kanban Process.

(a) The Kanban Process requires, and Flextronics hereby agrees, that Kanban Products shall be shipped to Designated Locations at a frequency and in an amount in accordance with a Pull Signal from any such Designated Location. Xerox shall issue a blanket Purchase Order, to enable invoicing, indicating the maximum number or value of each Kanban Product to be ordered by Xerox over a period of time. (Under no circumstances shall such blanket Purchase Order be deemed a firm Purchase Order.) When Xerox uses a unit or units of Kanban Product from its own inventory at a Designated Location, that event shall cause a Pull Signal to be sent to the appropriate Facility and such Pull Signal shall constitute an authorization and a demand for shipment of a unit or units of the same Kanban Product to the same Designated Location. These Pull Signals will be sent/made available daily, intra-daily or at any other frequency according to the processes and systems in use at the relevant Designated Location.

(b) Flextronics or the relevant Flextronics Affiliated Company shall invoice Purchaser for each unit of Kanban Product at such time as it is shipped from the Facility consistent with the Pull Signal in accordance with Section 4.5 hereof. At such time during the Term as Xerox may request, Flextronics agrees to cooperate with Xerox to develop the capability, processes and terms to invoice Kanban Products upon their receipt at Designated Locations with Flextronics or the relevant Flextronics Affiliated Company retaining inventory ownership until receipt/invoicing at such Designated Location. At such time, the parties will mutually agree in writing to the terms and conditions of such new process.

(c) Flextronics shall, and shall cause the Flextronics Affiliated Companies to, cooperate with Xerox to develop improvements in the supply chain for Kanban Products which may result in different combinations of locations and inventory ownership than those set forth herein.

(d) Kanban Product Forecasts.

(i) Xerox shall submit to Flextronics or the relevant Flextronics Affiliated Company, at least monthly during the Term, a Forecast covering Kanban Products for the immediately subsequent six (6) calendar month period, broken down on a month-by-month basis.

(ii) Flextronics shall respond in writing to each such Forecast within five (5) Business Days of Flextronics' or such Flextronics Affiliated Company's receipt thereof. Such response shall set forth Flextronics' good faith estimate of Flextronics' and the Flextronics Affiliated Companies' production capacity for Kanban Products for each calendar month included in Xerox's Forecast and the amount of any incremental production capacity, over and above Flextronics' and the

Flextronics Affiliated Companies' estimated capacity, that is otherwise available to Purchasers.

(e) Maximum Allowable Variances. For any accepted Purchase Order for Kanban Products, Purchasers may (i) increase the quantity of Products or (ii) reschedule the quantity of Products and their shipment date as provided in the table below:

No. of days before Shipment Date on Purchase Order	Allowable Quantity Increases	Maximum Reschedule Quantity
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

Section 4.4 The PO Process.

(a) Purchase Orders. Under the PO Process, Purchasers shall issue PurchaseOrders to Flextronics or the relevant Flextronics Affiliated Company for such PO Products as Purchasers shall desire to purchase from time to time during the Term. All Purchase Orders for PO Products shall be submitted to Flextronics or such Flextronics Affiliated Company by mail, facsimile or electronically (for instance, by EDI, internet or intranet) by an authorized representative of any Purchaser. Any such Purchase Order issued by an authorized representative of any Purchaser, who shall be identified to Flextronics prior to initial order placements, shall be accepted in writing by Flextronics or such Flextronics Affiliated Company (which response may be transmitted electronically) within five (5) Business Days after receipt of each such confirmation or Purchase Order. From time to time, Purchasers may request deliveries inside the then-effective Product Lead Times. Flextronics and such Flextronics Affiliated Company shall use their commercially reasonable efforts to provide any such PO Products in an expedited manner with Purchasers paying all costs and expenses directly related to such expedited deliveries. All Purchase Orders issued for PO Products shall be in writing, shall be deemed to be made pursuant to this Agreement and shall also include (1) description and quantity of PO Product ordered, (2) required dates, (3) shipping destination, and (4) then-effective agreed Quarterly Purchase Price. Purchase Orders issued by a Purchaser operating outside of the United States shall also specify, when appropriate, whether Xerox or a particular Xerox Affiliated Company is to be invoiced for the Products specified therein.

(b) PO Product Forecasts.

(i) Xerox shall submit to Flextronics or the relevant Flextronics Affiliated Company, at least monthly during the Term, a Forecast covering PO Products for the immediately subsequent six (6) calendar month period, broken down, where possible, on a month-by-month basis; provided, however, that if Xerox does not submit such Forecast on a month-by-month basis, Flextronics and the relevant Flextronics Affiliated Company shall be entitled to assume that the Forecast for each month thereof shall be equal to one-sixth (1/6) of the total amount of the Forecast. It is expected that Flextronics and the Flextronics Affiliated Companies shall use such Forecasts to plan production capacity equal to the forecasted usage plus twenty percent (20%).

Flextronics or the relevant Flextronics Affiliated Company shall also promptly share with any Sub-Tier Suppliers from whom Flextronics or such Flextronics Affiliated Company shall be ordering Components (or from whom Purchasers may order Components directly) what the future requirements for such Components will be based upon such Forecasts. In no event will any such Forecast be deemed to be a Purchase Order for PO Products.

(ii) Flextronics shall respond in writing to each such Forecast within five (5) Business Days of Flextronics' or such Flextronics Affiliated Company's receipt thereof. Such response shall set forth Flextronics' good faith estimate of Flextronics' and the Flextronics Affiliated Companies' production capacity for PO Products for each calendar month included in Xerox's Forecast and the amount of any incremental production capacity, over and above Flextronics' and the Flextronics Affiliated Companies' estimated capacity, that is otherwise available to Purchasers.

(c) Maximum Allowable Variances

(i) For any accepted Purchase Order for PO Products (other than Electronic Components and Batch-Produced Products), Purchasers may (A) increase the quantity of Products or (B) reschedule the quantity of Products and their shipment date as provided in the table below:

No. of days before Shipment Date on Purchase Order	Allowable Quantity Increases	Maximum Reschedule Quantity
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

(ii) For any accepted Purchase Order for Electronic Components and Batch-Produced Products, Purchasers may (A) increase the quantity of Products or (B) reschedule the quantity of Products and their shipment date as provided in the table below:

No. of days before Shipment Date on Purchase Order	Allowable Quantity Increases	Maximum Reschedule Quantity
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

For each time period set forth in the table in this Section 4.4(c)(ii), the Allowable Quantity Increases and the Maximum Reschedule Quantities shall not exceed, in the aggregate, the percentages set forth therein as calculated with reference to the original accepted Purchase Order. The parties agree to work together to mitigate surplus inventory that accumulates as a result of rescheduling by Xerox.

Section 4.5 Mitigation of Surplus Component Inventory. If the inventory of any Component held by Flextronics or any Flextronics Affiliated

Company exceeds the applicable Permitted Number of Components therefor, Flextronics shall (and shall cause the Flextronics Affiliated Companies to) immediately take the following steps (the "Ongoing Mitigation Steps"): (i) use, if possible, such Components in the manufacture of other Products or products for third parties (if Xerox gives its prior written consent); and (ii) sell, if possible, such Components to third parties (if Xerox gives its prior written consent). In addition, if Xerox notifies Flextronics or any Flextronics Affiliated Company of a Cancelled Electronic Components Purchase Order, or if Xerox notifies Flextronics or any Flextronics Affiliated Company that any Product shall become an End-of-Life/Discontinued Product in accordance with Section 4.10(a) hereof, or if Xerox notifies Flextronics or any Flextronics Affiliated Company of its intention to implement a Major Change or Minor Change which causes a Product or Component to become obsolete, or if this Agreement is terminated for any reason other than a Flextronics Event of Default, Flextronics and the Flextronics Affiliated Companies shall immediately take the Ongoing Mitigation Steps and shall also immediately take the following additional steps (the "Extraordinary Mitigation Steps"): (A) immediately cancel all pending orders that have been placed with Sub-Tier Suppliers for Components to have been used in the affected Products and (B) return to Sub-Tier Suppliers the unused Components to have been used in the affected Products.

Section 4.6 [*]

(b) If any individual Product or Component is held in any Facility's inventory for more than one hundred eighty (180) days, and such Component or Product was within the definition of the Permitted Number of Components or Permitted Number of Products when purchased and manufactured, respectively, then, upon Flextronics' request, Xerox shall repurchase: [*]; provided, however, that Xerox shall be obligated to repurchase such Components only to the extent that such Facility is operated on a "first-in/first-out" warehousing system. After the end of such 180 day period, Flextronics shall commence such repurchase in accordance with the following "Inventory Repurchase Procedure": (A) Flextronics shall complete, and shall cause the Flextronics Affiliated Companies to complete, the applicable mitigation steps referred to above within thirty (30) days thereof and shall deliver to Purchaser a summary statement of appropriate charges together with reasonably acceptable documentation substantiating any and all such charges; (B) within ten (10) days of Purchaser's receipt thereof, Purchaser shall issue a Purchase Order with respect to such charges in accordance with such documentation; (C) upon receipt of such Purchase Order, Flextronics shall deliver to Purchaser an invoice for such charges in compliance with the invoicing procedures in Section 4.7 hereof, which invoice shall be separate from any invoices for Products sold to Purchasers; and (D) Purchaser shall pay, separate and apart from any other payment for Products, the total amount of such invoice within ten (10) days of receipt of such invoice.

Section 4.7 Payment of Invoices; Title and Risk of Loss. (a) Flextronics or the relevant Flextronics Affiliated Company shall issue an original invoice to Purchasers for Kanban Products and PO Products, no earlier than the day such Products are shipped from the Facilities. Such invoices will include the Quarterly Purchase Price of each Product ordered and delivered, plus applicable Taxes, separately stated by type and amount of Tax for which Purchasers are responsible under Section 6.7 below. Each such original invoice shall be supported by appropriate detail and summary billing information provided to Purchaser in a timely manner, and both the invoice and the supporting documentation shall be in the form required by the

appropriate Governmental Authority or as otherwise mutually agreed. The invoices shall be rendered to the persons or addresses Xerox shall designate, including a Xerox Affiliated Company, or as specified in the applicable SSA or Purchase Order or confirmation. Purchasers shall pay such invoices within forty-five (45) days of receipt of such invoice; provided, however, that no invoice shall be paid until such invoice and associated documentation comply with all appropriate Governmental Authority rules and regulations related thereto. Payment against such invoices shall be made via electronic funds transfer or, in the event electronic funds transfer is unavailable, by paper check. All applicable customs duties and fees related to the importation of Products sold to Purchasers will be the responsibility of Purchasers, and will be paid by Purchasers directly to the applicable Governmental Authority. Unless otherwise provided in any SSA, all invoices and payments therefor shall be in the currency of the United States of America and any payments to be made by Purchasers to one or more Flextronics Affiliated Companies shall be made to such entities and in such proportions as Flextronics shall specify in writing to Purchasers. [*]

(b) Title to and risk of loss of Kanban Products and PO Products shall pass to Purchaser in accordance with the "Ex Works" ("Ex Works") term of the Incoterms of the International Chamber of Commerce, 2000 Edition (the "Incoterms"); provided, however, that Flextronics or the Flextronics Affiliated Companies shall load the carriers at the Facility. The parties shall agree on specific modifications to the Ex Works terms with respect to the delivery of Products, including, without limitation, freight forwarding and the loading and unloading of Products. At the request of Xerox, Flextronics agrees to discuss the possibility of using FOB, DAF and DDU terms of delivery in selected jurisdictions, and Flextronics agrees to allow Purchasers, provided that the parties mutually agree, to change the place of passage of title of Products. Notwithstanding the above, Purchasers shall have the right, in Purchasers' sole discretion, to change the place of passage of title with respect to Products sold by Flextronics or any Flextronics Affiliated Company from sources within Malaysia, Hungary and the Czech Republic, provided: (i) that any such change does not impose a non-incidental incremental cost on, or a material risk that any significant non-incidental incremental costs may be incurred by, Flextronics; and (ii) that Purchasers agree in writing to bear such non-incidental incremental costs, if any.

(c) Any invoice sent by electronic transmission under any provision of this Agreement shall be deemed to be received as of the date of transmission. Any invoice delivered by mail under any provision of this Agreement shall be deemed to be received three (3) Business Days after the date of such invoice. Any invoice that is hand-delivered under any provision of this Agreement shall be deemed to be received on the date such invoice is delivered. No invoices may be transmitted by facsimile transmission.

Section 4.8 Electronic Components.

(a) Purchase and Sale of Electronic Components. Notwithstanding anything contained in this Agreement to the contrary, Flextronics shall manufacture and sell (and shall cause the Flextronics Affiliated Companies to manufacture and sell) to Xerox and all Xerox Affiliated Companies all of the Electronic Components that Xerox and the Xerox Affiliated Companies shall order from Flextronics or any Flextronics Affiliated Company during the Term, regardless of whether such Electronic Components are to be manufactured and sold to Xerox or a Xerox Affiliated

Company as part of a Product hereunder or if such Electronic Components have been ordered by Xerox or a Xerox Affiliated Company for use in a Xerox machine that is not a Product hereunder or as a spare for such machine. Except as set forth in this Section 4.8, all Electronic Components shall be subject to all of the terms and conditions of this Agreement that apply to PO Products. Within ninety (90) days of each initial closing of the transfer of the relevant Facility contemplated by the Master Purchase Agreement and the Ancillary Agreements, Flextronics shall establish the Purchase Price for each Electronic Component listed in the Schedule H hereto relevant to such Facility; provided, however, that each such Purchase Price shall not be in excess of [*]. The Purchase Price for all other Electronic Components shall be established pursuant to the provisions of Section 4.9(c) hereof. Flextronics agrees to use commercially reasonable efforts to reduce the Purchase Price for all Electronic Components by at least [*] each calendar year during the Term by passing through cost savings made available by market cost reduction and where applicable through re-sourcing components, relocating assembly operations and redesign. Notwithstanding anything in this Agreement to the contrary, [*] shall be considered to be [*] unless caused by [*]. Xerox will not re-source any of the Electronics Components from Flextronics or any of the Flextronics Affiliated Companies during the Term; provided, however, that in the event Flextronics: (a) requires an increased Purchase Price for an Electronic Component or (b) reduces the Purchase Price for an Electronic Component at a rate that is less than the rate reasonably expected by Xerox, then Flextronics shall be required to demonstrate to Xerox the actual cost for such Electronic Component, including disclosure of Component prices to the fullest extent possible in light of any applicable confidentiality agreements with Flextronics Sub-Tier Suppliers. If Flextronics is unable to provide an explanation for such increase in Purchase Price or lower-than-expected reductions in the Purchase Price which explanation is reasonably acceptable to Xerox, then, at any time after one (1) year from the relevant Estimated Mid-Point, the parties shall attempt in good faith to resolve such matter in accordance with the Escalation Procedure referred to in Section 20.9(h) hereof. The parties shall take any actions agreed pursuant to such Escalation Procedure; provided, however, that if the parties do not reach agreement, Xerox may, in its sole discretion, re-source such Electronic Component. Notwithstanding anything in this Agreement to the contrary, the provisions of Section 4.6(a) and (b)(i) and (ii) shall not apply to Electronic Components. Upon the reasonable request of either party, the parties agree to review the pricing of Electronic Components and make any mutually agreeable adjustments necessary to reflect market changes at a time other than at a Quarterly Pricing Meeting. If product-specific tooling or non-recurring engineering (NRE) is required to manufacture any Electronic Component, Xerox shall issue a Purchase Order for any agreed charges therefor, in advance of commencement of such manufacturing. Product-specific tooling for Electronics Components shall remain the property of Purchaser.

(b) Cancelled Electronic Components Purchase Orders. Once a Purchase Order for Electronic Components (or portion thereof) becomes a Cancelled Electronic Components Purchase Order, Purchaser shall be liable for and shall pay to or reimburse Flextronics or the relevant Flextronics Affiliated Company as follows: [*]; provided, however, that, notwithstanding the foregoing, [*]. Upon the request of Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) provide reasonably acceptable documentation substantiating any and all such costs. If requested by Purchaser, Flextronics and the Flextronics Affiliated

Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) permit Purchaser's representatives to review the business records of Flextronics and the Flextronics Affiliated Companies (or the Sub-Tier Supplier, as the case may be) for the sole purpose of validating the claim for costs (subject to any confidentiality agreements to which Flextronics is a party), to validate the count of inventory of such Product and the Components and to supervise the scrappage, if any, of such Product or Components. After a Purchase Order for Electronic Components has become a Cancelled Electronic Components Purchase Order, Flextronics shall commence the Inventory Repurchase Procedure. When the term "Direct Material Cost" is used in this Section 4.8, it shall mean the cost represented on the bill of materials supporting the most current Electronic Components Purchase Price at the relevant time.

Section 4.9 New Products and Improved Products.

(a) Xerox may from time to time during the Term design and develop New Products and Improved Products.

(b) Flextronics and the Flextronics Affiliated Companies shall have the right to manufacture and sell to the Purchasers all Improved Products; provided, that Flextronics and Purchaser are able to mutually agree in writing on the pricing and other terms that shall govern such Improved Product, it being understood that (i) any such pricing shall take into account the parties' shared objective of launching Improved Products as close as possible to the Applicable Benchmark Cost for the Purchaser thereof, and (ii) that the productivity requirements for any such Improved Product shall be determined by Xerox in its reasonable discretion, taking into account, among other things, the Product Life of the Components used in such Improved Product and the commonality of such Components with existing Products. In addition, if Flextronics is unable to provide pricing for such Improved Product at a price to the Purchasers that is less than [*] of the Applicable Benchmark Cost for such Product (excluding, for purposes of making such comparison, any Components provided by Xerox or any Xerox Sub-Tier Supplier), then the Purchasers shall be entitled to procure such Products from a third party. Upon Xerox and Flextronics having definitively agreed in writing that Flextronics or a Flextronics Affiliated Company shall be the provider of an Improved Product, Xerox shall create and attach to this Agreement a PSA (if applicable) in respect of such Improved Product, and Flextronics and Xerox shall attach a new, mutually acceptable Schedule A to this Agreement, setting forth all of the relevant information for such Improved Product, and such Improved Product shall thereafter be deemed to be a PO Product or a Kanban Product, as the case may be, under and subject to all of the terms and conditions of this Agreement.

(c) Xerox shall permit Flextronics to participate in any request for proposal process initiated by Xerox with respect to New Products if and when Xerox deems it to be commercially reasonable to do so. If, in a competitive bidding process for New Products, Flextronics submits to the Purchaser a proposal for such New Products the terms of which are at least as favorable to Xerox (including, without limitation, price, quality, delivery, warranty, capabilities and other commercial factors), as determined by Xerox in its sole and reasonable discretion, as other bona fide quotations received by Xerox, then Xerox shall award to Flextronics the initial right to manufacture and sell to the Purchasers such New Product. If, however, Flextronics' proposal is not at least as favorable to Xerox, as determined by Xerox as set forth above, Xerox shall be entitled to award to a third party such initial

right to manufacture and sell to Purchasers such New Product. In addition, Xerox shall permit Flextronics to offer an initial proposal in advance of the commencement of competitive bidding if Xerox deems it commercially reasonable to do so and shall, in such event, consult with Flextronics concerning its proposal in an attempt to bridge any gap between such proposal and Xerox's expectations with respect to price, quality, delivery, capabilities and other matters. Following such consultation with respect to Flextronics' advance proposal, if the parties are unable to reach an agreement, Xerox may commence a competitive bidding process. Upon Xerox and Flextronics having definitively agreed in writing that Flextronics or a Flextronics Affiliated Company shall be the provider of a New Product (including the definitive terms and conditions thereof), Xerox shall create and attach to this Agreement a PSA (if applicable) in respect of such New Product, and Flextronics and Xerox shall attach a new, mutually acceptable Schedule A to this Agreement, setting forth all of the relevant information for such New Product, and such New Product shall thereafter be deemed to be a PO Product or a Kanban Product, as the case may be, under and subject to all of the terms and conditions of this Agreement.

(d) Notwithstanding anything to the contrary contained herein, the Minimum Percentage in effect for any New Product that becomes a PO Product or a Kanban Product, as the case may be, under and subject to all of the terms and conditions of this Agreement shall be zero (0), unless Xerox and Flextronics otherwise specifically agree in writing.

(e) In implementing any Improved Product or New Product into the development and manufacturing processes of Flextronics, Flextronics shall use, and shall cause the Flextronics Affiliated Companies to use, the Xerox Time To Market ("TTM") process (or the latest Xerox equivalent) for the development and manufacturing of such Products and shall take the utilization of such TTM process into account when proposing terms (including pricing) under which Flextronics or any Flextronics Affiliated Company is able to manufacture and sell such New Products and Improved Products to Purchasers. The TTM process currently in effect is attached hereto as part of Schedule C.

Section 4.10 End-of-Life/Discontinued Products.

(a) By Xerox.

Xerox will notify Flextronics in writing at least one hundred twenty (120) calendar days in advance of Xerox and the Xerox Affiliated Companies permanently discontinuing and canceling their purchase and sale of any Product (an "End-of-Life/Discontinued Product"). In such event, Flextronics shall meet with Xerox within thirty (30) days of such notice to discuss the possible costs of such action and how best to mitigate any such costs. Purchaser shall be liable for and shall pay to or reimburse Flextronics or the relevant Flextronics Affiliated Company for all costs and expenses related to such End-of-Life/Discontinued Products as follows: [*]; provided, however, that, notwithstanding the foregoing, [*]. Upon the request of Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub- Tier Suppliers to) provide reasonably acceptable documentation substantiating any and all such costs. If requested by Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) permit Purchaser's representatives to review the business records of Flextronics and the Flextronics Affiliated Companies (or the Sub-Tier Supplier, as the case may be) for the sole purpose of validating the claim for costs (subject to

any confidentiality agreements to which Flextronics is a party), to validate the count of inventory of such Product and the Components and to supervise the scrappage, if any, of such Product or Components. After a Product has become an End-of-Life/Discontinued Product, Flextronics shall commence the Inventory Repurchase Procedure.

(b) By Sub-Tier Supplier. Flextronics or any Flextronics Affiliated Company shall notify Xerox in writing within two (2) Business Days of being notified by any Sub-Tier Supplier that such Sub-Tier Supplier intends to discontinue its manufacture and sale of any Component. Flextronics shall be responsible for arranging an alternate source of supply for any such Component discontinued by a Flextronics Sub-Tier Supplier (and, at the request of Xerox, any Xerox Sub-Tier Supplier) in a manner and a time frame that results in no more than minimal disruption to Flextronics' or such Flextronics Affiliated Company's supply of any Product to any Purchaser, and Flextronics shall use its commercially reasonable efforts to ensure that such alternate source of supply does not result in any change in Purchase Price of such Product and Flextronics shall communicate and cooperate with Xerox in identifying any such new source. Any such appointment of a new Sub-Tier Supplier shall require the agreement of Xerox, in accordance with Section 5.2 hereof.

Section 4.11 Xerox's Right to Cover. If Flextronics or any Flextronics Affiliated Company, for any reason (other than Xerox's breach under this Agreement), including, but not limited to, a Force Majeure Event, fails to deliver Products to a Purchaser in accordance with the terms and conditions of this Agreement (including, without limitation, at the required location and by the delivery date specified), Flextronics will use its best efforts to immediately obtain an alternate supply of Products for Purchasers at no additional cost to Purchasers. If Flextronics cannot obtain such an alternate supply, Xerox may, in addition to any other rights or remedies available to Xerox under applicable law, purchase from other sources during the period of failure or delay in performance the type and quantity of Product that were scheduled for delivery to a Purchaser pursuant hereto. All such purchases from third parties shall be counted toward any Minimum Percentage requirements of Purchasers with respect to such Products. Xerox shall notify Flextronics of any increased cost (including freight and handling) incurred by Purchasers in acquiring such Products from other sources and Flextronics or the relevant Flextronics Affiliated Company shall immediately credit or reimburse Xerox for any such cost increase incurred, except in the event of a failure by Flextronics or any Flextronics Affiliated Company to deliver Products by reason of a Force Majeure Event.

Section 4.12 Early and Late Deliveries; Deliveries in Excess of Amount Ordered. Flextronics and the Flextronics Affiliated Companies shall, and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to, deliver the exact quantity of Products ordered by Purchasers and Flextronics and the Flextronics Affiliated Companies shall, and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to, deliver such Products as required by the Purchaser thereof as indicated by the Purchase Order or associated documents. Any Purchaser may, in its sole discretion, return any Products, at the expense of Flextronics or the relevant Flextronics Affiliated Company (or the Sub-Tier Supplier, as the case may be) if Products in excess of the number ordered have been delivered or if any such order of Products is delivered more than seven (7) calendar days earlier than indicated on the Purchase Order or associated documents. In consideration of increased costs incurred by a

Purchaser when Products are delivered late, Flextronics or the relevant Flextronics Affiliated Company will automatically arrange for premium freight to meet the required delivery date, unless otherwise specifically directed not to do so by the Purchaser. Flextronics or the relevant Flextronics Affiliated Company shall pay for said premium freight and any other costs, fees, expenses or other charges (including Certain Taxes and duties), excluding any taxes and duties that are recoverable by Purchaser, that would not have been payable by or chargeable to Purchasers pursuant to this Agreement had the delivery been timely in the event the delay is for reasons within the control or responsibility of Flextronics or any Flextronics Affiliated Company.

Section 4.13 Flexible Workforce. Flextronics and the Flextronics Affiliated Companies will maintain at each Facility, and as allowed within existing constraints, a flexible direct labor workforce that will be able to adjust to the volume requirements set forth in Sections 4.3(e) and 4.4(c) hereof. Flextronics will use reasonable commercial efforts to adjust the indirect workforce and, if possible, the fixed cost infrastructure for volume fluctuations that are sustained. Flextronics will discuss these actions with Xerox in advance of implementing them.

ARTICLE 5

SUB-TIER SUPPLIERS

Section 5.1 Management of Sub-Tier Suppliers.

(a) Schedule I hereto sets forth each Approved Sub-Tier Supplier and indicates whether such supplier is a Xerox Sub-Tier Supplier or Flextronics Sub-Tier Supplier. Xerox and Flextronics shall subsequently identify any new Sub-Tier Suppliers as either a Xerox Sub-Tier Supplier or a Flextronics Sub-Tier Supplier. In addition, Xerox and Flextronics shall take commercially reasonable steps to transition certain Xerox Sub-Tier Suppliers to Flextronics Sub-Tier Suppliers as the parties shall mutually agree. Flextronics shall be responsible for obtaining any and all Components from all Sub-Tier Suppliers to the extent the same are necessary for Flextronics and the Flextronics Affiliated Companies to fulfill its obligations under this Agreement and Flextronics shall be the party responsible for the day-to-day contact with all Sub-Tier Suppliers that may be necessary for Flextronics and the Flextronics Affiliated Companies to perform their obligations under this Agreement. No subcontracting of the manufacture and/or supply of any Component by Flextronics or any Flextronics Affiliated Company to any Sub- Tier Supplier shall relieve Flextronics from its responsibility for delivering to Purchasers all Products required to be delivered by Flextronics to Purchasers under this Agreement.

(b) Flextronics shall take all commercially reasonable steps necessary to ensure that all Sub-Tier Suppliers provide Flextronics or any Flextronics Affiliated Company or any Purchaser with Components in accordance with the applicable Specifications, within the specified delivery times and in accordance with any other term and condition applicable to a Component supplied by such Sub-Tier Supplier under this Agreement.

(c) The failure of a Sub-Tier Supplier to provide Flextronics or any Flextronics Affiliated Company or any Purchaser with Components in accordance with the applicable Specifications, within the specified delivery times and in accordance with any other term and condition applicable to a Product

supplied by such Flextronics Sub-Tier Supplier under this Agreement shall not relieve Flextronics of its obligations under this Agreement.

Section 5.2 Approved Sub-Tier Suppliers. Neither Flextronics nor any Flextronics Affiliated Company shall obtain any Component for any Facility from any Sub-Tier Supplier that is not an Approved Sub-Tier Supplier with respect to such Component for such Facility. All proposed qualifications by Flextronics of a Sub-Tier Supplier as an Approved Sub-Tier Supplier and all proposed disqualifications by Flextronics of a Sub-Tier Supplier as an Approved Sub-Tier Supplier must be approved in advance in writing by Xerox, at the commercially reasonable discretion of Xerox. Any proposed qualification by Flextronics of an Approved Sub-Tier Supplier to provide an additional or different Component must be approved in advance in writing by Xerox, at the discretion of Xerox. Xerox agrees to promptly consider any such proposals by Flextronics and to promptly provide its approval or disapproval. Notwithstanding the foregoing, Xerox reserves the right, exercisable in its sole discretion at any time, to disqualify any Approved Sub-Tier Supplier in accordance with the following procedure. In the event any such disqualification would require the payment to such Sub-Tier Supplier of a cancellation charge, Flextronics will review with Xerox such cancellation charge in advance of triggering such obligation to pay, and Xerox shall have the right to negotiate with Flextronics and such Sub-Tier Supplier the amount of such charge. If such amount is agreed to by Xerox, such Approved Sub-Tier Supplier shall be disqualified and Xerox shall be responsible for such agreed-upon cancellation payments to such disqualified Sub-Tier Supplier. In the event any such disqualification would not require the payment to such Sub-Tier Supplier of a cancellation charge, then such Approved Sub-Tier Supplier shall be immediately disqualified.

Section 5.3 Purchase of Components from Sub-Tier Suppliers; Information Concerning Sub-Tier Suppliers.

(a) Purchasers may, at their discretion, order and purchase Components that are supplied by any Sub-Tier Suppliers exclusively for the manufacture of Products either directly from the Sub-Tier Supplier thereof, or by placing an order with Flextronics or any Flextronics Affiliated Company therefor. Flextronics shall ensure that all Purchasers shall be listed as "approved buyers" under Flextronics' or any Flextronics Affiliated Company's agreements with Sub-Tier Suppliers such that any order and purchase of such Components by Purchasers directly from Sub-Tier Suppliers shall be made on the same terms and conditions, including without limitation, price, as Flextronics or any Flextronics Affiliated Company may order and purchase such Components from such Sub-Tier Suppliers. Xerox shall ensure that Flextronics and the Flextronics Affiliated Companies shall be listed as an "approved buyer" under Xerox's agreements with Sub-Tier Suppliers such that any order and purchase of such Components for inclusion into Products by Flextronics or any Flextronics Affiliated Company directly from Sub-Tier Suppliers shall be made on the same terms and conditions, including without limitation, price, as Xerox may order and purchase such Components from such Sub-Tier Suppliers. Further, if any Purchaser orders any Component from Flextronics or any Flextronics Affiliated Company that is otherwise supplied from a Sub-Tier Supplier, the Purchase Price paid by Purchaser to Flextronics or such Flextronics Affiliated Company therefor shall in no event exceed the price Flextronics or such Flextronics Affiliated Company was charged by the Sub-Tier Supplier therefor, plus [*], and shall be agreed by Xerox and Flextronics on a case-by-case basis. Notwithstanding anything to the contrary set forth in this Article 5, Xerox retains the right,

exercisable in its sole discretion, (i) to negotiate the terms and conditions governing the supply of Components with such Sub-Tier Suppliers as it deems necessary or desirable, to contract directly with such Sub-Tier Suppliers and to procure the rights for Flextronics or any Flextronics Affiliated Company to purchase Components from such Sub-Tier Suppliers on the same terms and conditions as a Purchaser, and/or (ii) to itself act as a Sub-Tier Supplier under this Agreement.

(b) Flextronics shall provide to Xerox upon Xerox's request (but in no event less than once per calendar quarter on the first day of each such quarter) a then true, correct and complete list of Flextronics Sub-Tier Suppliers' prices to Flextronics and the Flextronics Affiliated Companies for Components (other than Electronic Components materials with respect to which Flextronics is subject to confidentiality agreements with third parties, for which materials Flextronics will provide Xerox with market price information related to a "basket" of materials).

(c) Flextronics shall provide written notice to Xerox within five (5) Business Days of receiving notification from any Sub-Tier Supplier that such Sub-Tier Supplier is changing the location of manufacture of any custom Component.

(d) Flextronics shall provide Purchasers with the benefit of the lowest prices from Sub-Tier Suppliers that Flextronics or any Flextronics Affiliated Company is contractually permitted to provide.

Section 5.4 Flextronics as Sub-Tier Supplier. The parties acknowledge and agree that it may be mutually advantageous to the parties to qualify Flextronics as an Approved Sub-Tier Supplier with respect to any Components or services that Flextronics offers. Xerox agrees to qualify any Facility as an Approved Sub-Tier Supplier, subject to Xerox's normal approval process, as Flextronics may request. Xerox, in its sole and reasonable discretion, will evaluate any quotation that Flextronics may offer for the supply of such Components or services and shall accept such offer provided that the terms of such offer are more favorable to Xerox than other bona fide quotations received by Xerox (including, without limitation, price, quality, delivery, warranty, capabilities and other commercial factors). Upon acceptance of Flextronics' offer, Xerox shall qualify Flextronics to provide such selected and mutually agreed Components or services.

ARTICLE 6

PRICING AND PRODUCTIVITY

Sections 6.1 through 6.3 hereof, inclusive, shall not apply to Electronic Components which are covered by Section 4.8 hereof.

Section 6.1 Pricing.

(a) Except as set forth in Section 4.8 hereof and subject to the terms and conditions of this Article 6, the Purchase Price for each Product shall be equal to (i) the actual UMC (the "Actual UMC") for each such Product, divided by (ii) either (A) [*] for Products manufactured by Flextronics or any Flextronics Affiliated Company in the Facilities in [*], or (B) [*] for Products manufactured by Flextronics or any Flextronics Affiliated Company in the Facilities in [*]. That portion of any Purchase Price of a Product that is in excess of the Actual UMC shall be referred to herein as the "Margin

Amount." Notwithstanding the foregoing, the number in (ii) above shall be [*] when calculating that portion of the Margin Amount that is applicable to any Components provided by [*].

(b) A price (the "Quarterly Purchase Price") for each Product shall be set at quarterly meetings between Xerox and Flextronics (each, a "Quarterly Pricing Meeting"), which shall be held no later than the fifteenth (15th) calendar day of each calendar quarter during the Term. The Quarterly Purchase Prices shall be the amount that Purchasers will pay Flextronics and the Flextronics Affiliated Companies for Products during such calendar quarter and until the Quarterly Purchase Prices for the next calendar quarter have been agreed. The Quarterly Purchase Price for a Product shall, subject to the terms and conditions of this Article 6, be equal to the sum of (i) the Actual UMC for such Product during the calendar quarter immediately preceding the Quarterly Pricing Meeting, adjusted for (A) expected fluctuations in production volumes and mix, (B) expected changes in Component or other costs, (C) the expected [*] and (D) the expected Labor and Overhead Reduction Amount, and (ii) the Margin Amount. In setting the Quarterly Purchase Prices, the parties shall attempt to estimate as closely as possible what the actual Purchase Prices for the quarter will be. Following completion of each calendar quarter and the determination of the Actual UMCs (and corresponding Purchase Prices) during such quarter, the parties shall compare the amount that Xerox actually paid for Products (based on Quarterly Purchase Prices) during such calendar quarter against what Xerox should have paid (based upon the Actual UMCs for such calendar quarter) as set forth below in this Article 6. In the event that Xerox and Flextronics cannot come to mutual agreement on any Quarterly Purchase Price for any Product, such dispute shall be resolved in accordance with the procedures set forth in Section 20.9 herein.

(c) The Actual UMC for each Product for the period beginning on the date of the relevant SSA and continuing through the end of the first full calendar quarter thereafter shall be the UMC set forth for each such Product on Schedule A as of the date of such SSA and the Quarterly Purchase Price for each such Product (calculated in accordance with Section 6.1(a) and (b) above) during such period shall be hereinafter referred to as the "Initial Quarterly Purchase Price."

(d) All fees or expenses related to the manufacture and sale of Products by Flextronics and the Flextronics Affiliated Companies to Purchasers (including without limitation, service fees, freight and insurance), if any, shall also be discussed and agreed by Xerox and Flextronics at the Quarterly Pricing Meetings, except to the extent that any such other fees and expenses are not subject to change, as set forth in this Agreement. No Purchaser shall be required to pay any amounts for Products or services other than those listed in Schedule A or as otherwise agreed in advance and in writing by Xerox. Notwithstanding anything herein to the contrary, Flextronics and the Flextronics Affiliated Companies shall not include in the UMC, nor otherwise charge Purchaser for, any Tax or other governmental charge that is recoverable by it (e.g., recoverable VAT), refunded or refundable to it or otherwise subject to similar credit or recovery. Any Tax or other governmental charge that had previously been included in the UMC of Products, together with interest thereon imputed at the rate imposed by the refunding or crediting Taxing jurisdiction, that is recovered by or credited or refunded to Flextronics or any Flextronics Affiliated Company shall immediately be repaid to Purchasers (or credited against the UMC of Product orders in the next Quarterly Measurement Period).

(e) (i) Flextronics, in cooperation with Xerox, shall use its reasonable best efforts to reduce the Purchase Prices for all Products in the aggregate by at least [*] each calendar year (and maintain such reduction during such year) during the Term until the Applicable Benchmark Cost for all Products has been achieved. The parties agree to implement and abide by the procedures and processes set forth in Schedule C in furtherance of attaining such goal of Applicable Benchmark Cost for all Products. Flextronics, in cooperation with Xerox, shall use its reasonable best efforts to reduce the Actual UMC for all Products in the aggregate by at least [*] each calendar quarter during the Term.

(ii) Notwithstanding the foregoing, Flextronics shall cause all value-added costs (including labor, labor overhead and material overhead) included in the calculation of UMC to be reduced by at least [*] each calendar quarter during the Term, as compared to the same period in the previous year, at each Facility where volume production levels for Products are equal to or greater than such levels for the same period in the previous year (the "Labor and Overhead Reduction Amount"). Notwithstanding the immediately preceding sentence, the reductions with respect to each Facility shall be reflected in UMC commencing at the beginning of the third calendar quarter following the closing of the transfer of such Facility pursuant to the Master Purchase Agreement and the Ancillary Agreements.

Section 6.2 Quarterly Statement; True-Up of Quarterly Purchase Prices and [*].

(a) Quarterly Statement. Flextronics shall provide to Xerox a detailed statement (a "Quarterly Statement") no later than five (5) Business Days prior to the date of the Quarterly Pricing Meeting following the end of the subject quarter. The Quarterly Statement shall have been prepared in accordance with Schedule D hereto and otherwise in accordance with United States generally accepted accounting principles, setting forth:

(i) a calculation of the aggregate total of all Quarterly Purchase Prices actually invoiced to Purchasers for all Products purchased by Purchasers during such quarter (the "Quarterly Price Paid");

(ii) a calculation of the Quarterly Measurement Amount (as defined below) for such quarter;

(iii) a calculation of the aggregate total of all Actual UMCs for all Products purchased by Purchasers during such quarter (the "Actual Total Quarterly UMC");

(iv) the Actual Total Quarterly UMC for the calendar quarter immediately preceding such quarter (the "Prior Total Quarterly UMC"); and

(v) a calculation of any Taxes, customs duties and similar charges paid or invoiced with respect to the Quarterly Price Paid.

(b) For purposes of this Agreement, the "Quarterly Measurement Amount" for any quarter shall be equal to the sum of (i) the Actual Total Quarterly UMC for such quarter, taking into account (A) actual production volumes and

mix, (B) the actual [*] and (C) the actual Labor and Overhead Reduction Amount, and (ii) the Margin Amount with respect thereto. Notwithstanding anything contained herein to the contrary:

(i) at no time shall the Actual UMC for any single Product, plus the Margin Amount with respect thereto (as the same is used to calculate the Quarterly Measurement Amount) be greater than the Initial Quarterly Purchase Price for such Product or any other prior quarter's Purchase Price for such Product, whichever is less, unless specifically agreed in writing at the Quarterly Pricing Meeting by Xerox and Flextronics and specifically justified by Major Changes in Product Configuration or changes in Commodities prices, volume or mix;

(ii) the Actual UMC for each Product reflected in the Initial Quarterly Purchase Prices will include an allowance for setup, material and labor efficiencies consistent with historical experience; and

(iii) no cost that is attributable to the negligence or willful misconduct of Flextronics or any Flextronics Affiliated Company shall be included in the calculation of the Quarterly Measurement Amount.

(c) [*]

(d) True-Up of Purchase Price.

(i) If, as indicated by the final and binding Quarterly Statement, the Quarterly Price Paid exceeds the Quarterly Measurement Amount for the subject quarter, then such excess amount (net of any unpaid [*] that [*] pursuant to Section [*] above) shall be payable to the applicable Purchasers, in cash (subject to applicable customs and duties restrictions) or in the form of a credit to be applied against future Product purchases, as Xerox shall request in its discretion, and shall be paid (or credit shall have been issued, as the case may be) within ten (10) Business Days of the Quarterly Statement becoming final and binding as provided below. In addition to the payment or crediting of the excess amount to the applicable Purchasers, Flextronics shall also pay or credit to such Purchasers: (x) a ratable portion of Taxes paid by Purchasers on the Actual Total Quarterly UMC attributable to such excess; and (y) any Taxes, duties, governmental charges or similar costs (excluding income Taxes or Taxes in lieu thereof) that are imposed by any Governmental Authority on the payment or crediting of such excess to Purchasers.

(ii) If, as indicated by the final and binding Quarterly Statement, the Quarterly Price Paid is less than the Quarterly Measurement Amount for the subject quarter, then such incremental amount (including any unpaid [*] that [*] pursuant to Section [*] above) shall be payable to the applicable Flextronics Affiliated Companies, in cash a carry-forward amount to be fully recovered in the immediately succeeding calendar quarter, as Xerox shall request in its discretion, and, if paid in cash, shall be paid within ten (10) Business Days of the Quarterly Statement becoming final and binding as provided below and, if carried forward, shall be fully recovered in the immediately succeeding calendar quarter. In addition to the payment or carrying forward of the

amount to the applicable Flextronics Affiliated Companies, Purchasers shall also pay or carry forward: (x) a ratable portion of Taxes payable by Purchasers on the Actual Total Quarterly UMC attributable to such incremental amount; and (y) any Taxes, duties, governmental charges or similar costs (excluding income Taxes or Taxes in lieu thereof) that are imposed by any Governmental Authority on the payment or carrying forward of such incremental amount to Purchasers.

Section 6.3 Procedures Regarding Finalization of Quarterly Statement.

(a) Xerox shall have five (5) Business Days to review each Quarterly Statement and to notify Flextronics in writing of any dispute with respect thereto. If such dispute cannot be resolved by Xerox and Flextronics within five (5) Business Days after the receipt by Flextronics of such notice of dispute, then the dispute shall be resolved in accordance with the procedures set forth in Section 20.9 hereof. The applicable Quarterly Statement shall become final and binding upon the earliest to occur of: (i) if no notice is given by Xerox in accordance with this Section 6.3, the expiration of the period within which Xerox may notify Flextronics of any objections thereto pursuant to this Section 6.3; (ii) agreement by Xerox and Flextronics that the Quarterly Statement, together with any modifications thereto agreed by Xerox and Flextronics, shall be final and binding; and (iii) the date on which any dispute shall have been resolved in accordance with Section 20.9 hereof.

(b) For the avoidance of doubt, it is the intention of the parties hereto to eliminate the effects of currency fluctuations from any cost comparisons contemplated under this Article 6, including, but not limited to, by making all comparisons of cost of any Components in the currency in which such Components were purchased.

Section 6.4 [Reserved].

Section 6.5 [Reserved].

Section 6.6 Currency; Governmental Authority Levy.

(a) (i) For purposes of converting the pricing of foreign-sourced Components, or other items in UMC which are transacted in a foreign currency, from the currency in which such Components or other items were purchased or transacted into United States currency (and for any other purpose under this Agreement where such conversion of currency may be required), the parties shall use as an exchange rate the average of the exchange rate for the applicable currency for the current quarter.

(ii) For countries in which Flextronics or any Flextronics Affiliated Company cannot bill in U.S. dollars and the exchange rate moves +2% from the rates used in the invoice to rates at the date of payment, the actual exchange rate on the date of payment will be used to determine the currency rate adjustment. For clarity, the following example is provided:

In the Invoice	L.C.*	Exchange Rate	U.S. $ Equivalent

Local Currency Content	5,000	10:1	500
Non-local Currency Content	5,000	10:1	500
Total Invoice	10,000		1,000

* Means Local Currency

On Payment Date	U.S. $	Exchange Rate	L.C. Equivalent
Non-local Currency Content	500	1:20	10,000
Local Currency Consent			5,000
L.C. Due on Settlement			15,000
Previously Invoiced			(10,000)
Currency Adjustment			5,000 L.C.

As an acceptable alternative, Flextronics or such Flextronics Affiliated Company may bill at the [*] day forward rate, which would be the basis of the local currency amount. If paid after [*] days, the method of calculation set forth in the example would be used except that the forward rate would be the basis of the invoice amount. If Purchaser were to pay early, the rate on the payment date would be used.

(b) In the event that any Governmental Authority levies an import or export Tax, duty, surcharge or other Tax on Products in such a way that the Landed Cost to Xerox or the UMC of such Products would be greater than the then-effective Purchase Prices (or Landed Costs, as applicable) for Products, the parties shall meet upon the request of either party to review the situation, discuss all possible alternatives, including without limitation a relocation of the manufacture of the affected Product and a revision of pricing with respect thereto, and attempt in good faith to reach an agreement regarding the situation. Flextronics agrees that in the event that any Governmental Authority levies or announces plans to levy any import or export Tax, duty or surcharge or other Tax on Products, Flextronics will cooperate with and assist Purchasers and pursue in its name where appropriate any reasonable effort identified by Purchasers to reduce, eliminate, abate, suspend or otherwise ameliorate the cost to Purchasers of any such import or export Tax, duty or surcharge or any other Tax or governmental charge on Products.

Section 6.7 Tax and Customs Matters.

(a) Each Purchaser is liable for 100% of all Taxes imposed on such Purchaser with respect to the billing for Products by Flextronics or any Flextronics Affiliated Company to Purchaser. Each Purchaser shall pay any and all such Taxes to Flextronics or such Flextronics Affiliated Company at the same time and in the same manner that it pays such other amounts to Flextronics or such Flextronics Affiliated Company to which such Taxes relate and Flextronics or such Flextronics Affiliated Company shall promptly remit payments of Taxes to the appropriate taxing jurisdiction. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, pay and indemnify each Purchaser on an after-tax basis for any claims for Taxes and any interest, penalties, fines or other similar amounts imposed thereon made by a taxing jurisdiction relating to Taxes paid by such Purchaser to Flextronics or such Flextronics Affiliated Company imposed as a result of Flextronics' or any Flextronics Affiliated Company's failure to remit such Taxes paid by such

Purchaser to Flextronics or such Flextronics Affiliated Company to the appropriate taxing jurisdiction in a timely fashion after their receipt. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, pay and indemnify each Purchaser on an after-tax basis for any claims for interest (but only for interest exceeding the amount of interest that would have been imposed had the rate of interest equaled LIBOR), penalties, fines or other similar amounts (but not Taxes) imposed by a taxing jurisdiction relating to (i) Flextronics' or any Flextronics Affiliated Company's negligence in filing such Tax returns; or (ii) Flextronics' or any Flextronics Affiliated Company's failure to invoice such Purchaser for the correct amount of Taxes at the time of the invoice. Flextronics agrees and understands that any payments for Taxes and any interest, penalties, fines or other similar amounts imposed thereon that it or any Flextronics Affiliated Company is required to make under the terms of the prior clauses of this paragraph are not to be billed directly or indirectly to or otherwise recovered from Purchasers. Flextronics, each Flextronics Affiliated Company and each Purchaser agree to cooperate to minimize and properly calculate any applicable Taxes and, in connection therewith, each such Purchaser shall provide Flextronics or the relevant Flextronics Affiliated Company any valid resale certificates, information regarding out-of-state use or foreign receipt of materials, services or sales or other exemption or tax reduction certificates or other certificate or document of exemption or information that is reasonably available and may be required in order to exempt such Purchaser's payment for Product from any such Taxes, and Flextronics shall, and shall cause the Flextronics Affiliated Companies to, accept and support any claims, which such Purchaser in good faith deems to be valid, of resale, direct pay, identifiable segment, bulk sale, occasional sale, casual sale, export sale or other exemption. If a Purchaser provides certification of an exemption from any Tax or of a reduced rate of Tax imposed by an applicable taxing authority, then Flextronics and the Flextronics Affiliated Companies shall not invoice for nor pay over any such Tax unless and until the applicable taxing authority assesses such Tax, at which time Flextronics or the relevant Flextronics Affiliated Company shall invoice and such Purchaser shall pay any such Tax, together with any interest, penalties, fines or other similar amounts imposed thereon, unless Purchaser elects to contest such assessment pursuant to Section 6.7(b) hereof (in which event the provisions of that subsection shall control any invoicing and payment). Flextronics or the relevant Flextronics Affiliated Company shall issue or caused to be issued to Purchaser on the applicable invoice date a valid original VAT invoice or similar invoice for VAT or other Taxes as required by the applicable Governmental Authority or as requested by Purchaser to enable recovery of Taxes where appropriate; and Purchaser shall pay only against such valid invoices. Each Purchaser shall be entitled to, and Flextronics or the relevant Flextronics Affiliated Company shall promptly repay to such Purchaser, any refunds, rebates or credits of Taxes Flextronics or such Flextronics Affiliated Company receives that were paid by such Purchaser pursuant to this Agreement, together with interest thereon measured by the applicable statutory rate in the jurisdiction providing such refund, rebate or credit. Interest at the applicable statutory rate in the jurisdiction providing such refund, rebate or credit will not be payable by Flextronics or such Flextronics Affiliated Company to Purchaser in cases where the overpayment subject to refund, rebate or credit was not as a result of the failure of Flextronics or such Flextronics Affiliated Company to use commercially reasonable actions or judgment and the applicable taxing jurisdiction would not pay interest on an actual refund of such overpayment amount. In the case of any refund, rebate or credit of Tax that can only be recovered by Purchaser (such as certain recoveries of VAT on Product sales

that are cancelled), Flextronics agrees to provide and to cause the Flextronics Affiliated Companies to provide to Purchaser as soon as is reasonably practical after the payment of a Tax the requisite documentation and other information (such as a VAT credit note) that will enable Purchaser to obtain the effective refund, rebate or credit of the Tax.

(b) If Flextronics or any Flextronics Affiliated Company receives any assessment or other notice (collectively, "Assessment") from any governmental taxing authority providing that Taxes are due from Flextronics or such Flextronics Affiliated Company which are subject to payment by a Purchaser pursuant to this Agreement, Flextronics or such Flextronics Affiliated Company shall, within fifteen (15) calendar days of receipt of the Assessment, give such Purchaser written notice of the Assessment and Purchaser shall pay to Flextronics or such Flextronics Affiliated Company or directly to the taxing authority upon receipt of the Assessment or, if required by the applicable Governmental Authority, a valid original VAT invoice or similar invoice for VAT or other Taxes, the amount of Taxes set forth as due in the Assessment within thirty (30) calendar days of receipt of such notice; exclusive, however, of any amounts for which Flextronics or such Flextronics Affiliated Company has agreed to pay and indemnify such Purchaser for in accordance with this Agreement. Notwithstanding the above, if a Purchaser, in its reasonable discretion, determines that it will contest an Assessment of Taxes, then (i) such Purchaser shall control any such contest, (ii) Flextronics and the Flextronics Affiliated Companies shall not pay the Tax in controversy to the applicable governmental taxing authority before the completion of such contest (and such Purchaser shall not be required to make payment of such Tax to Flextronics, or any such Flextronics Affiliated Company) unless such Purchaser requests that such Tax be paid earlier, or if the applicable Tax rules and regulations require the payment thereof (or if payment of the Tax is a pre-condition to contest as is the case, for example, with the VAT imposed by the United Kingdom), and (iii) Flextronics and the Flextronics Affiliated Companies shall cooperate with such Purchaser in such contest and shall provide such support, information, documents and other items as such Purchaser shall reasonably request in connection therewith. In any case where a Purchaser determines to contest an Assessment, such Purchaser will indemnify Flextronics on an after-tax basis for Taxes and where Purchaser has directed Flextronics or any Flextronics Affiliated Company not to pay or collect a specific Tax, any interest, penalties, fines or other similar amounts imposed thereon, and other reasonable defense costs related thereto incurred by Flextronics or such Flextronics Affiliated Company as a result of the contest. If Purchaser determines to contest an Assessment and the determination of such controversy can reasonably be expected to adversely affect Flextronics' or any Flextronics Affiliated Company's liability for such Tax for any Post-Closing Period, Flextronics may attend, itself or through separate counsel reasonably satisfactory to Purchasers, any appearances (with reasonable notice thereof) before the Tax authority and any administrative or judicial body determining such controversy and shall have the right to review and comment in advance on any pleadings, briefs or documents to be disclosed or submitted by Purchasers in defense of the matter. If Flextronics determines that it would prefer that such Purchaser not contest an Assessment, Flextronics may notify such Purchaser at any time not to pursue such contest, provided that Flextronics or any Flextronics Affiliated Company fully satisfies any such Assessment and pays the reasonable defense costs (including attorneys' fees) related thereto incurred by Purchaser as a result of the contest. In such a case, such Purchaser will have no obligation to indemnify Flextronics or any Flextronics Affiliated Company for any amounts paid or payable by Flextronics or such

Flextronics Affiliated Company with respect to such Assessment.

(c) If any Taxes payable by Flextronics or any Flextronics Affiliated Company that are otherwise properly chargeable to Purchaser under this Agreement are recoverable by or payable to Flextronics or such Flextronics Affiliated Company, such Taxes shall be considered to be based upon Flextronics' or such Flextronics Affiliated Company's net income and no Purchaser shall have any obligation to pay to or indemnify Flextronics or any Flextronics Affiliated Company for any such recoverable or refundable Taxes.

(d) Flextronics, the Flextronics Affiliated Companies and each Purchaser shall comply with all laws and regulations respecting the export, directly or indirectly, of any technical data acquired from the other under this Agreement or any Product utilizing any such data to any country the laws or regulations of which at the time of export, require an export license or other government approval including, but not limited to, first obtaining such license or approval.

(e) Flextronics, the Flextronics Affiliated Companies and Purchaser shall also cooperate with each other and with Governmental Authorities with respect to customs matters. Such cooperation shall include, but not be limited to, the sharing of information, including bills of materials, necessary to determine the proper tariff classification (HS) and customs value of imported goods, compliance with country of origin marking and product labeling requirements, and the certification or qualification of products for duty-free treatment or preferential tariff status under the North American Free Trade Agreement (NAFTA), the Generalized System of Preferences (GSP), or any other duty reduction or preference arrangement in effect in any country of importation. Flextronics' and the Flextronics Affiliated Companies' duties of customs cooperation shall include, but not be limited to: (i) providing NAFTA Certificates of Origin for eligible merchandise, together with information needed to verify such certificates; (ii) cooperating in NAFTA verifications conducted by authorized government officials; (iii) providing information needed to establish the GSP eligibility of merchandise; (iv) cooperating in any lawful customs inquiry regarding the verification of any claim for duty-free or reduced-duty treatment; (v) answering government questionnaires and otherwise cooperating or participating in antidumping or countervailing duty investigations with respect to goods sold to Purchaser; (vi) sharing information necessary to the above duties with Purchaser, including confidential information under such terms of confidentiality as the parties may mutually agree; and (vii) securing on a commercially reasonable basis Binding Tariff Information rulings or other customs rulings establishing the tariff status of such goods. Flextronics and the Flextronics Affiliated Companies will also cooperate with, and provide support to, Purchaser to certify Products conform with government procurement requirements, including but not limited to the Federal Acquisition Regulations regarding the so-called "Buy American Act" import procurement restrictions under the Trade Agreements Act of 1979. Flextronics and the Flextronics Affiliated Companies will also take any commercially reasonable actions that would reduce Landed Cost or dutiable value to the full extent allowable under the law as well as affording Purchaser maximum access to Federal government sales for Purchaser's products.

(f) Flextronics and Purchaser will establish a committee (the "Customs Committee") (on such terms and with those members to be agreed initially by the parties hereto within forty-five (45) days from the date of execution

hereof) that will cooperate and work together to review all aspects of the production and material sourcing plans of Flextronics and the Flextronics Affiliated Companies to ensure that appropriate reductions in customs duties, levies and other import and export taxes are obtained, that no incremental duties, levies or taxes are incurred, and that no action taken by Flextronics or any Flextronics Affiliated Company results in restrictions to market access by Purchaser. If Flextronics or any Flextronics Affiliated Company fails to act in a commercially reasonable manner and the result of such failure is an increase in customs duties or levies or import or export taxes to Purchaser, then Flextronics or such Flextronics Affiliated Company shall pay and be responsible for any customs duties, levies or taxes, together with any interest, penalties, fines or similar amounts, that exceed what Purchasers would otherwise have been obligated to pay, had Flextronics or such Flextronics Affiliated Company acted in a commercially reasonable manner. For purposes of this Section 6.7(f), failing to act in a commercially reasonable manner includes, but is not limited to, (i) failing to provide the requisite documents and information set forth in subparagraph (e) above, (ii) changing the source of component products or subassemblies in a manner that increases customs duties or levies as a result of, but not limited to, a loss of NAFTA status, a loss of GSP certification or Purchaser's inability to sell end product to the U.S. federal government under provisions in the Federal Acquisition Regulations, "Buy American" procurement restrictions, and procurement under the Trade Agreements Act of 1979, etc., without the consent of Purchasers, (iii) failing to comply with any law or rule or regulation promulgated thereunder, (iv) failing to comply with any reasonable direction of Purchasers to optimize customs duties, levies and other import and export taxes where such direction can be complied with at no significant cost to Flextronics or any Flextronics Affiliated Company, (v) failing to keep in place any licenses or other favorable customs and duty tax regimes that are obtained by Flextronics or any Flextronics Affiliated Company as of or after the applicable Closing Time provided that such favorable customs and duty tax regimes can be reasonably maintained without expense on the part of Flextronics or any Flextronics Affiliated Company that is disproportionate to benefit received, (vi) failing to provide Purchasers with necessary support and cooperation that would enable Purchasers to receive or maintain reduced rates of customs duties, levies and other import and export taxes, or the ability to recover overpayments thereof, where such support and cooperation can be reasonably provided without significant expense on the part of Flextronics or any Flextronics Affiliated Company, and (vii) failing to reasonably maintain or otherwise properly execute shared systems or other data management functions.

(g) Notwithstanding anything herein that might be read to suggest a contrary position, each party hereto shall carry out its responsibilities and obligations with respect to VAT accounting, reporting payment and recovery of VAT in accordance with the applicable local VAT laws and regulations promulgated thereunder.

(h) Flextronics and the Flextronics Affiliated Companies will support all commercially reasonable efforts by Purchaser and will reasonably cooperate to enable Purchaser to secure duty drawbacks or refunds relating to the Products which Flextronics or any Flextronics Affiliated Company manufactures for Purchaser.

(i) Flextronics, the Flextronics Affiliated Companies and Purchaser shall enter into all necessary contracts or agreements to permit Flextronics and the Flextronics Affiliated Companies to use, or have access to,

Purchaser's "duty management system" for goods manufactured and/or stored in the Venray CRU Operation, to the extent such Operation is or has been transferred to Flextronics or any Flextronics Affiliated Company. For purposes of this provision, the "duty management system" shall be defined to include any EDI database and system which nets inventory outputs against inventory inputs for customs control and duty payment systems, together with any inventory or production data contained therein. It is understood and agreed by the parties that all such duty management systems shall remain the sole and exclusive property of Purchaser and (A) Purchaser may decide in its sole discretion that, or (B) if Flextronics so requests, Purchaser's employees shall operate such systems for the use and benefit of Flextronics and such Flextronics Affiliated Company. This agreement enabling Flextronics and the Flextronics Affiliated Companies to use or have access to Purchaser's "duty management system" shall extend for a period of twelve (12) months after Flextronics or any Flextronics Affiliated Company first has access to Purchaser's "duty management system", and will only be extended upon the express written agreement of the parties.

(j) Purchasers enjoy suspension, exemption or reduced rates of tax (including VAT) and duty on the Products and in the taxing jurisdictions listed on Schedule 6.7(j) hereof. Flextronics agrees that it will, and that it will cause the Flextronics Affiliated Companies to, attempt to obtain and, if necessary, seek rulings obtaining (and Purchasers agree that they will cooperate with Flextronics in the obtaining of) the same or similar suspension, exemption or reduced rates of Tax (including VAT) and duty on the Products that will be sold to Purchasers, unless Flextronics obtains the written consent of Xerox, which consent will not unreasonably be withheld provided that Xerox determines that any such failure to obtain the same or similar suspension, exemption or reduced rates of Tax (including VAT) and duty on the Products would not materially and adversely affect the amount of taxes (other than Taxes recoverable by Purchasers) and/or customs duties that would otherwise be payable or reimbursable by Purchasers.

(k) Xerox and Flextronics each agree to cooperate in good faith and to take such actions as are reasonably necessary to minimize or eliminate the amount of any tax required to be withheld or paid by any Purchaser or any Flextronics Affiliated Company with respect to the transactions contemplated by this Agreement.

Section 6.8 Intellectual Property Royalty. Xerox and Flextronics may agree in writing in the future to a royalty to be paid by Flextronics and the Flextronics Affiliated Companies for the use by Flextronics and the Flextronics Affiliated Companies of the Xerox Intellectual Property. Any such royalty shall be treated as a cost for purposes of calculating UMC. However, in no event shall (i) Flextronics or any Flextronics Affiliated Company be entitled to any Margin Amount (or the recovery of any Taxes, duties, levies or other similar charges imposed thereon) with respect to the amount of any such royalty, or (ii) Flextronics or any Flextronics Affiliated Company be entitled to [*].

Section 6.9 Compliance with Laws. Subject to Section 6.7(e) and (f) hereof, Flextronics shall use its commercially reasonable efforts to secure any permits, approvals, licenses, or authorizations required to be obtained by Flextronics or any Flextronics Affiliated Company under this Agreement to ensure that the Products conform in all material respects to the requirements of Governmental Authorities, and may be imported into, and sold in, the country of destination. Such Governmental Authorities include, but are not

limited to, the United States Federal Communications Commission, Food and Drug Administration, Consumer Product Safety Commission and Federal Trade Commission. Flextronics shall also use commercially reasonable efforts to ensure that all Products delivered to Purchaser are in compliance with all mandatory standards imposed by the country of importation, including but not limited to United States mandatory standards, European Union standards, and Mexican Normas Oficiales Mexicanas (NOMs).

ARTICLE 7

MANUFACTURING

Section 7.1 Manufacture in Accordance with Specifications and Applicable Laws. Flextronics shall, and shall cause all Sub-Tier Suppliers who will provide Products hereunder, to manufacture all Products in accordance with the Specifications therefor and in accordance with all Applicable Laws.

Section 7.2 Purchase of Components. Flextronics is required to, and shall cause the Flextronics Affiliated Companies to, purchase a sufficient number of Components to support the manufacture and sale of Products hereunder; provided, however, that Xerox shall be responsible therefor solely to the extent and as set forth in Sections 4.10(a), 9.5 and 16.1(b) hereof. In the event any Purchaser has any Components that meet the Specifications, Flextronics and the Flextronics Affiliated Companies are required to buy back such Components at the then-effective UMC therefor to the extent needed to fill Forecasted demand during the next ninety (90) calendar days.

Section 7.3 Manufacturing Capacity.

(a) Flextronics shall maintain, and shall cause the Flextronics Affiliated Companies to maintain, sufficient manufacturing capacity in the Facilities during the Term in order to provide Purchasers with all Products ordered by Purchasers hereunder and all Products that are forecasted to be ordered by Purchasers hereunder in accordance with the Product Forecasts. Flextronics and the Flextronics Affiliated Companies shall accept all complete Purchase Orders issued by any Purchaser and received by Flextronics or any Flextronics Affiliated Company in accordance with terms of this Agreement. In the event that Flextronics in good faith believes that Flextronics' and the Flextronics Affiliated Companies' manufacturing capacity will be insufficient to meet Xerox's Product Forecasts, then Flextronics shall notify Xerox in writing thereof immediately and the parties shall promptly meet to develop a solution to this problem.

(b) Neither Flextronics nor any of the Flextronics Affiliated Companies shall commence production of any product for any third party customer until Flextronics' and the Flextronics Affiliated Companies' available manufacturing capacity in the Facilities (running at maximum employee and asset utilization during all shifts) to satisfy any Purchaser's orders of Products under this Agreement is equal to one hundred twenty percent (120%) of Xerox's Forecasts, as indicated by the first sixty (60) calendar days of the then applicable Xerox six-month rolling Forecast.

Section 7.4 Use of Used Components Yielded From Remanufacture and Conversion of Products.

(a) Flextronics acknowledges and agrees that Flextronics and the

Flextronics Affiliated Companies shall be required to remanufacture and use Used Components in connection with the manufacture of Products hereunder, including without limitation, the manufacture of New Build Products, Remanufactured Products and Conversion Products so long as such Used Components can be remanufactured to meet the Specifications therefor and to the extent available. The source of Used Components shall be any Products provided by a Purchaser or its agent (which may, in certain circumstances agreed by the parties, be Flextronics or a Flextronics Affiliated Company) to Flextronics or any Flextronics Affiliated Company (including, without limitation, Completed Machines and certain Modules) (such Products being referred to herein as "Hulks"). Under no circumstances, however, shall Flextronics or any Flextronics Affiliated Company be required to purchase any amount of Hulks (or otherwise hold any such Hulks or Used Components in its inventory of Components) that when added to its current inventory of Components will result in an amount of inventory which is in excess of that inventory needed to meet the then Forecasted demand for Products containing such Components for ninety (90) calendar days, and in no event shall Flextronics or any Flextronics Affiliated Company sell or otherwise transfer any Used Components to any entity that is not a Xerox Affiliated Company.

(b) Purchaser shall issue an original invoice to Flextronics or the relevant Flextronics Affiliated Company for Hulks promptly after shipment of such Hulks, as determined by Xerox. Such invoice will include the price of each Hulk, as determined by Xerox, invoiced and delivered, plus any applicable taxes (other than income taxes or taxes in lieu thereof), separately stated by type and amount of tax imposed on Flextronics or such Flextronics Affiliated Company and to be collected by Purchaser in connection with the sale and delivery of such Hulk. Such original invoice shall be supported by appropriate detail and summary billing information provided to Flextronics or such Flextronics Affiliated Company in a timely manner, and both the invoice and the supporting documentation shall be in the form required by the appropriate Governmental Authority or as otherwise mutually agreed. Flextronics or such Flextronics Affiliated Company shall pay such invoices within forty-five (45) calendar days of the date of such invoices, provided that if the payment date falls on a day that is not a Business Day, then the due date shall be on the next succeeding Business Day, and further provided that no payment will be made by Flextronics or such Flextronics Affiliated Company unless and until the invoice and associated documentation comply with all governmental rules and regulations related thereto. All applicable customs duties and fees related to the importation of Hulks sold to Flextronics or such Flextronics Affiliated Company will be the responsibility of Flextronics and such Flextronics Affiliated Company, and will be paid by Flextronics or such Flextronics Affiliated Company directly to the applicable Governmental Authority. Payment against Purchaser's invoices shall be made via electronic funds transfer or by paper check, as determined by Flextronics. The parties may agree in writing from time to time during the Term that Flextronics or any Flextronics Affiliated Company may act as agent for Purchasers in accepting receipt of returned Products or that Purchasers shall retain title to Hulks during the remanufacturing and/or conversion processes conducted by Flextronics or any other mutually satisfactory method for the acquisition and use of Hulks.

(c) Subject to the Minimum Percentage requirements set forth in this Agreement, nothing in this Agreement shall prevent or limit the right of Xerox or any Xerox Affiliated Company to continue to conduct remanufacturing and conversion operations at its own facilities (including without limitation, the Mitcheldean, Manaus, Rampur and Cairo manufacturing

facilities of Xerox). Further, notwithstanding anything contained in this Agreement to the contrary, Purchasers shall be permitted to conduct Light Remanufacturing and Conversion Operations, in the Purchasers' discretion. Flextronics and the Flextronics Affiliated Companies shall cooperate with all Purchasers who so request in connection with such Purchaser's conduct of light remanufacturing and light conversion by providing necessary Components (at prices to be agreed at the time) and Specifications and other data necessary therefor.

(d) All Products containing Used Components shall be subject to all quality assurance and inspection requirements in accordance with the provisions of Article 8. The representations, warranties or covenants of Flextronics set forth in Article 14 of this Agreement shall apply to any Products containing Used Components, commencing on the receipt of such Products by Purchaser.

(e) Flextronics acknowledges and agrees that Used Components shall be used by Flextronics and the Flextronics Affiliated Companies wherever practicable prior to using new Components.

Section 7.5 Repair Obligations of Flextronics. In the event that any Purchaser determines that a Component requires repair for any reason, such Purchaser shall deliver such Component to Flextronics or the relevant Flextronics Affiliated Company. Purchaser shall issue an original invoice to Flextronics or such Flextronics Affiliated Company for such Components promptly after shipment of such Components by Purchaser. Such invoice will include the Buy Back Price of each such Component invoiced and delivered, as agreed, plus any applicable taxes (other than income taxes or taxes in lieu thereof), separately stated by type and amount of Tax imposed on Flextronics or such Flextronics Affiliated Company and to be collected by Purchaser in connection with the sale and delivery of such Component. Such original invoice shall be supported by appropriate detail and summary billing information provided to Flextronics or such Flextronics Affiliated Company in a timely manner, and both the invoice and the supporting documentation shall be in the form required by the appropriate Governmental Authority or as otherwise mutually agreed. Flextronics or such Flextronics Affiliated Company shall pay such Purchaser the Buy Back Price for such Component within forty-five (45) days from receipt of such Component (the "Buy Back Period"); provided, however, that no payment will be made by Flextronics or such Flextronics Affiliated Company unless and until the invoice and associated documentation comply with all governmental rules and regulations related thereto. All applicable customs duties and fees related to the importation of such Components sold to Flextronics or any Flextronics Affiliated Company will be the responsibility of Flextronics, and will be paid by Flextronics or such Flextronics Affiliated Company directly to the applicable Governmental Authority. Payment against Purchaser's invoices shall be made via electronic funds transfer or by paper check, as determined by Flextronics. Xerox and Flextronics shall meet at least every three (3) months to negotiate the Buy Back Price and Buy Back Period for such Components. Xerox and Flextronics shall negotiate in good faith to: (i) adjust the Buy Back Price for Components to reflect costs for labor, material, and any other expenses associated with repair, and (ii) adjust the Buy Back Period where they determine that the average period within which Flextronics or any Flextronics Affiliated Company repairs and resells any type of such Component to any Purchaser is longer or shorter than forty-five (45) days. All Products repaired or replaced pursuant to this Section 7.5 shall be subject to all quality assurance and inspection requirements in accordance with the

provisions of Article 8. To the extent any representation, warranty or covenant of Flextronics set forth in Article 14 of this Agreement applied to the Product prior to its rejection, such representation, warranty or covenant shall continue to apply to the repaired or replaced Product, commencing on the receipt of such replaced or repaired Products by Purchaser.

Section 7.6 Initial Location and Change in Location of Manufacture. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, except as otherwise provided on Schedule 7.6 hereto, manufacture Products in the same facility at which such Products were manufactured by Xerox immediately prior to execution of this Agreement. If Flextronics provides on Schedule 7.6 to manufacture initially at a facility other than that used by Xerox, Flextronics shall not, and shall cause the Flextronics Affiliated Companies not to, undertake any such alternate manufacturing without the prior written consent of Xerox, which consent shall not be unreasonably withheld; provided, however, that Xerox's withholding of consent shall automatically be deemed to be reasonable if such event would materially and adversely affect the quality, capabilities, Product Lead Times or UMCs of Products or the associated cost of freight, Taxes (other than taxes recoverable by Purchasers) and/or customs duties that would otherwise be payable or reimbursable by Purchasers or would operate to deny Purchasers market access for Products. Flextronics shall not, and shall cause the Flextronics Affiliated Companies not to, change the location of or cease operations at any Facility, or change the location of the manufacture of any Product from its then-current Facility to another location without the prior written consent of Xerox, which consent shall not be unreasonably withheld; provided, however, that Xerox's withholding of consent shall automatically be deemed to be reasonable if such event would materially and adversely affect the quality, capabilities, Product Lead Times or UMCs of Products or the associated cost of freight, Taxes (other than taxes recoverable by Purchasers) and/or customs duties that would otherwise be payable or reimbursable by Purchasers or would operate to deny Purchasers market access for Products. If Xerox grants Flextronics the written consent referred to in this subsection (to initially manufacture in a different facility or to change any such location, etc.), then Xerox may, in its sole discretion, make any such consent conditional on Flextronics and the Flextronics Affiliated Companies obtaining and/or maintaining certain waivers, licenses, reduced tax rate certificates, and other similar items that could affect the total cost of a Product to Xerox.

Section 7.7 Data Protection. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, establish and maintain reasonable means of protection against violation, destruction, loss or alteration of data and data files in respect of the manufacture of the Products and implement a process sufficient to isolate and return rejected and defective Components, including, but not limited to, daily software system backups to be stored off-site and a backup site to run Flextronics' and the Flextronics Affiliated Companies' systems; provided, that such means of protection shall be automatically deemed to be reasonable if such means are equal to or exceed the means that Xerox employs in respect of data protection as of the date hereof. In addition, Flextronics shall, and shall cause the Flextronics Affiliated Companies to, institute security procedures no less restrictive than Xerox's exportation procedures as of the date hereof to prevent the exportation of technical data in violation of United States export control laws. Flextronics shall present to Xerox such plan of data protection and security procedures within ninety (90) calendar days of the execution hereof. Upon reasonable notice and at reasonable times, Flextronics shall, and shall

cause each of the Flextronics Affiliated Companies to, grant reasonable access to its data and data file related to the manufacture of Products under this Agreement as Xerox may reasonably require. The parties agree that third party visitors who Xerox then deems are direct or potential competitors of Xerox (including without limitation Canon, Heidelberg, Hewlett-Packard, Lexmark, Minolta, Oce, Ricoh, Sharp and Toshiba) shall not be allowed in the manufacturing areas where any Products (other than Electronic Components) are being manufactured in the Facilities for Purchasers without Xerox's prior written consent.

Section 7.8 Recovery Plan. Effective as of the date hereof, Flextronics shall, and shall cause the Flextronics Affiliated Companies to, adopt and use at the Facilities and at any other manufacturing locations where Products for Purchasers are manufactured, the Xerox protection and disaster recovery plan (the "Recovery Plan") attached to this Agreement as part of Schedule C hereto. After the date hereof, Flextronics may revise the Recovery Plan or substitute its own protection and disaster recovery plan therefor; provided, that, in the discretion of Xerox as indicated by Xerox in writing, such revised Recovery Plan or substitute plan (i) shall be designed to avoid shutdown or interruptions in the manufacturing capability and if such a shut down or interruption nevertheless occurs, to reduce the effects of such occurrences, (ii) shall identify minimum protection standards, including standards for responding to Force Majeure Events, and (iii) shall conform to or exceed the requirements of the Recovery Plan of Xerox, as the same may have been amended or replaced and is then in effect.

Section 7.9 Contract Manufacturing.

(a) If Flextronics' current structural arrangements either: (i) include a principal/agent formed in Labuan, Mauritius, or Hungary to perform contract manufacturing at any Facility; or (ii) separate the ownership of the Facility and its operations and employees from the ownership of the underlying manufacturing assets, Products, Components, or work-in-progress inventory, then Flextronics shall not include in the applicable UMCs, or otherwise invoice Purchasers for, and will indemnify Purchasers for, any non-incidental incremental cost (including all Tax and duty costs) that would not have been incurred but for the use by Flextronics of such arrangement.

(b) Xerox agrees to discuss the possibility of implementing:

(i) a principal/agent or other similar arrangement to perform contract manufacturing at any Facility; or

(ii) separation of the ownership of the Facility and its operations and employees from the ownership of the underlying manufacturing assets, Products, Components, or work-in-progress inventory

in selected jurisdictions, and Xerox agrees to allow Flextronics, provided that the parties mutually agree, to implement said (b)(i) or (b)(ii). Notwithstanding the above, Flextronics shall have the right, in Flextronics' sole discretion, to implement the structures in (b)(i) or (b)(ii), provided: (A) that any such implementation does not impose a non-incidental incremental cost (including all Tax and duty costs) on, or a material risk that any significant non-incidental incremental costs (including all Tax and duty costs) may be incurred by, Purchasers; and (B) that Flextronics agrees in writing to bear such non-incidental incremental costs (including all Tax and

duty costs), if any.

ARTICLE 8

QUALITY ASSURANCE

Section 8.1 Quality Requirements.Products produced and delivered to Purchaser shall fully comply with the Specifications therefor, including without limitation, the requirements of the Xerox-approved Quality Plan for Products referred to in Section 8.3 below and the reliability standards set forth in the Specifications.

Section 8.2 Quality Systems Certification Requirements. Flextronics will have or will actively be pursuing at each Facility a Quality System certified under ISO 9002 (or TC1706 Approved equivalent) and ISO 14001 (or any future or modified ISO certification standards), and the manufacturing operations of Flextronics and the Flextronics Affiliated Companies and the Facilities shall conform to applicable national and international quality standards, guidelines and practices during the Term. Flextronics shall notify Xerox of any change in ISO certification status of Flextronics or any Flextronics Affiliated Company, shall furnish Xerox with copies of certification certificates upon request and shall maintain its certifications in good standing.

Section 8.3 Quality Plan for Products. Effective as of the date hereof, Flextronics shall adopt and use at the Facilities and at any other manufacturing locations where Products for Purchasers are manufactured, the XW1001 Supplier Quality Requirements, and detailed descriptions contained in the "Multinational Quality Guideline for the Certification of Purchased Products" (Xerox document TQM3120) (the "Quality Plan for Products") attached to this Agreement as part of Schedule C hereto. After the date hereof, Flextronics may revise the Quality Plan for Products or substitute its own quality plan therefor; provided, that, in the discretion of Xerox as indicated by Xerox in writing, such revised Quality Plan for Products or substitute plan shall (i) encompass Spares and consumables, as well as equipment, (ii) define the controls and operating systems required to assure that only defect-free Products will be delivered to the Purchasers and on- going compliance with superior quality standards, (iii) set forth the procedure to be followed for Product verification tests and auditing of the tests conducted at the Facilities, including the procedure for handling non- conforming Products, and (iv) conform to or exceed the requirements of the quality plan for Products of Xerox then in effect. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, permit Xerox's Material Quality Assurance Department or its authorized representatives to perform or oversee the performance of a verification test program for the Products as part of a bonded lot release process until Flextronics achieves certification of the Products, satisfactory to Xerox.

Section 8.4 Product Packaging. Effective as of the date hereof, Flextronics shall adopt and use at the Facilities and at any other manufacturing locations where Products for Purchasers are manufactured, the Xerox packaging test plan (the "Packaging Test Plan") attached to this Agreement as part of Schedule C hereto. After the date hereof, Flextronics may revise the Packaging Test Plan or substitute its own packaging test plan therefor; provided, that, in the discretion of Xerox as indicated by Xerox in writing, such revised Packaging Test Plan or substitute plan shall (i) demonstrate that internal and external packaging materials used with respect

to Products sold to Purchasers by Flextronics or any Flextronics Affiliated Company hereunder meet the packaging requirements set forth in the Specifications, including without limitation, that there be no substantial damage to any packaging materials under normal shipping conditions, and (ii) conform to or exceed the requirements of the packaging test plan of Xerox then in effect.

Section 8.5 Problem Management Process. Xerox and Flextronics shall meet and review any data that indicates a measurable variance from any quantitative specification in any Product's manufacturing specifications contained in the Specifications. The means used to jointly review data for variance from Specification and to implement corrective action will be a process (the "Problem Management Process") set forth below, which both Flextronics and Xerox shall implement to ensure continuous improvement in Product performance and timely reaction to shortfalls in Product performance as specified in the applicable Specification.

(a) Top Problem List. Flextronics and Xerox shall jointly develop a top problem list with respect to each Product and determine possible solutions. If it is determined that a problem does not violate the Specifications then, upon joint agreement, Flextronics will implement tests and approved solutions to the subsequent manufacture of such Products. The top problem list of Xerox existing as of the date hereof shall be the initial top problem list with respect to the Products.

(b) Product Compliance Test Plan. If a Product problem initially appears to the parties to result in the Product not being in compliance with the applicable Specifications, the parties shall mutually agree on a test plan to provide statistically significant validation of such non-compliance and Flextronics shall conduct such tests and report the results thereof to Xerox as soon as possible.

(c) Configuration or Sub-Tier Supplier Change. In the event of a Major Change or a change in the Sub-Tier Supplier of a Component (including without limitation any addition of a new Sub-Tier Supplier, any qualification of an Approved Sub-Tier Supplier to supply a different Component and any switch in the manufacture of a Component from one Approved Sub-Tier Supplier to another Approved Sub-Tier Supplier), the parties shall discuss and agree on a plan of testing to ensure that the Product continues to function to Specifications after such Major Change or change in Sub-Tier Supplier has been implemented.

Section 8.6 On Site Engineer. Upon Xerox's reasonable request in response to urgent customer issues with respect to any Products, Flextronics shall dispatch one or more qualified engineer(s) to any Purchaser's facility or Purchaser's customer's facility no later than three (3) Business Days after a request by Xerox therefor. Such engineer(s) shall stay at such facilities for as long as necessary to provide technical assistance, quality assurance and training support as required. Flextronics shall bear the costs and expenses related to the provision of the services of such engineer(s) for up to 180 equivalent work days of such engineers' aggregate time per Flextronics facility that manufactures Product for Xerox in any rolling twelve-month period. Notwithstanding the foregoing, Xerox agrees that it will make requests pursuant to this Section 8.6 as necessary in connection with the resolution of customer issues for which Xerox reasonably believes Flextronics may be of assistance.

ARTICLE 9

PRODUCT CONFIGURATION MANAGEMENT AND CONTROL

Section 9.1 Responsibility for Product Configuration. Xerox shall retain sole responsibility for developing and maintaining the Product Configuration for each Product and the related Configuration Database; provided, however, upon the request of Xerox, Flextronics and the Flextronics Affiliated Companies shall cooperate with Xerox in any manner as Xerox may reasonably request in the maintenance of the Configuration Database, including without limitation, assuming responsibility therefor.

Section 9.2 Major Changes and Minor Changes Proposed by Flextronics. Flextronics shall notify Xerox's MSA Contract Manager in order to propose a Major Change or a Minor Change. Such person shall have the right to approve or deny such proposed Major Change or Minor Change, in his or her reasonable discretion. In addition, prior to approving or denying any such Major or Minor Change proposal, such person shall be entitled to require Flextronics to submit a formal written change request (each, a "Change Request") with respect thereto. Such Change Request shall include, without limitation, an evaluation of the feasibility of the proposed change, the cost of the modification, any change in UMC, Purchase Price or manufacturing or delivery times for the subject Product as a result of the proposed change, the amount of time required for implementation, the likelihood of obsolescence of any Components and such Change's anticipated effect on the safety, function, performance, reliability, serviceability, appearance, dimensions and tolerances of the subject Product and a Components list for the revised Product. Xerox shall approve or reject any such Change Request in writing within thirty (30) calendar days of receipt thereof. If Xerox has not responded to such informal proposal or formal Change Request by the expiration of such thirty (30) calendar day period, Flextronics shall have the right to notify the person to whom Xerox's MSA Contract Manager reports of such rejection or nonresponse and such person shall meet with Flextronics within five (5) Business Days thereof to discuss the same. Notwithstanding anything contained herein to the contrary, no approval of a proposal for a Major or Minor Change or formal Change Request shall be effective unless it is in writing signed by Xerox's MSA Contract Manager. With respect to any Major Change relating to a safety issue, Flextronics shall immediately notify Xerox of any identified safety issue that is contemplated to require a Major Change.

Section 9.3 Major Changes Proposed by Xerox. Xerox shall submit a written proposal to Flextronics in order to propose a Major Change. Flextronics shall respond to such written proposal within ten (10) Business Days after receipt of such proposal, indicating, to the extent such information is then available, an evaluation of the feasibility of the proposed change, the cost of the modification, any change in UMC, Purchase Price or manufacturing or delivery times for the subject Product as a result of the proposed change, the amount of time required for implementation, the likelihood of obsolescence of any Components and such Change's anticipated effect on the safety, function, performance, reliability, serviceability, appearance, dimensions and tolerances of the subject Product and a Components list for the revised Product. Flextronics' response shall also indicate, if some of such information was not then available, when a complete response can be delivered. In no event shall a complete response from Flextronics be made more than thirty (30) calendar days following receipt by Flextronics of Xerox's Major Change proposal. Xerox shall determine, in its sole discretion, within a reasonable amount of time after Xerox's receipt of Flextronics'

complete response to Xerox's Major Change proposal whether to implement such Major Change, based on Flextronics' response. Notwithstanding the foregoing, in the event Xerox wishes to make a Major Change because of a safety or environmental issue, such Major Change shall be implemented as soon as reasonably possible.

Section 9.4 Minor Changes Proposed By Xerox. Xerox shall notify Flextronics' MSA Contract Manager in writing in order to propose a Minor Change. Xerox and Flextronics shall, within five (5) Business Days thereof meet and in good faith discuss the feasibility of such Minor Change (including, as applicable, the cost of the modification, any change in UMC, Purchase Price or manufacturing or delivery times for the subject Product as a result of the proposed change, the amount of time required for implementation, the likelihood of obsolescence of any Components and such Change's anticipated effect on the safety, function, performance, reliability, serviceability, appearance, dimensions and tolerances of the subject Product and a Components list for the revised Product). Following such discussions, Xerox shall notify Flextronics in writing whether or not to implement such Minor Change, based on such discussions. Notwithstanding the foregoing, in the event Xerox wishes to make a Minor Change because of a safety or environmental issue, such Minor Change shall be implemented as soon as reasonably possible.

Section 9.5 Costs of Implementation; Obsolete Products. In the event that a Major or Minor Change is implemented (other than as a result of the breach by Flextronics of any of its representations, warranties or covenants set forth in Article 14 hereof), then Xerox shall bear all costs and expenses related to such Major or Minor Change, including without limitation, any costs and expenses incurred as a result of the obsolescence of Purchaser's or Flextronics' or the relevant Flextronics Affiliated Company's inventory as follows: [*]; provided, however, that, notwithstanding the foregoing, [*]. Upon the request of Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) provide reasonably acceptable documentation substantiating any and all such costs. If requested by Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub- Tier Suppliers to) permit Purchaser's representatives to review the business records of Flextronics and the Flextronics Affiliated Companies (or the Sub- Tier Supplier, as the case may be) for the sole purpose of validating the claim for costs (subject to any confidentiality agreements to which Flextronics is a party), to validate the count of inventory of such Product and the Components and to supervise the scrappage, if any, of such Product or Components. After such Major Change or Minor Change is approved, Flextronics shall commence the Inventory Repurchase Procedure.

Section 9.6 Serial Number Notification. Any changes to any Product Configuration pursuant to this Article 9 shall be implemented in accordance with the applicable timing for such implementation as indicated above. For each changed Product, the serial number for the first of such changed Product shall be identified to Xerox, and Flextronics agrees that all such Products with serial numbers greater than such first identified changed Product shall incorporate such changes. Processes standard in the industry to designate changes of configuration shall be employed with respect to any changed Products, including without limitation, tag designation, specific serial number or other method as agreed between Flextronics and Xerox for each specific Product.

ARTICLE 10

GOVERNMENTAL AUTHORITY, APPROVAL AND SAFETY

Section 10.1 Compliance. Flextronics shall, and shall cause the Flextronics Affiliated Companies to, comply, in the manufacture and supply of Products to Purchasers hereunder, with all Xerox requirements set forth in the Specifications (including without limitation the safety requirements and other Governmental Authority requirements described in the Specifications) and all Applicable Laws, in each case as are in effect at the time of shipment of such Products.

Section 10.2 Monitoring of Compliance.

(a) Flextronics shall provide Xerox with all information necessary to evaluate compliance with Section 10.1 above, as reasonably requested by Xerox. Such information shall include, but not be limited to (i) the identity of substances and quantity thereof in any formulation, (ii) toxicity data (Ames Assay and/or other tests for mutagenicity, human patch tests or acute studies), (iii) chemical emissions test data, and (iv) waste disposal status of Products.

(b) Flextronics shall, and shall cause the Flextronics Affiliated Companies to, also cooperate with and provide to Xerox, as requested by Xerox, information necessary to manage potential hazards posed by Products and respond to information requests from Governmental Authorities, customers or other stake holders and to establish written procedures to ensure that the appropriate party will have reasonable access to the necessary information. Any such procedures established by Flextronics and the Flextronics Affiliated Companies shall be in compliance with all requirements of the "Xerox Environmental Health and Safety Requirements" (and any successor document).

Section 10.3 Governmental Authority Approvals. The parties agree to cooperate in the activities necessary to obtain all approvals and certifications from Governmental Authorities that are or shall become necessary in order for the parties to fulfill their obligations under this Agreement. Governmental Authority approvals that are required prior to the delivery of a Product in a country in which the product is to be sold are listed in the applicable Specifications. The responsibility of each party for performing specific tasks and obtaining such Governmental Authority approval and which party will pay for the associated expenses shall be as agreed by Xerox and Flextronics.

ARTICLE 11

INSURANCE

Section 11.1 Insurance Coverage. (a) Flextronics shall obtain and maintain insurance covering each Facility, all equipment used in manufacturing the Products (including without limitation the Xerox-Owned Assets and the Xerox Unique Property) and the inventory of Products against customary casualty risks, as well as general liability coverage for personal injury and property damage, with contractual liability endorsements applicable to indemnity obligations of Flextronics hereunder. Such insurance will be maintained with insurance companies with a Best's rating of no less than A minus (or a comparable rating level), shall be endorsed to provide

that coverage will not be canceled, except after thirty (30) calendar days prior written notice to Xerox. Flextronics shall maintain the types of insurance with limits of no less than as follows, provided that such limits may be set forth in Flextronics' umbrella policy:

(i) Comprehensive general liability insurance, [*] combined single limit per occurrence and [*] (on an occurrence basis and not on a claims made basis), including contractual coverage, product and completed operations coverage, and broad form vendors coverage.

(ii) Automotive liability insurance, [*] combined single limit per occurrence (on an occurrence basis and not on a claims made basis).

(iii) Workers' compensation insurance with statutory limits and employers' liability insurance, [*].

(iv) All risk property insurance and business interruption coverage, with values insured to replacement cost.

(b) Flextronics shall cause the insurer to name Xerox as loss payee on the insurance listed in Section 11.1(a)(iv), and as an additional insured on all such policies of insurance listed in Section 11.1(a)(i).

Section 11.2 No Limitation of Liability. The amount of insurance purchased by Flextronics will not limit the liability of Flextronics to Xerox.

Section 11.3 Certificate; Copies of Policies. A certificate of insurance evidencing such coverage and the limits of liability (amounts of coverage) carried by Flextronics as well as copies of all such insurance policies shall be provided to Xerox upon Xerox's request.

Section 11.4 Loss Control. For each Facility, Flextronics will maintain loss control standards consistent with the National Fire Protection Association guidelines.

ARTICLE 12

REPRESENTATIONS AND WARRANTIES OF FLEXTRONICS

Flextronics hereby represents and warrants that Flextronics and the Flextronics Affiliated Companies are financially solvent. Flextronics, the Flextronics Affiliated Companies and each of their respective employees, agents, subcontractors, and contractors are authorized and competent to perform the services and manufacture and sell the Products required under this Agreement.

ARTICLE 13

COVENANTS OF THE PARTIES

Section 13.1 Covenants of Flextronics. Flextronics hereby covenants as follows:

(a) Maintenance of Licenses. Flextronics and each of the Flextronics

Affiliated Companies shall, and Flextronics shall use its commercially reasonable efforts to cause each Sub-Tier Supplier to, preserve and maintain all of its franchises, licenses, rights and privileges under contract or Applicable Laws that are material to the proper conduct of its business.

(b) Compliance with Applicable Laws. Flextronics and each of the Flextronics Affiliated Companies shall, and Flextronics shall use its commercially reasonable efforts to cause each Sub-Tier Supplier to, comply, and shall ensure that its manufacturing operations and the conduct of its business are, and the manufacturing operations and the conduct of the business of each Sub-Tier Supplier is, and remain and are operated, managed and maintained in compliance in all material respects with all Applicable Laws.

(d) Cooperation. In connection with the performance of its duties hereunder, Flextronics and the Flextronics Affiliated Companies shall at all times act in good faith and cooperate in any reasonable manner with Xerox, the other Purchasers and their agents, employees, contractors and subcontractors.

(e) Access. Upon reasonable notice and at reasonable times, Flextronics shall allow Xerox or its authorized representatives (i) access to all of the Facilities, (ii) access to any property or premises on which any books or records relating to the manufacture or sale of Products (other than Electronic Components materials with respect to which Flextronics is subject to confidentiality agreements with third parties) or the performance of Flextronics or any Flextronics Affiliated Company of Flextronics' obligations under this Agreement may be located, (iii) to review and make extracts from such books and records (other than with respect to Electronic Components materials with respect to which Flextronics is subject to confidentiality agreements with third parties), (iv) to discuss with any person (including its officers, employees, accountants, suppliers, customers and contractors) any matters with respect to the manufacture or sale of Products or the performance by Flextronics or any Flextronics Affiliated Company of Flextronics' obligations under this Agreement. Flextronics further agrees that if any Purchaser maintains any action, claim or suit for the recovery of Taxes, levies, duties, or other similar governmental charges, Flextronics or the relevant Flextronics Affiliated Company will supply Purchasers with original records in its possession and the cooperation of any persons within its employ to enable Purchasers to prosecute said action, claim or suit.

(f) Books and Records. Flextronics shall make and keep at the Facilities accurate and complete books, records and accounts, which shall, in reasonable detail, fairly reflect the transactions of Flextronics and the Flextronics Affiliated Companies with respect to the manufacture and sale of the Products, Flextronics' and the Flextronics Affiliated Companies' performance of Flextronics' duties under this Agreement and each element in the preparation of the Quarterly Statements; such books, records and accounts shall be kept and maintained in all respects in accordance with Applicable Laws and otherwise in accordance with standards at least equal to best industry practices. Flextronics shall keep all such records and accounts for a period of at least ten (10) years (or such longer period as may be required by any applicable statute of limitations) from the date on which such records and accounts, as the case may be, relate. At the expiration of the time period set forth in the preceding sentence with respect to the retention of such records and accounts, Flextronics shall consult with Xerox and shall, at the request of Xerox, forward any or all such records and accounts to Xerox

(except for such records related to Electronic Components materials with respect to which Flextronics is subject to confidentiality agreements with third parties).

(g) Audits and Inspections. Xerox shall be permitted upon reasonable notice and at reasonable times to conduct audits and inspections with respect to, and to otherwise monitor, the manufacture and sale of Products pursuant to this Agreement and the performance of Flextronics and the Flextronics Affiliated Companies of Flextronics' obligations hereunder, including, without limitation, legal, financial (other than with respect to Electronic Components materials with respect to which Flextronics is subject to confidentiality agreements with third parties) and performance audits and the employment of any key performance indicator tests (including without limitation those set forth on Schedule E hereto) ("KPIs"), as Xerox may deem necessary or desirable. Flextronics shall, and shall cause the Flextronics Affiliated Companies and shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers, to cooperate fully in any such audit, inspection or monitoring. If any such audit reveals that any Purchaser shall have overpaid any amount, Flextronics shall promptly pay to such Purchaser such overpaid amount with interest thereon at a rate equal to the Financing Charge.

(h) Delivery of Reports. Flextronics shall deliver to Xerox the reports listed on Schedule F hereto, as and when such reports are due, together with additional reports and information reasonably requested by Xerox and agreed to by Flextronics and any other reports specifically required pursuant to any other Sections of this Agreement. In addition, Flextronics shall cooperate in any reasonable manner and assist Xerox in gathering the information and documentation necessary to complete reports, forms, statements, and other documentation required by any Governmental Authority with respect to the business and operations of Xerox.

(i) Tooling and Equipment at Sub-Tier Supplier Facilities. Flextronics and the Flextronics Affiliated Companies shall cooperate with Xerox in servicing any items of tooling or other equipment owned by Xerox or any of the Xerox Affiliated Companies that is located at the facilities of Sub-Tier Suppliers and is used or held for use by such Sub-Tier Suppliers for the purpose of manufacturing Products. Flextronics and the Flextronics Affiliated Companies shall also cooperate with Xerox in the design and manufacture of any new equipment and tooling to be used or held for use by such Sub-Tier Suppliers for the purpose of manufacturing Products (including without limitation manufacturing such tooling and equipment at the Facilities), as Xerox shall request. Appropriate compensation for the rendering of such services by Flextronics and the Flextronics Affiliated Companies shall be mutually agreed by Flextronics and Xerox at the time of Xerox's request therefor.

(j) Special Access/Audit Rights. In the case where Flextronics is a party to written confidentiality agreements with respect to Electronic Components materials, Flextronics will provide Xerox with market price information related to a "basket" of materials. In addition, an independent auditor designated by Xerox from a nationally-recognized auditing firm (other than KPMG LLP, PricewaterhouseCoopers LLP and Arthur Andersen LLP) may exercise the access rights referred to in Section 13.1(e) hereof and the audit rights referred to in Section 13.1(g) hereof with respect to such confidential information. Xerox shall bear the expense of retaining such auditor.

Section 13.2 Covenants of Xerox. Xerox hereby covenants as follows:

(a) Cooperation. In connection with the performance of its duties hereunder, Xerox shall at all times act in good faith and cooperate in any reasonable manner with Flextronics and the Flextronics Affiliated Companies.

(b) Compliance with Applicable Laws. Xerox shall, and shall cause each Purchaser to, comply, and shall ensure that its business and operations are, and the business and operations of each Purchaser are, and remain and are operated, managed and maintained in compliance in all material respects with all Applicable Laws.

ARTICLE 14

PRODUCT WARRANTIES

Section 14.1 Express Warranties. With respect to each Product sold by Flextronics or any Flextronics Affiliated Company to a Purchaser under this Agreement, Flextronics represents, warrants and covenants as follows (collectively, the "Express Warranties"):

(a) Each such Product shall conform to the Specifications;

(b) Flextronics or such Flextronics Affiliated Company shall have good title to each such Product at the time it is transferred to Purchasers, free and clear of all liens, encumbrances and security interests of any nature whatsoever;

(c) Each such Product shall be free from defects in Workmanship; and

(d) Each Component in each such Product, which Component was obtained from Flextronics or any Flextronics Affiliated Company as Sub-Tier Supplier, shall be free from defects in material and Workmanship.

(e) Each Component in each such Product, which Component is provided by a Flextronics Sub-Tier Supplier, shall be free from defects in material and Workmanship, but, in each case where Flextronics or any Flextronics Affiliated Company is not the Sub-Tier Supplier, only to the extent otherwise warranted by the manufacturer of such Component.

Section 14.2 Xerox Sub-Tier Supplier Warranties. With respect to each Component obtained from a Xerox Sub-Tier Supplier under this Agreement, which Component is the subject of any express or implied warranty, Flextronics shall take all commercially reasonable steps necessary and shall in good faith cooperate with Xerox to obtain for Purchasers the benefit of such warranty, including, without limitation, by producing evidence to support Xerox's warranty claim.

Section 14.3 Warranty Obligations. The Buy Back and repair process set forth in Section 7.5 hereof shall govern the repair of defective Products, regardless of the reason for such defect, up until such time as the number of Failures of such Product reaches the Failure Rate Threshold for such Product. If, at any time during the period commencing on the date of receipt by Purchaser of any Product and ending [*] months thereafter, the Failure Rate Threshold for such Product has been reached (the "Systemic Defect Period"), the following procedures shall apply:

(a) The parties shall meet as necessary to discuss, investigate and determine the nature and cause of such Failure and to develop and implement appropriate responses to such Failure; provided, however, that Flextronics shall not be required to provide engineering time at no charge other than as set forth in Section 8.6 hereof. Flextronics shall cooperate with Xerox in any manner reasonably requested by Xerox in respect of such actions.

(b) (i) In the event any such Failure is the result of the Product failing to conform to the Express Warranties set forth in Section 14.1 hereof, Flextronics and the Flextronics Affiliated Companies shall bear all costs and expenses related to such agreed-upon actions and to the repair or replacement in respect of such Products.

(ii) In the event any such Failure is not the result of the Product failing to conform to the Express Warranties set forth in Section 14.1 hereof, Purchaser shall bear all costs and expenses related to such agreed-upon actions and to the repair or replacement in respect of such Products; provided, however, that Flextronics shall not be required to provide engineering time at no charge other than as set forth in Section 8.6 hereof.

(c) Flextronics and the Flextronics Affiliated Companies shall pay any and all Taxes, duties, levies and similar governmental charges (other than income Taxes or Taxes in lieu thereof imposed on Purchasers) imposed on Flextronics, the Flextronics Affiliated Companies and Purchasers arising with respect to any replacements of Products by Flextronics pursuant to Section 14.3(b)(i) hereof.

(d) Purchaser shall pay any and all taxes, duties, levies and similar governmental charges (other than income taxes or taxes in lieu thereof imposed on Flextronics or any Flextronics Affiliated Company) imposed on Flextronics, the Flextronics Affiliated Companies and Purchasers arising with respect to any replacements of Products by Purchasers pursuant to Section 14.3(b)(ii) hereof.

(e) Flextronics and the Flextronics Affiliated Companies shall support Xerox in the establishment of a joint diagnostic improvement process to insure "no defect found" levels do not exceed acceptable limits.

Section 14.4 Hazardous Products. In the event that any Product contains a hazard or is found by any agency having authority to make such determination to contain or pose a hazard (a "Hazardous Product"), as that term is understood under the United States Consumer Product Safety Commission Act or any comparable or successor Applicable Laws, Flextronics shall cooperate with Xerox in order to make all required reports to all applicable Governmental Authorities. Xerox shall have control over all actions that it deems necessary or desirable to comply with Applicable Laws. If it becomes necessary or, in Xerox's opinion, desirable, that any Products should be recalled in order to comply with such Applicable Laws, Flextronics shall cooperate with Xerox to effectuate such recall as expeditiously as practicable. If a Product has been deemed to be a Hazardous Product under this Section 14.4 by reason of the breach of the Express Warranties contained in Section 14.1 hereof, all costs and expenses related to any action taken by the parties with respect to such Hazardous Product shall be borne by Flextronics and the Flextronics Affiliated Companies. If a Product has been deemed to be a Hazardous Product under this Section 14.4 not by reason of the

breach of the Express Warranties contained in Section 14.1 hereof, all costs and expenses related to any action taken by the parties with respect to such Hazardous Product shall be borne by Xerox. The requirement of cooperation in this Section 14.4 shall not be deemed to require any party to delay making in a timely manner any reports which may be required of it under Applicable Law.

Section 14.5 No Other Warranties. EXCEPT AS SET FORTH IN THIS ARTICLE 14 AND IN ARTICLE 12, FLEXTRONICS MAKES NO OTHER WARRANTIES WITH RESPECT TO THE PRODUCTS, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR IN ANY COMMUNICATION WITH XEROX OR ANY CUSTOMER OR PURCHASER, AND FLEXTRONICS SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

ARTICLE 15

TERM; EVENTS OF DEFAULT; TERMINATION

Section 15.1 Term. Subject to earlier termination as provided herein, this Agreement shall be in full force and effect force for a term of five (5) years, commencing on the date hereof and terminating on the fifth anniversary of such date (the "Initial Term"). Xerox shall have the right, but not the obligation, to extend the Initial Term for up to two (2) additional one year periods (the "Mandatory Extension Term"). In the event Xerox decides not to exercise such right to the Mandatory Extension Term, it shall provide written notice to Flextronics thereof not less than one hundred eighty (180) calendar days prior to the end of the Initial Term. After the Initial Term or the Mandatory Extension Term, as applicable, this Agreement shall automatically be renewed for successive periods of twelve (12) months each (each a "Renewal Term") unless either party elects to terminate this Agreement by delivering to the other party a termination notice not less than one hundred eighty (180) calendar days prior to the end of the Initial Term, the Mandatory Extension Term or any such Renewal Term, as the case may be. The entire duration of the effectiveness of this Agreement, from the first day of the Initial Term, through the last day of the effectiveness of this Agreement prior to its expiration or termination as provided herein, is hereinafter referred to as the "Term."

Section 15.2 Flextronics Events of Default. The occurrence of any of the following shall constitute a "Flextronics Event of Default" for purposes of this Agreement:

(a) (i) a petition for relief under applicable bankruptcy laws or regulations is filed by or against Flextronics or any Flextronics Affiliated Company that is party to an SSA; (ii) Flextronics or any Flextronics Affiliated Company that is party to an SSA makes an assignment for the benefit of creditors or a receiver is appointed; (iii) the nationalization, expropriation or other taking by any government, or any agency or instrumentality of any government, of a substantial part of Flextronics' or of any Flextronics Affiliated Company's assets or business or of any ownership interest in Flextronics or any Flextronics Affiliated Company; or (iv) Flextronics or any Flextronics Affiliated Company that is party to an SSA is unable to pay, or is generally not paying, its debts (other than those that are the subject of bona fide disputes) as they become due, and such petition, assignment, agreement or inability to pay or non-payment is not dismissed, vacated, terminated or cured within thirty (30) calendar days; provided, that, to the extent Applicable Law may prevent Xerox from terminating this Agreement in the event of (a)(i) through (a)(iv) above, then

Xerox shall have only those rights and remedies permitted by applicable law, including without limitation the United States Bankruptcy Code.

(b) (i) any sale, transfer or assignment by Flextronics or any Flextronics Affiliated Company that is party to an SSA of all or a substantial part of its assets or of this Agreement, or of any of its rights or privileges granted or obligations assumed under this Agreement or under an SSA; or (ii) any sale or transfer, voluntary or involuntary, by operation of law or otherwise, of any ownership interest in Flextronics or any Flextronics Affiliated Company that is party to an SSA; provided however, that, notwithstanding the foregoing, (A) the events set forth in (b)(i) above shall not constitute a Flextronics Event of Default if such sale, transfer or assignment is to another entity that is at such time a Flextronics Affiliated Company, and (B) the events set forth in (b)(ii) above shall not constitute a Flextronics Event of Default if such sale or transfer of ownership interests, in the case of Flextronics, does not result in a change in the identity of Flextronics' then current Controlling entity, or, in the case of a Flextronics Affiliated Company, does not result in such Flextronics Affiliated Company being Controlled by an entity that is not Flextronics or another Flextronics Affiliated Company.

(c) The breach in any material respect of any material representation, covenant, warranty or obligation of Flextronics under this Agreement or any Flextronics Affiliated Company under the SSA to which it is a party (for the avoidance of doubt, the breach by Flextronics of any of the provisions of Sections 20.4(a) and 20.17 hereof, whether or not material, shall be deemed to be Flextronics Events of Default);

(d) The material failure by Flextronics or any Flextronics Affiliated Company to attain the KPI levels indicated in Schedule E hereto when and as indicated; or

(e) Any conviction or plea of nolo contendere by Flextronics or any Flextronics Affiliated Company that is party to an SSA of a felony under Applicable Laws which relates to the manufacture of Products and/or the performance by Flextronics or such Flextronics Affiliated Company that is party to an SSA of its obligations under this Agreement or such SSA.

Section 15.3 Xerox Events of Default. The occurrence of the following shall constitute a "Xerox Event of Default" for purposes of this Agreement:

(a) (i) a petition for relief under applicable bankruptcy laws or regulations is filed by or against any Purchaser; or (ii) any Purchaser makes an assignment for the benefit of creditors or a receiver is appointed; provided, that, to the extent Applicable Law may prevent Flextronics from terminating this Agreement in the event of (a)(i) or (a)(ii) above, then Flextronics shall have only those rights and remedies permitted by applicable law, including without limitation the United States Bankruptcy Code

(b) The breach in any material respect of any material representation, covenant, warranty or obligation of Xerox under this Agreement or any Purchaser under the SSA to which it is party (for the avoidance of doubt, the breach by Xerox of any of the provisions of Sections 20.4(b) and 20.18 hereof, whether or not material, shall be deemed to be Xerox Events of Default). Notwithstanding anything herein to the contrary, Xerox's failure to pay any amount due shall not constitute a Xerox Event of Default to the extent that Flextronics or the relevant Flextronics Affiliated Company failed.

to submit an invoice for that amount in accordance with Section 4.7 hereof.

(c) Any conviction or plea of nolo contendere by any Purchaser that is party to an SSA of a felony under Applicable Laws which relates to the sale or distribution of Products and/or the performance by such Purchaser of its obligations under this Agreement or such SSA.

Section 15.4 Notice, Cure and Remedies.

(a) Flextronics Events of Default.

(i) Upon occurrence and continuance of a Flextronics Event of Default, Xerox shall give prompt written notice to Flextronics of the Flextronics Event of Default.

(ii) For a Flextronics Event of Default under Section 15.2(a) hereof, Flextronics shall have sixty (60) calendar days from the date of receipt of such notice to cure such Flextronics Event of Default. If such Flextronics Event of Default has not been cured at the expiration of such period, Xerox may then terminate this Agreement upon thirty (30) calendar days prior written notice to Flextronics.

(iii) For Flextronics Events of Default under Sections 15.2 (b) and (e) hereof, there shall be no cure period and Xerox shall have the right to terminate this Agreement upon thirty (30) calendar days prior written notice to Flextronics.

(iv) For Flextronics Events of Default under Sections 15.2 (c) and (d) hereof, Flextronics shall have thirty (30) calendar days from the date of receipt of such notice to cure such Flextronics Event of Default. If such Flextronics Event of Default has not been cured at the expiration of such period, Xerox may then terminate this Agreement upon thirty (30) calendar days prior written notice to Flextronics.

(v) During the continuance of any Flextronics Event of Default, Purchasers may withhold payment of any amounts that are otherwise due and payable to Flextronics or any Flextronics Affiliated Company hereunder, without such non-payment constituting a Xerox Event of Default, until such time as the default is cured or settled.

(vi) Flextronics shall reimburse Xerox or any other Xerox Indemnitee and be responsible for any actual Damages suffered by Xerox or any other Xerox Indemnitee as a result of any Flextronics Event of Default.

(b) Xerox Events of Default.

(i) Upon the occurrence and continuance of a Xerox Event of Default, Flextronics shall give prompt written notice to Xerox of the Xerox Event of Default.

(ii) For a Xerox Event of Default under Section 15.3(a) hereof, Xerox shall have sixty (60) calendar days from the date of receipt of such notice to cure such Xerox Event of Default. If such Xerox Event of Default has not been cured at the expiration of such period, Flextronics may then terminate this Agreement upon thirty (30) calendar days prior written notice to Xerox.

(iii) For a Xerox Event of Default under Section 15.3(b) hereof, Xerox shall have thirty (30) calendar days from the date of receipt of such notice to cure such Xerox Event of Default. If such Xerox Event of Default has not been cured at the expiration of such period, Flextronics may then terminate this Agreement upon ninety (90) calendar days prior written notice to Xerox.

(iv) For a Xerox Event of Default under Section 15.3(c) hereof, there shall be no cure period and Flextronics shall have the right to terminate this Agreement upon thirty (30) calendar days prior written notice to Xerox.

(v) During the continuance of any Xerox Event of Default, Flextronics and any Flextronics Affiliated Company may withhold payment of any amounts that are otherwise due and payable to Xerox hereunder, without such non-payment constituting a Flextronics Event of Default, until such time as the default is cured or settled.

(vi) Xerox shall reimburse Flextronics or any other Flextronics Indemnitee and be responsible for any actual Damages suffered by Flextronics or any other Flextronics Indemnitee as a result of any Xerox Event of Default.

Section 15.5 Resolution of Disputes with respect to Certain Events of Default. Notwithstanding anything contained in this Article 15 to the contrary, in the event of any Flextronics Event of Default under Sections 15.2(c) or (d) hereof, or any Xerox Event of Default under Section 15.3(b) hereof, prior to providing notice of termination of this Agreement in accordance with this Agreement, Xerox and Flextronics shall attempt in good faith to resolve any and all controversies or claims relating to such Event of Default promptly by negotiation commencing within ten (10) calendar days of the written notice of default given by the non-defaulting party, including referring such matter to Ursula Burns or Xerox's then-current Senior Vice President of Worldwide Business Services and Michael McNamara or Flextronics' then current President-Americas. The representatives of the parties shall meet at a mutually acceptable time and place and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the dispute until such time as all cure periods applicable to the Event of Default have expired. In the event that the parties are unable to resolve such dispute pursuant to this Section 15.5, the provisions of Section 20.9 hereof shall apply.

Section 15.6 Effect of a Force Majeure Event. Neither party shall be liable for its failure or delay in performance of its obligations under this Agreement if such failure or delay is caused by a Force Majeure Event. If a Force Majeure Event occurs and is continuing, then the non-affected party may terminate this Agreement without liability if the affected party is not able to resume its performance within sixty (60) days.

ARTICLE 16

EFFECTS OF EXPIRATION AND TERMINATION, ETC.

Section 16.1 Product Orders; Product.

(a) Upon the expiration of the Term or termination of this Agreement

for any reason, except in the event of nonpayment by Xerox constituting a Xerox Event of Default under Section 15.3(b) hereof, Flextronics and the Flextronics Affiliated Companies shall continue to fill any Purchase Orders it has received from any Purchaser through the effective date of such expiration or termination, with the terms and provisions of this Agreement continuing to govern the purchase and sale of such Products. Nothing in this Article 16 shall affect Flextronics' warranty obligations or Buy Back or repair obligations in respect of any Products.

(b) Upon the termination of this Agreement for any reason other than a Flextronics Event of Default, Purchaser shall purchase from Flextronics and the Flextronics Affiliated Companies all of Flextronics' and the Flextronics Affiliated Companies' then-existing inventory of Products as follows: [*]; provided, however, that, notwithstanding the foregoing, [*]. Upon the request of Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) provide reasonably acceptable documentation substantiating any and all such costs. If requested by Purchaser, Flextronics and the Flextronics Affiliated Companies shall (and Flextronics shall use its commercially reasonable efforts to cause the Sub-Tier Suppliers to) permit Purchaser's representatives to review the business records of Flextronics and the Flextronics Affiliated Companies (or the Sub-Tier Supplier, as the case may be) for the sole purpose of validating the claim for costs (subject to any confidentiality agreements to which Flextronics is a party), to validate the count of inventory of such Product and the Components and to supervise the scrappage, if any, of such Product or Components. Immediately after the termination of this Agreement for any reason other than a Flextronics Event of Default, Flextronics shall commence the Inventory Repurchase Procedure. Upon the expiration of this Agreement or the termination of this Agreement due to a Flextronics Event of Default, Xerox shall have the right, but not the obligation, to purchase all or any part of such Products from Flextronics or such Flextronics Affiliated Company at the then-effective Quarterly Purchases Prices therefor.

Section 16.2 Return of Assets.

(a) Upon the expiration of the Term or termination of this Agreement for any reason, each party hereto shall (and shall cause its Affiliates to) immediately return to the other all Confidential Information of the other party and the other party's Affiliates. Notwithstanding the foregoing, Xerox shall have the right to retain and use any of Flextronics' Confidential Information to the extent necessary to continue servicing Products and each party shall have the right to retain one copy of the other party's (and its Affiliates') Confidential Information for archival purposes.

(b) Upon the expiration of the Term or termination of this Agreement for any reason, Flextronics and the Flextronics Affiliated Companies shall promptly return to Xerox all Xerox Intellectual Property and any of the Xerox-Owned Assets in the possession, under the control or located on the premises, of Flextronics or any Flextronics Affiliated Company. Alternatively, at the request of Xerox, Flextronics shall make disposition in accordance with Xerox's written instructions which shall be issued within thirty (30) calendar days after the expiration or termination of this Agreement. However, Flextronics shall be entitled to retain any such Xerox Intellectual Property and Xerox-Owned Assets to the extent the same is required in order for Flextronics and the Flextronics Affiliated Companies to fulfill (and only until such time as Flextronics and the Flextronics

Affiliated Companies have fulfilled) any continuing obligations under this Agreement.

Section 16.3 Cooperation upon Termination. Upon the expiration of the Term or termination of this Agreement for any reason, Flextronics shall use commercially reasonable efforts to assist Xerox for up to three (3) months following such expiration or termination with the reasonable requests and requirements of Xerox in connection with such termination or expiration including but not limited to: (i) an orderly transition to any supplier of the Products required by Purchasers, (ii) an orderly demobilization of its own operations in connection with such Products, (iii) the provision of Products during any transition period, and (iv) the actions set forth on Schedule 16.3 hereto. In the event that such expiration or termination is as a result of either party declining to renew this Agreement or a Xerox Event of Default, then Xerox shall pay to Flextronics Flextronics' reasonable costs and expenses incurred in providing such services and cooperation, and in the event that such expiration or termination is as a result of a Flextronics Event of Default, then Flextronics shall provide such services and cooperation to Xerox free of charge.

Section 16.4 Survival. The provisions of Sections 13.1(b), (d), (e), (f), (g) and (j), Section 13.2(a) and Articles 14, 16, 17, 18, 19 and 20, as well as the definitions contained in Article 3 that are applicable thereto, shall survive the expiration or termination of this Agreement for any reason.

Section 16.5 Right of Purchasers to Repurchase. The parties understand and agree that Purchasers shall, at any time and for any reason other than a Xerox Event of Default, have the right and option (the "Repurchase Right") to purchase from Flextronics and/or a Flextronics Affiliated Company, as the case may be, all or part of the Xerox Unique Property at such time, at a purchase price equal to the net book value thereof at such time of purchase. The Repurchase Right shall be exercised in accordance with the Repurchase Right Agreement dated as of the date hereof by and between Xerox and Flextronics which Repurchase Right Agreement shall provide, without limitation, that Purchasers shall have the right to immediate possession of such Xerox Unique Property upon exercise of the Repurchase Right, and any issues shall be resolved thereafter. Xerox shall bear the responsibility for all taxes arising on account of such repurchase. Flextronics shall, within thirty (30) days after the end of each calendar quarter, provide to Xerox a certificate setting forth the net book value of such Xerox Unique Property at the end of such calendar quarter. Xerox will not remove from any Facility any Xerox Unique Property that is necessary for Flextronics and the Flextronics Affiliated Companies to perform its obligations under this Agreement.

Section 16.6 Taxes on Return of Assets and Asset Repurchase. Any transfer or similar taxes (other than taxes recoverable by Flextronics, the Flextronics Affiliated Companies or Purchasers which shall be borne by the recovering party) imposed on the return of assets or the repurchase of assets shall be borne equally by Purchasers and Flextronics. Flextronics and Purchaser agree to cooperate to minimize and properly calculate any applicable transfer or similar taxes and, in connection therewith, Purchaser shall provide Flextronics any resale certificates, information regarding out-of-state use or foreign receipt of materials, services or sales or other exemption or tax reduction certificates or other certificate or document of exemption or information that is reasonably available and may be required in order to exempt Purchaser's payment for returned or repurchased assets from

any such transfer or similar taxes, and Flextronics and the Flextronics Affiliated Companies shall accept and support any claims, which Purchaser in good faith deems to be valid, of resale, direct pay, identifiable segment, bulk sale, occasional sale, casual sale, export sale or other exemption. If Purchaser provides a valid certification of an exemption from any transfer or similar tax or of a reduced rate of transfer or similar tax imposed by an applicable taxing authority, Flextronics and the Flextronics Affiliated Companies shall not invoice for nor pay over any such tax unless and until the applicable taxing authority assesses such tax, at which time Flextronics or the relevant Flextronics Affiliated Company shall invoice and Purchaser shall pay any such tax (including any penalties, interest or other charges assessed by such taxing authority) unless Purchaser elects to contest such assessment in which case the rules of Section 6.7(b) hereof will control. Flextronics or the relevant Flextronics Affiliated Company shall issue or cause to be issued to Purchaser on the applicable invoice date a valid original VAT invoice or similar invoice for VAT or other taxes as required by the applicable Governmental Authority or as requested by Purchaser to enable recovery of taxes where appropriate, and Purchaser will only pay against such valid invoices.

ARTICLE 17

INDEMNIFICATION

Section 17.1 Indemnification by Flextronics.

(a) Subject to the provisions of Section 6.7 hereof, Flextronics agrees to defend, indemnify and hold harmless, on an after-tax basis and after consideration of any insurance proceeds received, Xerox, each Xerox Affiliated Company and all directors, officers, employees, agents and representatives of the foregoing (each, a "Xerox Indemnitee") from and against all claims, actions, losses, expenses, damages or other liabilities, including attorneys' fees (collectively, "Damages") incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to third-party claims relating to:

(i) any failure of any Product sold by Flextronics or any Flextronics Affiliated Company (or any Sub-Tier Supplier) hereunder to comply with any safety or regulatory standard set forth in the applicable Specifications and any allegation of such a failure (including, without limitation, any investigations by the United States Consumer Product Safety Commission or any other Governmental Authority, and lawsuits arising under laws of product liability, including actions alleging Workmanship defects, breach of warranty, negligence, strict liability and unreasonable risk of injury) to the extent caused by a breach of the Express Warranties set forth in Section 14.1 hereof or actions alleging design defects relating to designs designed by Flextronics or any Flextronics Affiliated Company or relating to design defects in Components made by Flextronics or any Flextronics Affiliated Company where such designs were acquired by Flextronics or any Flextronics Affiliated Company from parties other than Xerox or any Xerox Affiliated Company;

(ii) any injury or damage to any person or property caused by a Product sold by Flextronics or any Flextronics Affiliated Company (or any Sub-Tier Supplier) hereunder, and the allegation that any Product

sold by Flextronics or any Flextronics Affiliated Company (or any Sub-Tier Supplier) hereunder has caused or threatened to cause injury or damage to any person or property, but only to the extent such injury or damage has been caused by the breach of the Express Warranties set forth in Section 14.1 hereof or by the design defects relating to designs designed by Flextronics or any Flextronics Affiliated Company or relating to design defects in Components made by Flextronics or any Flextronics Affiliated Company where such designs were acquired by Flextronics from parties other than Xerox or any Xerox Affiliated Company;

(iii) (A) any infringement of the intellectual property rights of any third party by Flextronics' or any Flextronics Affiliated Company's manufacturing process for any Product; (B) any infringement of the intellectual property rights of any third party by any Product manufactured by Flextronics or any Flextronics Affiliated Company not in accordance with the Specifications, to the extent such claim would not have arisen if such Product had been manufactured in accordance with the Specifications; (C) any infringement of the intellectual property rights of any third party by any Product to the extent that Flextronics or any Flextronics Affiliated Company was primarily responsible for creating the portion of the Specifications covering the infringing portion of such Product; or (D) any infringement of the intellectual property rights of any third party by any design designed by Flextronics or any Flextronics Affiliated Company or acquired by Flextronics or any Flextronics Affiliated Company from parties other than Xerox or any Xerox Affiliated Company.

(b) Subject to the provisions of Section 6.7 hereof, Flextronics agrees to indemnify and hold harmless from any Damages awarded in dispute resolution or otherwise agreed, on an after-tax basis and after consideration of any insurance proceeds received, each Xerox Indemnitee from and against all Damages incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to any breach by Flextronics of any of its representations, warranties, covenants or obligations contained in this Agreement or any breach by Flextronics or any Flextronics Affiliated Company of any of its representations, warranties, covenants or obligations contained in any SSA.

Section 17.2 Indemnification by Xerox.

(a) Subject to the provisions of Section 6.7 hereof, Xerox agrees to defend, indemnify and hold harmless, on an after-tax basis and after consideration of any insurance proceeds received, Flextronics, each Flextronics Affiliated Company and all directors, officers, employees, agents and representatives of the foregoing (each, a "Flextronics Indemnitee") from and against all Damages incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to third-party claims relating to:

(i) any failure of any Product to comply with any safety or regulatory standard set forth in the applicable Specifications and any allegation of such a failure (including, without limitation, any investigations by the United States Consumer Product Safety Commission or any other Governmental Authority, and lawsuits arising under laws of product liability, including actions alleging design defects, failure to warn, breach of warranty, negligence, strict liability and unreasonable

risk of injury) but only to the extent that such failure has not been caused by a breach of the Express Warranties set forth in Section 14.1 hereof or has not been caused by an event described in Section 17.1(a)(i) hereof;

(ii) any injury or damage to any person or property caused by a Product, and the allegation that any such Product has caused or threatened to cause injury or damage to any person or property, but only to the extent such injury or damage has not been caused by the breach of the Express Warranties set forth in Section 14.1 hereof or has not been caused by an event described in Section 17.1(a)(ii) hereof; or

(iii) any infringement of the intellectual property rights of any third party by any Product manufactured in accordance with the Specifications (except for any portion of the Specifications which Flextronics or any Flextronics Affiliated Company was primarily responsible for creating) or by such Product's design (unless such design was designed by Flextronics or any Flextronics Affiliated Company or was acquired by Flextronics or any Flextronics Affiliated Company from parties other than Xerox or any Xerox Affiliated Company).

(b) Subject to the provisions of Section 6.7 hereof, Xerox agrees to indemnify and hold harmless from any Damages awarded in dispute resolution or otherwise agreed, on an after-tax basis and after consideration of any insurance proceeds received, each Flextronics Indemnitee from and against all Damages incurred by or assessed against any of the foregoing to the extent the same arise out of, are in connection with, are caused by or are related to any breach by Xerox of any of its representations, warranties, covenants or obligations contained in this Agreement or any breach by Xerox or any Xerox Affiliated Company of any of its representations, warranties, covenants or obligations contained in any SSA.

Section 17.3 Limitations on Liability. This Agreement sets forth the entire liability of Xerox and Flextronics to the Flextronics Indemnitees and the Xerox Indemnitees, respectively, arising out of, in connection with or related to this Agreement and the consummation of the transactions contemplated hereby by the parties and any patents, copyrights, trade secrets or other intellectual property of the parties. EXCEPT AS SET FORTH IN SECTIONS 17.1(a) AND 17.2(a) AND ARTICLE 18 HEREOF, IN NO EVENT SHALL EITHER PARTY OR ANY OF THEIR AFFILIATES BE LIABLE TO ANY INDEMNITEE FOR ANY LOSS OF PROFIT OR OTHER INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES OF ANY KIND WHATSOEVER THAT ANY INDEMNITEE CLAIMS IT HAS SUFFERED. THESE LIMITATIONS TO LIABILITY APPLY TO ALL CAUSES OF ACTION IN THE AGGREGATE, INCLUDING WITHOUT LIMITATION BREACH OF CONTRACT, BREACH OF WARRANTY, NEGLIGENCE, STRICT LIABILITY, FRAUD, MISREPRESENTATION AND OTHER TORTS.

Section 17.4 Procedures for Indemnification.

(a) In the event of a dispute between the parties, the parties shall refer all indemnification matters with regard to Sections 17.1(b) and 17.2(b) hereof for dispute resolution pursuant to Section 20.9 below.

(b) With respect to any third-party claims, either party shall give the other party prompt notice of any third-party claim, that may give rise to any indemnification obligation under this Article 17, together with the estimated amount of such claim. Failure to give such notice shall not affect the indemnification obligations hereunder in the absence of actual and material

prejudice. The indemnifying party shall have the right to assume the defense (at its own expense) of any such claim through counsel of its own choosing by so notifying the party seeking indemnification within thirty (30) calendar days of the first receipt of such notice; provided, however, that any such counsel shall be reasonably satisfactory to the party seeking indemnification. If, under applicable standards of professional conduct, a conflict with respect to any significant issue between any indemnitee and the indemnifying party exists in respect of such third-party claim, the indemnifying party shall also pay the reasonable fees and expense of such additional counsel as may be required to be retained in order to eliminate such conflict. If the indemnifying party assumes such defense, the party seeking indemnification shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the indemnifying party. If the indemnifying party chooses to defend or prosecute a third-party claim, the other party shall cooperate in the defense or prosecution thereof, which cooperation shall include, to the extent reasonably requested, the retention, and the provision to the indemnifying party, of records and information reasonably relevant to such third-party claim. The indemnifying party shall not, without the prior written consent of the indemnified party, agree to the settlement, compromise or discharge of such third-party claim unless, by its terms, such settlement, compromise or discharge actually discharges the indemnified party from the full amount of liability in connection with such third-party claim. In addition, the indemnifying party shall not consent to, and the indemnified party in no event be required to agree to, the entry of any judgment or enter into any settlement that (i) provides for injunctive or other non-monetary relief affecting the indemnified party or (ii) does not include as an unconditional term thereof the giving of a release for all liability with respect to such claim by each claimant or plaintiff to each indemnified party that is the subject of such third-party claim. Notwithstanding the foregoing, the provisions of Section 6.7(b) hereof and not the provisions of this Section 17.4 shall apply to any Assessment by any governmental authority to which said Section 6.7(b) applies.

Section 17.5 Sale of Products Enjoined. Should the use of any Products by Xerox, a Xerox Affiliated Company, or a customer of any of them, be enjoined for a cause stated in Section 17.1(a) above, or in the event Flextronics desires to minimize its liabilities under this Article 17, Flextronics will, at its option and expense, either substitute fully equivalent Products not subject to such injunction, modify such Product so that it no longer is subject to such injunction, or obtain for Xerox, Xerox Affiliated Companies and their customers the right to continue using the enjoined Products. If none of the foregoing is feasible, and said injunction is in effect for more than three (3) months, Flextronics will take back the enjoined Products from Xerox and refund to Xerox the Purchase Price paid therefor, plus return transportation costs, applicable taxes, if any, imposed on Flextronics or any Flextronics Affiliated Company and any other applicable fees and expenses that arise out of the return of the enjoined Products and Components from Flextronics and any Flextronics Affiliated Company and refund to Flextronics the Purchase Price paid therefor. Should the manufacture or sale of any Products or Components by Flextronics or any Flextronics Affiliated Company be enjoined for a cause stated in Section 17.2(a) above, such Product will automatically be considered a End-of-Life/Discontinued Product and Xerox shall repurchase from Flextronics and any Flextronics Affiliated Company such companies' inventory of Product and related Components as provided in Section 4.10 hereof.

ARTICLE 18

CONFIDENTIAL AND PROPRIETARY INFORMATION

Section 18.1 Confidential and Proprietary Information. To further the business relationship between Xerox and Flextronics, Xerox may, from time to time during the Term, disclose to Flextronics and the Flextronics Affiliated Companies certain Xerox Confidential Information and Flextronics may, from time to time during the Term, disclose to Xerox certain Flextronics Confidential Information. Each party shall protect the confidentiality of any other party's Confidential Information, using at least the same degree of care as such party uses in protecting the confidential nature of its own Confidential Information.

Section 18.2 Use and Treatment of Confidential Information. (a) All Xerox Confidential Information in the possession of Flextronics or any Flextronics Affiliated Company and all Flextronics Confidential Information in the possession of Xerox or any Xerox Affiliated Company shall not be disclosed to any third party or circulated within the Possessing Party's own organization other than on a need-to-know basis or used by the Possessing Party for any reason other than such party's fulfillment of its obligations under this Agreement; provided, that, any party to whom the other party's Confidential Information is so disclosed or circulated shall be informed of its confidential nature and any copies of such Confidential Information shall be appropriately marked as "Confidential" and as the property of the owning party. The Possessing Party shall be liable for the unauthorized use or disclosure of the other party's Confidential Information by any third party to whom the Possessing Party discloses or circulates such Confidential Information, including without limitation, Sub-Tier Suppliers and customers. Each party shall cause any such third parties to whom it discloses the Confidential Information of the other party to execute a written agreement restricting the use and disclosure of such Confidential Information by such third parties and otherwise conduct itself in respect of such Confidential Information on terms not less restrictive than those set forth in this Article 18.

(b) The obligations of the parties with respect to the use and disclosure of the other party's Confidential Information set forth in this Article 18 shall not apply to any Confidential Information that (i) is or becomes generally known to the public through no act of the Possessing Party, or (ii) was in the Possessing Party's possession, free of any obligation of confidentiality, at the time of receipt and was not received from any party with an obligation of confidentiality.

(c) In the event that any Possessing Party becomes legally compelled to disclose the other party's Confidential Information, the Possessing Party shall provide the other party with prompt notice thereof, specifying in reasonable detail the nature of such disclosure, so that such other party may seek a protective order or other appropriate remedy and/or waive compliance with the provisions of this Agreement. Each party shall cooperate with the other party in seeking a protective order or other appropriate remedy in respect thereof. In the event that such protective order or other remedy is not obtained, or the applicable party waives compliance with the provisions of this Agreement, the Possessing Party will furnish only that part of the Confidential Information which such Possessing Party is advised by written opinion of counsel is legally required and will exercise its reasonable best efforts to ensure that confidential treatment will be accorded such

Confidential Information. In addition, each party will provide the other party with written notice of any Confidential Information of the other party to be so disclosed as far in advance of its disclosure as is practicable.

(d) The obligations of the parties with respect to the use and disclosure of the other party's Confidential Information set forth in this Article 18 shall survive the expiration or any termination of this Agreement for the five (5) year period commencing on the effective date of such expiration or termination; provided, however, that, notwithstanding the foregoing, within thirty (30) Business Days following the effective date of any such expiration or termination, Xerox shall have the right, exercisable in its sole discretion, to designate such portions of the Xerox Confidential Information that it believes to be of a highly proprietary nature or constitute a trade secret, and the obligations of Flextronics and the Flextronics Affiliated Companies with respect to the use and disclosure of such designated portions of Xerox Confidential Information set forth in this Article 18 shall survive the expiration or any termination of this Agreement indefinitely.

ARTICLE 19

XEROX-OWNED ASSETS; XEROX UNIQUE PROPERTY; XEROX INTELLECTUAL PROPERTY; IMPROVEMENTS TO PRODUCTS

Section 19.1 Xerox-Owned Assets. (a) In the event that, during the Term, any Purchaser shall provide any Xerox-Owned Assets to Flextronics or any Flextronics Affiliated Company under this Agreement for use by Flextronics or such Flextronics Affiliated Company in manufacturing Products for sale to Purchasers, then, unless otherwise agreed to by Xerox in writing: (i) title to the Xerox-Owned Assets shall remain in such Purchaser; (ii) Flextronics or such Flextronics Affiliated Company shall hold such Xerox- Owned Assets solely as bailee; and (iii) Purchaser shall have the absolute right to immediate possession of the Xerox-Owned Assets upon demand (with the Xerox-Owned Assets being prepared for shipment and delivered in good condition, normal wear and tear excepted, to the location specified by Purchaser immediately upon such demand, at Purchaser's expense). Neither Flextronics nor such Flextronics Affiliated Company shall substitute any property for the Xerox-Owned Assets, use such Xerox-Owned Assets except for filling Purchasers' orders, or reproduce the Xerox-Owned Assets. Flextronics and the Flextronics Affiliated Companies shall document that the Xerox-Owned Assets are held for the account of Purchaser and shall furnish Purchaser on demand a true and complete inventory of the Xerox-Owned Assets held by Flextronics or any of the Flextronics Affiliated Companies for any period of time requested by Purchaser.

(b) While in Flextronics' or any Flextronics Affiliated Company's custody or control, the Xerox-Owned Assets: (i) shall be plainly marked or otherwise identified as "Property of" the appropriate Purchaser, (ii) shall be held at Flextronics' or such Flextronics Affiliated Company's sole risk, and (iii) shall be kept insured by Flextronics at Flextronics' expense in an amount equal to the then-current replacement cost with loss payable to Purchaser. Flextronics shall provide to Purchaser evidence of such insurance coverage satisfactory to Purchaser.

(c) During the Term, Flextronics and the Flextronics Affiliated Companies shall preserve and maintain at Flextronics' expense the Xerox-Owned Assets in good repair, working order and condition, ordinary wear and tear

excepted, in accordance with industry standards; provided, however, that Xerox shall pay for any major overhauls or upgrades of the Xerox-Owned Assets. Upon the loss, destruction or other total failure of any item of the Xerox-Owned Assets, Flextronics shall immediately notify Purchaser and Purchaser shall replace such failed item at Purchaser's expense as soon as is reasonably possible; provided, however, in the event such loss, destruction or other total failure is due to the negligence of Flextronics or any Flextronics Affiliated Company, Flextronics shall replace such failed item at Flextronics' expense as soon as is reasonably possible.

Section 19.2 Xerox Unique Property. Unless otherwise agreed to by Xerox in writing, Flextronics and the Flextronics Affiliated Companies shall not use any Xerox Unique Property except for filling Purchasers' orders, or reproduce the Xerox Unique Property. Flextronics shall furnish Xerox promptly at the request of Xerox a true and complete inventory of the Xerox Unique Property held by Flextronics and the Flextronics Affiliated Companies. During the Term and to the extent applicable, Flextronics and the Flextronics Affiliated Companies shall preserve and maintain at Flextronics' expense the Xerox Unique Property in good repair, working order and condition (including, without limitation any major overhauls of the same), ordinary wear and tear excepted, in accordance with industry standards and shall replace at Flextronics' expense as soon as is reasonably possible any item of the Xerox Unique Property that is lost or destroyed or otherwise has failed. Any such replacements shall be deemed to be Xerox Unique Property which the relevant Purchaser has the right to purchase under the terms of the Repurchase Right Agreement. Flextronics and the Flextronics Affiliated Companies shall not transfer, sell, assign, pledge, dispose of or otherwise encumber or make subject to any Lien (as defined in the Master Purchase Agreement) any Xerox Unique Property without Xerox's prior written consent.

Section 19.3 Xerox Intellectual Property.

(a) Any use under this Agreement by Flextronics or any Flextronics Affiliated Company of any name, trademark, logo or corporate design of Xerox or a Xerox Affiliated Company or any name, trademark, logo or corporate design substantially similar to those of Xerox or a Xerox Affiliated Company, and the good will of any business associating with any said names, trademarks or logos, shall inure to the benefit of Xerox or such Xerox Affiliated Company.

(b) Flextronics and the Flextronics Affiliated Companies shall apply Xerox's name, trademarks, and logos to the Products as specified by Xerox in the applicable Specifications for each such Product. Flextronics and the Flextronics Affiliated Companies shall not apply, during or after the Term, Flextronics' or any Flextronics Affiliated Company's or any third-party's name, trademark or logo to any Product manufactured and sold to any Purchaser hereunder, except to the extent to which Flextronics or any Flextronics Affiliated Company may by Applicable Laws be required to identify itself as the manufacturer or supplier thereof.

(c) Flextronics and the Flextronics Affiliated Companies shall not use any name, trademark or logo of Xerox on any Product or any product sold by Flextronics or any Flextronics Affiliated Company or on any sales, advertising, or service literature or package, label, tag or nameplate, either during or after the term of this Agreement, except as is expressly directed by the applicable Specifications.

(d) In the event that Flextronics or any Flextronics Affiliated Company learns of any infringement or threatened infringement of any name, trademark, logo or corporate design substantially similar to those of Xerox or a Xerox Affiliated Company or any passing-off or that any third party alleges or claims that such names, trademarks, logos, or corporate designs are liable to cause deception or confusion to the public, or are liable to dilute or infringe any right of a third party, Flextronics shall use its commercially reasonable efforts to notify Xerox giving particulars thereof and Flextronics shall provide necessary information and assistance, at Xerox's expense for Flextronics' out-of-pocket expenses, to Xerox or its authorized representatives in the event that Xerox decides that proceedings should be commenced or defended. Any such proceedings shall be at the sole expense of Xerox and any recoveries shall be solely for the benefit of Xerox. Nothing in this Agreement, however, shall be deemed to require Xerox to enforce its intellectual property rights against others.

(e) Flextronics and the Flextronics Affiliated Companies shall ensure the Products meet or exceed the quality standards as set forth in Articles 8 and 14 hereof. Purchaser shall have the full right to test and inspect the Products and any sales, advertising, or service literature or package, label, tag or nameplate on which any of Xerox's name, trademarks or logos appear in order to ensure that the provisions of this Agreement are being observed.

(f) The parties hereby agree that, simultaneously with the execution hereof, the parties shall execute the Manufacturing IP Non-Assertion Agreement attached hereto as Exhibit B hereto.

Section 19.4 Improvements to Products. (a) Except as provided herein, no rights are granted to Xerox or any Xerox Affiliated Company under any Flextronics Intellectual Property nor are any rights granted to Flextronics or any Flextronics Affiliated Company under any Xerox Intellectual Property that is developed, invented, conceived or otherwise acquired prior to the date of this Agreement. Xerox and Flextronics agree that all Improvements, whether made by Flextronics or Xerox or any other person or entity, during the Term shall be and remain the sole and exclusive property of Xerox and Xerox shall own all rights in and to any such Improvements. Accordingly, Flextronics hereby grants, assigns, and agrees to grant and assign to Xerox (or to the entity or entities directed by Xerox) all right, title and interest in all Improvements, together with all patents, copyrights, trade secrets, and other intellectual property therein. Whenever applicable, copyrightable Improvements shall be considered work made for hire for Xerox. Additionally, Flextronics hereby grants and agrees to grant to Xerox and to any party designated by Xerox a paid-up, worldwide, unrestricted right and license under any intellectual property rights obtained by Flextronics or any Flextronics Affiliated Company based upon or derived from Xerox Confidential Information and any intellectual property rights obtained by Flextronics or any Flextronics Affiliated Company derived from Xerox Intellectual Property. Such license shall be exclusive to Xerox within the field of Printing and Publishing and non-exclusive outside such field. Flextronics shall (and shall cause all Flextronics Affiliated Companies to), at Xerox's expense, execute all documents and do all things necessary to enable Xerox to obtain full legal title in and to such Improvements and intellectual property therein. In return for Flextronics' obligations pursuant to this Section 19.4(a), Xerox shall not license, assign, or transfer (or enter into an agreement not to assert) intellectual property transferred pursuant to this Section 19.4(a) (including but not limited any intellectual property rights in the Improvements) to any entity or individual (except Xerox Affiliated

Companies or other entities Controlled by Xerox) for the purpose of manufacturing (i) printed circuit board assemblies, (ii) keyboards, mouses, and similar computer user interface devices, (iii) computers and network controllers, and (iv) consumer electronics products, and (v) electronic sub-systems related to any of items (i)-(iv); provided, however, that no Purchaser shall be restricted from using or licensing such intellectual property rights for any use within the field of Printing and Publishing and provided, further, that any Purchaser may request a waiver of the license restrictions contained in this Section 19.4, and Flextronics or the applicable Flextronics Affiliated Company shall not unreasonably withhold such waiver. Flextronics shall own all rights, title and interest in and to any manufacturing and testing (i) software, equipment, development, design, know-how, formula, algorithm, discovery, invention, technical data, specification, drawing or design or (ii) methods and processes, that is developed, invented, conceived or otherwise acquired by Flextronics after the date of this Agreement (including all intellectual property rights therein) and that is (i) based upon Flextronics Intellectual Property and (ii) is not based upon or derived from Xerox Confidential Information nor derived from Xerox Intellectual Property. For purposes of this Agreement, "Printing and Publishing" means the business and technology of scanning, manipulating (in conjunction with printing or other hard copy output), printing, displaying (in conjunction with printing or other hard copy output), assembling, finishing or otherwise managing (in conjunction with printing or other hard copy output) images and/or documents in tangible or intangible form, including, without limitation, the business and technology of printers, copiers, other hard copy output devices, finishers, assemblers, scanners, as well as inks, supplies, components, spare parts and services for repair, maintenance, and remanufacturing of the same.

(b) If, during the Term or at any time thereafter, Flextronics or any Flextronics Affiliated Company owns, controls, or has the right to license patents, copyrights or other proprietary rights in information or technology, material or items, which patents, copyrights or other proprietary rights would restrict Purchaser's right to use work product or services provided by Flextronics or any Flextronics Affiliated Company, then Flextronics shall (and shall cause each Flextronics Affiliated Company to) promptly communicate to Purchaser such patents, copyrights or other proprietary rights, and Flextronics hereby irrevocably agrees not to (and shall cause each Flextronics Affiliated Company not to) assert such patents, copyrights or other proprietary rights against Xerox, any Xerox Affiliated Company or any customer of any of them. Flextronics shall not (and shall cause each Flextronics Affiliated Company not to) assign or encumber any of its patents, or the legal applications therefor, which would restrict Purchaser's right to use work product or services provided by Flextronics or any Flextronics Affiliated Company hereunder.

ARTICLE 20

GENERAL PROVISIONS

Section 20.1 Notices. Except as otherwise provided, all notices that are permitted or required under this Agreement shall be in writing and shall be deemed given (a) when delivered personally, (b) if by facsimile upon transmission with confirmation of receipt by the receiving party's facsimile terminal, or (c) if sent by documented overnight delivery service on the date delivered, addressed as follows, or to such other person or address as may be designated by notice to the other party:

If to Xerox, to:

Xerox Corporation
800 Phillips Road
Webster, New York 14580
U.S.A.
Attention: Vice President of Strategic Contracts
Facsimile Number: (716) 422-0827

With a copy to:

Xerox Corporation
800 Long Ridge Road
Stamford, Connecticut 06904
Attention: General Counsel
Facsimile Number: (203) 968-4301

and

Robin L. Spear, Esq.
Pillsbury Winthrop LLP
One Battery Park Plaza
New York, NY 10004
Facsimile Number: (212) 858-1500

If to Flextronics, to:

Flextronics International Ltd.
Room 908
Dominion Centre
43-59 Queen's Road East
Wanchai, Hong Kong
Attention: Chairman
Facsimile Number: (852) 2543-3343

With a copy to:
Flextronics International USA Inc.
2090 Fortune Drive
San Jose, CA 95131
Attention: President
Facsimile Number: (408) 428-0859

Section 20.2 Headings. The headings and titles of the Sections of this Agreement are inserted for convenience only and shall not affect the construction or interpretation of any provision.

Section 20.3 Modification. Except as provided in Sections 2.2 and 2.3 hereof, this Agreement may not be modified and no provision of this Agreement may be waived unless the modification or waiver is in writing and is signed by an authorized representative of each party hereto.

Section 20.4 Assignment. (a) This Agreement (and each of the SSAs) shall inure to the benefit of and shall be binding on and enforceable by the parties hereto and thereto and their respective successors and permitted assigns. No party to this Agreement (or any SSA) may assign this Agreement (or any SSA) or any part hereof or thereof without the prior written consent

of the other parties hereto (or to such SSA), which consent shall not be unreasonably withheld or delayed, provided that it is understood by the parties that Flextronics will assign and delegate its rights and duties to manufacture and sell under this Agreement to the Flextronics Affiliated Companies provided herein because it is not in the trade or business of providing such services contemplated under this Agreement, it being understood that Flextronics shall not assign its obligations under Section 20.17 hereof, and subject to the material adverse effect standard of the succeeding sentence. For purposes of this Section 20.4, the withholding of consent of Purchasers shall be deemed reasonable if the assignment would materially and adversely affect the quality, capabilities, Product Lead Times or UMCs of Products or the associated cost of freight, Taxes (other than taxes recoverable by Purchasers) and/or customs duties that would otherwise be payable or reimbursable by Purchasers or would operate to deny Purchasers market access for Products). Notwithstanding the foregoing or anything else contained in this Agreement (or any SSA) to the contrary, under no circumstances shall this Agreement (or any SSA) or any part hereof or thereof be assigned, including, without limitation, by operation of law or otherwise, by Flextronics or any Flextronics Affiliated Company to any Xerox Competitor. For the purposes of this Agreement, a "Xerox Competitor" means a party in the printing and copying or document management business (including, without limitation, Canon, Heidelberg, Hewlett-Packard, Lexmark, Minolta, Oce, Ricoh, Sharp, and Toshiba).

(b) Xerox shall not sell or in any way transfer substantially all of its General Office Business Segment to a third party unless this Agreement (i) is assigned by Xerox to said third party and (ii) is accepted and assumed by said third party.

Section 20.5 Severability. If any provision of this Agreement is held invalid by any Applicable Laws or by the final determination of a court of last resort, such invalidity shall not affect (a) the other provisions of this Agreement, (b) the application of such provision to any other circumstance other than that with respect to which this Agreement was found to be unenforceable; or (c) the validity or enforceability of this Agreement as a whole.

Section 20.6 Nonwaiver. No course of conduct or delay on the part of either party in exercising any rights under this Agreement shall waive any rights of that party or modify this Agreement. All of the rights of either party under this Agreement shall be cumulative and may be exercised separately or concurrently.

Section 20.7 Export Control. Neither party shall export, directly or indirectly, any technical data acquired from the other under this Agreement or any Products using any such data to any country for which the United States government or any agency thereof at the time of export requires an export license or other government approval without first obtaining such license or approval.

Section 20.8 Independent Contractors. It is the intent of the parties that during the term of this Agreement, the relationship between Flextronics, the Flextronics Affiliated Companies and Purchaser shall be that of independent contractors, and nothing set forth herein shall be deemed or construed to render the parties joint venturers, partners or employer and employee. Neither party is authorized to make any commitment or representation on the other's behalf. During the term of this Agreement, if

the term "partnership", "partner" or "development partner" or the like is used to describe the parties' relationship, Flextronics, the Flextronics Affiliated Companies and Purchaser agree to make it clear to third parties that these terms refer only to the spirit of cooperation between them and neither describe, nor expressly or implicitly create, the legal status of partners or joint venturers.

Section 20.9 Disputes Resolution. (a) Except as otherwise provided in this Agreement, the following dispute resolution procedures shall be used by the parties to resolve all disputes, differences, controversies and claims under this Agreement (or any SSA) (i) the resolution of which expressly requires the application of the procedures set forth in this Section 20.9, (ii) that arise out of the inability of the parties to reach agreement on any matter as to which the parties have expressly agreed to agree in the future, (iii) that arise out of the refusal by one party to give its approval or consent prior to the commencement of any action or in order to finalize any action, plan or document, and (iv) that arise out of or relate to this Agreement (or the SSAs) or the interpretation or breach thereof (other than those set forth in Section 20.9(g) hereof) (collectively, "Disputes"). Either party may, by written notice to the other party, refer for resolution any Disputes.

(b) Any such Dispute shall be referred to arbitration under the rules of the American Arbitration Association, to the extent such rules are not inconsistent with this Section 20.9 The arbitration panel shall consist of three arbitrators, one of whom shall be appointed by each party hereto. The two arbitrators thus appointed shall choose the third arbitrator; provided, however, that if the two arbitrators are unable to agree on the appointment of the third arbitrator, either arbitrator may petition the American Arbitration Association to make the appointment.

(c) Unless otherwise mutually agreed to by the parties, for any Dispute procedure initiated by Flextronics or any Flextronics Affiliated Company, the place of arbitration shall be Rochester, New York, and for any Dispute procedure initiated by Xerox or any Xerox Affiliated Company, the place of arbitration shall be San Jose, California.

(d) The decision of the arbitration panel shall be final and binding on all of the parties hereto and non-appealable, and the parties hereby waive any right of appeal to any court on the merits of any Dispute resolved pursuant to this Section 20.9. However, the provisions of this Section 20.9 may be enforced in any court having jurisdiction over the award or any of the parties pursuant to Section 20.9(f) hereof, and judgment on the award (including, without limitation, equitable remedies) granted in any Disputes resolution hereunder may be entered in any such court.

(e) Each party shall pay their own expenses in connection with the resolution of Disputes pursuant to this Section 20.9, including attorneys' fees. The fees and expenses of the arbitration panel shall be (A) borne equally by Xerox and Flextronics if and to the extent that the arbitration panel determines that such result would be fair and equitable under the circumstances, or (B) borne by Xerox and/or Flextronics in inverse proportion to the amount that the arbitration panel's award in favor of Xerox and/or Flextronics bears to the total amount of the items in dispute (for illustration purposes for this Section 20.9(e) only, (X) if the total amount of items in dispute by Xerox is $1,000,000.00, and Xerox is awarded $500,000.00 by the arbitration panel, Flextronics and Xerox shall bear the

arbitration panel's fees and expenses equally, or (Y) if the total amount of items in dispute by Xerox is $1,000,000.00, and Xerox is awarded $250,000.00 by the arbitration panel, Xerox shall bear 75% and Flextronics shall bear 25% of the arbitration panel's fees and expenses).

(f) Any judicial proceeding brought pursuant to Section 20.9(d) hereof must be brought in any court of competent jurisdiction in the State of New York, and, by execution and delivery of this Agreement, each party (i) accepts, generally and unconditionally, the exclusive jurisdiction of such courts and any related appellate court, and irrevocably agrees to be bound by any judgment rendered thereby in connection with this Agreement, (ii) irrevocably waives any objection it may now or hereafter have as to the venue of any such suit, action or proceeding brought in such a court or that such court is an inconvenient forum and (iii) waives personal service of process and consents to service of process upon it by certified or registered mail, return receipt requested, at its address specified or determined in accordance with Section 20.1 hereof, and service so made shall be deemed completed on the third Business Day after such service is deposited in the mail. Nothing in this Section 20.9 shall affect the right of any party hereto to serve process in any other manner permitted by applicable law. THE PARTIES HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING TO WHICH THEY ARE BOTH PARTIES INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT.

(g) The foregoing provisions shall not apply to Disputes as to: (a) a breach of confidentiality obligations under this Agreement; (b) any claim for indemnification pursuant to Section 17.1(a) or 17.2(a) hereof, which shall be governed solely by Article 17 hereof; (c) the misappropriation, validity or infringement of intellectual property rights; or (d) any Flextronics Event of Default or Xerox Event of Default.

(h) Notwithstanding anything contained in this Section 20.9 to the contrary, in the event of any Dispute, prior to referring such Dispute to arbitration pursuant to Section 20.9(b) hereof, Xerox and Flextronics shall attempt in good faith to resolve any and all controversies or claims relating to such Dispute promptly by negotiation commencing within ten (10) calendar days of the written notice of such Dispute by either party, including referring such matter to Ursula Burns or Xerox's then-current Senior Vice President of Worldwide Business Services and Michael McNamara or Flextronics' then current President-Americas (such negotiation process contemplated by this subsection (h) being herein referred to as the "Escalation Procedure"). The representatives of the parties shall meet at a mutually acceptable time and place and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Dispute for a period of four (4) weeks. In the event that the parties are unable to resolve such Dispute pursuant to this Section 20.9(h), the provisions of Section 20.9(b) through (f) hereof, inclusive, shall apply.

Section 20.10 Even-Handed Construction. The terms and conditions as set forth in this Agreement have been arrived at after mutual negotiation, and it is the intention of the parties that its terms and conditions not be construed against any party merely because it was prepared by one of the parties.

Section 20.11 Controlling Language. This Agreement is in English only, which language shall be controlling in all respects. All documents exchanged under this Agreement shall be in English.

Section 20.12 Controlling Law. This Agreement (and the SSAs) shall be governed and construed in all respects in accordance with the domestic laws and regulations of the State of New York, without regard to its conflicts of laws provisions. The definitions set forth in the Incoterms of the International Chamber of Commerce, 2000 edition, shall be controlling. To the extent there may be any conflict between the law of the State of New York and the Incoterms, the Incoterms shall be controlling. The parties specifically agree that the 1980 United Nations Convention on Contracts for the International Sale of Goods, as may be amended from time to time, shall not apply to this Agreement.

Section 20.13 Remedies Cumulative. Except as otherwise set forth herein, any rights of cancellation or termination or remedies prescribed in this Agreement are cumulative and are not intended to be exclusive of any other remedy of which the injured party may be entitled to herein or at law or in equity, including but not limited to the remedy of specific performance.

Section 20.14 Further Documentation. Each of the parties agrees to furnish to the other such additional documents and instruments as shall be reasonably requested to effectuate the purposes of this Agreement.

Section 20.15 Ethical Standards. The parties agree that neither party shall:

(a) give or offer to give any gift or benefit to any employee of the other party which goes beyond common courtesies usually associated with accepted business practice in their respective countries;

(b) solicit or accept any confidential or proprietary information or data, services, equipment or commitment from said employee unless same is:

(i) required under a contract between Flextronics or any Flextronics Affiliated Company and Xerox; or

(ii) made pursuant to a written disclosure agreement between Xerox and Flextronics or any Flextronics Affiliated Company including that contained in Article 18 herein; or

(iii) specifically authorized in writing by an authorized representative of the other party;

(c) solicit or accept favoritism from any employees of the other party; or

(d) enter into any business relationship with any employee of the other party without full disclosure to, and approval of an authorized representative of, the other party.

As used herein: "employee" includes members of the employee's immediate family and household, plus any other person who is attempting to benefit from his or her relationship to the employee; "gift or benefit" includes money, goods, service, discounts, favors and the like in any form but excluding low value advertising items such as pens, pencils and calendars; "favoritism" means partiality in promoting the interest of one company over that of other companies; and "party" includes any Affiliate of such party.

Section 20.16 Integration. This Agreement and the Letter Agreement relating to Collateral Matters dated the date hereof between the parties hereto constitute the entire agreement of the parties hereto as to the subject matter hereof and supersede any and all prior oral or written understandings and agreements as to such subject matter.

Section 20.17 Guarantee by Flextronics. (a) Flextronics hereby unconditionally and fully guarantees: (i) the full and complete compliance by all Flextronics Affiliated Companies with the terms and conditions of this Agreement and all SSAs, (ii) that if any of the obligations under this Agreement shall be undertaken by any Flextronics Affiliated Company, Flextronics shall cause such Flextronics Affiliated Company to fully and completely perform such obligations and Flextronics shall be responsible for any non-performance by any such Flextronics Affiliated Company, and (iii) the performance by each Flextronics Affiliated Company that is party to an SSA of any and all obligations of such Flextronics Affiliated Company pursuant to such SSA (the obligations of Flextronics set forth in (i) through (iii) above shall be hereinafter referred to as the "Flextronics Guaranteed Obligations").

(b) Flextronics hereby waives notice of acceptance of the guaranty set forth in this Section 20.17, presentment, demand, protest, or any notice of any kind whatsoever, with respect to any or all of the Flextronics Guaranteed Obligations, and promptness in making any claim or demand hereunder; and no act or omission of any kind shall in any way affect or impair the guaranty set forth in this Section 20.17. Flextronics also waives any requirement, and any right to require, that any right or power be exercised or any action be taken against any Flextronics Affiliated Companies or any other person or entity or any assets for any of the Flextronics Guaranteed Obligations.

(c) The obligations of Flextronics under the guaranty set forth in this Section 20.17 shall be absolute and unconditional, present and continuing, irrespective of any bankruptcy proceeding involving any Flextronics Affiliated Company or any voluntary or involuntary liquidation, dissolution or winding up of the affairs of or termination of the existence of any Flextronics Affiliated Company, or any circumstance which might constitute a legal or equitable discharge of Flextronics.

Section 20.18 Guarantee by Xerox. (a) Xerox hereby unconditionally and fully guarantees: (i) the full and complete compliance by all Xerox Affiliated Companies with the terms and conditions of this Agreement and all SSAs, (ii) that if any of the obligations under this Agreement shall be undertaken by any Xerox Affiliated Company, Xerox shall cause such Xerox Affiliated Company to fully and completely perform such obligations and Xerox shall be responsible for any non-performance by any such Xerox Affiliated Company, and (iii) the performance by each Xerox Affiliated Company that is party to an SSA of any and all obligations of such Xerox Affiliated Company pursuant to such SSA (the obligations of Xerox set forth in (i) through (iii) above shall be hereinafter referred to as the "Xerox Guaranteed Obligations").

(b) Xerox hereby waives notice of acceptance of the guaranty set forth in this Section 20.18, presentment, demand, protest, or any notice of any kind whatsoever, with respect to any or all of the Xerox Guaranteed Obligations, and promptness in making any claim or demand hereunder; and no act or omission of any kind shall in any way affect or impair the guaranty

set forth in this Section 20.18. Xerox also waives any requirement, and any right to require, that any right or power be exercised or any action be taken against any Xerox Affiliated Companies or any other person or entity or any assets for any of the Xerox Guaranteed Obligations.

(c) The obligations of Xerox under the guaranty set forth in this Section 20.18 shall be absolute and unconditional, present and continuing, irrespective of any bankruptcy proceeding involving any Xerox Affiliated Company or any voluntary or involuntary liquidation, dissolution or winding up of the affairs of or termination of the existence of any Xerox Affiliated Company, or any circumstance which might constitute a legal or equitable discharge of Xerox.

Section 20.19 Interpretation. In any provision hereof in which an obligation is imposed on a Flextronics Affiliated Company, Flextronics shall have an accompanying obligation to cause such Flextronics Affiliated Company to fulfill such obligation. In any provision hereof in which an obligation is imposed on a Xerox Affiliated Company, Xerox shall have an accompanying obligation to cause such Xerox Affiliated Company to fulfill such obligation. In any provision hereof in which Flextronics has an obligation to cooperate with Xerox or Purchasers or to use commercially reasonable efforts or best efforts, such cooperation or efforts shall include, without limitation, causing the Flextronics Affiliated Companies to cooperate with Xerox or Purchasers and to use commercially reasonable efforts or best efforts, respectively.

[Signature Page for Master Supply Agreement]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

XEROX CORPORATION

By: /s/ James J. Costello
Name: James J. Costello
Title: Director, Corporate Business Development

[Signature Page for Master Supply Agreement]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

FLEXTRONICS INTERNATIONAL LTD

By: /s/ C.F. Alain Ahkong
Name: C.F. Alain Ahkong
Title: Director

EXHIBIT A

REPURCHASE RIGHT AGREEMENT

This REPURCHASE RIGHT AGREEMENT (this "Agreement") dated as of, 2001, is made and entered into by and between FLEXTRONICS INTERNATIONAL LTD., a limited liability company formed in the Republic of Singapore ("Flextronics"), and XEROX CORPORATION, a New York corporation ("Xerox").

Reference is hereby made to (i) the Master Purchase Agreement dated as of October 1, 2001 by and between Flextronics and Xerox (the "Master Purchase Agreement") and (ii) the Master Supply Agreement dated as of, 2001 by and between Flextronics and Xerox (the "Master Supply Agreement").

Pursuant to Section 16.5 of the Master Supply Agreement, the parties have agreed that Flextronics or the relevant Flextronics Affiliated Company will sell and transfer to the relevant Purchasers (as defined in the Master Supply Agreement) at any time and for any reason other than a Xerox Event of Default (as defined in the Master Supply Agreement) all or any part of the Xerox Unique Property (as defined in the Master Supply Agreement) as set forth in a Notice of Exercise (as defined below) provided to Flextronics by Xerox.

For valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement hereby agree as follows:

1. Right of Repurchase. The parties hereto agree that each Purchaser shall have the right and option at any time and for any reason other than a Xerox Event of Default to repurchase all or any part of the Xerox Unique Property on the terms and subject to the conditions herein provided.

2. Notice of Exercise. Xerox may exercise each Purchaser's right to repurchase by delivering to Flextronics one or more written notices substantially in the form of Exhibit A hereto (each, a "Notice of Exercise").

3. Transfer of Title. Upon receipt of a Notice of Exercise by Flextronics, title to and rights of possession of the Xerox Unique Property identified therein shall be deemed sold and transferred to the Purchaser specified therein, free and clear of all Liens (as defined in the Master Purchase Agreement). On the respective date on which the Xerox Unique Property specified in a Notice of Exercise has been delivered to the relevant Purchasers pursuant to paragraph 5 below (or, if Xerox requests that such Xerox Unique Property remain at the relevant Facility (as defined in the Master Supply Agreement), on the date ten (10) Business Days (as defined in the Master Supply Agreement) after receipt of such Notice of Exercise by Flextronics), Flextronics shall cause the relevant Flextronics Affiliated Company to deliver a General Assignment and Bill of Sale in form and substance reasonably acceptable to Xerox (the "General Assignment") duly executed by such Flextronics Affiliated Company and such other good and sufficient instruments of conveyance, assignment and transfer, in form and substance reasonably acceptable to Xerox, as shall be effective to vest in the relevant Purchasers good title to such Xerox Unique Property as of the date of receipt of such Notice of Exercise by

Flextronics. For the avoidance of doubt, the parties understand and agree that immediate transfer of Xerox Unique Property is essential for continued operation of Purchasers' business. Accordingly, transfer of title and rights of possession shall be immediate upon receipt by Flextronics of such respective Notice of Exercise notwithstanding any issue raised by any party, including Xerox, any Xerox Affiliated Company (as defined in the Master Supply Agreement), Flextronics or any Flextronics Affiliated Company. Any such issue shall be resolved by the parties independently of and subsequent to transfer of title and possession.

4. No Assumption of Liabilities. None of the Purchasers assumes or shall be responsible for, and Flextronics and the Flextronics Affiliated Companies shall retain and remain responsible for, (i) any and all Assumed Liabilities (as defined in the Master Purchase Agreement) relating to the Xerox Unique Property, (ii) any Liabilities (as defined in the Master Purchase Agreement) and obligations of Flextronics or any of the Flextronics Affiliated Companies under the Master Supply Agreement relating to the Xerox Unique Property, and (iii) any Liabilities and obligations of Flextronics or any of the Flextronics Affiliated Companies under this Agreement relating to the Xerox Unique Property. Nothing herein is intended to vary the parties' obligations under Article X of the Master Purchase Agreement.

5. Delivery Instructions. Flextronics shall, and shall cause the relevant Flextronics Affiliated Company to, follow the instructions of Xerox set forth in each Notice of Exercise regarding delivery of the Xerox Unique Property to the relevant Purchasers.

6. Purchase Price. The purchase price for any Xerox Unique Property subject to a Notice of Exercise shall be an amount equal to the net book value of such Xerox Unique Property (the "Net Book Value") calculated as hereinafter set forth. The Net Book Value of any Xerox Unique Property shall be an amount equal to no more than the amount set forth on the most recently delivered Net Book Value Certificate (as defined in paragraph 9 below) for such Xerox Unique Property, and shall be calculated in accordance with the Accounting Principles (as defined in the Master Purchase Agreement) as if such Xerox Unique Property continued to be owned by any of Purchasers.

7. Invoice. Promptly after receipt of a Notice of Exercise by Flextronics, Flextronics will determine the purchase price for the Xerox Unique Property specified therein subject to paragraph 6 above and no later than ten (10) Business Days after the receipt thereof deliver to Xerox an invoice setting forth the purchase price.

8. Payment. The relevant Purchaser shall pay Flextronics the invoiced amount on the following payment dates: (a) in the case where Xerox requests that the Xerox Unique Property be delivered to the relevant Purchaser, within forty-five (45) days of the later to occur of (i) receipt of the invoice by Xerox or (ii) the date on which Flextronics or the relevant Flextronics Affiliated Company actually delivers to the relevant Purchaser the Xerox Unique Property subject to the Notice of Exercise, and (b) in the case where Xerox requests that the Xerox Unique Property remain at the relevant Facility, within forty-five days of the receipt of the invoice by Xerox. In the event that an invoice is delivered by mail, the date of receipt of such invoice shall be deemed to

be three (3) Business Days after the date of the invoice. All taxes, exclusive of taxes on the net income of Flextronics (or taxes in lieu thereof) or withholding taxes, if any, payable by reason of the sale, transfer or delivery of any Xerox Unique Property shall be paid and borne by Purchaser, and any recovery, refund or credit by Flextronics or any Flextronics Affiliated Company of any such taxes paid by Purchaser shall be repayable to Purchaser immediately upon receipt or credit thereof.

9. Covenants.

From and after the date hereof until the date of receipt of a Notice of Exercise by Flextronics with respect to Xerox Unique Property (the "Title Transfer Date"), Flextronics shall and shall cause each of the Flextronics Affiliated Companies to provide to Xerox, pursuant to Section 16.5 of the Master Supply Agreement, within thirty (30) days after the end of each calendar quarter from the date hereof until the relevant Title Transfer Date, a certificate setting forth the Net Book Value of the Xerox Unique Property at the end of such calendar quarter (each, a "Net Book Value Certificate"), calculated and prepared in accordance with the Accounting Principles (as if such Xerox Unique Property continued to be owned by any of Purchasers).

10. Certain Related Provisions. This Agreement is subject to Article 20 of the Master Supply Agreement, the provisions of which are hereby incorporated by reference herein.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement as of the date first above written.

FLEXTRONICS INTERNATIONAL LTD.

By:
Name:
Title:

XEROX CORPORATION

By:
Name:
Title:

Exhibit A

NOTICE OF EXERCISE

1. Reference is hereby made to Repurchase Right Agreement, dated as of , 2001 between Flextronics International Ltd. and Xerox Corporation (the "Repurchase Right Agreement"). Unless otherwise specified herein, capitalized terms used and not otherwise defined herein shall have the meanings set forth in the Repurchase Right Agreement.

2. Xerox hereby, on its own behalf and on behalf of the following Purchaser(s): , exercises the Purchaser(s)' right and option pursuant to paragraph 1 of the Repurchase Right Agreement to repurchase the Xerox Unique Property identified on Schedule 1 hereto.

3. Flextronics shall, and shall cause each of the Flextronics Affiliated Companies (as defined in the Repurchase Right Agreement) to, deliver the Xerox Unique Property identified on Schedule 1 hereto in its possession to the Purchaser(s) specified above within days of the date hereof.

4. [Delivery instructions, if any.]

XEROX CORPORATION

By:
Name:
Title:

Date:

Schedule 1

Items of Xerox Unique Property

EXHIBIT B

MANUFACTURING IP NON-ASSERTION AGREEMENT

This Manufacturing IP Non-Assertion Agreement (this "Agreement") is made and entered into as of November 30, 2001 by and between Flextronics International Ltd., a limited liability company formed in the Republic of Singapore, with offices at Room 908, Dominion Centre 43-59, Queen's Road East, Wanchai, Hong Kong, (hereinafter "Flextronics"), and Xerox Corporation, a corporation organized under the laws of the State of New York, with offices in Webster, New York (hereinafter "Xerox").

For valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement hereby agree as follows:

1.0 Relationship to Master Purchase and Supply Agreements; Definitions

1.1. Background. Flextronics and Xerox are parties to a Master Purchase Agreement (the "Master Purchase Agreement") dated as of October 1, 2001, and a Master Supply Agreement (the "Master Supply Agreement"), dated as of the date hereof. As set forth in the Master Purchase Agreement and the Ancillary Agreements (as defined Purchase Agreement, Xerox and certain Xerox Affiliated Companies (as defined in the Master Supply Agreement) have transferred to certain Flextronics Affiliated Companies (as defined in the Master Supply Agreement) substantially all of their Product (as defined in the Master Supply Agreement) manufacturing assets. As contemplated in the Master Purchase Agreement, Flextronics and Xerox agree to enter into this Agreement in order that Flextronics may more efficiently use such assets and to expand its business during the term of this Agreement.

1.2. Definitions. Unless otherwise provided, all definitions of the Master Purchase Agreement and the Master Supply Agreement are hereby incorporated herein. In the event of conflict between such terms, the terms of the Master Purchase Agreement shall control. The following definitions shall also apply:

"Licensed Manufacturing IP" means (i) patents, patent rights and invention registrations of any type, inventions, processes, formulae, copyrights and copyright rights, processes, know-how, trade secrets, formulae, methodologies, computer programs, and related documentation and manufacturing drawings covering manufacturing processes and manufacturing equipment that are Purchased Assets used within Operations at the Facilities as of the Closing Date, and (ii) rights transferred to Xerox or Xerox Affiliated Companies pursuant to Section 19.4 of the Master Purchase Agreement to the extent such rights cover manufacturing processes and manufacturing equipment . Excluded from "Licensed Manufacturing IP" are patents, patent rights and invention registrations of any type, inventions, processes, formulae, copyrights and copyright rights, processes, know-how, trade secrets, formulae, methodologies, computer programs, and related documentation covering manufactured articles and/or products or covering the use or sale of manufactured articles and/or products.

Also excluded, without limitation, are any and all trademarks, trademark rights, trade names and trade name rights, service marks, and service mark rights, service names and service name rights, brand names, logos, slogans, Internet domain names, and web sites, meta-tags, trade dress, business and product names whether or not subject to statutory registration or protection now or hereafter.

"Printing and Publishing" means the business and technology of scanning, manipulating (in conjunction with printing or other hard copy output), printing, displaying (in conjunction with printing or other hard copy output), assembling, finishing or otherwise managing (in conjunction with printing or other hard copy output)images and/or documents in tangible or intangible form. Included, without limitation, within the "Printing and Publishing" business and technology are printers, copiers, other hard copy output devices, finishers, assemblers, scanners, as well as inks, supplies, components, spare parts and services for repair, maintenance, and remanufacturing of the same.

2.0 Non-Assertion Provisions

Subject to Flextronics' and Flextronics Affiliated Companies' obligations of confidentiality to Xerox and to Xerox Affiliated Companies, including, without limitation, obligations pursuant to Section 5.2 of the Master Purchase Agreement and Article 18 of the Master Supply Agreement, neither Xerox nor Xerox Affiliated Companies shall assert against (i) Flextronics or Flextronics Affiliated Companies, (ii) against customers in respect to products made by Flextronics or Flextronics Affiliated Companies, or (iii) suppliers in respect to items supplied for manufacturing operations of Flextronics and Flextronics Affiliated Companies, their rights in Licensed Manufacturing IP when used by Flextronics or Flextronics Affiliated Companies to manufacture products or to provide services that are outside of the field of Printing and Publishing.

3.0 General Terms; Termination

3.1. General Terms. Unless otherwise provided, the terms and conditions of Article 20, General Provisions, of the Master Supply Agreement are hereby incorporated by reference. The following exceptions and modifications shall apply:

20.1 Notice In addition to the parties designated to receive notice, add:

Xerox Corporation
800 Long Ridge Road
Stamford Connecticut 06904
Attention: Chief Patent Counsel
Facsimile Number: (203) 968-4301

20.4 Delete references to "SSA"

3.2. Termination. This Agreement shall remain in effect unless and until the Master Supply Agreement is terminated pursuant to a Flextronics Event of Default. Notwithstanding the above, the provisions of Section 2.0 of this Agreement shall immediately

terminate in respect to processes and equipment that become repurchased by Xerox pursuant to the Repurchase Right Agreement described in Section 16.5 of the Master Supply Agreement, unless otherwise specifically agreed by the parties in writing.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement this 30th day of November, 2001.

XEROX CORPORATION	FLEXTRONICS INTERNATIONAL LTD
By:	By:
Name:	Name:

Schedule 2.4

ALLOCATION OF INDUCEMENT PAYMENT

[*]

Schedule 6.7(j)

DUTY SUSPENSION, EXEMPTION OR REDUCED RATES OF TAX

TRADE AGREEMENTS

FROM: / TO:	US	MEXICO	EU	BRAZIL	CANADA	EE	FAR EAST/1/ (INCL JAPAN)	OTHER MERCOSUR COUNTRIES
US	X	NAFTA	ITA	-	NAFTA	-	ITA / -	
MEXICO	NAFTA	X	MEUFTA	ALADI	NAFTA	-	ITA / -	
EU	ITA	MEUFTA	X	-	ITA	VARIOUS	ITA / -	
BRAZIL	GSP	ALADI	-	X	ITA	-	ITA / -	FREE
CANADA	NAFTA	NAFTA	ITA	-	X	-	ITA / -	
EASTERN EUROPE	GSP	-	GSP	-	GSP	-	ITA / -	
MALAYSIA	ITA	-	ITA	-	ITA	-	ITA / -	

/(1)/ITA not applicable to all countries; China -- No ITA, no specific advantages

ITA	Information Technology Agreement
NAFTA	North American Free Trade Agreement; U.S., Canada, Mexico
MEUFTA	Mexico-EU Free Trade Agreement; Mexico, EU
Mercosur	Common Market of the South; Brazil, Argentina, Uruguay, Paraguay
ALADI	Assoc. for the Integration of Latin America; Sectoral Agreements: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela
GSP	Generalized System of Preferences
EU	European Union
EE	Eastern Europe

PLANT	SUSPENSION ENVIRONMENT
AGUASCALIENTES	. PITEX / Maquiladora . Photographic Sectoral Program . Electronics Sectoral Program . Approval by the Economy Secretariat
PENANG	. Licensed manufacturing warehouse (LMW)
RESENDE	. DECEX License
VENRAY	. Type "E" Bonded Warehouse . Authorized Consignor/Consignee . Inward Processing Relief (IPR) license plus simplified procedure . Processing Under Customs Control (PCC) license plus simplified procedure . PCC (separately or integrated with IPR license under suspension) . Simplified Procedure Import . Simplified Procedure Export . Authorized Exporter

Schedule 7.6

INITIAL LOCATION AND CHANGE IN LOCATION OF MANUFACTURE

Flextronics currently intends to relocate the following manufacturing activities:

Current Facility	New Location
El Segundo	Guadalajara
Mitcheldean	Czech Republic
Utica	Aguascalientes

Schedule 16.3

TRANSITION COOPERATION

A. RELATIONSHIP TO THE MASTER SUPPLY AGREEMENT

This Schedule describes several specific services and actions required of Flextronics and the Flextronics Affiliated Companies (hereinafter, individually and collectively, as the case may be, "Flextronics") pursuant to Section 16.3 of the Master Supply Agreement. The descriptions herein are for clarification purposes and shall not be construed to limit Flextronics' obligations of Section 16.3.

B. EXAMPLES OF TRANSITION SERVICES

1. Flextronics will provide the following information to support Section 16.3 transitions:
   - List of all equipment and tools (Assembly and Test) and part number combinations associated therewith, including without limitation, Xerox-Owned Assets
   - Documentation of current manufacturing processes associated with Products
   - Part certification data and historical data, including process measures and output measures.
     - Examples of process measures include, without limitation, parameters such as time, temperature, pressure, humidity, production rates, etc., as applicable
     - One example of an output measure is the critical dimensions of components and parts at the conclusion of each manufacturing process.
   - Where applicable, a sample part from the tooling and fixtures (preferably the last piece or assembly from tooling to be used as reference)

2. Flextronics will fully participate in the following transition planning activities:
   - Planning discussions with Xerox move team (typically comprised of Supplier Quality Assurance, Commodity team buyer, Design personnel as required). Xerox processes such as Continuous Supplier Involvement (a copy of which can be obtained at http://xww.xserv.world.xerox.com/xservhome/forms/) shall form the basis for these discussions.
     - Transfer discussions with a new supplier, if any.
     - Support tooling and process transfers and transition, including supply of the information contained in Exhibit I attached hereto.
     - Planning for and agreement upon level of appropriate finished goods hedge and associated build schedule
     - Participation in process to identify, qualify, and transition Sub-Tier Suppliers

C. TRANSITION ASSETS AND TRANSITION RIGHTS DELIVERED BY FLEXTRONICS

- Access to and planned delivery of Xerox-Owned Assets and items repurchased pursuant to Section 16.5 hereof.

- Consistent with the applicable provisions of the Master Supply Agreement, creation of a disposition process for raw materials used in the manufacture of products moved together with procedures for purchasing or build-out to finished goods of Work-In-Process
- Creation of a reasonable finished goods final buy
- Identification of any Software and programs used in the manufacture / test / inspection of Components and Products that are transferred

D. SCHEDULE

- Total time required to move production of a Product to a different manufacturer is 3 to 6 months. As much as possible, Xerox wishes to arrange transition planning and activities to accord with the reasonably anticipated time required to complete transfer of production to and qualification at a different manufacturing site. At a minimum, this requires:
  - Transition planning and transition activities as early as possible in advance of the anticipated Stop Production date at Flextronics
  - Frequent on-site visits by Xerox transition personnel, including access to process documentation and processes while still in production
  - Access to tooling and assistance in preparing tooling and transferred assets for shipment and re-start operations
  - Scheduled production of finished good Products and Component hedge quantities

EXHIBIT I

PROCESS AND PART/ASSEMBLY INFORMATION NEEDED FOR TOOL TRANSFER

TOOLING

... Describe operation of the tool. (e.g., compound die, 60T, mold, assembly fixture, etc.)

... Obtain the process sheet for the Product that uses the tool, including any non standard operations required to correct or " tweak" the Product.

... Record the markings on the tool.

... Obtain the utilization level of the tool to date, e.g., 100,000 strokes.

... Obtain the estimated tool life, e.g., 250,000 strokes.

... Collect tool history information, e.g., major repair work done, modifications, etc.

... Find out the machine information (type and brand) in which the tool is used.

PRODUCT

... Provide the Process Certification package, process or quality plan detailing process steps required to manufacture Product.

... Review part history records for quality information.

... Details of any specification that is not within the drawing callout.

... Based on past experience, provide a written description of any process critical dimensions that require special attention.

... Ensure that the last part from each operation / tool is available with the applicable tool / fixture for later correlation.

... Ensure that Sub-Tier Supplier special requirements and lead times are known and taken into account.

Schedule A

[*]

[139 pages omitted]

SCHEDULE B

XEROX NORTH AMERICAN SHIPPING ADDRESSES/DESIGNATED LOCATIONS

Parts:

Xerox Corporation:
800 Phillips Road, Bldg. 209 Dock 2, Webster, NY 14580
800 Phillips Road, Bldg. 209 Dock 3, Webster, NY 14580
800 Phillips Road, Bldg. 210 Dock 1, Webster, NY 14580
800 Phillips Road, Bldg. 210 Dock 5, Webster, NY 14580
800 Phillips Road, Bldg. 214 Dock 2, Webster, NY 14580
800 Phillips Road, Bldg. 111 Dock 2, Webster, NY 14580
800 Phillips Road, Bldg. 214, Dock 2,Webster, NY 14580
H.P. Neun 2916 Lyons Road Route 14, Geneva, NY 14456

Equipment/Supplies:

Xerox Corporation:
Sharonville Logistic Center 2967 East Crescentville Rd.
Westchester Ohio 45069
Xerox Canada LTD. NLC 1055 Courtney Park, Mississauga, Ontario
L5T 1M7
Xerox Canada LTD/LTEE 5101 Orbitor Drive, Mississauga, Ontario
L4W4V1
Chicago RDC 3000 Des Plaines Ave C.P. Des Plaines, IL 60018
Compton RDC 660 West Artesia Blvd WIDC Dock 33 Compton, CA 90220
Xerox RDC 660 West Artesia Blvd RDC Dock 31 Compton, CA 90220
Xerox Corporation 8929 N. Ramsey Blvd. Portland, OR 97203
Xerox Corporation Supply DC 1310 Citizens Parkway Morrow, GA 30260

Equipment:
Xerox Corporation 365 E. Grand Ave San Francisco, CA 94080
Xerox Corporation WPDC 12889 Moore Street, Cerritos, CA 90701
Xerox Corporation Central PDC 6500 Port Road, Groveport, Ohio
43125
Xerox Corporation RDC 1101 John Burgess Dr. Dallas TX 76140
Webster PDC 800 Phillips Road, Bldg. 210, Webster, NY 14580

OPB:
Xerox Corporation, Bldg 7083 East Dock, 26600 SW Parkway Ave.,
Wilsonville, OR 97070

Xerox Europe Shipping Addresses/Designated Locations

XEROX EUROPE LTD
OFFICE PRINTING BUSINESS
C/O FRANS MAAS BV
WITTE VENNENWEG 1

OOSTRUM/VENRAY, 5807 EJ
Netherlands

XEROX LTD.
EUROPEAN LOGISTICS CENTRE
SSA-BLDG. C
C/O VAN MIERLO VENNOOSTRAAT 2
5804 EN VENRAY

OPB:

Xerox MFG(NED) BV, Office Printing Business, Witte Vennemmegi,
Oostrum Venray Netherlands

FLEXTRONICS' FACILITIES

Site	Address
Aguascalientes	Boulevard a Zacatecas Km. 9.5 Municipio de Jesus Maria, Aguascalientes, Mexico ZP 20900
Guadalajara	Carretera Base Aerea 5850, Module 1 Zapopan, Jalisco, Mexico ZP 45100
Hungary	Zrinyi ut 38 H-8900 Zalaegerszeg, Hungary
Penang	1088 MK 6 Tingkat Perusahaan 6 Kawasan Perusahaan Prai IV 13600 Prai, Penang, Malaysia
Resende	Rodovia Presidente Dutra Km 316-lado impar Rua: Gunnar B. V. Vikberg s/n Itatiaia -- RJ -- Brasil CEP: 27580-000
Toronto	6800 Northwest Drive Mississauga, Ontario L4V 1Z1 Canada

FREIGHT FORWARDERS

TO: OUTPUT DESTINATION

Manufacturing Site	Europe	US	Canada	DMO/Other	FX	Brazil
Venray	N/A	Egle/Circle (Prim) Fritz (Bkup)	Eagle/Circle (Prim) Fritz (Bkup)	N/A	N/A	Fritz (Prim) Danzas (Bkup)
Aguascalientes	Fritz (Prim) Egl/Circle (Bkup)	N/A	N/A	Expeditors (Prim) Nippon (Bkup)	Expeditors (Prim) Nippon (Bkup)	?
Resende	Fritz (Prim) Danzas (Bkup)	Danzas (Prim), Fritz (Prim), EI (Prim)	Danzas (Prim), Fritz (Prim), EI (Prim)	Fritz (Prim) Danzas (Bkup)	Fritz (Prim) Danzas (Bkup)	N/A
Toronto-IODU	Fritz (Prim) Egl/Circle (Bkup)	N/A	N/A	Expeditors (Prim), Nippon (Bkup), Exel	Expeditors (Prim) Nippon (Bkup)	Fritz
Utica	Fritz (Prim) Egl/Circle (Bkup)	N/A	N/A	Expeditors (Prim) Nippon (Bkup)	Expeditors (Prim) Nippon (Bkup)	Fritz
Penang	Exel (Prim)	Expeditors (Prim), Fritz (Sec), Danzas (Alt)	Expeditors (Prim), Fritz (Sec), Danzas (Alt)	Expeditors (Prim), Fritz (Bkup)	N/A	Expeditors (Prim), Fritz (Bkup)
Mitcheldean	N/A	Egle/Circle (Prim) Fritz (Bkup)	Egle/Circle (Prim) Fritz (Bkup)	Fritz (Prim), Danzas (Bkup)	N/A	Fritz (Prim) Danzas (Bkup)
El Segundo	Fritz (Prim) Egl/Circle (Bkup)	N/A	N/A	Exel	Expeditors (Prim) Nippon (Bkup)	Exel

CUSTOMS AGENTS

TO: OUTPUT DESTINATION

Manufacturing Site	Europe	US	Canada	FX	Brazil-Manaus	Brazil-Resende	Mexico	Penang
Venray	n\a	Circle Intl	Livingston Intl	FXDC	Dmarcos Despachus Aduaneiros	In-House	Jorge Rivera	Expeditors Intl
Aguascalientes	In House	Circle Intl	Livingston Intl	FXDC	Dmarcos Despachus Aduaneiros	In-House	n\a	Expeditors Intl
		Rudolph Miles						
		Expeditors Intl						
Resende	In House	Circle Intl	Livingston Intl	FXDC	n\a	n\a	Jorge Rivera	Expeditors Intl
Toronto-IODU	In House	Circle Intl	n\a	FXDC	Dmarcos Despachus Aduaneiros	In-House	Jorge Rivera	Expeditors Intl
Utica	In House	n\a	Livingston Intl	FXDC	Dmarcos Despachus Aduaneiros	In-House	Jorge Rivera	Expeditors Intl
Penang	In House	Eagle/Circle Intl	N/A	N/A	N/A	N/A	N/A	N/A
Mitcheldean	In House	Circle Intl	Livingston Intl	FXDC	Dmarcos Despachus Aduaneiros	In-House	Jorge Rivera	Expeditors Intl
El Segundo	In House	n\a	Livingston Intl	FXDC	Dmarcos Despachus Aduaneiros	In-House	Jorge Rivera	Expeditors Intl

CARRIERS

TO: OUTPUT DESTINATION

Manufacturing Site	Europe	US	Canada	DMO/Other	FX	Brazil
Venray	N/A	Hapag, NYK, Mitsui, Hyundai	Hapag, NYK	N/A	N/A	Mitsui, Alianca, MSC
Aguascalientes	Hapag	Ryder	Ryder	via Charleston SC then Yellow or BAX Global	N/A	Mitsui, Alianca
Resende	NYK, Hapag, MSC	Alianca, Libra, Lykes	Alianca, Libra	N/A	N/A	N/A
Toronto-IODU	Hapag	First-Team	N/A	N/A	N/A	Mitsui, Alianca, Libra
Utica	Hapag, NYK, Mitsui, Hyundai, MSC = Webster	N/A	First Team	Alianca, Libra, CCNI, Crowley, Mitsui	N/A	Mitsui, Alianca, Libra
Penang	N/A (Exel)	N/A (Expeditors)	N/A	N/A	N/A	N/A
Mitcheldean	N/A	NYK, Hapag, Hyundai, Mitsui	Hapag, NYK	N/A	N/A	MSC, Alianca
El Segundo	Hapag, MSC	N/A	Ryder, First team	N/A	N/A	N/A

Schedule C

[*]

[829 pages omitted]

Schedule D

UNIT MANUFACTURING COST DEFINITION

Purpose:
To provide definition of Unit Manufacturing Cost (UMC) used as the basis for establishing transfer prices from CEM to Xerox.

Scope:
Applies only to [*]. This definition does not apply to [*].

Definition:
UMC includes [*].

Direct Material Costs:

Includes
[*]

Excludes
[*]

Direct Labor Costs:

Includes
[*]

Excludes
[*]

Manufacturing Overhead Costs:

Includes
[*]

Excludes
[*]

Material and Labor Overhead Cost Content

The overhead costs consists of the following elements:
[*]

Other notes and definitions:
[*]

Schedule E

KEY PERFORMANCE INDICATORS

Xerox and Flextronics agree that achievement of certain key performance indicators ("KPIs") must be managed actively to assure that the initiation of delivery of Products meets Xerox market requirements. The program management team may identify additional KPIs which shall be included in the Product Specific Agreements. When such KPIs are included in a Product Specific Agreement, the parties agree to apply diligent efforts to assure that the progress of the program is kept on schedule.

Xerox and Flextronics agree to conduct quarterly reviews to assess the status of the KPIs. Further, if it is determined by either party that the progress of KPIs is insufficient to assure that market launch and ongoing performance is maintained, managers designated by the parties may schedule more frequent KPI reviews upon written notification to the other party. KPI reviews will be held at a mutually agreed locations within ten (10) working days of such written notification and will be attended by:

Xerox - Vice President of Strategic Contracts

Flextronics - Sr. Supplier Xerox Mgr., Facility(s) Plant Mgr. and additional program team members as selected by Flextronics

[*]

[2 pages omitted]

Schedule F

REPORTS TO BE PROVIDED BY FLEXTRONICS TO XEROX CORPORATION

Report	Frequency By Facility
- - Service Level by Facility - % Kanban Product Shipped within 24 hours of Pull Signal; 48 hours of Pull Signal - % PO Products shipped complete per weekly schedule	Monthly/Product Family
- - Quality - Outgoing Quality/Product per facility PVT Results (Defects per 100 units)	Monthly
- - Xerox sub tier supplier management - US$ Spend with Xerox sub- tier suppliers	Quarterly pending MDSS system implementation
- - Purchased goods from Flextronics - Purchased volumes	Quarterly
- - Cost - See UMC report requirements in Schedule D	Monthly
- Inventory - Component/WIP/Finished Goods Inventory level in $ and DOS	Monthly
- Fees charged to Xerox incremental to Product cost (e.g. - special projects, freight, other). Causals should be listed.	Monthly
- Fees as a % of COP	Monthly
- Component UMC's ($/each & Supplier)	
- Aged Inventory greater than 60 days by quantity and value	
- - Top 10 Products (80-90% of COP) UMC detail including Costed BOM, Direct Labor, MOH, LOH & any other charges	Quarterly

Schedule G

[*]

[2 pages omitted]

Schedule H

[*]

[5 pages omitted]

Schedule I

[*]

[37 pages omitted]

Product Specific Attachments

[*]

[3,375 pages omitted]

EXHIBIT 12

Computation of Ratio of Earnings to Fixed Charges

Year ended December 31 (in millions)	2001	2000*	1999*	1998*	1997*
Fixed Charges:					
Interest expense	$ 903	$1,090	$ 842	$ 763	$ 632
Portion of Rental expense which represents interest factor	111	115	132	145	140
Total fixed charges before capitalized interest and preferred stock dividend of subsidiary	1,014	1,205	974	908	772
Capitalized interest	-	3	8	-	-
Preferred stock dividend of subsidiary	63	53	54	56	57
Total fixed charges	$1,077	$1,261	$1,036	$ 964	$ 829
Earnings available for fixed charges:					
Earnings***	$ 418	$ (301)	$1,336	$ 65	$1,414
Less undistributed income in minority owned companies	(20)	(25)	(10)	(28)	(84)
Add fixed charges before capitalized interest and preferred stock dividend of subsidiary	1,014	1,205	974	908	772
Total earnings available for fixed charges	$1,412	$ 879	$2,300	$945	$2,102
Ratio of earnings to fixed charges (1)	1.31	**	2.22	**	2.54

(1) For purposes of determining the ratio of earnings to fixed charges and deficiency of earnings to cover fixed charges, if applicable, earnings are defined as the income (loss)from continuing operations before income taxes and adjustment for minority interest or income or loss from equity investees, plus fixed charges (net of capitalized interest and preferred stock dividend requirements), amortization of capitalized interest, and distributed income of equity investees. Fixed charges consist of interest costs (both expensed and capitalized during the period) amortization of debt expense and discount or premium relating to any indebtedness, that portion of rental expense that is representative of the interest factor and the amount of pre-tax earnings required to cover preferred stock dividends of subsidiaries. This definition of fixed charges complies with Regulation S-K but is not consistent with the definition contained in the indentures.

* As Restated

** Earnings for the years ended December 31, 2000 and 1998 were inadequate to cover fixed charges. The coverage deficiency was $382 and $19 respectively.

*** Sum of Income (Loss) before Income Taxes, Equity Income, Minorities' Interest, Extraordinary Gain, Cumulative Effect of Change in Accounting Principles, Discontinued Operations and includes Equity in net income of unconsolidated affiliates.

THE DOCUMENT COMPANY
XEROX

Anne M. Mulcahy
Chairman and Chief Executive Officer

Fellow Shareholders:

Enclosed is our Annual Report for 2001. As you know, it was delayed in order to give us time to comply with the terms of a settlement we reached with the Securities and Exchange Commission in April. As part of the settlement we agreed to restate our results for the years 1997 to 2000 and to adjust our 2001 results. That process has now been completed -- essentially ending a painful chapter in our history and giving us a solid foundation on which to report our progress to you now and in the future.

While our accounting issues with the SEC have been attracting all the headlines, we have been quietly and aggressively restoring our operations to good health. As of this writing, we have approximately $1.8 billion cash on hand. We have successfully renegotiated our "revolver" -- our line of credit with our banks. We have taken actions to take more than $1.2 billion out of our cost base over a 20-month period. We have shed non-core assets to raise $2.4 billion in cash and increase our focus on the core business. And we have entered into a series of agreements -- primarily with GE Capital -- to outsource the financing of our customer receivables.

Even as we cut costs and pruned operations, we have been steadfastly investing in our future. This year marks one of the biggest product introduction years in our history led by the DocuColor iGen3 Digital Production Press -- our third generation digital color press that promises to revolutionize the industry and drive the new business of printing. A fleet of other new products, solutions and services -- trumpeted by aggressive marketing and communication plans -- are all aimed at putting Xerox back on a growth trajectory. And we are focusing all our resources and attention on three key markets --- production, the office and services. All three build from our core strengths, proven track record and customer needs. And all three will give us ample opportunity for profitable growth.

We have been tested to be sure, but with a new management team in place we are prepared to take on the challenges of the future with a renewed sense of purpose and optimism.

You put a lot of faith in us. I take that very seriously. And I insist that all our people do as well. We have too much opportunity in front of us to fail. And we're eager to give you a good return on your trust. Our objective this year is to restore our financial strength and to continue to position Xerox for future growth.

Our best days are still ahead of us. Thank you for the confidence you have placed in us. Our collective task at Xerox is to continue to earn that confidence and to give you a good return on your investment.

/s/ ANNE M. MULCAHY

Anne M. Mulcahy
Chairman and Chief Executive Officer

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

[LOGO]
XEROX
Worldwide Partner

INDEX TO FINANCIAL SECTION

REPORT OF MANAGEMENT

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

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

The Company monitors its internal control structure with direct management reviews and a comprehensive program of internal audits. In addition, PricewaterhouseCoopers LLP, independent accountants, have audited the 2001, 2000 and 1999 consolidated financial statements and have reviewed the internal control structure to the extent they considered necessary to support their report, which follows.

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

/s/ Anne M. Mulcahy	/s/ Lawrence A. Zimmerman	/s/ Gary R. Kabureck
Anne M. Mulcahy	Lawrence A. Zimmerman	Gary R. Kabureck
Chairman and Chief Executive Officer	Senior Vice President and Chief Financial Officer	Assistant Controller and Chief Accounting Officer

Management's Discussion and Analysis of Results of Operations and Financial Condition

Introduction. In this Management's Discussion and Analysis of Results of Operations and Financial Condition (MD&A) we begin by describing the matters considered by management to be important to an understanding of the results of our operations and our capital resources and liquidity as of and for the three years ended December 31, 2001. This section begins with a discussion of our recent settlement with the Securities and Exchange Commission (SEC) regarding accounting issues that had been under investigation since June 2000. The discussion includes the financial effects of the related restatement. Immediately following, is a new disclosure for most companies this year. It is an analysis of the critical accounting policies which affect the recognition and measurement of our transactions and the balances in our consolidated financial statements. In this section, we review the critical accounting judgments and estimates which we believe are most important to an understanding of the MD&A and the Consolidated Financial Statements. We then analyze the results of our operations for the last three years including the trends in the overall business and our operating segments including our Turnaround Program and important transactions and events such as asset sales. This section concludes with a summary of recent accounting pronouncements which will have an impact on our financial accounting practices. Thereafter, we discuss our cash flows and liquidity, capital markets events and transactions, debt ratings, our new credit facility, derivatives, our transition to vendor financing, special purpose entities, contractual commitments and related issues. The MD&A concludes with important forward-looking cautionary statements.

Restatement of Prior Years Financial Statements. We have determined that certain of our accounting practices misapplied U.S. generally accepted accounting principles (GAAP). Accordingly, we have restated our financial statements for the four years ended December 31, 2000 and revised our previously announced 2001 results included in our earnings release dated January 28, 2002. Throughout this MD&A, the term "previously reported" will be used to refer to our previously filed 1997-2000 Financial Statements as well as our previously announced 2001 results. The restatement adjustments relate almost exclusively to the timing of revenue and expense recognition. We reversed cumulative net revenue of $1.9 billion that was recognized in prior years, of which $1.3 billion is reflected in the years 1997 to 2001. This revenue adjustment is comprised of a reduction in equipment sales revenue, previously recognized from 1997 through 2001, of $6.4 billion offset by $5.1 billion of service, rental, document outsourcing and financing revenue now recognized from 1997 through 2001. The remaining net amount of revenue reversed, of $600 million, represents the cumulative net revenue impacts of reversing equipment sales transactions that were previously recorded in periods prior to 1997. Based on the cumulative impacts of the revenue adjustments for all periods prior to December 31, 2001, including pre-1997 impacts, we anticipate the recognition of $1.9 billion in revenues over the next several years through 2006. This represents sales-type lease revenue that had previously been recorded, that is expected to be earned over time as a component of our rental, service and finance revenue. In addition to the aforementioned revenue timing adjustments, and as more fully discussed below, we permanently reduced reported revenue by $269 million, for the five-year period ended December 31, 2001, as a result of the deconsolidation of our South African affiliate. Revenues from 1997 through 2001 as originally reported were $92.6 billion compared to $91.0 billion after the restatement. Substantially all non-revenue items included in the restatement have reversed within the five-year period ended December 31, 2001; our liquidity is not impacted since the restatement items reflect timing differences. As of December 31, 2001 our restated Common Shareholders' Equity is $1.8 billion versus $3.1 billion as originally included in our January 28, 2002 earnings release.

Settlement with the Securities and Exchange Commission. On April 11, 2002, we reached a settlement with the SEC relating to matters that had been under investigation by the SEC since June 2000. We believe the settlement is in the best interests of our shareholders, customers, employees and other stakeholders because it resolves these matters - eliminating the distraction and risk associated with potential SEC litigation - thereby enabling us to focus on continuing to improve our operations and restore the Company's financial health. In addition, as a result of the settlement with the SEC, we are undertaking a review of our material internal accounting controls and accounting policies to determine whether any additional changes are required in order to provide additional reasonable assurance that the types of accounting errors that occurred are not likely to reoccur.

The restatement reflects adjustments which are corrections of errors made in the application of GAAP and includes (i) adjustments related to the application of the provisions of Statement of Financial Accounting Standards No. 13 "Accounting for Leases" (SFAS No. 13) and (ii) adjustments that arose as a result of other errors in the application of GAAP. In making these restatements we have conducted an extensive review of all significant transactions, accounting policies and procedures and disclosures for the period 1997 through 2001. The principal adjustments are discussed below.

Application of SFAS No. 13:
Revenue allocations in bundled arrangements: We sell most of our products and services under bundled lease arrangements which contain multiple deliverable elements. These multiple element arrangements typically include separate equipment, service, supplies and financing components for which a customer pays a single fixed negotiated price on a monthly basis, as well as a variable amount for page volumes in excess of stated minimums. The restatement primarily reflects adjustments related to the allocation of revenue and the resultant timing of revenue recognition for sales-type leases under these bundled lease arrangements.

The methodology we used in prior years for allocating revenue to our sales-type leases involved first, estimating the fair market value of the service and financing components of the leases. Specifically, with respect to the financing component, we estimated the overall interest rate to be applied to transactions to be the rate we targeted to achieve a fair return on equity for our financing operations. This is effectively a discounted cash flow valuation methodology. In estimating this interest rate we considered a number of factors including our cost of funds, debt levels, return on equity, debt to equity ratios, income generated subsequent to the initial lease term, tax rates, and the financing business overhead costs. We made service revenue allocations based, primarily, on an analysis of our service gross margins. After deducting service and finance values from the minimum payments due under the lease, the equipment value was derived. These allocation procedures resulted in adjustments to values initially reflected in our accounting systems, such that values attributed to the service and financing components were generally decreased and the values assigned to the equipment components were generally increased.

The SEC staff advised us of its view that our previous methodology, as described above, did not comply with the requirements of SFAS No. 13. SFAS No. 13 requires us to use the discount rate which causes the aggregate present value of the minimum lease payments, excluding executory and service income, and any unguaranteed residual value, to equal the fair value of the equipment. However, our revenue allocation processes with respect to the principal (i.e., equipment) and interest components of our leases did not begin with the estimated fair value of the equipment, and did not treat unearned finance income as the derived value.

We have determined that the previous allocation methodology was not in accordance with SFAS No. 13, therefore, we have utilized a different methodology to account for our sales-type leases involving multiple element arrangements. This methodology begins by determining the fair value of the service component, as well as other executory costs and any profit thereon, and second, by determining the fair value of the equipment based on a comparison of the equipment values in our accounting system to a range of cash selling prices. The resultant implicit interest rate is then compared to fair market value rates to assess the reasonableness of the overall allocations to the multiple elements.

We conducted an extensive analysis of available verifiable objective evidence of fair value (VOE) based on cash sales prices and compared these prices to the range of equipment values recorded in our lease accounting systems. With the exception of Latin America, where operating lease accounting is applied as discussed below, the range of cash selling prices supports the reasonableness of the range of equipment lease prices as originally recorded, at inception of the lease, in our accounting systems. In applying our new methodology described above, we have therefore concluded that the revenue amounts allocated by our accounting systems to the equipment component of a multiple element arrangement represents a reasonable estimate of the fair value of the equipment. As a consequence, $2.4 billion of previously recorded equipment sale revenue during the five years ended December 31, 2001 has been reversed and we have recognized additional service revenue and finance income of $1.7 billion, which represents the impact of reversing amounts previously recorded as equipment sales-type leases and recognizing such amounts over the lease term. The net cumulative reduction in revenue, as a result of this change, was $641 million for the five-year period ended December 31, 2001. In total approximately $840 million of revenue previously recognized has been reversed and will be recognized in future years, estimated as follows: $410 million - 2002, $260 million - 2003 and $170 million - thereafter.

Transactions not qualifying as sales-type leases: We re-evaluated the application of SFAS No. 13 for leases originally accounted for as sales-type leases in our Latin American operations, and we determined that these leases should have been recorded as operating leases. This determination was made after we conducted an in-depth review of the historical effective lease terms compared to the contractual terms of our lease agreements. Since, historically, and during all periods presented, a majority of leases were terminated significantly prior to the expiration of the contractual lease term, we concluded that such leases did not qualify as sales-type leases under certain provisions of SFAS No. 13. Specifically, because we generally do not collect the receivable from the initial transaction upon termination of the contract or during the subsequent lease term, the recoverability of the lease investment was not predictable at the inception of the original lease term. The accounting for these transactions as sales-type leases is further complicated due to our very high market shares in many of these countries, which makes it difficult to establish a reasonable basis for estimating the fair value of the equipment component of our leases due to a lack of available VOE. In addition historical and continuing economic and political instability in many of these countries also raises concerns about reasonable assurance of collectibility. As a consequence, $2.8 billion of previously

recorded equipment sale revenue during the five years ended December 31, 2001 has been reversed and we have recognized additional rental revenue of $2.2 billion, which represents the impact of changing the classification of previously recorded sales-type leases to operating leases. The net cumulative reduction in revenue, as a result of this change, was $633 million for the five-year period ended December 31, 2001. In total, approximately $800 million of revenue previously recognized has been reversed and will be recognized in future years, estimated as follows: $240 million - 2002, $240 million - 2003 and $320 million - thereafter.

During the course of the restatement process, we concluded that the estimated economic life used for classifying leases for the majority of our products should have been five years versus the three to four years we previously utilized. This resulted from an in-depth review of our lease portfolios, for all periods presented, which indicated that the most frequent term of our lease contracts was 60 months. We believe that this has been and is representative of the period during which the equipment is expected to be economically usable, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease. As a consequence, many shorter duration leases did not meet the criteria of SFAS No. 13 to be accounted for as sales-type leases. Additionally, other lease arrangements were found to not meet other requirements of SFAS No. 13 for treatment as sales-type leases. As a consequence, $588 million of equipment revenue recorded during the five years ended December 31, 2001 has been reversed and we have recognized additional rental revenue of $387 million, which represents the impact of changing the classification of previously recorded sales-type leases to operating leases. The net cumulative reduction in revenue, as a result of this change, was $201 million for the five-year period ended December 31, 2001. In total approximately $140 million of revenue previously recognized has been reversed and will be recognized in future years, estimated as follows: $70 million - 2002, $40 million - 2003 and $30 million - thereafter.

Accounting for the sale of equipment subject to operating leases: We have historically sold pools of equipment subject to operating leases to third party finance companies (the counterparties) or through structured financings with third parties and recorded the transaction as a sale at the time the equipment is accepted by the counterparties. These transactions increased equipment sale revenue, primarily in Latin America, in 2000 and 1999 by $148 million and $400 million, respectively. Upon additional review of the terms and conditions of these contracts, it was determined that the form of the transactions at inception included retained ownership risk provisions or other contingencies that precluded these transactions from meeting the criteria for sale treatment under the provisions of SFAS No. 13. The form of the transaction notwithstanding, these risk of loss or contingency provisions have resulted in only minor impacts on our operating results during the five years ended December 31, 2001. These transactions have however been restated and recorded as operating leases in our consolidated financial statements. As a consequence $569 million of equipment revenue recorded during the five years ended December 31, 2001 has been reversed and we have recognized additional rental revenue of $670 million, which represents the impact of changing the previously recorded transactions to operating leases. The net cumulative increase in revenue as a result of this change was $101 million for the five-year period ended December 31, 2001. In total approximately $110 million of revenue previously recognized has been reversed and will be recognized in future years, estimated as follows: $80 million - 2002 and $30 million - 2003. Additionally, for transactions in which cash proceeds were received up-front we have recorded these proceeds as secured borrowings. The remaining balance of these borrowings aggregated $55 million at December 31, 2001.

In summary and in connection with the restatement of reported results of operations regarding accounting for leases, our policy is to now measure the reasonableness of estimates of fair values of leased equipment by comparison to VOE from cash sales of the same or similar equipment or on the basis of other objective evidence of fair value. Going forward, due to a change in business model, we expect equipment sales in Latin America will either be for cash or will be financed by third party financial institutions. In connection with negotiations underway with third parties, we anticipate substantially exiting our financing business. Our business processes and the terms of our third party financing contracts may result in our customer transactions being initially recorded as leases in our financial statements prior to being sold to the financing companies. The accounting effect may require us to account for transactions with third party finance companies as sales of the underlying leases, and to recognize gains or losses on the sales of such leases as they are sold.

Other adjustments:
In addition to the aforementioned revenue related adjustments, other errors in the application of GAAP were identified. These include the following:

Sales of receivables transactions: During 2001 and 1999, we sold approximately $2.0 billion of U.S. finance receivables originating from sales-type leases ($1.4 billion in 1999 and $600 million in 2001). These transactions were originally accounted for as sales of receivables. These sales were made to special purpose entities (SPEs), which qualified for non-consolidation in accordance with then existing accounting requirements. As a result of the changes in the estimated economic life of our equipment to five years, certain leases transferred in these transactions did not meet the sales-type lease requirements and were accounted for as operating leases. This change in lease classification affected a number of the leases

that were sold into the aforementioned SPEs resulting in these entities now holding operating leases as assets. This change disqualified the SPEs from non-consolidation and effectively required us to record the proceeds received on these sales as secured borrowings. This increased our debt by $490 million, $418 million and $950 million as of December 31, 2001, 2000 and 1999, respectively. These transactions are also discussed in Note 6 to the Consolidated Financial Statements. This change has no effect on our liquidity or amounts due to the SPEs from the Company.

During 1999, we sold $288 million of accounts receivables to financial institutions. Upon additional review of the terms and conditions of these transactions, we determined that $57 million (including $14 million which was restated in connection with the prior restatement of our financial statements) did not qualify for sale treatment as a result of our agreeing to reacquire the receivables in 2000. Accordingly, we have restated our previously reported results for these transactions and they are now reported in our Consolidated Financial Statements as short-term borrowings. This change increased Accounts receivable, net and debt by $57 million as of December 31, 1999; the transactions were settled in early 2000. No similar transactions have occurred since 1999.

South Africa deconsolidation: We determined that we inappropriately consolidated our South African affiliate since 1998 as the minority joint venture partner has substantive participating rights. Accordingly, we have deconsolidated all assets, liabilities, revenues and expenses. We now account for this investment on the equity method of accounting. The cumulative reduction in revenues through December 31, 2001 was $269 million and there was no impact on net income or Common Shareholder's Equity.

Purchase accounting reserves: In connection with the 1998 acquisition of XL Connect Solutions, Inc. (XLConnect), we recorded liabilities aggregating $65 million for contingencies identified at the date of the acquisition. During 2000 and 1999, we determined that certain of these contingent liabilities were no longer required, and $29 million of the liabilities were either reversed into income or we charged certain costs related to ongoing activities of the acquired business against these liabilities. Upon additional review we determined that approximately $51 million of these contingent liabilities did not meet the criteria to initially be recorded as acquisition liabilities. Accordingly, we have adjusted the goodwill and liabilities at the date of acquisition and corrected the 2000 and 1999 income statement impacts.

Restructuring reserves: During 2000 and 1998, we recorded restructuring charges associated with our decisions to exit certain activities of the business. Upon additional review we determined that certain adjustments made to the original charges were not in accordance with GAAP. The adjustments to increase pre-tax loss in 2001 of $87 million and decrease pre-tax loss in 2000 of $65 million consist primarily of corrections to the timing of the release of reserves originally recorded under the March 2000 restructuring program. We should have reversed the applicable reserves in late 2000 when the information was available that our original plan had changed indicating that such reserves were no longer necessary. Previously, the reversal was recorded in early 2001. Similarly, the adjustment of $12 million to decrease 1999 pre-tax income relates primarily to the inappropriate release of restructuring reserves which should have been recorded in 1998 based on information available at the time. The adjustments to reduce the 1998 restructuring provisions of $138 million related to charges which did not meet the criteria to be recorded as part of the initial restructuring reserves. Such charges did not qualify as exit costs or appropriate separation costs in accordance with the accounting guidance governing restructuring actions. In total, these adjustments increased pre-tax income by $104 million for the five year period ended December 31, 2001.

Tax refunds: In 1995, we received a final favorable court decision that entitled us to refunds of certain tax amounts paid in the U.S., plus accrued interest on the tax. The court established the legal precedent upon which the refunds were to be based. We recorded the income associated with the tax refunds and the related interest from 1995 through 1999. We determined that the benefit should have been recorded in periods prior to 1997. These adjustments decreased pre-tax income by $153 million for the five year period ended December 31, 2001.

Other adjustments: In addition to the above items and in connection with our review of prior year's financial records we determined that other accounting errors were made with respect to the accounting for certain non-recurring transactions, the timing of recording and reversing certain liabilities and the timing of recording certain asset write-offs. We have restated our 2000 and 1999 Consolidated Financial Statements, and revised our previously announced 2001 results for such items. These adjustments decreased pre-tax income by $290 million for the five year period ended December 31, 2001.

The following table presents the effects of the aforementioned adjustments on total revenue:

Increase (decrease) to total revenue:
(in millions)

	Year ended December 31,

	2001	2000	1999	1998	1997
Revenue, previously reported	$ 16,502	$ 18,701	$ 19,567	$ 19,593	$ 18,225
Application of SFAS No. 13:					
Revenue allocations in bundled arrangements	65	(78)	(257)	(284)	(87)
Latin America - operating lease accounting	187	(58)	57	(358)	(461)
Other transactions not qualifying as sales-type leases	73	57	(60)	(119)	(152)
Sales of equipment subject to operating leases	197	124	(243)	67	(44)
Subtotal	522	45	(503)	(694)	(744)
Other revenue restatement adjustments:					
Sales of receivables transactions	42	61	(6)	--	--
South Africa deconsolidation	(66)	(72)	(71)	(60)	--
Other revenue items, net	8	16	8	(62)	(24)
Subtotal	(16)	5	(69)	(122)	(24)
Increase (decrease) in total revenue	506	50	(572)	(816)	(768)
Revenues, restated	$ 17,008	$ 18,751	$ 18,995	$ 18,777	$ 17,457

The following table presents the effects of the aforementioned adjustments on sales revenue:

Increase (decrease) to sales revenue:
(In millions)

	Year ended December 31,				
	2001	2000	1999	1998	1997
Revenue allocations in bundled arrangements	$ (440)	$ (541)	$ (650)	$ (508)	$ (233)
Latin America - operating lease accounting	(125)	(459)	(300)	(902)	(1,007)
Other transactions not qualifying as sales type leases	(31)	(74)	(160)	(162)	(161)
Sales of equipment subject to operating leases	33	(111)	(342)	(20)	(129)
South Africa deconsolidation	(27)	(31)	(30)	(25)	-
Other revenue items, net	5	(4)	8	(55)	(22)
Decrease in sales revenue	$ (585)	$(1,220)	$(1,474)	$ (1,672)	$ (1,552)

In total, approximately $1.9 billion of revenue recognized in years 2001 and prior has been reversed and is estimated to be recognized as follows: $800 million - 2002, $570 million - 2003 and $530 million - thereafter.

The following table presents the effects of the aforementioned adjustments on pre-tax income (loss): Increase (decrease) to pre-tax income (loss):

(in millions)

	Year ended December 31,				
	2001	2000	1999	1998	1997
Pre-tax (loss) income, previously reported	$(137)	$(384)	$1,908	$579	$2,005
Revenue restatement adjustments:					
Revenue allocations in bundled arrangements	68	(74)	(252)	(281)	(87)
Latin America - operating lease accounting	335	80	39	(238)	(354)
Other transactions not qualifying as sales-type leases	54	12	(50)	(74)	(100)
Sales of equipment subject to operating leases	91	11	(162)	19	(35)
Sales of receivables transactions	12	18	(32)	-	-
South Africa deconsolidation	(10)	(11)	(8)	(6)	-
Other revenue items, net	10	12	22	(31)	(21)
Subtotal	560	48	(443)	(611)	(597)

Other restatement adjustments:

Purchase accounting reserves	(2)	(7)	(20)	-	-
Restructuring reserves	(87)	65	(12)	138	-
Tax refunds	-	-	(14)	(97)	(42)
Other, net	31	(89)	(131)	(22)	(79)
Subtotal	(58)	(31)	(177)	19	(121)
Increase (decrease) to pre-tax income (loss)	502	17	(620)	(592)	(718)
Pre-tax income (loss), restated	$ 365	$ (367)	$ 1,288	$ (13)	$ 1,287

The impact of these adjustments on certain key ratios is as follows:

	Year ended December 31,				
	2001	2000	1999	1998	1997
Sales Gross Margin:					
- Previously reported	32.9%	37.5%	43.1%	43.8%	44.5%
- Adjusted and restated	30.5%	31.2%	37.2%	40.5%	39.5%
Service, Outsourcing and Rentals Gross Margin:					
- Previously reported	39.4%	37.6%	42.8%	44.4%	47.4%
- Adjusted and restated	42.2%	41.1%	44.7%	46.6%	48.4%
Finance Gross Margin:					
- Previously reported	34.6%	34.5%	49.4%	50.1%	48.8%
- Adjusted and restated	59.5%	57.1%	63.0%	58.2%	58.6%
Total Gross Margin:					
- Previously reported	36.0%	37.4%	43.3%	44.4%	46.9%
- As adjusted and restated	38.2%	37.4%	42.3%	44.3%	44.8%
Selling, Administrative and General Expenses as a percentage of revenue:					
- Previously reported	29.1%	30.2%	27.0%	27.3%	28.7%
- As adjusted and restated	27.8%	29.4%	27.4%	28.3%	29.8%

These adjustments resulted in the cumulative net reduction of Common Shareholders' Equity of $1.3 billion as of December 31, 2001. The following table presents the impact of the restatement adjustments on Common Shareholders' Equity as of January 1, 1997:

(in millions)	
Increase (decrease) in Common Shareholders' Equity:	
Common Shareholders' Equity balance - January 1, 1997, previously reported	$ 4,352
Revenue allocations in bundled arrangements	(223)
Latin America - operating lease accounting	(1,326)
Other transactions not qualifying as sales-type leases	8
Sales of equipment subject to operating leases	(49)
Other items, net	285
Income tax impacts of above adjustments	436
Decrease in Common Shareholders' Equity	(869)
Common Shareholders' Equity balance - January 1, 1997, restated	$3,483

The comparative impacts of changes to the amounts previously reported in our 2000 and 1999 financial statements are included in Note 2 to the consolidated financial statements. The following tables present the impact of the adjustments on our previously reported 2001 results on a condensed basis:

	Previously Reported	As Adjusted
Year ended December 31, 2001		
(in millions, except per share data)		
Statement of operations:		
Total Revenues	$16,502	$17,008
Sales	8,028	7,443
Service, outsourcing, financing and rentals	8,474	9,565
Total Costs and Expenses	16,639	16,643
Net Loss	(293)	(71)
Diluted Loss per Share	$ (0.43)	$ (0.12)
Balance Sheet:		
Accounts receivable and finance receivables, net	$ 6,557	$ 5,818
Inventories	1,345	1,364
Deferred taxes and other current assets	1,451	1,428
Total Current Assets	13,344	12,600
Finance receivables due after one year, net	6,336	5,756
Equipment on operating leases, net	521	804
Land, buildings and equipment, net	1,992	1,999
Other long-term assets	4,365	5,085
Goodwill, net	1,475	1,445
Total Assets	28,033	27,689
Short-term debt and current portion of long-term debt	9,737	6,637
Other current liabilities	3,671	3,623
Total Current Liabilities	13,408	10,260
Long-term debt	6,484	10,128
Other long-term liabilities	2,752	3,251
Total Liabilities	22,644	23,639
Common Shareholders' Equity	3,148	1,820
Total Liabilities and Equity	$28,033	$27,689

Application of Critical Accounting Policies. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies as disclosed in our Notes to Consolidated Financial Statements. We consider the policies discussed below as critical to an understanding of our financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. Specific risks for these critical accounting policies are described in the following paragraphs. The impact and any associated risks related to these policies on our business operations is discussed throughout this Management's Discussion and Analysis where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see Note 1 to the consolidated financial statements. Senior management has discussed the development and selection of the critical accounting estimates and the related disclosure included herein with the Audit Committee of the Board of Directors. Preparation of this Annual Report on Form 10-K requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Revenue Recognition for Sales-Type Leases Under Bundled Arrangements: We sell most of our products and services under bundled contract arrangements, which contain multiple deliverable elements. These arrangements typically include equipment, service and supplies, and financing components for which the customer pays a single negotiated price for all elements. These arrangements typically also include a variable service component for page volumes in excess of stated minimums. When separate prices are listed in multiple element customer contracts, they may not be representative of the fair values of those elements because the prices of the different components of the arrangement may be modified in customer negotiations, although the aggregate consideration may remain the same. Therefore, revenues under these arrangements are allocated based upon estimated fair values of each element. Our revenue allocation methodology first begins by determining the fair value of the service component, as well as other executory costs and any profit thereon and second, by determining

the fair value of the equipment based on comparison of the equipment values in our accounting systems to a range of cash selling prices. The resultant implicit interest rate is then compared to fair market value rates to assess the reasonableness of the overall allocations to the multiple elements.

Determination of Appropriate Revenue Recognition for Sales-Type Leases: Our accounting for leases involves specific determination under SFAS No. 13 which often involve complex provisions and significant judgments. The general criteria for SFAS No. 13, at least one of which is required to be met in order to account for a lease as a sales-type lease versus as an operating lease, are (a) whether ownership transfers by the end of the lease term, (b) whether there is a bargain purchase option at the end of the lease term which is exercisable by the lessee, (c) whether the lease term is equal to or greater than at least 75 percent of the economic life of the equipment and (d) whether the present value of the minimum lease payments, as defined, are equal to or greater than 90 percent of the fair market value of the equipment. Criteria (a) and (b) are relatively minor considerations for qualifying our leases as sales, as we usually do not employ such contract terms. Under our current product portfolio and business strategies, generally a non-cancelable lease of 45 months or more qualifies under the economic life criteria as a sale. Certain of our lease contracts are customized for larger customers which result in complex terms and conditions and require significant judgment in applying the above criteria. In addition to these criteria, there are also other important criteria that are required to be assessed, including whether collectibility of the lease payments is reasonably predictable and whether there are important uncertainties related to costs that we have yet to incur with respect to the lease. In management's opinion, our sales-type lease portfolios contain only normal credit and collection risks and have no important uncertainties with respect to future costs.

The critical elements of SFAS No. 13 that we analyze with respect to our lease accounting are the determination of economic life and the fair value of equipment, including our estimates of residual values. Accounting for sales-type lease transactions requires management to make estimates with respect to economic lives and expected residual value of the equipment in accordance with specific criteria as set forth in generally accepted accounting principles. Those estimates are based upon historical experience with economic lives of all of our equipment products. We consider the most objective measure of historical experience for purposes of estimating the economic life to be the original contract term since most equipment is returned by lessees at or near the end of the contracted term. The most frequent contractual lease term for our principal products is five years and only a small percentage of our leases are for original terms longer than five years. Accordingly, we have estimated the economic life of most of our products to be five years. We believe that this is representative of the period during which the equipment is expected to be economically usable, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease. When we originally reported our 1999 and 2000 results, we had utilized an economic life for our principal products of three to four years. The increase to five years had the effect of reducing equipment sale revenue by $37 million, $66 million and $115 million for the years ended December 31, 2001, 2000 and 1999, respectively. Residual values are established at lease inception using estimates of fair value at the end of the lease term. Our residual values are established with due consideration to forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, remanufacturing strategies, used equipment markets (to the extent they exist for the particular product), competition and technological changes. Since we are the developer, servicer and frequently the manufacturer of our products, we do not believe we have any significant risks to recovery of our recognized residual values.

Accounts and Finance Receivables Allowance for Doubtful Accounts and Credit Losses: We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness, as determined by our review of our customers' current credit information. We continuously monitor collections and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. While such credit losses have historically been within our expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. Measurement of such losses requires consideration of historical loss experience, including the need to adjust for current conditions, and judgments about the probable effects of relevant observable data, including present economic conditions such as delinquency rates and financial health of specific customers. In addition to provisions related to the credit worthiness of our customers, we also record provisions for customer accommodations, among other things. We recorded $506 million, $613 million and $450 million in provisions to the Consolidated Statements of Operations for doubtful accounts for both our accounts and finance receivables for the three years ended December 31, 2001, 2000 and 1999, respectively.

Historically about half of the provision relates to our finance receivables portfolio. This provision is inherently more difficult to estimate than the provision for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately four years and contains both past due billed amounts, as well as unbilled amounts. Estimated credit quality of any given customer, class of customer or geographic location can significantly change during the

life of the portfolio. We consider all available information in our quarterly assessments of the adequacy of the reserves for uncollectible accounts.

Securitization and Transfers of Financial Assets: From time to time, we engage in securitization activities in connection with our accounts and finance receivables. We enter into these transactions for the purposes of generating cash from these assets through sales or secured borrowings. In several of the countries where we have completed lease transaction funding arrangements with third party finance companies we have effectively transferred substantially all of the related collection risk to these financiers. Gains and losses from securitizations, accounted for as sales, are recognized in the Consolidated Statements of Operations when we surrender control of the transferred financial assets. The gain or loss on the sale of financial assets depends in part on the previous carrying amount of the assets involved in the transfer, allocated between the assets sold and the retained interests based upon their respective fair values at the date of sale.

As part of the transactions accounted for as sales, the receivables are typically sold to a special purpose entity that meets the applicable accounting standards for non-consolidation. When special purpose entities are involved neither we, nor any of our employees has any involvement in the management of such entity. When we sell receivables, we may retain servicing rights, beneficial interests, and in some cases, a cash reserve account, all of which are retained interests in the securitized receivables. The retained interest is initially recorded at carrying value, which approximates fair value in our Consolidated Balance Sheets. Subsequently, decreases in the value of such interests, if any, are recognized in our Consolidated Statements of Operations. The securitization gain or loss involves our best estimates of key assumptions, consisting of receivable amounts, anticipated credit losses, and discount rates commensurate with the risks involved. The use of different estimates or assumptions could produce different financial results. For those transactions accounted for as secured borrowings, we have made the determination that the criteria for surrender of control were not met, or that the receivables were sold into a special purpose entity that did not meet the requirements for deconsolidation.

These transactions are often complex, involve highly structured contracts between us and the buyer or transferee and involve strict accounting rules application. The key distinction in the application of the accounting rules to the structured contracts and similar transactions (sale versus a secured borrowing) is the inclusion or exclusion of the related receivables and or associated obligations that would or would not be included in our Consolidated Balance Sheet, as well as any gain or loss that would result from a sale transaction. In order for a transaction to qualify as a sale, several accounting requirements must be met including the surrender of control over the receivables and the existence of a bankruptcy remote contract structure. Transactions not meeting these requirements must be accounted for as secured borrowings. See Note 6 to the consolidated financial statements for a discussion of our securitization transactions.

Provisions for Excess and Obsolete Inventory Losses and Residual Value Losses: We value our inventory at the lower of average cost or net realizable values. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory based primarily on our estimated forecast of product demand and production requirements for the next twelve months. Several factors may influence the realizability of our inventories, including our decisions to exit a product line (e.g., SOHO), technological change and new product development. These factors could result in an increase in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory was overvalued, we would be required to recognize such costs in Cost of sales at the time of such determination. Likewise, if we determine that our inventory is undervalued, we may have overstated Cost of sales in previous periods and would be required to recognize such additional operating income at the time of sale. Therefore, although we make every effort to ensure the accuracy of our forecasts of future product demand, including the impact of planned future product launches, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results. We recorded $242 million, $235 million and $144 million in inventory write-down charges for the three years ended December 31, 2001, 2000 and 1999, respectively. These amounts include $42 million and $84 million in 2001 and 2000, respectively, associated with our restructuring programs. At this time, management does not believe that anticipated product launches will have a material effect on the recovery of our existing net inventory balances.

We have a similar accounting policy relating to unguaranteed residual values associated with equipment on lease, which totaled $414 million and $508 million in our Consolidated Balance Sheet at December 31, 2001 and 2000 respectively. We review residual values regularly and, when appropriate, adjust them based on estimates of forecasted demand including the impacts of future product launches. Impairment charges are recorded when available information indicates that the decline in recorded value is other than temporary and we would not therefore be able to fully recover the recorded values. We recorded $14 million, $17 million and $4 million in residual value impairment for the years ended December 31, 2001, 2000 and 1999, respectively.

Estimates Used Relating to Restructuring and Asset Impairments: Over the last several years we have engaged in significant restructuring actions, which have required us to develop formalized plans as they relate to exit activities. These plans have required us to utilize significant estimates related to salvage values of assets that were made redundant or obsolete. In addition, we have had to record estimated expenses for severance and other employee separation costs, lease cancellation and other exit costs. Given the significance of, and the timing of the execution of such actions, this process is complex and involves periodic reassessments of estimates made at the time the original decisions were made. The accounting for restructuring costs and asset impairments requires us to record provisions and charges when we have a formal and committed plan. Our policies, as supported by current authoritative guidance, require us to continually evaluate the adequacy of the remaining liabilities under our restructuring initiatives. As management continues to evaluate the business, there may be supplemental charges for new plan initiatives as well as changes in estimates to amounts previously recorded as payments are made or actions are completed.

Discontinued Operations: In the fourth quarter of 1995, we announced our planned disengagement from our insurance operations. From 1995 to 1998 all our insurance operations were sold. As part of the sales of these insurance operations, we were required to continue to provide aggregate excess of loss reinsurance coverage (the Reinsurance Agreements) to two former insurance entities through Ridge Reinsurance Limited (Ridge Re), a wholly owned subsidiary. The coverage limits for these two remaining Reinsurance Agreements total $578 million, which is exclusive of $234 million in coverage that Ridge Re reinsured in 1998. We have guaranteed that Ridge Re will meet all its financial obligations under the two remaining Reinsurance Agreements. As of December 31, 2001, Ridge Re has $684 million of cash and investments held in restricted trusts as collateral for their potential liability under these reinsurance obligations. Our remaining net investment in Ridge Re was $348 million, net of our expected liability of $336 million, at December 31, 2001. Based on Ridge Re's current projections of investment portfolio returns and reinsurance obligation payments, all of which are based on actuarial estimates, we expect to fully recover our remaining net investment of $348 million. Our ongoing evaluation of the insurance liabilities, and estimates thereof, could result in a significant change in our estimate of recoverability of this net investment. The expected liability is a discounted value, consistent with accounting standards applicable to insurance companies. A material change in the timing of the estimated payments could materially affect the liability recognized but not to an amount greater than our coverage limit as described above.

Pension and Postretirement Benefit Plan Assumptions: We sponsor pension plans in various forms covering substantially all employees who meet eligibility requirements. Postretirement benefit plans primarily only cover U.S. employees for retirement medical costs. Several statistical and other factors that attempt to anticipate future events are used in calculating the expense and liability related to the plans. These factors include assumptions we make about, among others, the discount rate, expected return on plan assets, rate of increase of health care costs and rate of future compensation increases. In addition, our actuarial consultants also use subjective factors such as withdrawal and mortality rates to estimate these factors. The actuarial assumptions we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension or postretirement benefits expenses we have recorded or may record. Assuming a constant employee base, the most important estimate associated with our post retirement plan is the assumed health care cost trend rate. A one-percentage-point increase in this estimate would increase the expense by approximately $5 million. A similar analysis for the expense associated with our pension plans is more difficult due to the variety of assumptions, plan types and regulatory requirements for these plans around the world. However, by way of example, for the U.S. plans, which represent approximately 70 percent of the consolidated projected benefit obligation at December 31, 2001, a 0.25 percent change in the discount rate would change the annual pension expense by approximately $6 million.

Income Taxes and Tax Valuation Allowances: We record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and amounts reported in our Consolidated Balance Sheets, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded on the balance sheet and provide necessary valuation allowances as required. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. If we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results. Valuation allowance provisions were $247 million, $12 million, and $92 million for the years ended December 31, 2001, 2000 and 1999, respectively.

Goodwill and Other Acquired Intangible Assets: We have made acquisitions in the past that included the recognition of a significant amount of goodwill and other intangible assets. Under generally accepted accounting principles in effect through December 31, 2001, these assets were amortized over their estimated useful lives and were tested periodically to determine if

they were recoverable from estimated future pre-tax cash flows on an undiscounted basis over their useful lives. Effective in 2002, goodwill will no longer be amortized but will be subject to an annual (or under certain circumstances more frequent) impairment test based on its estimated fair value. Other intangible assets that meet certain criteria will continue to be amortized over their useful lives and will also be subject to an impairment test based on estimated fair value. Estimated fair value is typically less than values based on undiscounted operating earnings because fair value estimates include a discount factor in valuing future cash flows. There are many assumptions and estimates underlying the determination of an impairment loss.

Legal Contingencies: We are a defendant in numerous litigation and regulatory matters including those involving securities law, patent law, environmental law, employment law and ERISA, as discussed in Note 16 to the consolidated financial statements. As required by SFAS No. 5, we determine whether an estimated loss from a loss contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We analyze our litigation and regulatory matters based on available information to assess potential liability. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should these matters result in an adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such judgment or settlement occurs.

Other Significant Accounting Policies: Other significant accounting policies, not involving the same level of uncertainties as those discussed above, are nevertheless important to an understanding of the financial statements. See Note 1 to the consolidated financial statements, Summary of Significant Accounting Policies, which discusses accounting policies that must be selected by management when there are acceptable alternatives.

Other accounts affected by management estimates.

The following table summarizes other significant areas which require management estimates:

	Year ended December 31		
(in millions)	2001	2000	1999
		Restated	Restated
Amortization of goodwill and intangible assets	$ 94	$ 86	$ 50
Depreciation of equipment on operating leases	657	626	560
Depreciation of land, buildings and equipment	402	417	416
Amortization of capitalized software	179	115	64
Pension benefits - net periodic benefit cost	99	44	102
Other benefits - net periodic benefit cost	130	109	107

Financial Overview

As previously discussed we have restated our prior year's financial statements and our previously released 2001 results. All dollar and per share amounts, and financial ratios have been revised, as appropriate, to reflect these restatements. In 2001 we reduced our net loss to $71 million or $(0.12) per share from a net loss of $273 million, or $(0.48) per share in 2000. In 2001 we executed aggressive plans to exit certain businesses, outsource some internal functions and substantially reduce our cost base in order to restore our financial strength and significantly improve our core operations while effectively positioning ourselves to exploit future opportunities in the production, office and services markets. These actions resulted in strong 2001 fourth quarter performance including the highest gross margin in the past two years; lower year over year selling, administrative and general expenses; reduction of inventory to historically low levels; improved cash and reduced net debt. We believe the combination of actions already implemented, continuing cost reduction activities and our focus on more profitable revenue positions us for continued improvement and builds a solid foundation for future growth.

The 2001 net loss of $71 million included $507 million of after-tax charges ($715 million pre-tax) for restructuring and asset impairments associated with our Turnaround Program, aimed at creating a leaner, faster and more flexible enterprise, and our disengagement from our worldwide Small Office/Home Office (SOHO) business. 2001 results also included a $304 million after-tax gain ($773 million pre-tax) from the sale of half of our interest in Fuji Xerox, a $40 million after-tax gain related to the early retirement of debt, and $21 million of after-tax gains associated with unhedged foreign currency. Unhedged foreign currency exposures are the result of net unhedged positions largely caused by our restricted access to the derivatives markets since the fourth quarter 2000. This limitation has increased our risk to financial volatility associated with currency gains and losses. Further discussion of the restructuring charges and sale of half our interest in Fuji Xerox is included below and in Notes 3 and 5, respectively, to the consolidated financial statements.

The $273 million net loss in 2000 was substantially worse than 1999 net income of $844 million. The 2000 net loss was largely attributable to $339 million of after-tax charges ($475 million pre-tax) for restructuring and asset impairments and our $37 million share of a Fuji Xerox restructuring charge, partially offset by after-tax gains of $119 million ($200 million pre-tax) from the sale of our China operations and $69 million of unhedged foreign currency after-tax gains.

Results of Operations

(in millions except per share amounts)	For the Year Ended		
	2001	2000	1999
		Restated	Restated
Revenue	$ 17,008	$ 18,751	$ 18,995
Net (loss) income	$ (71)	$ (273)	$ 844
Diluted (loss) earnings per share	$ (0.12)	$ (0.48)	$ 1.17

In 1999, we faced several business challenges, which adversely impacted our performance beginning in the second half of that year and continued into 2001. Many of the business challenges were company specific and included increased sales force turnover, open sales territories and lower sales productivity resulting from the realignment of our sales force from a geographic to an industry structure. Further disruption and incremental costs were associated with the consolidation of our U.S. customer administration centers and changes in our European infrastructure. In addition, there were significant competitive and industry changes, and adverse economic conditions affecting our operations toward the latter part of 2000. These challenges were exacerbated by significant technology and acquisition spending negatively impacting our cash availability, credit rating downgrades, limited access to capital markets and marketplace concerns regarding our liquidity.

To counter these challenges, we implemented actions beginning in mid-2000 to stabilize our sales force and minimize further disruption to our operations. In October 2000, we announced a Turnaround Program designed to help ensure adequate liquidity, re-establish profitability and build a solid foundation for future growth. The Turnaround Program encompassed four major components: (i) asset sales of $2 to $4 billion; (ii) accelerated cost reductions designed to reduce costs by at least $1 billion annually; (iii) the transition of equipment financing to third party vendors and (iv) a focus on our core business of providing document processing systems, solutions and services to our customers. By the end of 2001, we had made significant progress executing this program and achieving these goals.

By year-end 2001, we had completed asset sales of $2.3 billion, comprised of the March 2001 sale of half our ownership interest in Fuji Xerox Co., Ltd. (Fuji Xerox) to Fuji Photo Film Co., Ltd. (FujiFilm) for $1,283 million, the December 2000 sale of our China Operations to Fuji Xerox for $550 million, the April 2001 sale of our Nordic leasing businesses to Resonia AB for approximately $370 million, and in the fourth quarter 2001 the first in a series of asset sales to transfer our office product manufacturing operations to Flextronics for approximately $118 million. We believe the asset sale component of our Turnaround Program has been largely completed.

We also intensified cost reductions to improve our competitiveness. During 2001, we implemented work force resizing and cost reduction actions that we believe will result in approximately $1.1 billion in annualized savings. These savings are expected to result from reducing layers of management, consolidating operations where prudent, reducing administrative and general spending, capturing service productivity savings from our digital products and tightly managing discretionary spending. We are reducing costs in our Office segment by moving to lower cost indirect sales and service channels and by outsourcing our office products manufacturing. Our worldwide employment declined by approximately 13,600 to 78,900 at December 31, 2001. In our ongoing efforts to reduce our cost base, we will continue to implement restructuring actions and incur substantial restructuring charges throughout 2002; although less than the amounts recorded in 2001.

Our transition to third party financing will significantly improve our liquidity while ensuring equipment financing is still provided to our customers. In 2001, we entered into framework agreements with General Electric Capital Corporation (GE Capital) for them to manage our customer administrative functions and become the primary equipment financing provider for Xerox customers in the U.S., Canada, France and Germany. On May 1, 2002, Xerox Capital Services LLC (XCS), our U.S. venture with GE Capital Vendor Financial Services, became operational. XCS manages our customer administration and leasing activities in the U.S., including financing administration, credit approval, order processing, billing and collections. We are currently in the process of completing the negotiation of definitive agreements with GE Capital for the implementation of the Canadian joint venture which is expected in the second half of 2002. These agreements are subject to the completion of due diligence on GE's part as well as the fulfillment of various regulatory requirements.

Ongoing funding for new leases by GE Capital and its affiliates in both the U.S. and Canada is expected to be in place later this year upon development and completion of systems and process modifications. In Europe, a number of initiatives are under way and have been implemented. In Germany, we received a $77 million loan in May 2002 secured by certain finance receivables, as we continue to complete our vendor financing transition this year. In France we are completing due diligence, fulfilling regulatory requirements, consulting with local works councils and expect to complete the agreement with GE Capital in the third quarter 2002. We have fully transitioned our leasing businesses in the Nordic countries, the Netherlands and Italy. Our Nordic leasing business was sold to Resonia AB in April 2001. In the first quarter 2002, we formed a joint venture with De Lage Landen International BV (DLL) in which they provide funding and manage equipment financing for our customers in the Netherlands. In April 2002, we sold our equipment financing operations in Italy for approximately $207 million in cash plus the assumption of $20 million of debt. We have made significant progress in our Developing Markets Operations (DMO), beginning in April 2002, with Banco Itau S.A. in Brazil and collectively with the Capita Corporation de Mexico S.A. de C.V., Organizacion Auxiliar Del Credito and Arrendadora Capita Corporation, S.A. de C.V. in Mexico becoming the primary equipment financing providers in their respective countries. By the end of 2002, we expect that approximately two-thirds of all new financed lease originations will be funded by third parties, through a combination of structures including direct financing, finance receivable securitizations and ongoing secured borrowings.

In addition to the vendor financing agreements, in 2001 and through the first half of 2002, we borrowed approximately $3.1 billion in the U.S., Canada and U.K. from GE Capital through the securitization of certain existing lease contracts. We and GE Capital are parties to a loan agreement dated November 2001 which provides for a series of secured loans in the U.S. up to an aggregate of $2.6 billion. Through June 2002, approximately $1.9 billion of loans have been funded under this GE Capital agreement including a $499 million loan which closed on May 12, 2002.

In line with our strategy to focus on our core business, we announced the disengagement from our worldwide SOHO business in June 2001. By the end of the year, we had sold the remaining equipment inventory and in the fourth quarter achieved profitability in this business through the sale of supplies to our current base of SOHO customers. We expect this profitable supplies revenue stream to decline over time as the equipment is eventually replaced.

Summary of Total Company Results

To understand the trends in our business, we believe that it is helpful to adjust revenue and expense (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 adjustment as "pre-currency."

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. We generally do not hedge the translation effect of revenues denominated in currencies where the local currency is the functional currency. When compared with the average of the major European and Canadian currencies on a revenue-weighted basis, the U.S. dollar in 2001 was approximately 3 percent stronger than in 2000. The U.S. dollar was approximately 10 percent stronger in 2000 than in 1999. As a result, foreign currency translation unfavorably impacted revenue growth by approximately one percentage point in 2001 and 3 percentage points in 2000.

Latin American currencies are shown at actual exchange rates for both pre-currency and post-currency reporting, since these countries generally have volatile currency and inflationary environments. In 2001, currency devaluations in Brazil continued to impact our results, as the Brazilian Real devalued 22 percent against the U.S. dollar. The devaluation was 2 percent in 2000 and 35 percent in 1999.

Total revenues of $17.0 billion in 2001 declined 9 percent (8 percent pre-currency) from 2000. Approximately 25 percent of the decline reflected the loss in revenues resulting from the 2000 sale of our China operations and our exit from the SOHO business in the second half of 2001. The remaining revenue decline occurred in all operating segments, but was most pronounced in the Developing Markets segment, which declined by $330 million or 14 percent from 2000 and the Production segment which declined by $433 million or 7 percent from 2000. Revenues in all geographies were impacted by marketplace competition, further weakening of the worldwide economy and our reduced participation in aggressively priced bids and tenders as we focus on improved profitability. We expect total revenues to decline in 2002, reflecting the effects of our exit from the SOHO business, lower equipment population in all geographies, competitive pressures and the weak economic environment, partially offset by the benefit of new product launches in the second half 2002. We expect finance income will decline over time as we transition equipment financing to third parties.

In 2000, revenues of $18.8 billion declined one percent (grew 2 percent pre-currency) from 1999. 2000 revenues declined 5 percent (one percent pre-currency) excluding the beneficial impact of the January 1, 2000 acquisition of the Tektronix, Inc. Color Printing and Imaging Division (CPID). CPID is discussed in Note 4 to the consolidated financial statements. Revenues in 2000 were impacted by a combination of the previously mentioned company specific issues, increased competitive environment and some weaker European and Latin American economies toward the latter part of the year.

Revenues by Type. Revenues and year-over-year changes by type of revenues were as follows:

	Revenues			% Change	
	2001	2000	1999	2001	2000
		Restated	Restated		
	($ in billions)				
Equipment Sales	$ 4.3	$ 5.3	$ 5.7	(18)%	(9)%
Post Sale and Other Revenue	11.6	12.3	12.1	(6)	2
Financing Income	1.1	1.2	1.2	(3)	(1)
Total Revenues	$17.0	$18.8	$19.0	(9)%	(1)%

Note 1: Post sale and other revenue include service, document outsourcing, rentals, supplies and paper, which represent the revenue streams that follow equipment placement, as well as other revenue not associated with equipment placements, such as royalties.

Note 2: Revenue from document outsourcing arrangements of $3.7, $3.8 and $3.2 billion in 2001, 2000 and 1999, respectively, are included in all revenue categories.

Note 3: Total Sales revenue in the Consolidated Statement of Operations includes equipment sales noted above as well as $3.1, $3.5 and $3.3 billion of supplies and paper and other revenue for 2001, 2000 and 1999, respectively.

2001 equipment sales declined 18 percent (17 percent pre-currency) from 2000. Over one third of the decline was due to our exit from the SOHO business and the sale of our China operations. Equipment sales in North America and Europe declined 5 percent and 21 percent respectively from 2000, reflecting increased marketplace competition, continued economic weakness and pricing pressures in many major market segments. In Europe equipment sales also declined due to our decision to reduce participation in aggressively priced bids and tenders as we reorient our focus from market share to profitable revenue.

2000 equipment sales declined 9 percent (5 percent pre-currency) from 1999 due to the combination of company specific business challenges, including sales force disruption and turnover, increased competition and some weaker economies. Excluding the beneficial impact of the CPID acquisition, 2000 equipment sales declined 12 percent (9 percent pre-currency).

2001 post sale and other revenue declined 6 percent (5 percent pre-currency) or 5 percent (4 percent pre-currency) excluding the impact of the 2000 sale of our China operations. Post sale and other revenue grew 2 percent (5 percent pre-currency) in 2000 including the beneficial impact of the CPID acquisition. Post sale and other revenues have been adversely affected by reduced equipment populations and lower page print volumes.

Financing income declined 3 percent (2 percent pre-currency) in 2001 reflecting lower equipment sales and the initial effects of our transition to third party finance providers. Financing income declined one percent (grew 2 percent pre-currency) in 2000. Financing income is determined by the discount rate that is implicit in the lease agreements with our customers, after determination of the fair value of the services and equipment included in a bundled lease agreement with multiple deliverable elements. Refer to a discussion of our leasing policies above in the Application of Critical Accounting Policies section for more information. Financing income will generally be dependent on the amount of new equipment leases that we enter. We expect finance income will decline over time as we transition equipment financing to third parties.

Total document outsourcing revenues of $3.7 billion declined 2 percent (one percent pre-currency) in 2001 and grew 19 percent in 2000. The backlog of future estimated document outsourcing revenues was approximately $7.6 billion at the end of 2001, a reduction of 7 percent from the end of 2000 and in line with trends experienced elsewhere in our business. Our backlog is determined as the estimated post-sale services and financing to be provided under committed contracts as of a point in time.

Gross Margin

The trend in gross margin was as follows:

	2001	2000	1999
Total Gross Margin/(1)/	38.2%	37.4%	42.3%
Gross Margin by revenue stream:			
Sales/(2)/	30.5	31.2	37.2
Service, Outsourcing/(2)/, and Rentals	42.2	41.1	44.7
Finance Income	59.5	57.1	63.0

/(1)/ Includes inventory charges of $42 million and $84 million associated with 2001 and 2000 restructuring actions. These changes impacted 2001 and 2000 total gross margin by 0.2 points and 0.4 points, respectively and sales gross margin by 0.6 points and 1.0 point, respectively.

/(2)/ The equipment sales gross margin for document outsourcing is included in the sales gross margin.

The 2001 gross margin of 38.2 percent increased by 0.8 percentage points from 2000, as improved manufacturing and service productivity more than offset unfavorable mix and competitive price pressures, particularly in the production monochrome business. Gross margin improved during 2001 from 34.7 percent in the first quarter to 40.8 percent in the fourth quarter reflecting the benefits of our cost base restructuring and exit from the SOHO business. We expect the 2002 gross margin will approximate 40 percent, reflecting the beneficial impacts of continuing cost base restructuring, and our SOHO exit, partially offset by competitive price pressures.

2000 gross margin of 37.4 percent was 4.9 percentage points below 1999. Approximately half the decline was the result of production monochrome weakness reflecting initial competitive product entry during a time when our sales force was weakened as we realigned from a geographic to an industry structure. Higher revenue growth in the lower margin document outsourcing business and SOHO inkjet investments to build equipment population also contributed to the decline. Finally, gross margin was also adversely impacted by competitive price pressure, unfavorable transaction currency and temporary

pricing actions implemented to reduce inventory on certain products in the latter part of the year. Manufacturing and other productivity improvements only partially offset the above items.

Finance margins reflect interest expense related to our financing operations based on our overall cost of funds, applied against the level of debt required to support the Company's financed receivables.

Research and Development. 2001 Research and development (R&D) spending of $997 million declined 6 percent from 2000 primarily due to the SOHO disengagement. 2001 R&D spending represented approximately 6 percent of total revenues as we continued to invest in technological development, particularly color, to maintain our position in the rapidly changing document processing market. Including CPID, R&D expense grew 4 percent in 2000 reflecting increased program spending primarily for solid ink, solutions and the DocuColor iGen3, a next-generation digital printing press technology which is scheduled to launch in the second half 2002. We believe our R&D remains technologically competitive and is strategically coordinated with Fuji Xerox, which invested $548 million in R&D in 2001, for a combined total of $1,545 million. We are planning to launch five new platforms this year, compared with two per year during the last several years. We expect 2002 R&D spending will represent approximately 5 to 6 percent of revenue, a level that we believe is adequate to remain technologically competitive.

Selling, Administrative and General Expenses.

Selling, administrative and general (SAG) expenses as a percent of revenue were as follows:

	2001	2000	1999
SAG % Revenue	27.8%	29.4%	27.4%

SAG declined $790 million or 14 percent (13 percent pre-currency) in 2001 to $4,728 million reflecting significantly lower labor costs and other benefits derived from our Turnaround Program, temporarily lower advertising and marketing communications spending and reduced SOHO spending, partially offset by increased professional costs related to litigation, SEC issues and related matters. In 2001, SAG represented 27.8 percent of revenue, a 1.6 percentage point improvement from 2000. We expect a mid-single digit decline in 2002 SAG spending as we continue to implement cost cutting actions.

In 2000, SAG increased $314 million or 6 percent (9 percent pre-currency) to $5,518 million. Excluding the CPID acquisition, SAG grew 3 percent (6 percent pre-currency) reflecting increased sales force payscale and incentive compensation, significant transition costs associated with implementation of the European shared services organization, continued effects of the U.S. customer administration issues and significant marketing, advertising and promotional investments for our SOHO inkjet printer initiative.

Bad debt expense, which is included in SAG, was $438 million, $473 million and $386 million in 2001, 2000 and 1999, respectively. Reduced 2001 provisions reflect lower equipment sales partially offset by some reserve increases due to the weakened worldwide economy. Provisions increased in 2000 due to continued resolution of aged billing and receivables issues in the U.S. and Europe resulting from the consolidation of our customer administration centers and infrastructure changes and unsettled business and economic conditions in many Latin American countries. Bad debt provisions as a percent of total revenue were 2.6 percent, 2.5 percent, and 2.0 percent for 2001, 2000 and 1999, respectively.

The agreements with GE Capital in the U.S. and Canada include new approaches to managing most of our customer administrative functions. On May 1, 2002, XCS, our U.S. venture with GE Capital Vendor Financial Services, became operational. XCS manages our customer administration and leasing activities, including financing administration, credit approval, order processing, billing and collections. We will consolidate the operations of XCS in our financial statements and include the XCS headcount with our employee statistics. We are completing the negotiation of definitive agreements with GE Capital for the implementation of the Canadian joint venture which is expected in the second half of 2002. Over time we expect these arrangements will facilitate reduced back office and infrastructure expenses and improve collection discipline. We expect this will improve sales force productivity and customer satisfaction through improved billing practices as well as reduce bad debt expense.

Restructuring Programs. Since early 2000, we have been restructuring our cost base. We have implemented a series of plans to resize our workforce and reduce our cost structure through three restructuring initiatives: the October 2000 Turnaround Program, the June 2001 SOHO disengagement and the March 2000 restructuring action. The execution of these actions and payment of obligations continued through December 31, 2001, with each initiative in various stages of completion. In total, we recorded restructuring provisions of $715 million in 2001 and $475 million in 2000, including $205 million and $64 million of asset impairment charges in 2001 and 2000, respectively. As management continues to evaluate the business, there may be supplemental charges for new plan initiatives as well as changes in estimates to amounts previously recorded as payments are made or actions are completed. We expect to complete the initiatives associated with

the programs in 2002 and will have new initiatives going forward under the Turnaround Program. The restructuring programs are discussed below and in Note 3 to the consolidated financial statements.

Turnaround Program: In October 2000, we announced our Turnaround Program and recorded a restructuring provision of $105 million in connection with finalized initiatives. This charge included estimated costs of $71 million for severance associated with the worldwide resizing of our work force and $34 million associated with the disposition of a non-core business. Over half of these charges related to our Production segment with the remainder related to our Office, DMO and Other segments. In 2001, we provided an incremental $403 million, net of reversals, for initiatives for which we had a formal and committed plan. This provision included $339 million for severance and other employee separation costs associated with the resizing of our work force worldwide, $36 million for lease cancellation and other exit costs and $28 million for asset impairments. The aggregate severance and other employee separation costs in 2001 and 2000 of $410 million were for the elimination of approximately 7,800 positions worldwide. The majority of these charges related to our Production and Office segments. The Turnaround Program restructuring reserve balance at December 31, 2001 was $223 million.

SOHO Disengagement: In June 2001, we announced our disengagement from our worldwide SOHO business. In connection with exiting this business, during 2001 we recorded a net charge of $239 million. The charge included provisions for the elimination of approximately 1,200 positions worldwide, the closing of facilities and the write-down of certain assets to net realizable value. The charge consisted of $164 million of asset impairments, $49 million for lease cancellation and other exit costs and $26 million in severance and related costs. During the fourth quarter 2001, we sold our remaining inventory of personal inkjet and xerographic printers, copiers, facsimile machines and multi-function devices which were distributed primarily through retail channels to small offices, home offices and personal users (consumers). We will continue to provide current SOHO customers with service, support and supplies, including the manufacturing of such supplies, during a phase-down period to meet customer commitments, which will result in a declining revenue base over the next few years. The SOHO disengagement restructuring reserve balance at December 31, 2001 was $23 million.

March 2000 and 1998 Restructurings: In March 2000, we recorded a provision of $489 million as part of a worldwide restructuring program including asset impairments of $30 million. During 2001 and 2000, we recorded net changes in estimates for both the March 2000 and the 1998 restructuring programs which reduced restructuring expense by $25 million and $125 million, respectively. As of December 31, 2001, these programs had been substantially completed.

As a direct result of the various restructuring actions, we determined that certain products were not likely to be sold in their product life cycle. For this reason, in 2001 we recorded a $42 million charge to write-down excess and obsolete inventory, $34 million of which resulted from the disengagement from our SOHO operations. In 2000, we recorded a charge of $84 million primarily as a result of the consolidation of distribution centers and warehouses and the exit from certain product lines. These charges are included in Cost of sales in the Consolidated Statement of Operations.

Worldwide employment declined by approximately 13,600 in 2001 to approximately 78,900, largely as a result of our restructuring programs and the transfer of approximately 2,500 employees to Flextronics as part of our office manufacturing outsourcing. Worldwide employment was approximately 92,500 and 94,600 at December 31, 2000 and 1999, respectively.

Other Expenses, Net. Other expenses, net for the three years ended December 31, 2001 were as follows:

	2001	2000	1999
		Restated	Restated
		(in millions)	
Non-financing interest expense	$ 446	$ 592	$ 407
Currency gains, net	(29)	(103)	(7)
Amortization of goodwill and intangibles	94	86	50
Business divestiture and asset sale (gains) losses	10	(67)	(78)
Interest income	(101)	(77)	(20)
Year 2000 costs	--	2	47
All other, net			108
Total	$ 473	$ 524	$ 507

In 2001, non-financing interest expense was $146 million lower than 2000, reflecting lower interest rates and lower debt levels. Non-financing interest expense in 2001 included net gains of $32 million from the mark-to-market of our remaining interest rate swaps required to be recorded as a result of applying SFAS No. 133. Differences between the contract terms of our interest rate swaps and the underlying related debt restricts hedge accounting treatment in accordance with SFAS No. 133, which requires us to record the mark-to-market valuation of these derivatives directly to earnings. Non-financing interest expense was $185 million higher in 2000 than in 1999 as a result of the CPID acquisition, which resulted in incremental borrowings of $852 million, generally higher debt levels and increased interest rates.

Net currency (gains) losses result from the re-measurement of unhedged foreign currency-denominated assets and liabilities. In 2001, exchange gains on yen debt of $107 million more than offset losses on euro loans of $36 million, a $17 million exchange loss resulting from the peso devaluation in Argentina and other currency exchange losses of $25 million. In 2000, large gains on both the yen and euro loans in the fourth quarter contributed to the $103 million gain. These currency exposures are the result of net unhedged positions largely caused by our restricted access to the derivatives markets since the fourth quarter 2000. Due to the inherent volatility in the interest rate and foreign currency markets, we are unable to predict the amount of the above noted re-measurement and mark-to-market gains or losses in future periods. Such gains or losses could be material to the financial statements in any reporting period.

Goodwill and other intangible asset amortization relates primarily to our acquisitions of the remaining minority interest in Xerox Limited in 1995 and 1997, XL Connect in 1998 and CPID in 2000. Effective January 1, 2002 and in connection with the adoption of SFAS No. 142, we will no longer record amortization of goodwill. However, in lieu of amortization, goodwill will be tested at least annually for impairment using a fair value methodology. Intangible assets will continue to be amortized. Further discussion is provided in Note 1 to the consolidated financial statements.

(Gains) losses on business divestitures and asset sales include the sales of our Nordic leasing business in 2001, the North American paper business and a 25 percent interest in ContentGuard in 2000, and various Xerox Technology Enterprise businesses in 1999, as well as miscellaneous land, buildings and equipment in all years. Further discussion of our divestitures follows and is also contained in Note 5 to the consolidated financial statements.

Interest income is derived primarily from our significant invested cash balances since the latter part of 2000 and from tax audit refunds. 2001 interest income was $24 million higher than 2000 due to higher investment interest resulting from a full year of invested cash balances in 2001, partially offset by lower interest from tax audit refunds. The increases in our invested cash balances reflect our decision, beginning in the second half of 2000, to accumulate cash to maintain financial flexibility rather than continue our historical practice of paying down debt with available cash.

All other, net includes many additional items, none of which are individually significant.

Gain on Affiliate's Sale of Stock. In 2001 and 2000, gain on affiliate's sale of stock of $4 million and $21 million, respectively, reflects our proportionate share of the increase in equity of ScanSoft Inc. (NASDAQ: SSFT) resulting from ScanSoft's issuance of stock in connection with acquisitions. The 2000 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 one of the acquisitions, which is included in equity in net income of unconsolidated affiliates. ScanSoft, an equity affiliate, is a developer of digital imaging software that enables users to leverage the power of their scanners, digital cameras, and other electronic devices.

Income Taxes and Equity in Net Income of Unconsolidated Affiliates. The effective tax rates were 132.9 percent in 2001, 19.1 percent in 2000 and 34.6 percent in 1999. The difference between the 2001 effective tax rate of 132.9 percent and the U.S. federal statutory income tax rate of 35 percent relates primarily to the recognition of deferred tax asset valuation allowances resulting from our recoverability assessments, the taxes incurred in connection with the sale of our partial interest in Fuji Xerox and continued losses in low tax jurisdictions. The gain for tax purposes on the sale of Fuji Xerox was disproportionate to the gain for book purposes as a result of a lower tax basis in the investment. Other items favorably impacting the tax rate included a tax audit resolution of approximately $140 million and additional tax benefits arising from prior period restructuring provisions. On a loss basis, the difference between the 2000 effective tax rate of 19.1 percent and the U.S. federal statutory income tax rate of 35 percent relates primarily to continued losses in low tax jurisdictions, the recognition of deferred tax asset valuation allowances resulting from our recoverability assessments and additional tax benefits arising from the favorable resolution of tax audits of approximately $125 million. The 1999 effective tax rate benefited from increases in foreign tax credits as well as a shift in the mix of our worldwide profits, partially offset by the recognition of deferred tax asset valuation allowances. Please refer to Note 15 to the consolidated financial statements for further information. Our effective tax rate will change year to year based on nonrecurring events (such as new Turnaround Program initiatives) as well as recurring factors including the geographical mix of income before taxes. In the normal course of business, we expect that our 2002 effective tax rate will be in the low to mid 40 percent range.

Equity in net income of unconsolidated affiliates is principally related to our 25 percent share of Fuji Xerox income. Equity income was $53 million in 2001, $66 million in 2000 and $48 million in 1999. The 2001 reduction primarily reflects our reduced ownership in Fuji Xerox. The 2000 improvement reflected improved Fuji Xerox operating results and the absence in 2000 of a prior year $21 million unfavorable tax adjustment relating to an increase in Fuji Xerox tax rates. These favorable items were partially offset by our $37 million share of a 2000 Fuji Xerox restructuring charge and reductions in income from several smaller equity investments.

Manufacturing Outsourcing. In October 2001, we announced a manufacturing agreement with Flextronics, a global electronics manufacturing services company. The agreement provides for a five-year supply contract for Flextronics to manufacture certain office equipment and components; the purchase of inventory, property and equipment at a premium over book value; and the assumption of certain liabilities. The premium will be amortized over the life of the five-year supply contract, as we will continue to benefit from the property transferred to Flextronics. Inventory purchased from us by Flextronics remains on our balance sheet until it is sold to an end user with a corresponding liability recognized for the proceeds received. This inventory and the corresponding liability was approximately $27 million at December 31, 2001. In total, the agreement with Flextronics represents approximately 50 percent of our overall worldwide manufacturing operations. In the 2001 fourth quarter, we completed the sales of our plants in Toronto, Canada; Aguascalientes, Mexico and Penang, Malaysia to Flextronics for approximately $118 million, plus the assumption of certain liabilities. The sale is subject to certain closing adjustments. Approximately 2,500 Xerox employees in these operations transferred to Flextronics upon closing. In January 2002, we completed the sale our office manufacturing operations in Venray, the Netherlands and Resende, Brazil for $29 million plus the assumption of certain liabilities. Approximately 1,600 Xerox employees in these operations transferred to Flextronics upon closing. By the end of the third quarter 2002, we anticipate all production at our printed circuit board factories in El Segundo, California and Mitcheldean, England and our customer replaceable unit plant in Utica, New York will be fully transferred to Flextronics' facilities which will complete the plans that we announced in October. Included in the 2001 Turnaround Program are restructuring charges of $24 million related to the closing of these facilities.

Divestitures. In December 2001, we sold Delphax Systems and Delphax Systems, Inc. (Delphax) to Check Technology Corporation for $14 million in cash, subject to purchase price adjustments. Delphax designs, manufactures and supplies high-speed electron beam imaging digital printing systems and related parts, supplies and maintenance services. There was no gain or loss recorded related to this sale.

In April 2001, we sold our leasing businesses in the four Nordic countries to Resonia Leasing AB (Resonia) for proceeds of approximately $370 million, which approximated book value. The assets sold included the leasing portfolios in the respective countries, title to the underlying equipment included in the lease portfolios and the transfer of certain employees and systems used in the operations of the businesses. Under terms of the agreement, Resonia will provide on-going exclusive equipment financing to Xerox customers in those countries.

In March 2001, we sold half our ownership interest in Fuji Xerox to FujiFilm for $1,283 million in cash. The sale resulted in a pre-tax gain of $773 million. Income taxes of approximately $350 million related to this transaction were paid in the first quarter 2002. Under the agreement, FujiFilm's ownership interest in Fuji Xerox increased from 50 percent to 75 percent. While Xerox's ownership interest decreased to 25 percent, we retain significant rights as a minority shareholder. All product and technology agreements between Fuji Xerox and us continue, ensuring that the two companies retain uninterrupted access to each other's portfolio of patents, technology and products. With its business scope focused on document processing activities, Fuji Xerox will continue to provide office products to us and collaborate with us on research and development. We maintain our agreement with Fuji Xerox to provide them production publishing and solid ink technology.

In December 2000, we completed the sale of our China operations to Fuji Xerox for $550 million cash and the assumption of $118 million of debt for which we recorded a $200 million pre-tax gain. Revenues from our China operations were $262 million in 2000.

In June 2000, we entered into an agreement to sell our U.S. and Canadian commodity paper product line and customer list, for $40 million. We also entered into an exclusive license agreement for the Xerox brand name. Additionally, we earn commissions on Xerox originated sales of commodity paper as an agent for Georgia Pacific.

In April 2000, we sold a 25 percent ownership interest in our wholly owned subsidiary, ContentGuard, to Microsoft, Inc. for $50 million and recognized a gain of $23 million. An additional gain of $27 million was deferred pending the achievement of certain performance criteria. In May 2002, we paid Microsoft $25 million as the performance criteria had not been achieved. In connection with the sale, ContentGuard also received $40 million from Microsoft for a non-exclusive license of its patents and other intellectual property and a $25 million advance against future royalty income from Microsoft on sales of products incorporating ContentGuard's technology. The license payment is being amortized over the ten year life of the license agreement and the royalty advance will be recognized in income as earned.

Acquisition of the Color Printing and Imaging Division of Tektronix, Inc. In January 2000, we acquired the Color Printing and Imaging Division of Tektronix, Inc. (CPID) for $925 million in cash including $73 million paid by Fuji Xerox for the Asia/Pacific operations of CPID. CPID manufactures and sells color printers, ink and related products and supplies. The acquisition accelerated us to the number two market position in office color printing, improved our reseller and dealer

distribution network and provided us with scalable solid ink technology. The acquisition also enabled significant product development and expense synergies with our monochrome printer organization.

Business Performance by Segment. In 2001, we realigned our reportable segments to be consistent with how we manage the business and to reflect the markets we serve. Our business segments are as follows: Production, Office, DMO, SOHO, and Other. The table below summarizes our business performance by segment for the three-year period ended December 31, 2001. Revenues and associated percentage changes, along with operating profits and margins by segment are included. Segment operating profit (loss) excludes certain non-segment items, such as restructuring and gains on sales from businesses, as further described in Note 10 to the consolidated financial statements.

Business Segment Performance

	2001	2000 Restated	1999 Restated	% Change 2001	% Change 2000
	($ in millions)				
Total Revenue					
Production	$ 5,899	$ 6,332	$ 6,933	(7)%	(9)%
Office	6,926	7,060	6,853	(2)	3
DMO	2,027	2,619	2,450	(23)	7
SOHO	407	599	575	(32)	4
Other	1,749	2,141	2,184	(18)	(2)
Total	$ 17,008	$ 18,751	$ 18,995	(9)%	(1)%
Memo: Color/(1)/	$ 2,762	$ 2,612	$ 1,619	6 %	61 %
Segment Operating Profit (Loss)/(2)/					
Production	$ 454	$ 463	$ 1,236		
Office	341	(180)	49		
DMO	(157)	(93)	48		
SOHO	(197)	(293)	(188)		
Other	(39)	225	203		
Total	$ 402	$ 122	$ 1,348		
Operating Margin					
Production	7.7%	7.3%	17.8%		
Office	4.9	(2.5)	0.7		
DMO	(7.7)	(3.6)	2.0		
SOHO	(48.4)	(48.9)	(32.7)		
	(2.2)	10.5	9.3		
Total	2.4%	0.7%	7.1%		

/(1)/ Color revenue is included in all segments except Other.
/(2)/ Segment operating profit (loss) includes allocation of certain corporate expenses such as research, finance, business strategy, marketing, legal, and human resources. The "Other" segment includes certain expenses which have not been allocated to the businesses such as non-financing interest expense.

Production: Production revenues include production publishing, production printing, color products for the production and graphic arts markets and light-lens copiers over 90 pages per minute sold predominantly through direct sales channels in North America and Europe. Revenues declined 7 percent (6 percent pre-currency) in 2001 and 9 percent (6 percent pre-currency) in 2000. The monochrome production revenue decline reflected competitive product introductions, movement to distributed printing and electronic substitutes, and weakness in the worldwide economy. Revenue from our DocuTech production publishing family, which had been continually refreshed and expanded since its 1990 launch, declined in both 2001 and 2000 reflecting the 1999 introduction of a competitive product. While Xerox remained the market leader, our production publishing market share declined in 2000, but improved significantly in the U.S. in 2001. In production printing, Xerox maintained its strong market leadership in both 2001 and 2000, however, revenue decreased reflecting declines in the transaction printing market.

2001 production color revenues grew 2 percent from 2000 including continued strong DocuColor 2000 series growth, partially offset by declines in older products reflecting introduction of competitive offerings and the effects of the weakened economy in the second half of the year. The DocuColor 2000 series, launched in 2000, at speeds of 45 and 60 pages per minute established an industry standard by producing near-offset quality, full color prints including customized one-to-one printing at a variable cost of less than 10 cents per page. Production color revenues grew significantly in 2000 largely due to the very successful launch of the DocuColor 2000 series. Production revenues represented 35 percent of 2001 revenues compared with 34 percent in 2000.

2001 Production operating profit continued to decline, but significantly less than the rate of decline experienced in 2000. Lower 2001 revenue combined with reduced monochrome gross margin reflecting competitive pressures were only partially offset by a substantial improvement in SAG expenses generated by our Turnaround Program. 2000 operating profit was significantly below 1999 due to lower revenue and gross margin, reflecting increased competition. Expenses increased due to the earlier sales realignment and administrative transition and higher DocuColor iGen3 R&D investments.

Office: Office revenues include our family of Document Centre digital multifunction products, color laser, solid ink and monochrome laser desktop printers, digital and light-lens copiers under 90 pages per minute, and facsimile products sold through direct and indirect sales channels in North America and Europe. 2001 revenues declined 2 percent (one percent pre-currency) from 2000 as strong office color revenue growth was not sufficient to offset monochrome declines. Color revenue growth was driven by the Document Centre Color Series 50 and strong color printer equipment sales including the Phaser 860 solid ink and Phaser 7700 laser printers which use single pass color technology. 2001 monochrome revenues declined as growth in digital multifunction was more than offset by declines in light lens as the market continues to transition to digital technology. This decline was exacerbated further by our reduced participation in very aggressively priced competitive customer bids and tenders in Europe, as we reorient our focus from market share to profitable revenue. These declines were only slightly offset by the very successful North American launch of the Document Centre 490 in September 2001. In 2001, digital multifunction equipment sales represented approximately 91 percent of our monochrome copier equipment sales compared with 82 percent in 2000.

2000 revenues increased 3 percent from 1999 including the January 2000 acquisition of CPID. Excluding CPID, revenues declined 6 percent. Office revenues represented 41 percent of 2001 revenues compared with 38 percent in 2000.

Operating profit in the Office segment increased significantly in 2001 reflecting lower SAG spending, benefiting from our Turnaround Program and improved gross margins. Gross margin improvement includes the benefit of our reduced participation in very aggressively priced European bids and tenders, significantly improved document outsourcing margins, improving Document Centre margins facilitated by favorable mix due to the Document Centre 480 and 490 launches, improved manufacturing and service productivity, and favorable currency. 2000 operating profit was significantly lower than 1999 reflecting lower gross margins, higher R&D spending associated with the CPID acquisition and increased SAG expenses due to the sales realignment, administrative transition and CPID spending.

DMO: DMO includes operations in Latin America, the Middle East, India, Eurasia, Russia and Africa. DMO included our China operation, which generated revenues of $262 million in 2000, prior to the December 2000 sale. In Latin America most equipment transactions are recorded as operating leases. 2001 DMO revenue declined 23 percent from 2000, with approximately 45 percent of the decline due to the sale of our China operation. The balance of the decline was due to lower equipment populations, implementation of a new business model that places greater emphasis on liquidity and profitable revenue rather than market share as well as general economic weakness in many of the countries. Revenues in Brazil, which represented approximately 5 percent of our total revenues in 2001, declined 18 percent from 2000 primarily as a result of an average 22 percent currency devaluation of the Brazilian Real and implementation of the new business model. In 2001, DMO incurred a $157 million loss reflecting lower revenue and gross margins only partially offset by initial cost restructuring benefits. In addition, results were adversely impacted by higher aggregate exchange losses including the Argentinean devaluation.

2000 revenues grew 7 percent reflecting growth in Brazil and most countries outside Latin America. Revenues in Brazil grew 5 percent as an improved economic environment was partially offset by increased competitive activity and lower prices during the latter half of the year as the operation focused on reducing inventory. DMO incurred an $93 million loss in 2000 compared to a profit of $48 in 1999 reflecting lower margins and an increase in SAG expenses, including higher bad debt provisions.

SOHO: We announced our disengagement from our worldwide SOHO business in June 2001 and sold our remaining equipment inventory by the end of the year. SOHO revenues now consist primarily of profitable consumables for the inkjet printers and personal copiers previously sold through indirect channels in North America and Europe. SOHO revenues represented 2 percent of 2001 revenues compared with 3 percent in 2000, and declined 32 percent in 2001 from 2000. Despite a gross margin decline, significant SAG and R&D reductions following our June 2001 disengagement resulted in substantially lower operating losses in 2001 and a return to profitability in the fourth quarter. We expect profits to continue in 2002 as we sell high-margin consumables for the existing equipment population. We also expect SOHO revenues and profits to decline over time as the existing equipment population is replaced.

Other: Other includes revenues and costs associated with paper sales, Xerox Engineering Systems (XES), Xerox Connect, Xerox Technology Enterprises (XTE), our investment in Fuji Xerox, consulting and other services. Other also includes corporate items such as non-financing interest expense and other non-allocated central costs.

2001 revenue declined 18 percent from 2000 and operating losses increased principally reflecting lower paper, XES, Xerox Connect, and XTE revenues, and lower income related to our reduced investment in Fuji Xerox, partially offset by lower net non-financing interest expense. The 2001 operating loss also reflects the additional ESOP funding necessitated by the elimination of the ESOP dividend; higher professional fees related to litigation, SEC issues and related matters; employee retention compensation; and lower pension settlement gains. 2000 results benefited from gains on the sales of our North American paper business, a 25 percent interest in ContentGuard, and a gain on our ScanSoft affiliate's sale of stock.

New Accounting Standards. Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which requires companies to recognize all derivatives as assets or liabilities measured at their fair value regardless of the purpose or intent of holding them. Gains or losses resulting from changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Changes in fair value for derivatives not designated as hedging instruments and for the ineffective portions of hedges are recognized in earnings of the current period. The adoption of SFAS No. 133 resulted in a net cumulative after-tax loss of $2 million in the first quarter Consolidated Statement of Operations and a net cumulative after-tax loss of $19 million in Accumulated Other Comprehensive Income. Further, as a result of recognizing all derivatives at fair value, including the differences between the carrying values and fair values of related hedged assets, liabilities and firm commitments, we recognized a $403 million increase in assets and a $424 million increase in liabilities.

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 requires the use of the purchase method of accounting for business combinations and prohibits the use of the pooling of interests method. We have not historically engaged in transactions that qualify for the use of the pooling of interests method and therefore, this aspect of the new standard will not have an impact on our financial results. SFAS No. 141 also changes the definition of intangible assets acquired in a purchase business combination, providing specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. As a result, the purchase price allocation of future business combinations may be different than the allocation that would have resulted under the previous rules. SFAS No. 141 also requires that upon adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142), we reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria (see the discussion of the impacts of the adoption of SFAS No. 142 below). All business acquisitions initiated after June 30, 2001 must apply provisions of this standard.

SFAS No. 142, also issued in 2001, addresses financial accounting and reporting for acquired goodwill and other intangible assets subsequent to their initial recognition. This statement recognizes that goodwill has an indefinite useful life and will no longer be subject to periodic amortization. However, goodwill will be tested at least annually for impairment, using a fair value methodology, in lieu of amortization. The provisions of this standard also require that amortization of goodwill related to equity method investments be discontinued, and that these goodwill amounts continue to be evaluated for impairment in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." We are in the process of assessing the impacts of SFAS No. 142 which includes making determinations as to what our reporting units will be and what amounts of goodwill, intangible assets and other assets and liabilities should be allocated to those reporting units. We adopted the provisions of SFAS No. 142 in our first quarter ended March 31, 2002. In connection with the adoption of SFAS No. 142, we reclassified approximately $60 million of previously identified intangible assets to goodwill. We will no longer record approximately $60 million of annual amortization expenses relating to our existing goodwill, as adjusted, for the reclassifications previously mentioned. Additionally, approximately $5 million of annual amortization expense of goodwill related to equity method investments will no longer be recorded. SFAS No. 142 also requires we perform annual and transitional impairment tests on goodwill using a two-step approach. The first step is to identify a potential impairment and the second step is to measure the amount of any impairment loss. We have six months from the date of adoption of the standard to complete step one of the transitional impairment test and, if required, until the end of fiscal 2002 to complete step two of the transitional impairment test. Any impairment loss that results from the transitional goodwill impairment tests will be reflected as a cumulative effect of a change in accounting principle in the first quarter of 2002. We continue to assess the impacts of the impairment testing provisions of SFAS No. 142. We anticipate completion of the first step of the impairment test in connection with our second quarter of 2002.

In 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. We are required to implement this standard on January 1, 2003. We do not expect this Statement will have a material effect on our financial position or results of operations.

In 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement primarily supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for

Long-Lived Assets to be Disposed of." The Statement retains the previously existing accounting requirements related to the recognition and measurement of the impairment of long-lived assets to be held and used, while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands on the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale. We implemented this standard on January 1, 2002, and do not expect this Statement will have a material effect on our financial position or results of operations.

In 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." The Statement rescinds SFAS No. 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. SFAS No. 145 also amends Statement 13 to require that certain lease modifications having economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We are required to implement this standard for transactions occurring after May 15, 2002 and do not expect this Statement will have a material effect on our financial position or results of operations. We will implement the provisions related to the rescission of SFAS No. 4 in the second quarter of 2002.

Capital Resources and Liquidity

Liquidity, Financial Flexibility and Funding Plans:

Historically, our primary sources of funding have been cash flows from operations, borrowings under our commercial paper and term funding programs, and securitizations of accounts and finance receivables. We used these funds to finance customers' purchases of our equipment and for working capital requirements, capital expenditures and business acquisitions. Our operations and liquidity began to be negatively impacted in 2000 by Company-specific business challenges, which have been previously discussed. These challenges were exacerbated by significant competitive and industry changes, adverse economic conditions, and significant technology and acquisition spending. Together, these challenges and conditions negatively impacted our cash availability and created marketplace concerns regarding our liquidity, which led to credit rating downgrades and restricted our access to capital markets.

In addition to the limited access to capital markets which resulted from our credit rating downgrades, we have been unable to access the public capital markets. This is because, as a result of the ongoing SEC investigation since June 2000 and the accounting issues raised by the SEC, the SEC Staff advised us that we could not make any public registered securities offerings. This additional constraint had the effect of limiting our means of raising funds to those of unregistered capital markets offerings and private lending or equity sources. Our credit ratings became even more important, since credit rating agencies often include access to other capital sources in their rating criteria.

During 2000, 2001, and 2002, these rating downgrades, together with the recently concluded review by the SEC, adversely affected our liquidity and financial flexibility, as follows:

- Since October 2000, uncommitted bank lines of credit and the unsecured public capital markets have been largely unavailable to us.

- On December 1, 2000, Moody's reduced its rating of our senior debt to below investment grade, significantly constraining our ability to enter into new foreign-currency and interest rate derivative agreements, and requiring us to immediately repurchase certain of our then-outstanding derivative agreements for $108 million.

- In the fourth quarter 2000, as a result of our lack of access to unsecured bank and public credit sources, we drew down the entire $7.0 billion available to us under our Revolving Credit Agreement (the "Old Revolver"), primarily to maintain financial flexibility and pay down debt obligations as they came due.

- On October 23, 2001, Standard & Poors (S&P) reduced its rating of our senior debt to below investment grade, further constraining our ability to enter into new derivative agreements, and requiring us to immediately repurchase certain of our then-outstanding out-of-the-money interest-rate and cross-currency interest-rate derivative agreements for a total of $148 million.

- To minimize the resulting interest and currency exposures from these events, we have subsequently restored some derivative trading, with several counterparties, on a limited basis. However, virtually all such new arrangements either require us to post cash collateral against all out-of-the-money positions, or else have very short terms (e.g., as short as one week). Both of these types of arrangements potentially use more cash than standard derivative arrangements would otherwise require.

- On May 1, 2002, Moody's further reduced its rating of our senior debt, requiring us to post additional collateral against certain derivative agreements currently in place. This downgrade also constituted a termination event under

our existing $290 million U.S. trade receivable securitization facility, which we are currently renegotiating with the counterparty, as described more fully below.

. On June 11 and 21, 2002, S&P lowered and affirmed its rating of our senior unsecured and senior secured debt, which to date has not had any incremental adverse effects on our liquidity.

As of June 26, 2002, our senior and short-term debt ratings and outlooks were as follows:

	Senior Debt Rating	Short Term Debt Rating	Outlook
Moody's	B1	Not Prime	Negative
S&P*	BB-/B+*	B*	Negative*
Fitch	BB	B	Stable

*Effective June 11, 2002, S&P lowered our Corporate credit rating, and downgraded our senior debt, to BB- and maintained us on CreditWatch with Negative implications. Upon receipt of commitments from the banks who are party to our New Credit Facility, S&P affirmed the Corporate credit rating and our senior secured debt at BB-with a Negative Outlook, and downgraded our senior unsecured debt to B+.

We expect our limited access to unsecured credit sources to result in higher borrowing costs going forward, and to potentially result in Xerox Corporation having to increase its level of intercompany lending to affiliates and/or to guarantee portions of their debt.

Actions Taken to Address Liquidity Issues:

In the fourth quarter of 2000, as a result of the various factors described above, we began accumulating cash in an effort to maintain financial flexibility, rather than continuing our historical practice of using available cash to voluntarily pay down debt. To the extent possible, and except as otherwise prohibited under the New Credit Facility described below, we expect to continue this practice of accumulating cash for the foreseeable future.

New Credit Facility:

On June 21, 2002, we entered into an Amended and Restated Credit Agreement (the "New Credit Facility") with a group of lenders, replacing the Old Revolver. At that time, we permanently repaid $2.8 billion of the $7 billion Revolving Credit Agreement (the "Old Revolver"). Accordingly, there is currently $4.2 billion outstanding under the New Credit Facility, consisting of three tranches of term loans totaling $2.7 billion and a $1.5 billion revolving facility that includes a $200 million letter of credit sub-facility. The three term loan tranches include a $1.5 billion amortizing "Tranche A" term loan, a $500 million "Tranche B" term loan, and a $700 million "Tranche C" term loan maturing on September 15, 2002. Xerox Corporation is currently, and will remain, the borrower of all of the term loans. The revolving loans are available, without sub-limit, to Xerox Corporation, Xerox Canada Capital Limited (XCCL), Xerox Capital Europe plc (XCE) and other foreign subsidiaries, as requested by us from time to time, that meet certain qualifications. We are required to repay a total of $400 million of the Tranche A loan and $5 million of the Tranche B loan in semi-annual installments in 2003, and a total of $600 million of the Tranche A loan and $5 million of the Tranche B loan in semi-annual installments in 2004. The remaining portions of the Tranche A and Tranche B term loans and the revolving facility contractually mature on April 30, 2005. We could be required to repay portions of the loans earlier than their scheduled maturities upon the occurrence of certain events, as described below. In addition, all loans under the New Credit Facility mature upon the occurrence of a change in control.

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

Under the terms of certain of our outstanding public bond indentures, the outstanding amount of obligations under the New Credit Facility that can be secured by assets (the "Restricted Assets") of (i) Xerox Corporation and (ii) our non-financing subsidiaries that have a consolidated net worth of at least $100 million, without triggering a requirement to also secure these indentures, is limited to the excess of (a) 20 percent of our consolidated net worth (as defined in the public bond indentures) over (b) a portion of the outstanding amount of certain other debt that is secured by the Restricted Assets. Accordingly, the amount of the debt secured under the New Credit Facility by the Restricted Assets (the "Restricted Asset Security Amount")

will vary from time to time with changes in our consolidated net worth. The Restricted Assets secure the Tranche B loan up to the Restricted Asset Security Amount; any Restricted Asset Security Amount in excess of the outstanding Tranche B loan secures, on a ratable basis, the other outstanding loans under the New Credit Facility. The assets of XCE, XCCL and many of the subsidiaries guarantying the New Credit Facility are not Restricted Assets because those entities are not restricted subsidiaries as defined in our public bond indentures. Consequently, the amount of debt under the New Credit Facility secured by their assets is not subject to the foregoing limits.

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

The New Credit Facility contains affirmative and negative covenants including limitations on issuance of debt and preferred stock, certain fundamental changes, investments and acquisitions, mergers, certain transactions with affiliates, creation of liens, asset transfers, hedging transactions, payment of dividends, intercompany loans and certain restricted payments, and a requirement to transfer excess foreign cash, as defined, and excess cash of Xerox Credit Corporation to Xerox Corporation in certain circumstances. The New Credit Facility does not affect our ability to continue to monetize receivables under the agreements with GE Capital and others, which are discussed below. No cash dividends can be paid on our Common Stock for the term of the New Credit Facility. Cash dividends may be paid on preferred stock provided there is then no event of default. In addition to other defaults customary for facilities of this type, defaults on debt of, or bankruptcy of, Xerox Corporation or certain subsidiaries would constitute a default under the New Credit Facility.

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

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

Failure to be in compliance with any material provision of the New Credit Facility could have a material adverse effect on our liquidity, financial position and results of operations.

We expect total fees and expenses incurred in connection with the New Credit Facility to approximate $125 million, the majority of which was paid at closing. These amounts will be deferred and amortized over the three year term of the New Credit Facility.

Turnaround Program:

In 2000 we announced a global Turnaround Program which included initiatives to sell certain assets, improve operations and liquidity, and reduce annual costs by at least $1 billion. Through December 31, 2001, and since that time, we have made significant progress toward these objectives.

With respect to asset sale initiatives:

- In the fourth quarter of 2000 we sold our China operations to Fuji Xerox, generating $550 million of cash and transferring $118 million of debt to Fuji Xerox.
- In March 2001, we sold half of our interest in Fuji Xerox to Fuji Photo Film Co., Ltd. for $1,283 million in cash.
- In the fourth quarter of 2001, we received cash proceeds of $118 million related to the sales to Flextronics of certain of our manufacturing facilities, and in 2002 we received additional net cash proceeds of $29 million related to the sales of additional facilities under that agreement.

With respect to operational and liquidity improvements, we have announced major initiatives with GE Capital and other vendor financing partners, and we have completed several transactions, including (1) implementation of third-party vendor financing programs in the Netherlands, the Nordic countries, Brazil, Mexico, and Italy and (2) monetizations of portions of our existing finance receivables portfolios. We have several other similar transactions currently being negotiated, and we continue to actively pursue alternative forms of financing. These initiatives, when completed, are expected to significantly improve our liquidity going forward.

In connection with general financing initiatives:

- During 2001, we retired $377 million of long-term debt through the exchange of 41.1 million shares of our common stock, which increased our net worth by $351 million.

- In November 2001, we sold $1,035 million of Convertible Trust Preferred Securities, and placed $229 million of the proceeds in escrow to fund the first three-years' distribution requirements. Total proceeds, net of escrowed funds and transaction costs, were $775 million.

- In January 2002, we sold $600 million of 9 3/4 percent Senior Notes and (euro)225 million of 9 3/4 percent Senior Notes, for cash proceeds totaling $746 million, which is net of fees and original-issue discount. These notes mature on January 15, 2009, and contain several affirmative and negative covenants which are similar to those in the New Credit Facility. Taken as a whole, the Senior Notes covenants are less restrictive than the covenants contained in the New Credit Facility. In addition, our Senior Notes do not contain any financial maintenance covenants or scheduled amortization payments. The Senior Notes covenants (1) restrict certain transactions, including new borrowings, investments and the payment of dividends, unless we meet certain financial measurements and ratios, as defined, and (2) restrict our use of proceeds from certain other transactions including asset sales. In connection with the June 21, 2002 closing of the New Credit Facility, substantially all of our U.S. subsidiaries guaranteed these notes. In order to reduce the immediate cost of this borrowing, we entered into derivative agreements to swap the cash interest obligations under the dollar portion of these notes to LIBOR plus 4.44 percent. We will be required to collateralize any out-of-the-money positions on these swaps.

In connection with vendor financing and related initiatives:

- In 2001, we received $885 million in financing from GE Capital, secured by portions of our finance receivable portfolios in the United Kingdom. At December 31, 2001, the remaining balances of these loans totaled $521 million.

- In the second quarter 2001, we sold our leasing businesses in four Nordic countries to Resonia Leasing AB for $352 million in cash plus retained interests in certain finance receivables for total proceeds of approximately $370 million. These sales are part of an agreement under which Resonia will provide on-going, exclusive equipment financing to our customers in those countries.

- In July 2001, we transferred U.S. lease contracts to a trust, which in turn sold $513 million of floating-rate asset-backed notes. We received cash proceeds of $480 million, net of $3 million of fees, plus a retained interest of $30 million, which we will receive when the notes are repaid, which we expect to occur in August 2003. The transaction was accounted for as a secured borrowing. At December 31, 2001, the remaining debt totaled $395 million.

- In September 2001, we announced a U.S. Framework Agreement (the "USFA") with GE Capital's Vendor Financial Services group, under which GE Capital will become the primary equipment-financing provider for our U.S. customers. We expect funding under the USFA to be in place in 2002 upon completion of systems and process modifications and development.

- In November 2001, we entered into an agreement with GE Capital which provides for a series of loans, secured by certain of our finance receivables in the United States, up to an aggregate of $2.6 billion, provided that certain conditions are met at the time the loans are funded. These conditions, all of which we currently meet, include maintaining a specified minimum debt rating with respect to our senior debt. In the fourth quarter of 2001, we received two secured loans from GE Capital totaling $1,175 million. Cash proceeds of $1,053 million were net of $115 million of escrow requirements and $7 million of fees. At December 31, 2001, the remaining balances of these loans totaled $1,149 million. In March 2002, we received our third secured loan from GE Capital totaling $266 million. Cash proceeds of $229 million were net of $35 million of escrow requirements and $2 million of fees. In May 2002, we received our fourth secured loan from GE Capital, totaling $499 million. Cash proceeds of $496 million were net of $3 million of fees. Through June 26, 2002 approximately $1.9 billion of loans have been funded under this agreement.

- In November 2001, we announced a Canadian Framework Agreement (the "CFA") with the Canadian division of GE Capital's Vendor Financial Services group, similar to the agreement in the U.S., under which GE Capital will become the primary equipment-financing provider for our Canadian customers. We expect the CFA to be completed in 2002. In February 2002 we received a $291 million loan from GE Capital, secured by certain of our finance

receivables in Canada. Cash proceeds of $281 million were net of $8 million of escrow requirements and $2 million of fees.

- In December 2001, we announced that we would be forming a joint venture with De Lage Landen International BV (DLL) to manage equipment financing, billing and collections for our customers' financed equipment orders in the Netherlands. This joint venture was formed and began funding in the first quarter of 2002. DLL owns 51 percent of the venture and provides the funding to support new customer leases, and we own the remaining 49 percent of this unconsolidated venture.

- In December 2001, we announced European framework agreements with GE Capital's European Equipment Finance group, under which GE Capital will become the primary equipment-financing provider for our customers in France and Germany. We expect these agreements to be completed in 2002.

- In March 2002, we signed agreements with third parties in Brazil and Mexico, under which those third parties will be our primary equipment financing provider in those countries. Funding under both of these arrangements commenced in the second quarter of 2002.

- In April 2002, we sold our leasing business in Italy to a third party for $207 million in cash plus the assumption of $20 million of debt. We can also receive retained interests up to approximately $30 million, based on the occurrence of certain future events. This sale is part of an agreement under which the third-party will provide on-going, exclusive equipment financing to our customers in Italy.

- In May 2002, we received an additional loan from GE Capital of $106 million secured by portions of our lease receivable portfolio in the U.K.

- In May 2002, we received a $77 million loan from GE Capital, secured by certain of our finance receivables in Germany. Cash proceeds of $65 million were net of $12 million of escrow requirements.

Cash and Debt Positions:

With $4.0 billion of cash and cash equivalents on hand at December 31, 2001, (and approximately $1.8 billion on hand as of June 26, 2002, after giving effect to the refinancing under the New Credit Facility) we believe our liquidity is sufficient to meet current operating cash flow requirements and to satisfy all scheduled debt maturities through December 31, 2002.

As a result of the New Credit Facility discussed above, our debt maturities have changed. Significantly less debt will now mature in 2002 and 2003 than would have become due had the Old Revolver not been refinanced. In addition, a portion of our available cash has been used to retire some of the debt under the Old Revolver. The following represents our aggregate debt maturity schedules by quarter for 2002 and 2003, and reflects the New Credit Facility and related principal payments discussed above (in billions):

	2002	2003
First Quarter	$0.7	$0.5
Second Quarter	4.0	1.1
Third Quarter	1.0	0.3
Fourth Quarter	0.9	1.3
Full Year	$6.6	$3.2

Additionally, as discussed throughout this Annual Report, we have reached a settlement with the SEC as to all matters that were under investigation. It is our expectation that the resolution of these matters will restore our ability to access the public capital markets and reduce our earlier reliance on other funding sources including non-public capital markets. Our current plans include accessing the public capital markets in 2002, however, we are not dependent on such access to maintain adequate liquidity in 2002.

Plans to Strengthen Liquidity and Financial Flexibility Beyond 2002:

Our ability to maintain sufficient liquidity beyond 2002 is highly dependent on achieving expected operating results, including capturing the benefits from restructuring activities, and completing announced vendor financing and other initiatives. There is no assurance that these initiatives will be successful. Failure to successfully complete these initiatives could have a material adverse effect on our liquidity and our operations, and could require us to consider further measures, including deferring planned capital expenditures, modifying current restructuring plans, reducing discretionary spending, selling additional assets and, if necessary, restructuring existing debt.

We also expect that improvements in our debt ratings, and our related ability to fully access certain unsecured public debt markets, namely the commercial paper markets, will depend on (1) our ability to demonstrate sustained EBITDA growth and operating cash generation and (2) continued progress on our vendor financing initiatives, as discussed above. Until such

time, we expect some bank lines to continue to be unavailable, and we intend to access other segments of the capital markets as business conditions allow, which could provide significant sources of additional funds until full access to the unsecured public debt markets is restored.

Contractual Cash Obligations and Other Commercial Commitments and Contingencies:

At December 31, 2001, we had the following contractual cash obligations and other commercial commitments and contingencies:

Contractual Cash Obligations:

	2002	2003	2004	2005	2006	Thereafter
			(In millions)			
Long term debt/(1)/	$ 6,584	$ 3,247	$ 2,567	$ 3,370	$ 30	$ 914
Minimum operating lease commitments	250	207	165	135	112	359
Total contractual cash obligations ...	$ 6,834	$ 3,454	$ 2,732	$ 3,505	$ 142	$1,273

/(1)/ The long-term debt obligations reflect the refinancing of our New Credit Facility on June 21, 2002.

Cumulative Preferred Securities:

As of December 31, 2001, we have four series of outstanding preferred securities as summarized below. The redemption requirements and the annual cumulative dividend requirements on our outstanding preferred stock are as follows:

- Series B Convertible Preferred Stock (ESOP shares): The balance at December 31, 2001 was $605 million, and is redeemable in shares of common stock or cash, at our option, as employees with vested shares leave the Company. Annual cumulative dividend requirements are $6.25 per share. In 2001, we suspended these dividends, but the unpaid dividends are cumulative and amount to approximately $40 million at December 31, 2001.

- 7 1/2 percent Convertible Trust Preferred Securities: The balance at December 31, 2001 was $1,005 million, and is putable in 2004 in cash or in shares of common stock at a redemption value of $1,035 million. Annual cumulative distribution requirements are $3.75 per Preferred Security on 20.7 million securities. The first three years' dividend requirements were funded at issuance and are invested in U.S. Treasury securities held by a separate trust.

- 8 percent Convertible Trust Preferred Securities: The balance at December 31, 2001 was $639 million, and is o redeemable in 2027 at a redemption value of $650 million. Annual cumulative dividend requirements are $80 per security on 650,000 securities.

- Canadian Deferred Preferred Stock: The balance at December 31, 2001 was $43 million, and is redeemable in 2006. o Annual cumulative non-cash dividend requirements will increase this amount to its 2006 redemption value of approximately $56 million.

Other Commercial Commitments and Contingencies:

Flextronics: As previously discussed, in 2001 we outsourced certain manufacturing activities to Flextronics under a five-year agreement. At December 31, 2001 we anticipate that we will purchase approximately $1 billion of inventory from Flextronics during 2002 and expect to maintain this level in the future.

Fuji Xerox: We had product purchases from Fuji Xerox totaling $598 million, $812 million, and $740 million in 2001, 2000 and 1999, respectively. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months.

Other Purchase Commitments: We enter into other purchase commitments with vendors in the ordinary course of business. Our policy with respect to all purchase commitments is to record any losses when they are probable and reasonably estimable.

EDS Contract: We have an information management (IM) contract with Electronic Data Systems Corp (EDS). We can terminate the contract with six months notice upon the payment of termination fees, as defined in the contract. Although there are no minimum payments due under the contract, the IM function is integral to our operations and at this time, we anticipate making the following payments to EDS over the next five years (in millions): 2002--$381; 2003--$354; 2004--$351; 2005--$354; 2006--$345.

Other Funding Arrangements:

Securitizations, and Use of Special Purpose Entities:

From time to time, we have generated liquidity by selling or securitizing portions of our finance and accounts receivable portfolios. We have typically utilized special-purpose entities (SPEs) in order to implement these transactions in a manner that isolates, for the benefit of the securitization investors, the securitized receivables from our other assets which would otherwise be available to our creditors. These transactions are typically credit-enhanced through over-collateralization. Such use of SPEs is standard industry practice, is typically required by securitization investors and makes the securitizations easier to market. None of our officers, directors or employees or those of any of our subsidiaries or affiliates hold any direct or indirect ownership interests in any of these SPEs. We typically act as service agent and collect the securitized receivables on behalf of the securitization investors. Under certain circumstances, including the downgrading of our debt ratings by one or more rating agencies, we can be terminated as servicing agent, in which event the SPEs may engage another servicing agent and we would cease to receive a servicing fee. Although the debt rating downgrade provisions have been triggered in some of our securitization agreements, the securitization investors and/or their agents have not elected to remove us as administrative servicer as of this time. We are not liable for non-collection of securitized receivables or otherwise required to make payments to the SPEs except to the limited extent that the securitized receivables did not meet specified eligibility criteria at the time we sold the receivables to the SPEs or we fail to observe agreed-upon credit and collection policies and procedures.

Most of our SPE transactions were accounted for as borrowings, with the debt and related assets remaining on our balance sheets. Specifically, in addition to the July 2001 asset-backed notes transaction and the U.S. loans from GE Capital discussed above, which utilized SPEs as part of their structures, as of December 31, 2001, we have entered into the following similar transactions which were accounted for as debt on our balance sheets:

- In the third quarter 2000, Xerox Credit Corporation (XCC) securitized certain finance receivables in the United States, generating gross proceeds of $411 million. As of December 31, 2001, the remaining debt under this facility totaled approximately $154 million.
- In 1999, XCC securitized certain finance receivables in the United States, generating gross proceeds of $1,150 million. At December 31, 2001, the remaining obligations in this facility totaled $94 million, and were substantially repaid as of June 26, 2002.

We have also entered into the following SPE transactions which were accounted for as sales of receivables:

- In 2000, Xerox Corporation and Xerox Canada Limited (XCL) securitized certain accounts receivable in the U.S. and Canada, generating gross proceeds of $315 million and $38 million, respectively. In December 2000, as a result of the senior debt downgrade by Moody's discussed above, both entities negotiated waivers with their respective counterparties to prevent the facilities from entering "wind-down" mode. As part of its waiver negotiation, Xerox Corporation renegotiated the $315 million U.S. facility, reducing its size to $290 million. The May 2002 Moody's downgrade constituted an event of termination under this agreement, which we are currently renegotiating. Failure to successfully renegotiate the facility could result in the suspension of its revolving features, whereupon we would be unable to sell new accounts receivable into the facility, and our availability would wind down. In February 2002, the size of the Canadian facility was reduced in order to make certain receivables eligible under the GE Capital Canadian transaction described above. Also in February 2002, a downgrade of our Canadian debt by Dominion Bond Rating Service caused the Canadian counterparty to withdraw its waiver, in turn causing the remaining Canadian facility at that time to enter into wind-down mode. This facility has subsequently been fully repaid.
- In 1999, XCL securitized certain finance receivables, generating gross proceeds of $345 million. At December 31, 2001, the remaining obligations in this facility totaled $93 million, and we expect them to be fully paid in 2002. At December 31, 2001, this is the only outstanding SPE transaction with recourse provisions that could be asserted against us.
- In 1999, Xerox Corporation and certain of its subsidiaries securitized accounts receivable, generating aggregate gross proceeds of $231 million. No amounts remained outstanding as of December 31, 2001.

In summary, at December 31, 2001, amounts owed by these receivable-related SPEs to their investors totaled $2,210 million, of which $418 million represented transactions we treated as asset sales, and the remaining $1,792 million is reported as Debt in our Consolidated Balance Sheet. A detailed discussion of the terms of these transactions, including descriptions of our retained interests, is included in Note 5 to the Consolidated Financial Statements. We also utilized SPEs in our Trust Preferred Securities transactions. Refer to Note 17 to the Consolidated Financial Statements for a detailed description of these transactions.

Secured Debt - Summary:

As of March 31, 2002, after giving effect to the New Credit Facility, we have approximately $930 million of debt which is secured by assets that are measured against the 20 percent consolidated net worth limitation described above. In addition, we have $3,802 million of debt which is secured by assets that are not measured against that 20 percent limitation, in most cases because the applicable borrowing entities are considered financing subsidiaries under the public indenture definitions.

Equity Put Options:

During 2000 and 1999, we sold 7.5 million and 0.8 million equity put options, respectively, for proceeds of $24 million and $0.4 million. We did not sell any such options in 2001. Equity put options give the counterparty the right to sell our common shares back to us at a specified strike price. In January 2001, we paid $28 million to settle the put options we issued in 1999, which we funded by issuing 5.9 million unregistered common shares. 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 put options that we issued in 1998. There were no put options outstanding as of December 31, 2001.

Cash Management:

Xerox and its material subsidiaries and affiliates manage their worldwide cash, cash equivalents and liquidity resources through internal cash management systems, which include established policies and procedures. They are subject to (1) the statutes, regulations and practices of the local jurisdictions in which the companies operate, (2) the legal requirements of the agreements to which the companies are parties and (3) the policies and cooperation of the financial institutions utilized by the companies to maintain such cash management systems.

At December 31, 2001, 2000 and 1999, cash and cash equivalents on hand totaled $3,990 million, $1,750 million and $132 million, respectively, and total debt was $16,765 million, $18,637 million, and $16,147 million, respectively. Total debt net of cash (Net Debt) decreased by $4,112 million in 2001, increased by $872 million in 2000, and increased by $769 million in 1999. The consolidated ratio of total debt to common and preferred equity was 6.9:1, 7.6:1 and 4.5:1 as of December 31, 2001, 2000 and 1999, respectively. The decrease in this ratio in 2001 reflects debt-for-equity exchanges, a curtailment of dividends, and debt repayments funded by asset sales and working capital improvements, offset partially by a net loss and the impacts of currency devaluation. The increase in 2000 reflects the 2000 net loss, an increase in debt to fund the CPID acquisition, cash payments required to settle outstanding put options on our common stock, cash dividends, and the impact of currency devaluation. The increases in both 2001 and 2000 compared to 1999 also reflect our decision, beginning in 2000, to accumulate cash to maintain financial flexibility rather than continue our historical practice of paying down debt with available cash.

The following represents the results of our cash flows for the last three years included within our Statement of Cash Flows in our consolidated financial statements (in millions):

	2001	2000	1999
Operating Cash Flows	$ 1,566	$ 207	$ 551
Investing Cash Flows (Usage)	873	(855)	(789)
Financing Cash Flows (Usage)	(189)	2,255	300
Foreign Currency Impacts	(10)	11	(9)
Net Change in Cash Balance	2,240	1,618	53
Cash - Beginning of year	1,750	132	79
Cash - End of year	$ 3,990	$ 1,750	$ 132

2001 operating cash flows improved significantly compared to 2000, primarily due to working capital improvements. Although our sales declined, which normally leads to a reduction in receivables and payables balances, our collections of receivables exceeded our payments on accounts payable and other current liability accounts by approximately $500 million. We further reduced our inventory balances and spending for on-lease equipment by approximately $480 million. We also had a short-term benefit of approximately $350 million associated with the timing of taxes due on the gain from our sale of half our interest of Fuji Xerox, which we did not have to pay until first quarter 2002. The overall impact of our reported net loss on our operating cash flows, after considering the impacts of non-cash items associated with restructuring charges, provisions, tax valuation allowances and gains did not vary significantly between 2001 and 2000.

Investing cash flows were higher in 2001 primarily due to $1,768 million of cash received from the sales of businesses, including Fuji Xerox and our leasing businesses in the Nordic European countries. These cash proceeds were greater than those received from the sale of businesses in 2000, which resulted in proceeds of $640 million. In 2001 we also reduced

capital spending and internal-use software spending significantly. Other factors contributing to the 2001 improvement were the acquisition of CPID in 2000, which utilized cash of $856 million, while in 2001 we were required to fund $628 million of certain escrow and insurance trusts based on contractual requirements.

Our 2001 financing activities largely consisted of a net repayment of approximately $1.1 billion of debt, offset by a private placement of $1.0 billion of trust preferred securities. Our suspension of dividends on our common and preferred stock also had a positive impact on our cash flows in 2001.

Refer to our EBITDA-based cash flows discussion below to understand the way we look at cash flows from a treasury and cash management perspective, and for explanations of cash flows for 2000 and 1999.

Historically, we separately managed the capital structures of our non-financing operations and our captive financing operations. Consistent with our continuing efforts to exit the customer equipment financing business, we now use EBITDA and operating cash flow to measure our liquidity, and we no longer distinguish between financing and non-financing operations in our liquidity management processes. We define EBITDA as earnings before interest expense, income taxes, depreciation, amortization, minorities' interests, equity in income of unconsolidated affiliates, and non-recurring and non-operating items. We believe that EBITDA provides investors and analysts with a useful measure of liquidity generated from recurring operations. EBITDA is not intended to represent an alternative to either operating income or cash flows from operating activities (as those terms are defined in GAAP). While EBITDA is frequently used to analyze companies, the definition of EBITDA we employ, as presented herein, may differ from definitions of EBITDA employed by other companies.

The following is a summary of EBITDA, operating and other cash flows for the years ended December 31, 2001, 2000 and 1999:

	2001	2000 Restated	1999 Restated
Non-financing revenues	$ 15,879	$ 17,589	$ 17,820
Non-financing cost of sales	10,050	11,233	10,529
Non-financing gross profit	5,829	6,356	7,291
Research and development expense	(997)	(1,064)	(1,020)
Selling, administrative and general expenses	(4,728)	(5,518)	(5,204)
Depreciation and amortization expense, excluding goodwill and intangibles	1,238	1,158	1,040
Adjusted EBITDA	1,342	$ 32	2,107
Working capital and other changes	794	694	(319)
On-Lease equipment spending	(271)	(506)	(387)
Capital spending	(219)	(452)	(594)
Restructuring payments	(484)	(387)	(441)
Operating Cash Flow*	1,162	281	366
Interest payments	(1,074)	(1,050)	(848)
Financing cash flow	1,374	494	292
Debt borrowings (repayments), net	(1,242)	2,917	793
Net proceeds from Trust Preferred Securities	775	-	-
Dividends and other non-operating items	(541)	(808)	(508)
Proceeds from sales of businesses	1,768	640	65
Acquisitions	18	(856)	(107)
Net Increase in Cash	$ 2,240	$ 1,618	$ 53

*The primary difference between this amount and the Cash Flows from Operations reported in our GAAP Statements of Cash Flows, is the inclusion of Capital Spending in, and the exclusion of Financing Cash Flow and Interest Payments from, the amount shown above.

2001 EBITDA operating cash flow of $1,162 million increased by $881 million, from $281 million in the prior year. The improvement was driven by cost reductions, lower on-lease equipment spending, lower capital spending, and modest working capital improvements, and was partially offset by higher restructuring payments and lower revenues. The decline in capital spending was due primarily to significant spending constraints as well as completion in 2000 of our remaining Ireland projects described below. The decline in on-lease equipment spending reflected declining rental placement activity and populations, particularly in our older-generation light lens products.

The increase in EBITDA financing cash flow in 2001 reflected lower finance receivable originations resulting from lower equipment sales in 2001 compared to 2000. Dividends and other non-operating items used $541 million of cash in 2001, compared to usage of $808 million in 2000. This improvement was largely due to cash savings of approximately $500 million resulting from our elimination and suspension of our common and Series B Preferred dividends, respectively, which we announced in July 2001, and lower payments required to terminate derivative contracts, partially offset by a $255 million payment related to our funding of trusts to replace Ridge Reinsurance letters of credit.

In 2001, we generated $1,768 million of cash from the sales of businesses, including the sale of half our interest in Fuji Xerox, our leasing businesses in four European countries, and certain of our manufacturing-related assets to Flextronics, as discussed below. These asset sales, together with net proceeds of $775 million from the sale of trust preferred securities and the significant improvements in operating and financing cash flows, funded net repayments of debt totaling $1,242 million in 2001, compared to incremental borrowings of $2,917 million in 2000 which included funding for the CPID acquisition.

EBITDA operating cash flow was $281 million in 2000, including $328 million of accounts receivable securitizations, compared to $366 million in 1999. Significant improvements in working capital and lower capital spending essentially offset lower EBITDA, which reflected lower revenues and higher costs compared to 1999. Capital spending in 2000 included production tooling and our investments in Ireland, where we consolidated European customer support centers and invested in inkjet supplies manufacturing. The significant decline in 2000 spending versus 1999 is due primarily to substantial completion of several aspects of the Ireland projects as well as significant spending constraints. Investments in on-lease equipment reflected growth in our document outsourcing business.

The significant increase in interest payments in 2000 largely reflects higher debt levels.

In 2000, we generated $640 million of cash from the sales of businesses, including the sale of our China operations to Fuji Xerox for $550 million, and we used $856 million of cash for the acquisition of the CPID division of Tektronix. The increased spending in Dividends and other non operating items reflected cash payments of $68 million to settle put options on our common stock, plus payments of $108 million to settle out-of-the-money currency and interest rate derivatives which were cancelled upon one of our debt downgrades discussed below. Together with increased interest costs, only partially offset by modest increases in operating and financing cash flows, these cash decreases required us to borrow an incremental $2,917 million in 2000.

Cash restructuring payments were $484 million, $387 million, and $441 million in 2001, 2000 and 1999, respectively. We expect that substantially all of the remaining restructuring reserves as of December 31, 2001 of $282 million will be paid in 2002. The status of the restructuring reserves is discussed in Note 3 to the Consolidated Financial Statements.

Financial Risk Management:

We are typical of multinational corporations because we are exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect our results of operations and financial condition. Accordingly, we have historically entered into derivative contracts, including interest rate swap agreements, forward exchange contracts and foreign currency swap agreements, to manage such interest rate and foreign currency exposures. The fair market values of all of our derivative contracts change with fluctuations in interest rates and/or currency rates, and are designed so that any change in their values is offset by changes in the values of the underlying exposures. Our derivative instruments are held solely to hedge economic exposures; we do not enter into such 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. 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 current ability to employ that strategy effectively has been severely limited.

Currency derivatives are primarily arranged to manage the risk of exchange rate fluctuations associated with assets and liabilities that are denominated in foreign currencies. Our primary foreign currency market exposures include the Japanese Yen, Euro, Brazilian Real, British Pound Sterling and Canadian Dollar. For each of our legal entities, we have historically hedged a significant portion of all foreign-currency-denominated cash transactions. From time to time (when cost-effective) foreign-currency-denominated debt and foreign-currency derivatives have been used to hedge international equity investments.

Virtually all customer-financing assets earn fixed rates of interest. Therefore, we have historically sought to "lock in" an interest rate spread by arranging fixed-rate liabilities with maturities similar to those of the underlying assets, and we have funded the assets with liabilities in the same currency. As part of this overall strategy, pay-fixed-rate/receive-variable-rate

interest rate swaps are often used in place of more expensive fixed-rate debt. Additionally, pay-variable-rate/receive-fixed-rate interest 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 by eliminating the risk of a major change in interest rates. We refer to the effect of these practices as "match funding" customer financing assets.

Consistent with the nature of economic hedges, unrealized gains or losses from interest rate and foreign currency derivative contracts are designed to offset any corresponding changes in the value of the underlying assets, liabilities or debt.

Assuming a 10 percent appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at December 31, 2001, the potential change in the fair value of foreign currency-denominated assets and liabilities in each entity would aggregate approximately $31 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, 2001, would have a $335 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 rates, was $3.3 billion at December 31, 2001, net of foreign currency-denominated liabilities designated as a hedge of our net investment.

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 2001, 2000 and 1999 approximated 5.5 percent, 6.2 percent and 5.7 percent, respectively.

Many of the financial instruments we use are sensitive to changes in interest rates. Interest rate changes result in fair value gains or losses on our term debt and interest rate swaps, due to differences between current market interest rates and the stated interest rates within the instrument. The loss in fair value at December 31, 2001, from a 10 percent change in market interest rates would be approximately $161 million for our interest rate sensitive financial 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, 2001 and 2002, together with the recently-concluded SEC investigation, significantly reduced our access to capital markets. Furthermore, several of the debt downgrades triggered various contractual provisions which required us to collateralize or repurchase a number of derivative contracts which were then outstanding. While we have been able to replace some derivatives on a limited basis, our current debt ratings restrict our ability to utilize derivative agreements to manage the risks associated with interest rate and some foreign currency fluctuations, including our ability to continue effectively employing our match funding strategy. For this reason, we anticipate increased volatility in our results of operations due to market changes in interest rates and foreign currency rates.

Forward-Looking Cautionary Statements

This Annual Report contains forward-looking statements and information relating to Xerox that are based on our beliefs, as well as assumptions made by and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intend," "will" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in our 2001 Annual Report on Form 10-K filed with the SEC. We do not intend to update these forward-looking statements.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Xerox Corporation:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, cash flows and common shareholders' equity present fairly, in all material respects, the financial position of Xerox Corporation and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2, the Company has restated its consolidated financial statements for the years ended December 31, 2000 and 1999, previously audited by other independent accountants.

PricewaterhouseCoopers LLP
Stamford, Connecticut
June 26, 2002

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31		
	2001	2000	1999
		Restated	Restated
		Note 2	Note 2
	(in millions, except per-share data)		
Revenues			
Sales	$ 7,443	$ 8,839	$ 8,967
Service, outsourcing and rentals	8,436	8,750	8,853
Finance income	1,129	1,162	1,175
Total Revenues	17,008	18,751	18,995
Costs and Expenses			
Cost of sales	5,170	6,080	5,631
Cost of service, outsourcing and rentals	4,880	5,153	4,898
Equipment financing interest	457	498	435
Research and development expenses	997	1,064	1,020
Selling, administrative and general expenses	4,728	5,518	5,204
Restructuring and asset impairment charges	715	475	12
Gain on sale of half of interest in Fuji Xerox	(773)	--	--
Gain on affiliate's sale of stock	(4)	(21)	--
Purchased in-process research and development	--	27	--
Gain on sale of China operations	--	(200)	--
Other expenses, net	473	524	507
Total Costs and Expenses	16,643	19,118	17,707
Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	365	(367)	1,288
Income taxes (benefits)	485	(70)	446
(Loss) Income before Equity Income, Minorities' Interests, Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	(120)	(297)	842
Equity in net income of unconsolidated affiliates	53	66	48
Minorities' interests in earnings of subsidiaries	(42)	(42)	(46)
(Loss) Income before Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	(109)	(273)	844
Extraordinary gain on extinguishment of debt, net of taxes of $26	40	--	--
Cumulative effect of change in accounting principle	(2)	--	--
Net (Loss) Income	$ (71)	$ (273)	$ 844
Basic (Loss) Earnings per Share/(1)/			
(Loss) Income before Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	$ (0.17)	$ (0.48)	$ 1.20
Net (Loss) Earnings per Share	$ (0.12)	$ (0.48)	$ 1.20
Diluted (Loss) Earnings per Share/(1)/			
(Loss) Income before Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	$ (0.17)	$ (0.48)	$ 1.17
Net (Loss) Earnings per Share	$ (0.12)	$ (0.48)	$ 1.17

The accompanying notes are an integral part of the consolidated financial statements.

/(1)/ Basic and diluted (loss) earnings per share is determined using income or loss available to common shareholders, which is calculated as net (loss) income less accrued preferred dividends. See Note 19.

CONSOLIDATED BALANCE SHEETS

	December 31 2001	December 31 2000 Restated Note 2
	(in millions)	
Assets		
Cash and cash equivalents	$ 3,990	$ 1,750
Accounts receivable, net	1,896	2,269
Finance receivables, net	3,922	4,392
Inventories	1,364	1,983
Deferred taxes and other current assets	1,428	1,078
Total Current Assets	12,600	11,472
Finance receivables due after one year, net	5,756	6,406
Equipment on operating leases, net	804	1,266
Land, buildings and equipment, net	1,999	2,527
Investments in affiliates, at equity	632	1,270
Intangible and other assets, net	4,453	3,763
Goodwill, net	1,445	1,549
Total Assets	$ 27,689	$ 28,253
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 6,637	$ 3,080
Accounts payable	704	1,050
Accrued compensation and benefits costs	724	645
Unearned income	244	233
Other current liabilities	1,951	1,536
Total Current Liabilities	10,260	6,544
Long-term debt	10,128	15,557
Postretirement medical benefits	1,233	1,197
Deferred taxes and other liabilities	2,018	1,925
Total Liabilities	23,639	25,223
Deferred ESOP benefits	(135)	(221)
Minorities' interests in equity of subsidiaries	73	87
Obligation for equity put options	--	32
Company-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debentures of the Company	1,687	684
Preferred stock	605	647
Common stock, including additional paid in capital	2,622	2,231
Retained earnings	1,031	1,150
Accumulated other comprehensive loss	(1,833)	(1,580)
Total Liabilities and Equity	$ 27,689	$ 28,253

Shares of common stock issued and outstanding were (in thousands) 722,314 and 668,576 at December 31, 2001 and December 31, 2000, respectively.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31		
	2001	2000	1999
		Restated Note 2	Restated Note 2
	(in millions)		
Cash Flows from Operating Activities			
Net (loss) income	$ (71)	$ (273)	$ 844
Adjustments required to reconcile net (loss) income to cash flows from operating activities:			
Depreciation and amortization	1,332	1,244	1,090
Provisions for receivables and inventory	748	848	594
Restructuring and other charges	715	502	12
Cash payments for restructurings	(484)	(387)	(441)
Gain on early extinguishment of debt	(66)	--	--
Gains on sales of businesses and assets	(765)	(288)	(78)
Minorities' interests in earnings of subsidiaries	42	42	46
Undistributed equity in income of affiliated companies	(20)	(25)	(10)
Decrease (increase) in inventories	319	74	(165)
Increase in on-lease equipment	(271)	(506)	(387)
Decrease (increase) in finance receivables	162	(701)	(1,246)
Proceeds from sale of finance receivables	--	--	345
Decrease (increase) in accounts receivable	115	(385)	(484)
Proceeds from sale of accounts receivable	--	328	231
(Decrease) increase in accounts payable and accrued compensation and benefits costs	(270)	59	21
Net change in current and deferred income taxes	456	(421)	210
(Decrease) increase in other current and non-current liabilities	(160)	55	218
Early termination of derivative contracts	(148)	(108)	--
Other, net	(68)	149	(249)
Net cash provided by operating activities	1,566	207	551
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(219)	(452)	(594)
Proceeds from sales of land, buildings and equipment	69	44	99
Cost of additions to internal use software	(124)	(211)	(241)
Proceeds from divestitures	1,768	640	65
Acquisitions, net of cash acquired	18	(856)	(107)
Funds placed in escrow and other restricted cash	(628)	--	--
Other, net	(11)	(20)	(11)
Net cash provided by (used in) investing activities	873	(855)	(789)
Cash Flows from Financing Activities			
Net (decrease) increase in debt	(1,098)	2,917	793
Proceeds from issuance of mandatorily redeemable preferred	1,004	--	--
Dividends on common and preferred stock	(93)	(587)	(586)
Proceeds from issuances of common stock	28	--	128
Settlements of equity put options, net	(28)	(68)	(5)
Dividends to minority shareholders	(2)	(7)	(30)
Net cash (used in) provided by financing activities	(189)	2,255	300
Effect of exchange rate changes on cash and cash equivalents	(10)	11	(9)
Increase in cash and cash equivalents	2,240	1,618	53
Cash and cash equivalents at beginning of year	1,750	132	79
Cash and cash equivalents at end of year	$ 3,990	$ 1,750	$ 132

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Reatined Earnings	Accumulated Other Comprehensive Loss/(1)/	Treasury Stock Shares	Treasury Stock Amount	Total
	(In millions, except share data)							
Balance at December 31, 1998, as reported.....	657,196	$660	$ 1,265	$ 3,482	$ (755)	(409)	$(19)	$ 4,633
Effect of restatement (Note 2)	--	--	63	(1,781)	111	--	--	(1,607)
Balance at December 31, 1998, as restated*	657,196	$660	$ 1,328	$ 1,701	$ (644)	(409)	$(19)	$ 3,026
Net income				844				844
Translation adjustments					(547)			(547)
Minimum pension liability					(33)			(33)
Comprehensive income								264
Stock option and incentive plans	5,331	6	134	(5)		270	12	147
Xerox Canada exchangeable stock	1,362							
Convertible securities	1,267	1	63	(52)		139	7	19
Cash dividends declared								
Common stock ($0.80 per share)				(532)				(532)
Preferred stock ($6.25 per share)				(54)				(54)
Settlement of put options			(5)					(5)
Tax benefits on benefit plans			80	8				88
Balance at December 31, 1999, as restated*	665,156	667	1,600	1,910	(1,224)	--	--	2,953
Net loss				(273)				(273)
Translation adjustments					(356)			(356)
Minimum pension liability					5			5
Unrealized loss on securities					(5)			(5)
Comprehensive loss								(629)
Stock option and incentive plans	940	1	32					33
Xerox Canada exchangeable stock	29							
Convertible securities	2,451	2	28	(8)				22
Cash dividends declared								
Common stock ($0.65 per share)				(434)				(434)
Preferred stock ($6.25 per share)				(52)				(52)
Put options, net			(100)					(100)
Tax benefits on benefit plans			1	7				8
Balance at December 31, 2000, as restated*	668,576	670	1,561	1,150	(1,580)	--	--	1,801
Net loss				(71)				(71)
Translation adjustments					(210)			(210)
Minimum pension liability					(40)			(40)
Unrealized gain on securities					4			4
FAS 133 transition adjustment					(19)			(19)
Net changes on cash flow hedges					12			12
Comprehensive loss								(324)
Stock option and incentive plans	546	1	5					6
Xerox Canada exchangeable stock	312							
Convertible securities	5,865	6	36					42
Cash dividends declared								
Common stock ($0.05 per share)				(34)				(34)
Preferred stock ($1.56 per share)				(14)				(14)
Put options, net			4					4
Equity for debt exchanges	41,154	41	270					311
Issuance of unregistered shares	5,861	6	22					28
Balance at December 31, 2001	722,314	$724	$ 1,898	$ 1,031	$ (1,833)	--	$ --	$ 1,820

/(1)/ As of December 31, 2001, Accumulated Other Comprehensive Loss is composed of cumulative translation adjustments of $(1,758), minimum pension liability of $(67), unrealized loss on securities of $(1) and net SFAS No. 133 related items of $(7).

The accompanying notes are an integral part of the consolidated financial statements.

* See Note 2.

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

Note 1--Summary of Significant Accounting Policies

Description of Business and Basis of Presentation. Xerox Corporation is The Document Company and a leader in the global document market, selling equipment and providing document solutions including hardware and services that enhance our customers' work processes and business results. Our activities encompass developing, manufacturing, marketing, servicing, and financing a complete range of document processing products, solutions and services designed to make organizations around the world more productive.

Liquidity. Historically, our primary sources of funding have been cash flows from operations, borrowings under our commercial paper and term funding programs, and securitizations of accounts and finance receivables. Funds were used to finance customers' purchases of our equipment, and to fund working capital requirements, capital expenditures and business acquisitions. Our specific business challenges, including revenue declines over the past few years, coupled with significant competitive and industry changes and adverse economic conditions, began to negatively affect our operations and liquidity in 2000. These challenges, which were exacerbated by significant technology and acquisition spending, impacted our cash availability and created marketplace concerns regarding our liquidity, which led to credit rating downgrades and restricted access to capital markets.

Our access to many of the aforementioned sources is currently limited due to our below investment grade rating on our debt. Our debt rating has been reduced several times since October 2000. These rating downgrades have had a number of significant negative impacts on us, including the unavailability of uncommitted bank lines, very limited ability to utilize derivative instruments to hedge foreign and interest currency exposures, thereby increasing volatility to changes in exchange rates, and higher interest rates on borrowings. Additionally, as more fully disclosed below, we are required to maintain minimum cash balances in escrow on certain borrowings, securitizations, swaps and letters of credit. These restricted cash balances are not considered cash or cash equivalents on our balance sheet.

On June 21, 2002, we permanently repaid $2.8 billion on our then outstanding revolving credit facility. An amended $4.2 billion facility replaced the previous $7 billion facility. However, we currently have no incremental borrowing capacity under the facility as the entire $4.2 billion is outstanding as of such date.

The new facility is disclosed in more detail in Note 12. The new facility contains more stringent financial covenants than the prior facility, including the following:

- Minimum EBITDA (based on rolling quarters, as defined)
- Maximum leverage (total adjusted debt divided by EBITDA, as defined)
- Maximum capital expenditures (annual test)
- Minimum consolidated net worth (quarterly test, as defined)

We expect to be in full compliance with the covenants and other provisions of the new credit facility through December 31, 2002 and beyond. Failure to be in compliance with any material provision of the new facility could have a material adverse effect on our financial position, results of operations and cash flows.

In addition, as part of our Turnaround Plan (see Note 3), we have taken significant steps to improve our liquidity, including asset sales, monetizations of portions of our receivables portfolios, and general financings including issuance of high yield debt and preferred securities. Since early 2000, we have been restructuring our cost base. We have implemented a series of plans to resize our workforce and reduce our cost structure through such restructuring initiatives. Key factors influencing our liquidity include our ability to generate cash flow from an appropriate combination of operating improvements anticipated in our Turnaround Plan and continued execution of the initiatives described above. We believe our projected liquidity is sufficient to meet our current operating cash flow requirements and satisfy our 2002 scheduled debt maturities and other cash flow requirements. However, our ability to meet our obligations beyond 2002 is dependent on our ability to generate positive cash flow from a combination of operating improvements, capital markets transactions, third party vendor financing programs and receivable monetizations. Failure to implement these initiatives could have a material adverse effect on our liquidity and our operations and we would need to implement alternative plans that could include additional asset sales, additional reductions in operating costs, deferral of capital expenditures, further reductions in working capital and further

debt restructurings. While we believe we could successfully complete the alternative plans, if necessary, there can be no assurance that such alternatives would be available or that we would be successful in their implementation.

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

Investments in business entities in which the Company does not have control, but has the ability to exercise significant influence over operating and financial policies (generally 20 to 50 percent ownership), are accounted for by the equity method.

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

Operating results of acquired businesses are included in the Consolidated Statements of Operations from the date of acquisition. See Note 4.

Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain and Cumulative Effect of Change in Accounting Principle. Throughout the Notes to Consolidated Financial Statements, we refer to the effects of certain changes in estimates and other adjustments on Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain and Cumulative Effect of Change in Accounting Principle. For convenience and ease of reference, that financial statement caption is hereafter referred to as "pre-tax income (loss).

Use of Estimates. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: allocation of revenues and fair values in multiple element arrangements; accounting for residual values; economic lives of leased assets; allowance for doubtful accounts; retained interests associated with the sales of accounts or finance receivables; inventory valuation; merger, restructuring and other related charges; asset impairments; depreciable lives of assets; useful lives of intangible assets and goodwill; pension and postretirement benefit plans; discontinued operations reinsurance obligations; and tax valuation allowances. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our consolidated financial statements will change as new events occur, as more experience is acquired, as additional information is obtained and as the Company's operating environment changes. Actual results could differ from those estimates.

The following table summarizes the more significant charges which require management estimates:

(in millions)	Year ended December 31		
	2001	2000	1999
		Restated Note 2	Restated Note 2
Restructuring provisions and asset impairments	$ 715	$ 475	$ 12
Amortization of goodwill and intangible assets	94	86	50
Provisions for receivables	506	613	450
Provisions for obsolete and excess inventory	242	235	144
Depreciation of equipment on operating leases	657	626	560
Depreciation of land, buildings and equipment	402	417	416
Amortization of capitalized software	179	115	64
Pension benefits - net periodic benefit cost	99	44	102
Other benefits - net periodic benefit cost	130	109	107
Deferred tax asset valuation allowance provisions	247	12	92

Changes in Estimates. In the ordinary course of accounting for items discussed above, we make changes in estimates as appropriate in the circumstances. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their approximate effects are disclosed in the Notes to Consolidated Financial Statements.

Accounting Changes. Effective January 1, 2001, we adopted Statement of Financial Accounting Standards, No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), which requires companies to recognize all derivatives as assets or liabilities measured at their fair value, regardless of the purpose or intent of holding them. Gains or losses resulting from changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, depending on the type of hedge transaction. Changes in fair value for derivatives not designated as hedging instruments and the ineffective portions of hedges are recognized in earnings in the current period. The adoption of SFAS No. 133 resulted in a net cumulative after-tax loss of $2 in the Statement of Operations and a net cumulative after-tax loss of $19 in Accumulated Other Comprehensive Income. Further, as a result of recognizing all derivatives at fair value, including the differences between the carrying values and fair values of related hedged assets, liabilities and firm commitments, we recognized a $403 increase in assets and a $424 increase in liabilities. See Note 13.

New Accounting Standards

Business Combinations: In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS No. 141). SFAS No. 141 requires the use of the purchase method of accounting for business combinations and prohibits the use of the pooling of interests method. We have not historically engaged in transactions that qualify for the use of the pooling of interests method and therefore, this aspect of the new standard will not have an impact on our financial results. SFAS No. 141 also changes the definition of intangible assets acquired in a purchase business combination, providing specific criteria for the initial recognition and measurement of intangible assets apart from goodwill. As a result, the purchase price allocation of future business combinations may be different than the allocation that would have resulted under the previous rules. SFAS No. 141 also requires that upon adoption of Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS No. 142), we reclassify the carrying amounts of certain intangible assets into or out of goodwill, based on certain criteria as discussed below. All business acquisitions initiated after June 30, 2001 must apply provisions of this standard.

Goodwill and Intangible Assets: SFAS No. 142, also issued in 2001, addresses financial accounting and reporting for acquired goodwill and other intangible assets subsequent to their initial recognition. This statement recognizes that goodwill has an indefinite useful life and will no longer be subject to periodic amortization. However, goodwill is to be tested at least annually for impairment, using a fair value methodology, in lieu of amortization. The provisions of this standard also require that amortization of goodwill related to equity method investments be discontinued, and that these goodwill amounts continue to be evaluated for impairment in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." We are in the process of assessing the impacts of SFAS No. 142 which includes making determinations as to what our reporting units will be and what amounts of goodwill, intangible assets and other assets and liabilities should be allocated to those reporting units. The provisions of SFAS No. 142 were effective January 1, 2002.

In connection with the adoption of SFAS No. 142, we expect to reclassify approximately $60 of previously identified intangible assets to goodwill. We will no longer record approximately $60 of annual amortization expense relating to our existing goodwill, as adjusted, for the reclassification previously mentioned. Additionally, approximately $5 of annual amortization expense of goodwill related to equity method investments will no longer be recorded.

SFAS No. 142 also requires we perform annual and transitional impairment tests on goodwill using a two-step approach. The first step is to identify a potential impairment and the second step is to measure the amount of any impairment loss. We have six months from the date of adoption of the standard to complete step one of the transitional impairment test and, if required, to the end of fiscal 2002 to complete step two of the transitional impairment test. Any impairment loss that results from the transitional goodwill impairment tests will be reflected as a cumulative effect of a change in accounting principle in the first quarter of 2002. We continue to assess the effects of the impairment testing provisions of SFAS No. 142. We anticipate completion of the first step of the impairment test in connection with our second quarter of 2002.

Asset Retirement Obligations: In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." The Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and associated asset retirement costs. We are required to implement this standard on January 1, 2003. We do not expect this Statement will have a material effect on our financial position or results of operations.

Impairment or Disposal of Long-Lived Assets: In 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Statement primarily supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." The Statement retains the previously existing accounting requirements related to the

recognition and measurement of the impairment of long-lived assets to be held and used, while expanding the measurement requirements of long-lived assets to be disposed of by sale to include discontinued operations. It also expands on the previously existing reporting requirements for discontinued operations to include a component of an entity that either has been disposed of or is classified as held for sale. We implemented this standard on January 1, 2002, and do not expect this Statement will have a material effect on our financial position or results of operations.

In 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." The Statement rescinds Statement 4 which required all gains and losses from extinguishment of debt to be aggregated and, when material, classified as an extraordinary item net of related income tax effect. Statement 145 also amends Statement 13 to require that certain lease modifications having economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. We are required to implement this standard for transactions occurring after May 15, 2002 and do not expect this Statement will have a material effect on our financial position or results of operations. We implemented the provisions related to the rescission of Statement 4 in the second quarter of 2002.

Revenue Recognition. In the normal course of business, we generate revenue through the sale and rental of equipment, service, and supplies and income associated with the financing of our equipment sales. Revenue is recognized when earned. More specifically, revenue related to sales of our products and services is recognized as follows:

Equipment: Revenues from the sale of equipment including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales which require us to install the product at the customer location, revenue is recognized when the equipment has been delivered to and installed at the customer location. Sales of customer installable and retail products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

Service: Service revenues are derived primarily from maintenance contracts on our equipment sold to customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence we do not have any significant product warranty obligations including for any obligations under customer satisfaction programs.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customer in accordance with sales terms.

Revenue Recognition for Sales-Type Leases Under Bundled Arrangements: We sell most of our products and services under bundled contract arrangements, which contain multiple deliverable elements. These arrangements typically include equipment, service and supplies, and financing components for which the customer pays a single negotiated price for all elements. These arrangements typically also include a variable service component for page volumes in excess of stated minimums. When separate prices are listed in multiple element customer contracts, they may not be representative of the fair values of those elements because the prices of the different components of the arrangement may be modified in customer negotiations, although the aggregate consideration may remain the same. Therefore, revenues under these arrangements are allocated based upon estimated fair values of each element. Our revenue allocation methodology first begins by determining the fair value of the service component as well as other executory costs and any profit thereon and second, by determining the fair value of the equipment based on comparison of the equipment values in our accounting systems to a range of cash selling prices. The resultant implicit interest rate is compared to fair market value rates to assess reasonableness of the overall allocations to the multiple elements. Finance income is earned on an accrual basis under an effective annual yield method over the lease term.

Determination of Appropriate Revenue Recognition for Sales-Type Leases: Our accounting for leases involves specific determination under SFAS No. 13 which often involves complex judgements. The general criteria for SFAS No. 13, at least one of which is required to be met in order to account for a lease as a sale versus as a rental, are (a) whether ownership transfers by the end of the lease term, (b) whether there is a bargain purchase option at the end of the lease term which is exercisable by the lessee, (c) whether the lease term is equal to or greater than at least 75 percent of the economic life of the equipment and (d) whether the present value of the minimum lease payments, as defined, are equal to or greater than 90 percent of the fair market value of the equipment. In addition to these criteria, there are also important criteria that are required to be assessed including whether collectibility of the lease payments

is reasonably predictable and that there are important uncertainties related to costs that we have yet to incur with respect to the lease.

The critical elements of SFAS No. 13 that we analyze with respect to our lease accounting are the determination of economic life and the fair market value of equipment, including our estimates of residual values. Accounting for sales-type lease transactions requires management to make estimates with respect to economic lives and expected residual value of the equipment in accordance with specific criteria as set forth in generally accepted accounting principles. Those estimates are based upon historical experience with economic lives of all of our equipment products. We consider the most objective measure of historical experience, for purposes of estimating the economic life, to be the original contract term since most equipment is returned by lessees at or near the end of the contracted term. The most frequent contractual lease term for our principal products is five years, and only a small percentage of our leases are for original terms longer than five years. Accordingly, we have estimated the economic life of most of our products to be five years. We believe that this is representative of the period during which the equipment is expected to be economically usable, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease. Residual values are established at lease inception using estimates of fair value at the end of the lease term. Our residual values are established with due consideration to forecasted supply and demand for our various products, product retirement and future product launch plans, end of lease customer behavior, remanufacturing strategies, used equipment markets (to the extent they exist for the particular product), competition and technological changes. Unguaranteed residual values are assigned primarily to our high volume copying, printing and production publishing products. We review residual values regularly and, when appropriate, adjust them based on estimates of forecasted demand including the impacts of future product launches. Impairment charges are recorded when available information indicates that the decline is other than temporary and it is probable that we will not be able to fully recover the recorded values. See Note 6.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand and investments with original maturities of three months or less.

Restricted Cash and Investments. At December 31, 2001, we had the following amounts of restricted cash: $115 of cash held in escrow as security for our performance of services related to the lease contracts transferred under the secured borrowings with General Electric Capital Corporation; $229 of cash held in escrow related to the scheduled distribution payments for trust preferred securities sold in November 2001; $111 of cash held as collateral related to our swaps and letters of credit; and $30 of cash held in escrow related to our asset-backed security transaction entered in July 2001. As discussed in Note 11, we also have $684 of cash and investments in trust as support for our discontinued operations reinsurance obligations. These restricted amounts are included in either Deferred taxes and other current assets or Intangible and other assets, net, as appropriate, in the Consolidated Balance Sheets.

Securitizations and Transfers of Receivables. Sales, transfers and securitizations of recognized financial assets are accounted for under Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS No. 140). From time to time, in the normal course of business, we may securitize or sell finance receivables and accounts receivable with or without recourse and/or discounts. The receivables are removed from the Consolidated Balance Sheet at the time they are sold and the risk of loss has transferred to the purchaser. However, we maintain risk of loss on our retained interest in such receivables. Sales and transfers that do not meet the criteria for surrender of control or were sold to a consolidated special purpose entity (non-qualified special purpose entity) under SFAS No. 140 are accounted for as secured borrowings.

When we sell receivables in securitizations of finance receivables or accounts receivable, we retain servicing rights, beneficial interests, and, in some cases, a cash reserve account, all of which are retained interests in the securitized receivables. The value assigned to the retained interests in securitized trade receivables is based on the relative fair values of the interest retained and sold in the securitization. We estimate fair value based on the present value of future expected cash flows using management's best estimates of the key assumptions, consisting of receivable amounts, anticipated credit losses and discount rates commensurate with the risks involved.

Gains or losses on the sale of the receivables depend in part on the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair value at the date of transfer.

Provisions for Losses on Uncollectible Receivables. The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience applied to ongoing evaluations of our receivables and evaluations of the risks of repayment. Allowances for doubtful accounts on our accounts receivable balances at December 31, 2001 and 2000 amounted to $306 and $289, respectively.

Inventories. Inventories are carried at the lower of average cost or realizable values.

Land, Buildings and Equipment and Equipment on Operating Leases. Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to its estimated residual value over the term of the lease. Depreciation is computed using principally the straight-line method. Significant improvements are capitalized; maintenance and repairs are expensed. See Notes 7 and 8.

Internal Use Software. We capitalize direct costs incurred during the application development stage and the implementation stage for developing, purchasing or otherwise acquiring software for internal use. These costs are included in Intangible and other assets and are amortized over the estimated useful lives of the software, generally three to five years. All costs incurred during the preliminary project stage, including project scoping, identification and testing of alternatives, are expensed as incurred. See Note 8.

Goodwill and Other Intangible Assets. Goodwill represents the cost of acquired businesses in excess of the fair value of identifiable tangible and intangible net assets purchased, and is amortized on a straight-line basis over periods ranging from 5 to 40 years. Other intangible assets represent the fair value of identifiable intangible assets acquired in purchase business combinations and include an acquired customer base, distribution network, assembled workforce, technology and trademarks. Goodwill and other intangible assets are reported net of accumulated amortization. Total accumulated amortization at December 31, 2001 and 2000 was $334 and $253, respectively.

Impairment of Long-Lived Assets. We review the recoverability of our long-lived assets, including buildings, equipment, goodwill, internal use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

Foreign Currency Translation. The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange, and income, expense and cash flow items are translated at the average exchange rate for the year. The translation adjustments are recorded in Accumulated Other Comprehensive Income. The U.S. dollar is used as the functional currency for certain subsidiaries that conduct their business in U.S. dollars or operate in hyperinflationary economies. A combination of current and historical exchange rates is used in remeasuring the local currency transactions of these subsidiaries, and the resulting exchange adjustments are included in income. Aggregate foreign currency gains were $29, $103 and $7 in 2001, 2000 and 1999, respectively, and are included in Other expenses, net in the Consolidated Statements of Operations. Effective January 1, 2002, we changed the functional currency of our Argentina operation from the U.S. dollar to the Peso as a result of operational changes made subsequent to the government's new economic plan.

Note 2--Restatement

On April 11, 2002, we reached a settlement with the Securities and Exchange Commission (SEC) relating to matters that had been under investigation by the SEC since June 2000. In connection with the settlement, we agreed to restate our financial statements as of and for the years ended December 31, 1997 through 2000 as well as undertake a review of our material internal controls and accounting policies. In addition, as a result of the re-audit of our 2000 and 1999 consolidated financial statements, additional adjustments were recorded. The restatement reflects adjustments which are corrections of errors made in the application of U.S. generally accepted accounting principles (GAAP) and includes (i) adjustments related to the application of the provisions of Statement of Financial Accounting Standards No. 13 "Accounting for Leases" (SFAS No. 13) and (ii) adjustments that arose as a result of other errors in the application of GAAP. The principal adjustments are discussed below.

Application of SFAS No. 13

Revenue allocations in bundled arrangements: We sell most of our products and services under bundled lease arrangements which contain multiple deliverable elements. These multiple element arrangements typically include separate equipment, service, supplies and financing components for which a customer pays a single fixed negotiated price on a monthly basis, as well as a variable amount for page volumes in excess of stated minimums. The restatement primarily reflects adjustments related to the allocation of revenue and the resultant timing of revenue recognition for sales-type leases under these bundled lease arrangements.

The methodology we used in prior years for allocating revenue to our sales-type leases involved first, estimating the fair market value of the service and financing components of the leases. Specifically, with respect to the financing component,

we estimated the overall interest rate to be applied to transactions to be the rate we targeted to achieve a fair return on equity for our financing operations. This is effectively a discounted cash flow valuation methodology. In estimating this interest rate we considered a number of factors including our cost of funds, debt levels, return on equity, debt to equity ratios, income generated subsequent to the initial lease term, tax rates, and the financing business overhead costs. We made service revenue allocations based, primarily, on an analysis of our service gross margins. After deducting service and finance values from the minimum payments due under the lease, the equipment value was derived. These allocation procedures resulted in adjustments to values initially reflected in our accounting systems, such that values attributed to the service and financing components were generally decreased and the values assigned to the equipment components were generally increased.

We have determined that the allocation methodology used in prior years did not comply with SFAS No. 13, therefore, we have utilized a different methodology to account for our sales-type leases involving multiple element arrangements. This methodology begins by determining the fair value of the service component, as well as other executory costs and any profit thereon, and second, by determining the fair value of the equipment based on a comparison of the equipment values in our accounting system to a range of cash selling prices. The resultant implicit interest rate is then compared to fair market value rates to assess the reasonableness of the overall allocations to the multiple elements.

We conducted an extensive analysis of available verifiable objective evidence of fair value (VOE) based on cash sales prices and compared these prices to the range of equipment values recorded in our lease accounting systems. With the exception of Latin America, where operating lease accounting is applied as discussed below, the range of cash selling prices supports the reasonableness of the range of equipment lease prices as originally recorded, at the inception of the lease, in our accounting systems. In applying our new methodology described above, we have therefore concluded that the revenue amounts allocated by our accounting systems to the equipment component of a multiple element arrangement represents a reasonable estimate of the fair value of the equipment. As a consequence, $541 and $650 of previously recorded equipment sale revenue during the years ended December 31, 2000 and 1999, respectively, have been reversed and we have recognized additional service and finance income of $463 and $393, which represents the impact of reversing amounts previously recorded as equipment sales-type leases and recognizing such amounts over the lease term. The net cumulative reduction in revenue, as a result of this change, was $335 for the two-year period ended December 31, 2000.

Transactions not qualifying as sales-type leases: We re-evaluated the application of SFAS No. 13 for leases originally accounted for as sales-type leases in our Latin American operations, and we determined that these leases should have been recorded as operating leases. This determination was made after we conducted an in-depth review of the historical effective lease terms compared to the contractual terms of our lease agreements. Since historically, and during all periods presented, a majority of leases were terminated significantly prior to the expiration of the contractual lease term, we concluded that such leases did not qualify as sales-type leases under certain provisions of SFAS No. 13. Specifically, because we generally do not collect the receivable from the initial transaction, upon termination of the contract or during the subsequent lease term, the recoverability of the lease investment was not predictable at the inception of the original lease term. As a consequence, $459 and $300 of previously recorded equipment sale revenue during the years ended December 31, 2000 and 1999, respectively, have been reversed and we have recognized additional rental revenue of $401 and $357, which represents the impact of changing the classification of previously recorded sales-type leases to operating leases. The net cumulative reduction in revenue, as a result of this change, was $1 for the two-year period ended December 31, 2000.

During the course of the restatement process, we concluded that the estimated economic life used for classifying leases for the majority of our products should have been five years versus the three to four years we previously utilized. This resulted from an in-depth review of our lease portfolios, for all periods presented, which indicated that the most frequent term of our lease contracts was 60 months. We believe that this has been and is representative of the period during which the equipment is expected to be economically usable, with normal repairs and maintenance, for the purpose for which it was intended at the inception of the lease. As a consequence, many shorter duration leases did not meet the criteria of SFAS No. 13 to be accounted for as sales-type leases. Additionally, other lease arrangements were found to not meet other requirements of SFAS No. 13 for treatment as sales-type leases. As a consequence $74 and $160 of equipment revenue recorded during the two years ended December 31, 2000 and 1999, respectively, have been reversed and we have recognized additional rental revenue of $131 and $100, which represents the impact of changing the classification of previously recorded sales-type leases to operating leases. The net cumulative reduction in revenue, as a result of this change was $3 for the two-year period ended December 31, 2000.

Accounting for the sale of equipment subject to operating leases: We have historically sold pools of equipment subject to operating leases to third party finance companies (the counterparty) or through structured financings with third parties and recorded the transaction as a sale at the time the equipment is accepted by the counterparty. These transactions increased equipment sale revenue, primarily in Latin America, in 2000 and 1999 by $148 and $400, respectively. Upon additional review of the terms and conditions of these contracts, it was determined that the form of the transactions at inception

included retained ownership risk provisions or other contingencies that precluded these transactions from meeting the criteria for sale treatment under the provisions of SFAS No. 13. The form of these transactions notwithstanding, these risk of loss or contingency provisions have resulted in only minor impacts on our operating results. These transactions have however been restated and recorded as operating leases in our consolidated financial statements. As a consequence $111 and $342 of equipment revenue recorded during the years ended December 31, 2000 and 1999, respectively, have been reversed and we have recognized additional rental revenue of $235 and $99, which represents the impact of changing the classification of previously recorded sales-type leases to operating leases. The net cumulative reduction in revenue, as a result of this change was $119 for the two-year period ended December 31, 2000. Additionally, for transactions in which cash proceeds were received up-front we have recorded these proceeds as secured borrowings. The remaining balance of these borrowings aggregated $55 and $123 at December 31, 2001 and 2000, respectively.

Other adjustments

In addition to the aforementioned revenue related adjustments, other errors in the application of GAAP were identified. These include the following:

Sales of receivables transactions: During 1999, we sold $1,395 of U.S. finance receivables originating from sales-type leases. These transactions were accounted for as sales of receivables. These sales were made to special purpose entities (SPEs), which qualified for non-consolidation in accordance with then existing accounting requirements. As a result of the changes in the estimated economic life of our equipment to five years, certain leases transferred in these transactions did not meet the sales-type lease requirements and were accounted for as operating leases. This change in lease classification affected a number of the leases that were sold into the aforementioned SPEs resulting in these entities now holding operating leases as assets. This change disqualified the SPEs from non-consolidation and effectively required us to record the proceeds received on these sales as secured borrowings. This increased our net finance receivables by $367 and debt by $418 as of December 31, 2000. The debt balance remaining was $94 at December 31, 2001. These transactions are also discussed in Note 6 to the Consolidated Financial Statements.

During 1999, we sold $288 of accounts receivables, to financial institutions. Upon additional review of the terms and conditions of these transactions, we determined that $57 (including $14 which was restated in connection with the prior restatement of our financial statements) did not qualify for sale treatment as a result of our agreeing to reacquire the receivables in 2000. Accordingly, we have restated our previously reported results for these transactions and they are now reported in our Consolidated Financial Statements as short-term borrowings. This change increased Accounts receivable, net and debt by $57 as of December 31, 1999; the transaction was settled in early 2000. No similar transactions have occurred since 1999.

South Africa deconsolidation: We determined that we inappropriately consolidated our South African affiliate since 1998 as the minority joint venture partner has substantive participating rights. Accordingly, we have deconsolidated all assets, liabilities, revenues and expenses. We now account for this investment on the equity method of accounting. The reduction in revenues was $72 and $71 for the years ended December 31, 2000 and 1999, respectively, and there was no impact on net income or common shareholders equity.

Purchase accounting reserves: In connection with the 1998 acquisition of XL Connect Solutions, Inc. (XLConnect), we recorded liabilities aggregating $65 for contingencies identified at the date of the acquisition. During 2000 and 1999, we determined that certain of these contingent liabilities were no longer required, and $29 of the liabilities were either reversed into income or we charged certain costs related to ongoing activities of the acquired business against these liabilities. Upon additional review it was subsequently determined that approximately $51 of these contingent liabilities did not meet the criteria to initially be recorded as acquisition liabilities. Accordingly, we have adjusted the goodwill and liabilities at the date of acquisition and corrected the 2000 and 1999 income statement impacts.

Restructuring reserves: During 2000 and 1998, we recorded restructuring charges associated with our decisions to exit certain activities of the business. Upon additional review we determined that certain adjustments made to the original charges were not in accordance with GAAP. The adjustments to decrease pre-tax loss in 2000 of $65 consist primarily of corrections to the timing of the release of reserves originally recorded under the March 2000 restructuring program. We should have reversed the applicable reserves in late 2000 when the information was available that our original plan had changed indicating that such reserves were no longer necessary. Previously, the reversal was recorded in early 2001. Similarly, the adjustment of $12 to decrease 1999 pre-tax income relates primarily to the inappropriate release of restructuring reserves which should have been recorded in 1998 based on information available at the time.

Tax refunds: In 1995, we received a final favorable court decision that entitled us to refunds of certain tax amounts paid in the U.S., plus accrued interest on the tax. The court established the legal precedent upon which the refunds were to be based. We recorded the income associated with the tax refund and the related interest from 1995 through 1999. We determined that the benefit should have been recorded in periods prior to 1997. These adjustments decreased pre-tax income by $14 for the year ended December 31, 1999.

Other adjustments: In addition to the above items and in connection with our review of prior year's financial records we determined that other accounting errors were made with respect to the accounting for certain non-recurring transactions, the timing of recording and reversing certain liabilities and the timing of recording certain asset write-offs. We have restated our 2000 and 1999 Consolidated Financial Statements for such items. These adjustments increased pre-tax loss by $89 for the year ended December 31, 2000 and decreased pre-tax income by $131 for the year ended December 31, 1999.

The following table presents the effects of the aforementioned adjustments on total revenue:

Increase (decrease) to total revenue:

	Year ended December 31, 2000	1999
Revenue, previously reported	$18,701	$19,567
Application of SFAS No. 13:		
Revenue allocations in bundled arrangements	(78)	(257)
Latin America - operating lease accounting	(58)	57
Other transactions not qualifying as sales-type leases	57	(60)
Sales of equipment subject to operating leases	124	(243)
Subtotal	45	(503)
Other revenue restatement adjustments:		
Sales of receivables transactions	61	(6)
South Africa deconsolidation	(72)	(71)
Other revenue items, net	16	8
Subtotal	5	(69)
Increase (decrease) in total revenue	50	(572)
Revenue, restated	$18,751	$18,995

The following table presents the effects of the aforementioned adjustments on pre-tax income (loss): Increase (decrease) to pre-tax (loss) income:

	Year ended December 31, 2000	1999
Pre-tax (loss) income, previously reported	$ (384)	$1,908
Revenue restatement adjustments:		
Revenue allocations in bundled arrangements	(74)	(252)
Latin America - operating lease accounting	80	39
Other transactions not qualifying as sales-type leases	12	(50)
Sales of equipment subject to operating leases	11	(162)
Sales of receivables transactions	18	(32)
South Africa deconsolidation	(11)	(8)
Other revenue items, net	12	22
Subtotal	48	(443)
Other restatement adjustments:		
Purchase accounting reserves	(7)	(20)
Restructuring reserves	65	(12)
Tax refunds	-	(14)
Other, net	(89)	(131)
Subtotal	(31)	(177)

Increase (decrease) in pre-tax (loss) income	17	(620)
Pre-tax (loss) income, restated	$(367)	$1,288

These adjustments resulted in a cumulative net reduction of Common Shareholders' Equity of $1,692 as of December 31, 2000. The following table presents the impact of the restatement adjustments on Common Shareholders' Equity as of January 1, 1999:

Increase (decrease) in Common Shareholders' Equity:	
Common Shareholders Equity balance, January 1, 1999, previously reported	$4,633
Revenue allocations in bundled arrangements	(589)
Latin America - operating lease accounting	(1,836)
Other transactions not qualifying as sales-type leases	(166)
Sales of equipment subject to operating leases	(66)
Other items, net	216
Income tax impacts of above adjustments	834
Decrease in Common Shareholders' Equity	(1,607)
Common Shareholders Equity balance, January 1, 1999, restated	$3,026

The following tables present the impact of the restatements on a condensed basis:

	As Previously Reported	As Restated
Year ended December 31, 2000		
Statement of operations:		
Total Revenues	$18,701	$18,751
Sales	10,059	8,839
Service, outsourcing and rentals	7,718	8,750
Finance income	924	1,162
Total Costs and Expenses	19,085	19,118
Net loss	(257)	(273)
Basic loss per share	$(0.44)	$(0.48)
Diluted loss per share	$(0.44)	$(0.48)
Balance Sheet:		
Accounts receivable, net	$ 2,281	$2,269
Current finance receivables, net	5,097	4,392
Inventories	1,932	1,983
Deferred taxes and other current assets	1,247	1,078
Total Current Assets	12,298	11,472
Finance receivables due after one year, net	7,957	6,406
Equipment on operating leases, net	724	1,266
Land, buildings and equipment, net	2,495	2,527
Investments in affiliates, at equity	1,362	1,270
Intangible and other assets, net	3,061	3,763
Goodwill, net	1,578	1,549
Total Assets	29,475	28,253
Short-term debt and current portion of long-term debt	2,693	3,080
Accounts payable	1,033	1,050
Accrued compensation and benefit costs	662	645
Unearned income	250	233
Other current liabilities	1,630	1,536
Total Current Liabilities	6,268	6,544
Long-term debt	15,404	15,557
Deferred taxes and other liabilities	1,876	1,925

Total Liabilities	24,745	25,223
Common Shareholders' Equity	3,493	1,801
Total Liabilities and Equity	$29,475	$28,253

	As Previously Reported	As Restated
Year ended December 31, 1999		
Statement of operations:		
Total Revenues	$19,567	$18,995
Sales	10,441	8,967
Service, outsourcing and rentals	8,045	8,853
Finance income	1,081	1,175
Total Costs and Expenses	17,659	17,707
Net income	1,339	844
Basic earnings per share	$ 1.96	$ 1.20
Diluted earnings per share	$ 1.85	$ 1.17

Note 3--Restructuring Programs

Since early 2000, we have engaged in several restructuring programs, as we have responded to economic weakness, as well as company-specific challenges, including the poor execution of a major sales force realignment, the disruptive consolidation of our U.S. customer administrative centers and increased competition. We engaged in a series of plans related to resizing our employee base, exiting certain businesses, outsourcing some internal functions and engaging in other actions designed to reduce our cost structure.

We accomplished these objectives through the undertaking of three separate restructuring initiatives as follows:

RESTRUCTURING ACTION	INITIATION OF PLAN
. Turnaround Program	October 2000
. SOHO Disengagement	June 2001
. March 2000 Restructuring	March 2000

These actions were in addition to a worldwide restructuring program we initiated in 1998. The execution of the actions and payments of obligations continued through December 31, 2001, with each plan initiative in various stages of completion. As management continues to evaluate the business, there may be supplemental charges for new plan initiatives as well as changes in estimates to amounts previously recorded as payments are made or actions are completed. Asset impairment charges were incurred in connection with these restructuring actions for those assets made obsolete or redundant as a result of the plans. The details of the restructuring actions are explained below.

Turnaround Program. As noted above, beginning in October 2000, we engaged in a series of actions to reduce costs, improve operations, transition customer equipment financing to third-party vendors and sell certain assets that we believe will positively affect our capital resources and liquidity position when completed.

As an initial step in this program, in the fourth quarter 2000, we provided $105, consisting of $71 for severance and related costs and $34 for asset impairments associated with the disposition of a non-core business. Over half of these charges related to our Production segment, with the remainder relating to our Office, DMO and Other segments. During 2001, we provided $403 of restructuring costs, net of reversals of $26. The reversals related to the change of certain initiatives. Of the amounts provided, $339 was for severance and other employee separation costs (including $21 for pension curtailment charges), $28 was for asset impairments and $36 was for lease cancellation and other exit costs. The majority of these charges relate to our Production and Office segments. The aggregate 2001 and 2000 severance and other employee separation costs are related to the elimination of approximately 7,800 positions worldwide reflecting continued streamlining of existing work processes, elimination of redundant resources and the consolidation of activities into other existing operations. By December 31, 2001, approximately 5,900 employees had left the Company under the Turnaround Program. The lease cancellation and other exit costs and asset impairments related primarily to manufacturing operations. Included in 2001 restructuring charges are $24, primarily for severance and other employee separation costs, related to the outsourcing of certain Office segment manufacturing to Flextronics, as discussed further in Note 5. The Turnaround Program reserve balance at December 31, 2001 was $223. The remaining balance primarily relates to severance costs and is expected to be substantially utilized in 2002.

As discussed in Note 5, we have completed several divestitures and the outsourcing of some of our manufacturing operations in 2001. In addition, we have actively engaged in our plan to transition customer financing to third parties, as described in Note 6.

SOHO Disengagement. In 2001, we began a separate restructuring program associated with the disengagement from our worldwide small office/home office (SOHO) business. In connection with exiting this business, we recorded a pretax charge of $239, net of reversals. Reversals of $26 were primarily related to a higher than anticipated number of employees redeployed and better than expected experience on certain contract terminations. The charge included provisions for the elimination of approximately 1,200 jobs worldwide by the end of 2001, the closing of facilities and the write-down of certain assets to net realizable value. The restructuring provision associated with this action included $164 for asset impairments, $49 for lease cancellation, purchase decommitments and other exit costs, and $26 for severance and employee separation costs. An additional provision of $34 related to excess inventory was recorded as a charge to Cost of sales. As of December 31, 2001, approximately 800 employees had left the Company under the SOHO disengagement program. The SOHO disengagement reserve balance at December 31, 2001 was $23. The remaining balance primarily relates to severance costs and is expected to be substantially utilized in 2002.

During the fourth quarter 2001, we depleted our inventory of personal inkjet and xerographic printers, copiers, facsimile machines and multifunction devices which were sold primarily through retail channels to small offices, home offices and personal users (consumers). We will continue to provide service, support and supplies, including the manufacturing of such supplies, for customers who currently own SOHO products during a phase-down period to meet customer needs.

March 2000 Restructuring. In March 2000, we announced details of a worldwide restructuring program and recorded pre-tax provisions and charges of $489 which included severance and employee separation costs of $424, asset impairments of $30 and other exit costs of $35. An additional provision of $84 related to excess inventory primarily resulting from the planned consolidation of certain warehousing operations was recorded as a charge to Cost of sales. The severance related to the elimination of 5,200 positions worldwide. Approximately 65 percent, 20 percent and 15 percent of the positions related to the U.S., Europe, and Latin America, respectively. In late 2000, as a result of weakening business conditions and poor operating results, we reevaluated the remaining plan. After considering the delays in the consolidation and outsourcing of certain of our warehousing and logistics operations and the cancellation of certain European initiatives no longer necessary as a result of higher than expected attrition, we determined that adjustments to the remaining reserve were necessary. As such, and in connection with the Turnaround Program discussed above, $71 of the original $489 provision was reversed in the fourth quarter 2000. The amount reversed consisted of $59 related to severance costs associated with 1,000 positions and $12 related to other exit costs. During 2001, we recorded additional provisions of $70 for instances when the actual cost of certain initiatives exceeded the amount estimated at the time of the original charge. We also recorded reversals of $17 associated with the delay or the cancellation of certain initiatives, primarily in service and manufacturing. As of December 31, 2001, the March 2000 restructuring program has been substantially completed.

1998 Restructuring. In 1998, we announced a worldwide restructuring program and recorded a pre-tax provision of $1,393. During 2001, we recorded additional provisions for changes in estimates of $15 and reversals of $8, primarily as a result of changes in certain manufacturing initiatives. Cash charges against the reserve during 1999 were $366 for severance and related costs and $54 for lease cancellation and other costs. Also, during 1999 we provided an additional provision of $12, net of reversals, related to changes in estimates. As of December 31, 2001, the 1998 Restructuring program has been substantially completed.

The following table summarizes the activity in the restructuring reserves for the two years ended December 31, 2001:

	1999	2000				2001			
	Balance	Provision	Reversal	Charges	Balance	Provision	Reversals	Charges	Balance
Turnaround Program:									
Severance and related costs	$ --	$ 71	$ --	$ --	$ 71	$ 364	$ (25)	$ (211)	$ 199
Lease cancellation and other costs	--	--	--	--	--	37	(1)	(4)	32
Subtotal	--	71	--	--	71	401	(26)	(215)	231
Currency changes	--	--	--	--	--	--	--	(8)	(8)
Total	--	71	--	--	71	401	(26)	(223)	223
SOHO Disengagement:									
Severance and related costs	--	--	--	--	--	37	(11)	(12)	14
Lease cancellation and other costs	--	--	--	--	--	64	(15)	(39)	10
Subtotal	--	--	--	--	--	101	(26)	(51)	24
Currency changes	--	--	--	--	--	--	--	(1)	(1)
Total	--	--	--	--	--	101	(26)	(52)	23
March 2000 Restructuring:									
Severance and related costs	--	424	(97)	(151)	176	68	(17)	(183)	44
Lease cancellation and other	--	35	(23)	(10)	2	2	--	(4)	--
Subtotal	--	459	(120)	(161)	178	70	(17)	(187)	44
Currency changes	--	--	--	(15)	(15)	--	--	(17)	(32)
Total	--	459	(120)	(176)	163	70	(17)	(204)	12
1998 Restructuring:									
Severance and related costs	334	6	(5)	(197)	138	10	(8)	(40)	100
Lease cancellation and other costs	50	--	--	(29)	21	5	--	(12)	14
Subtotal	384	6	(5)	(226)	159	15	(8)	(52)	114
Currency changes	(45)	--	--	(21)	(66)	--	--	(24)	(90)
Total	339	6	(5)	(247)	93	15	(8)	(76)	24
Total of all programs	$ 339	536	(125)	$ 423	$ 327	$ 587	(77)	$ (555)	$ 282
Total asset impairments		64	--			205	--		
Subtotal		$ 600	(125)			$ 792	(77)		
Total restructuring and asset impairment provision			$ 475				$ 715		

Note 4--Acquisitions

CPID Division of Tektronix, Inc.: In January 2000, we and Fuji Xerox completed the acquisition of the Color Printing and Imaging Division of Tektronix, Inc. (CPID). CPID manufactures and sells color printers, ink and related products, and supplies. The original aggregate consideration paid of $925 in cash, including $73 paid directly by Fuji Xerox, was subject to customary purchase price adjustments pending the finalization of net asset values. During 2001, we were reimbursed $18 in cash upon finalization of these values which was recorded as a reduction to Goodwill. The acquisition was accounted for in accordance with the purchase method of accounting.

The excess of cash paid over the fair value of net assets acquired has been allocated to identifiable intangible assets and Goodwill using a discounted cash flow approach. The value of the identifiable intangible assets included $27 for purchased in-process research and development which was written off in 2000. The charge represented the fair value of certain acquired research and development projects that were determined not to have reached technological feasibility as of the date of the acquisition, and was determined based on a methodology that utilized the projected after-tax cash flows of the products expected to result from in-process research and development activities and the stage of completion of the individual projects. Other identifiable intangible assets are exclusive of intangible assets acquired by Fuji Xerox, and include the installed customer base, the distribution network, the existing technology, the workforce, and trade-marks. These identifiable assets are included in Intangibles and other assets, net in the Consolidated Balance Sheets.

Other identifiable intangible assets and Goodwill are being amortized on a straight-line basis over their estimated useful lives which range from 7 to 25 years. During 2001, certain intangible asset useful lives were revised. As a result of these revisions, we recorded an additional $9 in amortization expense during 2001.

In connection with this acquisition, we recorded approximately $45 for anticipated costs associated with exiting certain activities of the acquired operations. These activities included: the consolidation of duplicate distribution facilities; the rationalization of the service organization; and the exiting of certain lines of the CPID business. The costs associated with these activities include inventory write-offs, severance charges, contract cancellation costs and fixed asset impairment charges. During 2001, we revised our originally planned initiatives related to the acquired European service organization and our estimate of the costs to complete the exit from our distribution facilities in Europe. These changes, along with certain other changes, resulted in the reversal of $9 of the originally recorded reserves, with a corresponding reduction in Goodwill.

Omnifax: In August 1999, we purchased the OmniFax division from Danka Business Systems for $45 in cash. OmniFax is a supplier of business laser multifunction fax systems. The acquisition resulted in goodwill of $20, which is being amortized over 15 years.

India Operations: In 1999, we paid $62 to increase our ownership in our India operations from approximately 40 percent to 68 percent. This transaction resulted in additional goodwill of $51, which is being amortized over 40 years.

See Note 1 for a discussion of the impact of the adoption of SFAS No. 142 on the intangible assets acquired.

Note 5--Divestitures

Flextronics Manufacturing Outsourcings: In October 2001, we announced a manufacturing outsourcing agreement with Flextronics, a global electronics manufacturing services company. The agreement includes a five-year supply contract for Flextronics to manufacture certain office equipment and components, and a sale agreement providing for the purchase by Flextronics of inventory, property and equipment at a premium over book value, and the assumption of certain liabilities. The premium will be amortized over the life of the five-year supply contract. Inventory purchased from us by Flextronics remains in our inventory balance until sold to an end user, and a corresponding liability is recognized for proceeds received. This inventory totaled $27 at December 31, 2001. Additionally, we are required to repurchase inventory not utilized by Flextronics within 180 days. In total, the agreement with Flextronics will represent approximately 50 percent of our overall worldwide manufacturing operations when all phases are complete.

In the 2001 fourth quarter, we completed the sales of our plants in Toronto, Canada; Aguascalientes, Mexico; and Penang, Malaysia to Flextronics for approximately $118, plus the assumption of certain liabilities. The sale is subject to certain closing adjustments. Approximately 2,500 Xerox employees in these operations transferred to Flextronics upon closing. In January 2002, we completed the sale of our office manufacturing operations in Venray, The Netherlands and Resende, Brazil for $29, plus the assumption of certain liabilities. Approximately 1,600 Xerox employees in these operations transferred to Flextronics upon closing.

By the end of the third quarter 2002, we anticipate all production at our printed circuit board factories in El Segundo, California and Mitcheldean, England and our customer replaceable unit plant in Utica, New York will be fully transferred to Flextronics' facilities. Included in the 2001 Turnaround Program are restructuring charges of $24 related to the closing of these facilities. See Note 3.

Delphax: In December 2001, we sold Delphax Systems and Delphax Systems, Inc. (Delphax) to Check Technology Canada LTD and Check Technology Corporation for $14 in cash subject to purchase price adjustments. The transaction was essentially at book value. Delphax designs, manufactures and supplies high-speed electron beam imaging digital printing systems and related parts, supplies and maintenance services.

Nordic Leasing Business: In April 2001, we sold our leasing businesses in four Nordic countries to Resonia Leasing AB for $352 in cash and retained interests in certain finance receivables for total proceeds of approximately $370 which approximated book value. These sales are part of an agreement under which Resonia will provide ongoing, exclusive equipment financing to our customers in those countries.

Fuji Xerox Interest: In March 2001, we completed the sale of half of our ownership interest in Fuji Xerox to Fuji Photo Film Co., Ltd (FujiFilm) for $1,283 in cash. In connection with the sale, we recorded a pre-tax gain of $773 and recognized in income $16 of net accumulated currency translation losses. Under the agreement, FujiFilm's ownership interest in Fuji Xerox increased from 50 percent to 75 percent. While our ownership interest decreased to 25 percent, we retain significant rights as a minority shareholder. All product and technology agreements between us and Fuji Xerox continue, ensuring that the two companies retain uninterrupted access to each other's portfolio of patents.

Xerox China: In December 2000, we sold our China operations to Fuji Xerox for $550. In connection with the sale, Fuji Xerox also assumed $118 of indebtedness. We recorded a pre-tax gain of $200 in connection with this transaction. Our China operations had revenue of $262 and $198 in the years ended December 31, 2000 and 1999, respectively.

Commodity Paper Product Line: In June 2000, we entered into an agreement to sell our U.S. and Canadian commodity paper product line and customer list, including an exclusive license for the Xerox brand, to Georgia Pacific and recorded a pre-tax gain of $40 which is included in Other, net. In addition to the proceeds from the sale, we are receiving royalty payments on future sales of Xerox branded commodity paper by Georgia Pacific and are earning commissions on any Xerox originated sales of commodity paper as an agent for Georgia Pacific.

ContentGuard: In April 2000, we sold a 25 percent ownership interest in our wholly owned subsidiary, ContentGuard, to Microsoft, Inc. for $50 and recognized a pre-tax gain of $23, which is included in Other, net. An additional pre-tax gain of $27 was deferred, pending the achievement of certain performance criteria. In May 2002, we repaid Microsoft $25 as the performance criteria had not been achieved. In connection with the sale, ContentGuard also received $40 from Microsoft for a non-exclusive license of its patents and other intellectual property and a $25 advance against future royalty income from Microsoft on sales of products incorporating ContentGuard's technology. The license payment is being amortized over the life of the license agreement of 10 years and the royalty advance will be recognized in income as earned. These amounts are not refundable.

Note 6--Receivables, Net

Finance Receivables. Finance receivables result from installment arrangements and sales-type leases arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. The components of Finance receivables, net at December 31, 2001 and 2000 follow:

	2001	2000
Gross receivables	$11,466	$12,455
Unearned income	(1,834)	(1,820)
Unguaranteed residual values	414	508
Allowance for doubtful accounts	(368)	(345)
Finance receivables, net	9,678	10,798
Less current portion	3,922	4,392
Amounts due after one year, net	$ 5,756	$ 6,406

Contractual maturities of our gross finance receivables subsequent to December 31, 2001 follow:

2002	2003	2004	2005	2006	Thereafter
$4,528	$3,191	$2,104	$1,142	$388	$113

Our 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. In addition, our strategy of exiting the direct financing of customers' purchases may result in further acceleration of the collection of these receivables as a result of associated asset securitizations.

Secured Borrowings and Collateral. In November 2001, we entered into a secured loan agreement with General Electric Capital Corporation (GECC) which provided for the sale by Xerox of certain lease contracts in the U.S. to a special purpose entity (SPE). The purchase of the contracts by the SPE is funded through secured loans by GECC up to a maximum amount of $2.6 billion. We and GECC intend the transfers of the lease contracts to the SPE to be "true sales at law," and have received an opinion to that effect from outside legal counsel. As a result, the assets of the SPE are not available to satisfy any of our other obligations. However, the transaction was accounted for as a secured borrowing because the SPE is non-qualifying in accordance with the provisions of SFAS No. 140. Therefore, we consolidate the SPE in our financial statements. During 2001, lease contracts were transferred to the SPE for cash proceeds of $1,175. Net fees of $7 were paid in connection with the transaction and have been capitalized as debt issuance costs. In connection with these transactions, $115 of the $1,175 in proceeds was required to be held in reserve by the SPE, as security for our supply and service obligations inherent in the transferred contracts and is included in Intangible and other assets, net. The amount held will be released ratably as the underlying borrowing is repaid. At December 31, 2001, the remaining secured borrowing balance was $1,149 and is included in Debt.

In July 2001, we transferred domestic lease contracts to a consolidated trust, which in turn sold $513 of floating-rate asset-backed notes (notes). We received cash proceeds of $480, net of $3 of expenses and fees. An additional $30 of proceeds are being held in reserve by the trust until the notes are repaid, which is currently estimated to be in or around August 2003. Since the trust is consolidated in our financial statements, we effectively recorded the transaction as a secured borrowing. Although the transferred assets remain included in our Total Assets, we did receive an opinion from outside legal counsel that the transfer to the trust was deemed to be a "true sale at law". As a result, the assets of the trust are not available to satisfy any of our other obligations. At December 31, 2001, the remaining secured borrowing balance was $395 and is included in Debt. The $30 of proceeds held by the trust is included in Intangible and other assets, net.

During 2001, we received $885 in financing from GE Capital Equipment Finance Limited (a subsidiary of GECC), secured by our portfolios of lease receivables in the United Kingdom. At December 31, 2001, the remaining secured borrowing balance is $521 and is included in Debt.

In 2000, we transferred domestic lease contracts to a SPE, for gross proceeds of $411. The proceeds received were accounted for as a secured borrowing. At December 31, 2001, the remaining secured borrowing balance was $154 and is included in Debt.

In 1999, we sold certain finance receivables in the U.S. generating gross proceeds of $1,150. The transactions were accounted for as secured borrowings. At December 31, 2001, the remaining secured borrowing balance was $94 and is included in Debt. The remaining balances due are expected to be paid off during the first half of 2002.

As of December 31, 2001, $1,919 of finance receivables are held as collateral in various trusts and SPEs, as security for the borrowings noted above.

Accounts Receivable. In 2000, we established two revolving accounts receivable securitization facilities in the U.S. and Canada aggregating $330. The agreements enable us to sell, on an ongoing basis, undivided interests in a portion of our accounts receivable, meeting certain credit criteria, in exchange for cash. The portion of the receivables pool not sold are held by us as retained interests. At December 31, 2001, unrelated third parties held an undivided interest of $326 in an accounts receivable pool balance of $785. The balance of $459, which represents our retained interests, is included in Accounts receivable, net in the Consolidated Balance Sheets. Each period, this balance may differ depending on the volume of receivables generated that meet the defined terms applicable to the facility.

Under the terms of the agreements, new receivables are added to the facility pool as collections reduce previously sold accounts receivable. Third party undivided interest investors have a priority collection right in the entire pool of receivables transferred, and, as a result, we have a retained credit risk on the first dollar loss on the receivable pool to the extent of its retained interest. This risk is estimated and reserved for as part of the allowance for doubtful accounts and is included as an offset to the balance of retained interests referred to above. The amount of the allowance for doubtful accounts associated with the transferred pool of receivables was approximately $100 at December 31, 2001. We continue to service the pool of receivables and receive a servicing fee which is adequate to compensate us for such services. The investors in the securitized accounts receivable have no recourse to our assets for failure of obligors to pay when due beyond our retained interests in the accounts receivable pool. Excluding credit losses we may have incurred, expenses and fees associated with these transactions amounted to $19 and $10 in 2001 and 2000, respectively, and are included in Other, net in the Consolidated Statements of Operations. The increase is primarily due to the facilities being outstanding for a full year in 2001.

In May 2002, one of our credit rating agencies downgraded our credit status, which had the resultant effect of causing an event of default under the U.S. facility. The undivided interest sold under the U.S. facility amounted to $290 at December 31, 2001, of the $326 aggregate total noted above. The Canadian facility, which had undivided interests of $36 at December 31, 2001 was also impacted by a downgrade in debt, which led to a similar event of default. As of June 21, 2002, we are currently in the process of renegotiating terms of the U.S. facility. We continue to sell receivables to the U.S. facility up to its limit of $290. Failure to successfully renegotiate this facility could result in the suspension of its revolving features, whereupon we would be unable to sell new accounts receivable into the facility. However, if that event occurs, there would not be any requirement of us to repurchase any of the undivided interests sold. The practical effect would be only that of timing, as the cash flows from the pooled receivables would first be used to pay the undivided interests investor, while we would collect all remaining cash from the residual receivables in the pool. The Canadian facility was not renegotiated and the balance of the undivided interests of $36 at December 31, 2001, has subsequently been fully repaid.

Total proceeds from the collections reinvested in these facilities were $5,261 and $1,363, respectively for the years ended December 31, 2001 and 2000.

In 1999, we sold accounts receivable, generating aggregate gross proceeds of $231. These short-term transactions were accounted for as sales of receivables. These transactions have all been fully completed and no balances remain outstanding at December 31, 2001.

Note 7--Inventories and Equipment on Operating Leases, Net

The components of inventories at December 31, 2001 and 2000 follow:

	2001	2000
Finished goods	$ 960	$1,485
Work in process	97	147
Raw materials	307	351
Total inventories	$1,364	$1,983

Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value. Equipment on operating leases is presented in our Consolidated Statements of Cash Flows in the operating activities section as a non-cash adjustment, reflecting the transfer from our inventories. Equipment on operating leases and the related accumulated depreciation at December 31, 2001 and 2000 follow:

	2001	2000
Equipment on operating leases	$ 2,433	$3,329
Less: Accumulated depreciation	(1,629)	(2,063)
Equipment on operating leases, net	$ 804	$1,266

Depreciable lives generally vary from three to four years. Our equipment operating lease terms vary, generally from 12 to 36 months. Scheduled minimum future rental revenues on operating leases with original terms of one year or longer are:

2002	2003	2004	2005	Thereafter
$708	$489	$291	$77	$9

Total contingent rentals, principally usage charges in excess of minimum allowances relating to operating leases, for the years ended December 31, 2001, 2000 and 1999 amounted to $235, $286 and $321, respectively.

Note 8--Land, Buildings and Equipment, Net

The components of land, buildings and equipment, net at December 31, 2001 and 2000 follow:

	Estimated Useful Lives (Years)	2001	2000
Land		$ 58	$ 70
Buildings and building equipment	25 to 50	1,080	1,061
Leasehold improvements	Lease term	425	426
Plant machinery	5 to 12	1,713	1,985
Office furniture and equipment	3 to 15	1,159	1,304
Other	4 to 20	147	199
Construction in progress		129	295
Subtotal		4,711	5,340
Less: accumulated depreciation		(2,712)	(2,813)
Land, buildings and equipment, net		$1,999	$2,527

Depreciation expense was $402, $417 and $416 for the years ended December 31, 2001, 2000 and 1999, respectively.

We lease certain land, buildings and equipment, substantially all of which are accounted for as operating leases. Total rent expense under operating leases for the years ended December 31, 2001, 2000 and 1999 amounted to $332, $344 and $397, respectively. Future minimum operating lease commitments that have remaining non-cancelable lease terms in excess of one year at December 31, 2001 follow:

2002	2003	2004	2005	2006	Thereafter
$250	$207	$165	$135	$112	$359

In certain circumstances, we sublease space not currently required in operations. Future minimum sublease income under leases with non-cancelable terms in excess of one year amounted to $31 at December 31, 2001.

Included in Intangibles and other assets, net in the Consolidated Balance Sheets are capitalized direct costs associated with developing, purchasing or otherwise acquiring software for internal use. These costs are amortized on a straight-line basis over the expected useful life of the software, beginning when the software is implemented. The software useful lives generally vary from 3 to 5 years. Capitalized software balances, net of accumulated amortization, were $479 and $505 at December 31, 2001 and 2000, respectively.

In 2001, we extended our information technology contract with Electronic Data Systems Corp. (EDS) for five years through June 2009. Services to be provided under this contract include support of global mainframe system processing, application maintenance, desktop and helpdesk support, voice and data network management and server management. We have the right, upon 180 days' notice, to terminate for convenience each newly negotiated framework agreement after its second anniversary, subject to making a payment of reasonable vendor costs associated with such termination. There are no minimum payments due EDS under the contract. Payments to EDS were $445, $555 and $601 for the years ended December 31, 2001, 2000 and 1999, respectively.

Note 9--Investments in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20 to 50 percent ownership interest at December 31, 2001 and 2000 follow:

	2001	2000
Fuji Xerox/(1)/	$532	$1,160
Other investments	100	110
Investments in affiliates, at equity	$632	$1,270

/(1)/ Our investment in Fuji Xerox of $532 at December 31, 2001, differs from our implied 25 percent interest in the underlying net assets, or $592, due primarily to the deferred gains resulting from sales of assets by us to Fuji Xerox, as offset by goodwill we had recorded at the time we acquired such interest.

Fuji Xerox is headquartered in Tokyo and operates in Japan and other areas of the Pacific Rim, Australia and New Zealand. As discussed in Note 5, we sold half of our interest in Fuji Xerox to Fuji Photo Film Co., Ltd. in March 2001. Condensed financial data of Fuji Xerox for its last three fiscal years follow:

	2001/(1)/	2000	1999
Summary of Operations			
Revenues	$7,684	$8,398	$7,710
Costs and expenses	7,316	8,076	7,371
Income before income taxes	368	322	339
Income taxes	167	146	201
Minorities' interests in equity of subsidiaries	35	36	29
Net income	$ 166	$ 140	$ 109
Balance Sheet Data			
Assets			
Current assets	$2,783	$3,162	
Non-current assets	3,455	3,851	
Total assets	$6,238	$7,013	
Liabilities and Shareholders' Equity			
Current liabilities	$2,242	$3,150	
Long-term debt	796	445	
Other non-current liabilities	632	649	
Minorities' interests in equity of subsidiaries	201	203	
Shareholders' equity	2,367	2,566	
Total liabilities and shareholders' equity	$6,238	$7,013	

/(1)/ Fuji Xerox changed its fiscal year end in 2001 from December to March. The 2001 condensed financial data consists of the last three months of Fuji Xerox's fiscal year 2001 and the first nine months of fiscal year 2002.

Note 10--Segment Reporting

In 2001, we realigned our reportable segments to be consistent with how we manage the business and reflect the markets we serve. As a result of this realignment our reportable segments are as follows: Production, Office, Developing Markets Operations, Small Office/Home Office, and Other. Prior years' segments have been restated to reflect our new reporting structure.

The Production segment includes our DocuTech family of products, production printing, color products for the production and graphic arts markets and light-lens copiers over 90 pages per minute sold to Fortune 1000, graphic arts and government, education and other public sector customers predominantly through direct sales channels in North America and Europe.

The Office segment includes our family of Document Centre digital multifunction products, color laser, solid ink and monochrome laser desktop printers, digital and light-lens copiers under 90 pages per minute, and facsimile products sold through direct and indirect sales channels in North America and Europe. The Office market is comprised of global, national and mid-size commercial customers as well as government, education and other public sector customers.

The Developing Markets Operations segment (DMO) includes our operations in Latin America, the Middle East, India, Eurasia, Russia and Africa. This segment includes sales of products that are typical to the aforementioned segments, however management serves and evaluates these markets on an aggregate geographic, rather than product, basis.

The Small Office/Home Office (SOHO) segment includes inkjet printers and personal copiers sold through indirect channels in North America and Europe to small offices, home offices and personal users (consumers). As more fully discussed in Note 3, in June 2001 we announced the disengagement from the worldwide SOHO business.

The segment classified as Other, includes several units, none of which met the thresholds for separate segment reporting. This group primarily includes Xerox Engineering Systems (XES) and Xerox Supplies Group (XSG) (predominantly paper). Other segment profit (loss) includes certain costs which have not been allocated to the businesses including non-financing interest and other non-allocated costs. Other segments' total assets include XES, XSG, and our investment in Fuji Xerox. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Operating segment profitability and selected asset information for the years ended December 31, 2001, 2000 and 1999 is as follows:

	Production	Office	Developing Markets	SOHO	Other	Total
2001						
Information about profit or loss						
Revenues from external customers	$5,336	$ 6,340	$2,001	$ 402	$1,800	$15,879
Finance income	563	536	26	1	3	1,129
Intercompany revenues	--	50	--	4	(54)	--
Total segment revenues	5,899	6,926	2,027	407	1,749	17,008
Interest expense/(1)/	274	247	48	--	334	903
Segment profit (loss)/(2)/	454	341	(157)	(197)	(39)/(4)/	402
Equity in net income of unconsolidated affiliates	--	--	4	--	49	53
Information about assets						
Investments in affiliates, at equity	7	6	12	--	607	632
Total assets	11,214	11,905	1,671	492	2,407	27,689
Cost of additions to land, buildings and equipment	60	74	32	23	30	219
2000						
Information about profit or loss						
Revenues from external customers	$5,749	$ 6,518	$2,573	$ 592	$2,157	$17,589
Finance income	583	528	46	1	4	1,162
Intercompany revenues	--	14	--	6	(20)	--
Total segment revenues	6,332	7,060	2,619	599	2,141	18,751
Interest expense/(1)/	275	235	103	--	477	1,090
Segment profit (loss)/(2)/	463	(180)	(93)	(293)	225/(4)/	122
Equity in net income (loss) of unconsolidated affiliates/(3)/	(2)	(2)	4	--	103	103
Information about assets						
Investments in affiliates, at equity	7	6	13	--	1,244	1,270
Total assets	11,158	11,362	2,240	806	2,687	28,253
Cost of additions to land, buildings and equipment	132	122	88	90	20	452
1999						
Information about profit or loss						
Revenues from external customers	$6,337	$ 6,343	$2,415	$ 566	$2,159	$17,820
Finance income	596	510	35	9	25	1,175
Intercompany revenues	--	--	--	--	--	--
Total segment revenues	6,933	6,853	2,450	575	2,184	18,995
Interest expense/(1)/	238	210	79	4	311	842
Segment profit (loss)/(2)/	1,236	49	48	(188)	203/(4)/	1,348
Equity in net income (loss) of unconsolidated affiliates	--	--	(2)	--	50	48
Information about assets						
Investments in affiliates, at equity	8	8	12	--	1,507	1,535
Total assets	10,549	9,946	2,739	973	3,596	27,803
Cost of additions to land, buildings and equipment	189	180	96	87	42	594

/(1)/ Interest expense includes equipment financing interest as well as non-financing interest, which is a component of Other expenses, net.

/(2)/ Depreciation and amortization expense is recorded in cost of sales, research and development expenses and selling, administrative and general expenses and is included in the segment profit (loss) above. This information is not identified and reported separately to our chief operating decision maker. These expenses are recorded by our operating units in the accounting records based on individual assessments as to how the related assets are used. The separate identification of this information for purposes of segment disclosure is impracticable, as it is not readily available and the cost to develop it would be excessive.

/(3)/ Excludes our $37 share of a restructuring charge recorded by Fuji Xerox.

/(4)/ Other segment profit (loss) includes net corporate expenses of $35, $116 and $(172) for the years ended December 31, 2001, 2000 and 1999, respectively.

The following is a reconciliation of segment profit to total company pre-tax income (loss):

Years ended December 31,	2001	2000	1999
Total segment profit	$ 402	$ 122	$1,348
Unallocated items:			
Restructuring and impairment charges	(715)	(475)	(12)
Restructuring related inventory write-down charges	(42)	(84)	--
In process research and development charges	--	(27)	--
Gains on sales of businesses	773	200	--
Allocated item:			
Equity in net income of unconsolidated affiliates	(53)	(103)	(48)
Pre-tax income (loss)	$ 365	$(367)	$1,288

Geographic area data follow:

	Revenues			Long-Lived Assets/(1)/		
	2001	2000	1999	2001	2000	1999
Information about Geographic Areas						
United States	$10,034	$10,706	$10,655	$1,880	$2,423	$2,473
Europe	5,039	5,511	6,039	767	940	848
Other Areas	1,935	2,534	2,301	706	1,052	1,051
Total	$17,008	$18,751	$18,995	$3,353	$4,415	$4,372

/(1)/ Long-lived assets are comprised of land, buildings and equipment, net, on-lease equipment, net, and capitalized software costs, net.

Note 11--Discontinued Operations

Our remaining investment in our Insurance and Other Financial Services (IOFS) and Third-Party Financing and Real Estate discontinued businesses, which is included in the Consolidated Balance Sheets in Intangible and other assets, net total $749 and $534 at December 31, 2001 and 2000, respectively.

Over half of the remaining investment at December 31, 2001 relates to a performance-based instrument, originally valued at $462, received in partial consideration from the sale of one of the Talegen Holdings, Inc. (Talegen) insurance companies to The Resolution Group, Inc. (TRG). Cash distributions are paid on the instrument, based on 72.5 percent of TRG's available cash flow as defined in the sale agreement. During 2001, we received cash distributions of $28 which were accounted for as a reduction to this instrument. Current cash flow projections indicate that we expect to fully recover the remaining $434 by 2018.

Xerox Financial Services, Inc. (XFSI), a wholly owned subsidiary, continues to provide aggregate excess of loss reinsurance coverage (the Reinsurance Agreements) to one of the former Talegen units, Crum and Forster Inc. (C&F), and TRG through Ridge Re Insurance Limited (Ridge Re), a wholly owned subsidiary of XFSI. The coverage limits for these two remaining Reinsurance Agreements total $578, which is exclusive of $234 in C&F coverage that Ridge Re reinsured during 1998.

Both the Company and XFSI have guaranteed that Ridge Re will meet all of its financial obligations under the two remaining Reinsurance Agreements. Related premium payments to Ridge Re are made by XFSI and guaranteed by us. As of December 31, 2001, there was one remaining annual installment of $41, including finance charges, which was paid by XFSI in January 2002. During 2001 we replaced $660 of letters of credit, which supported Ridge Re ceded reinsurance obligations, with trusts which included the then existing Ridge Re investment

portfolio of approximately $405 plus $255 in cash. These trusts are required to provide security with respect to aggregate excess of loss reinsurance obligations under the two remaining

Reinsurance Agreements. The balance of the investments, consisting primarily of marketable securities, in the trusts at December 31, 2001 was $684.

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

Our remaining net investment in Ridge Re was $348 and $88 at December 31, 2001 and 2000, respectively. Based on Ridge Re's current projections of investment portfolio returns and reinsurance obligation payments, we expect to fully recover our remaining investment. The projected reinsurance obligation payments are based on actuarial estimates provided to Ridge Re by TRG.

Note 12--Debt

Short-Term Debt. Short-term borrowings data at December 31, 2001 and 2000 follow:

	Weighted Average Interest Rates at 12/31/01	2001	2000
Notes payable	11.07%	$ 53	$ 169
commercial paper	--	--	140
Total short-term debt		53	309
Current maturities of long-term debt		6,584	2,771
Total		$6,637	$3,080

Debt classification. At December 31, 2001 and 2000, our debt has been classified in the Consolidated Balance Sheets based on the contractual maturity dates of the underlying debt instruments or as of the earliest call date available to the debt holders except for $3.5 billion of the aggregate $7.0 billion Revolving credit agreement borrowing which is classified as long-term because we have refinanced the debt subsequent to December 31, 2001 on a long-term basis as a result of the New Credit Facility. We defer costs associated with debt issuance over the applicable term or to the first redemption date, in the case of convertible debt.

Long-Term Debt. A summary of long-term debt by final contractual maturity date at December 31, 2001 and 2000 follows:

	Weighted Average Interest Rates at 12/31/01	2001	2000
U.S. Operations			
Xerox Corporation (parent company)			
Guaranteed ESOP notes due 2001-2003	7.22%	$ 135	$ 221
Notes due 2001	--	--	687
Yen notes due 2001	--	--	50
Notes due 2002	6.13	300	330
Notes due 2003	5.65	896	1,313
Notes due 2004	7.15	197	200
Euro notes due 2004	3.50	266	283
Notes due 2006	7.25	15	25
Notes due 2007	7.38	25	25
Notes due 2008	2.01	25	25
Notes due 2011	7.01	50	50
Notes due 2016	7.20	255	250
Convertible notes due 2018	3.63	600	617
Secured borrowings/(1)/ due 2002-2005	5.06	1,639	419
Revolving credit agreement/(2)/	2.73	4,675	4,400
Other debt due 2000-2018	8.73	93	185
Subtotal		9,171	9,080
Xerox Credit Corporation			
Notes due 2001	--	--	326
Notes due 2002	6.62	229	229
Yen notes due 2002	0.80	381	437
Notes due 2003	6.61	465	460
Yen notes due 2005	1.50	762	904
Yen notes due 2007	2.00	231	270
Notes due 2008	6.40	25	25
Notes due 2012	7.10	125	125
Notes due 2013	6.50	60	60
Notes due 2014	6.06	50	50
Notes due 2018	7.00	25	25
Secured borrowings/(1)/ due 2001-2003	2.32	154	325
Revolving credit agreement/(2)/	2.29	1,020	1,020
Floating rate notes due 2048	--	--	--
Subtotal		3,527	4,316
Total U.S. operations		$12,698	$ 13,396

/(1)/ Refer to Note 6 for further discussion of secured borrowings.
/(2)/ $3.5 billion of the aggregate $7.0 billion Revolving credit agreement borrowing is classified as long-term because we have refinanced the debt subsequent to December 31, 2001 on a long-term basis as a result of the New Credit Facility.

	Weighted Average Interest Rates at 12/31/01	2001	2000
International Operations			
Xerox Capital (Europe) plc			
Various obligations, payable in:			
Euros due 2001-2008	5.25%	$ 661	$ 698
Japanese yen due 2001-2005	0.78	229	950
U.S. dollars due 2001-2008	5.82	1,022	1,025
Revolving credit agreement (U.S. dollars)/(2)/	2.80	805	1,080
Subtotal		2,717	3,753
Other International Operations			
Various obligations, payable in:			
U.S. dollars due 2001-2008	5.36	110	128
Euros due 2001-2008	5.00	71	221
Canadian dollars due 2001-2007	11.74	47	55
Pounds sterling due 2001-2003	--	--	187
Indian rupees due 2001-2005	11.73	24	45
Egyptian pounds due 2001-2005	13.00	9	11
Secured borrowings/(1)/ due 2001-2003	6.38	521	--
Revolving credit agreement (U.S. dollars)/(2)/	2.73	500	500
Other debt due 2001-2004	9.13	15	32
Subtotal		1,297	1,179
Total international operations		4,014	4,932
Subtotal		16,712	18,328
Less current maturities		6,584	2,771
Total long-term debt		$ 10,128	$ 15,557

/(1)/ Refer to Note 6 for further discussion of secured borrowings.
/(2)/ $3.5 billion of the aggregate $7.0 billion Revolving credit agreement borrowing is classified as long-term because we have refinanced the debt subsequent to December 31, 2001 on a long-term basis as a result of the New Credit Facility.

Consolidated Long-Term Debt Maturities.

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

2002	2003	2004	2005	2006	Thereafter
$6,584	$3,247	$2,567	$3,370	$30	$914

Certain of our debt agreements allow us to redeem outstanding debt prior to scheduled maturity. 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 original scheduled amount due upon maturity in April 2018 was $1,012 which corresponded to 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 the 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 amount at maturity of the debentures. We may elect to settle the obligation in cash, shares of common stock, or any combination thereof. During 2001, we retired $61 of this convertible debt through the exchange of approximately 6 million shares of common stock valued at $49. As a result of these retirements, the amount currently due is $600 and is projected to accrete to $913 upon maturity in April 2018.

Lines of Credit. As of December 31, 2001, we had $7 billion of loans outstanding under a revolving credit agreement (Old Revolver) entered into in 1997 with a group of banks, which had a stated maturity date of October 22, 2002. The Old Revolver was 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 combined $4 billion limit) with our guarantee. Amounts borrowed under this facility were at rates based, at our option, on spreads above certain reference rates such as LIBOR. This agreement contained certain covenants the most restrictive of which required that we maintain a minimum level of Consolidated Tangible Net Worth and limit the amounts of outstanding secured borrowings, as defined in the agreement. We were in compliance with these covenants at December 31, 2001. In addition, our foreign subsidiaries had an aggregate of $45 of unused committed long-term lines of credit to back short-term indebtedness in various currencies at prevailing interest rates.

On June 21, 2002, we entered into an Amended and Restated Credit Agreement with a group of lenders (New Credit Facility), which replaced the Old Revolver. In connection with entering into the New Credit Facility we made a partial pay down on the Old Revolver of $2.8 billion and agreed to make an additional payment of $700 by not later than September 15, 2002. Accordingly, as of June 21, 2002, $4.2 billion was outstanding under the New Credit Facility including three tranches of term debt and a $1.5 billion revolving tranche which may be repaid and re-borrowed. Within the revolving tranche is a $200 letter of credit facility. The New Credit Facility has, except as described below, a final stated maturity of April 30, 2005. In connection with the New Credit Facility we paid fees and other expenses of approximately $125.

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

Two of the three tranches of term debt and the revolving tranche will bear an initial rate of interest of LIBOR plus 4.5 percent per annum and the third tranche of term debt bears initial interest at a rate of LIBOR plus a spread that varies between 4.0 percent and 4.5 percent per annum, in all cases subject to adjustment for changes in, primarily, LIBOR. In addition, the interest spread on one of the term tranches, initially in the principal amount of $500, is subject to adjustment based upon the amount secured.

The New Credit Facility contains financial covenants requiring the maintenance of specified minimum consolidated net worth, minimum consolidated EBITDA and minimum consolidated leverage ratio, and limitations on capital expenditures. In addition, the New Credit Facility contains affirmative and negative covenants, including limitations on issuance of debt and preferred stock, incurrence of liens, certain fundamental changes, investments and acquisitions, asset transfers, restricted payments, hedging transactions, transactions with affiliates, restrictions on our ability to grant any lien on property, pay dividends or intercompany loans or agree to more restrictive provisions than those contained in the New Credit Facility, and a requirement to transfer, under certain circumstances, excess foreign cash and excess cash of Xerox Credit Corporation to Xerox Corporation. No cash dividends can be paid on our Common Stock for the term of New Credit Facility. Cash dividends on our preferred stock may be paid provided there is then no event of default. In addition to other defaults customary for a credit facility of this type, defaults on debt by, or bankruptcy of, us or certain subsidiaries would constitute a default under the New Credit Facility.

We are required to make scheduled amortization payments of $202.5 on each of March 31, 2003 and September 30, 2003, and $302.5 on each of March 31, 2004 and September 30, 2004. In addition, mandatory prepayments are required, including those from a portion of the proceeds of certain asset transfers and debt and equity issuances which would be credited toward the scheduled amortization payments in direct order of maturity. Our ability to meet the scheduled amortization payments and mandatory prepayment requirements under the New Credit Facility is dependent upon generation of positive cash flows in accordance with our business plan, including sale or securitizations of existing receivables, implementation of additional cost savings, implementation of third-party vendor financing, and access to the capital markets in a cost effective and timely manner.

Our 9 3/4 percent Senior Notes due 2009 issued in January 2002 contain several similar affirmative and negative covenants as the New Credit Facility, but taken as a whole they are less restrictive than those contained in the New Credit Facility. In addition, our Senior Notes do not contain any financial maintenance covenants or scheduled amortization payments.

Guarantees. At December 31, 2001, we have guaranteed the borrowings of our Employee Stock Ownership Plan (ESOP) and $3,441 of indebtedness of our foreign wholly owned subsidiaries. This debt is included in our Consolidated Balance Sheet as of such date.

Interest. Interest paid by us on our short- and long-term debt amounted to $1,074, $1,050 and $848 for the years ended December 31, 2001, 2000 and 1999, respectively. Interest expense was $903, $1,090 and $842 for the years ended December 31, 2001, 2000 and 1999, respectively.

A summary of the cash related changes in consolidated indebtedness for the three years ended December 31, 2001 follows:

	2001	2000	1999
Cash payments of short-term debt, net	$ (141)	$ (1,277)	$(4,136)
Cash proceeds from long-term debt	2,507	10,542	6,707
Principal payments on long-term debt	(3,464)	(6,348)	(1,778)
Total net cash changes in debt	$(1,098)/(1)/	$ 2,917/(2)/	$ 793/(3)/

(1) Excludes a $377 non-cash debt for equity exchange (see Note 18), and the accretion of $16 on convertible debt.
(2) 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.
(3) Excludes debt of $51 assumed with the increased ownership in our India joint venture and accretion of $26 on convertible debt.

Note 13--Financial Instruments

We adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS No. 133), as of January 1, 2001.

The adoption of SFAS No. 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. However, as more fully described below, our ability to enter into new derivative contracts is severely constrained. The following is a summary of our SFAS No. 133 activity during 2001.

Derivative Financial Instruments. Typical of multinational corporations, we are 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, including interest rate swap agreements, foreign currency swap agreements, forward exchange contracts and purchased foreign currency options, to manage interest rate and foreign currency exposures. The fair market values of all of our derivative contracts change with fluctuations in interest rates and/or currency rates, and are designed so that any change in their values is offset by changes in the values of the underlying exposures. Our derivative instruments are held solely to hedge economic exposures; we do not enter into derivative instrument transactions for trading or other speculative purposes and we employ long-standing policies prescribing that derivative instruments are only to be used to achieve a set of very limited objectives. As noted 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 current ability to employ that strategy effectively has been severely limited.

We typically enter into simple unleveraged derivative transactions. Our policy is to only use counterparties with an investment-grade or better rating and to monitor market risk quarterly on a counterparty-by-counterparty basis. We attempt to utilize several counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties. Based upon our ongoing evaluation of the replacement cost of our derivative transactions and counterparty credit-worthiness, we consider the risk of credit default significantly affecting our financial position or results of operations to be remote.

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

As described above, the downgrades of our debt during 2000, 2001 and 2002, together with the recently-concluded SEC investigation, significantly reduced our access to capital markets. Furthermore, several of the debt downgrades triggered various contractual provisions which required us to collateralize or repurchase a number of derivative contracts which were then outstanding. Repurchases totaled $148 and $108 in 2001 and 2000, respectively. To minimize the resulting interest and currency exposures from these events, we have subsequently entered into some derivatives with several counterparties, on a limited basis. However, virtually all such new arrangements either require us to post cash collateral against all out-of-the-money positions, or else are very short term in duration (e.g., as short as one week). Both of these types of arrangements potentially use more cash than standard derivative arrangements would otherwise require. While we have been able to replace some derivatives on a limited basis, our current debt ratings restrict our ability to utilize derivative agreements to manage the risks associated with interest rate and some foreign currency fluctuations, including our ability to continue effectively employing our match funding strategy. For this reason, we anticipate increased volatility in our results of operations due to market changes in interest rates and foreign currency rates.

Interest Rate Risk Management.

Interest Rate Swaps--Single Currency: We enter into interest rate swap agreements to manage interest rate exposure, although the recent downgrades of our indebtedness have limited our ability to manage this exposure. Virtually all customer financing assets earn fixed rates of interest. Accordingly, through the use of interest rate swaps in conjunction with the contractual maturity terms of outstanding debt, we "lock in" an interest spread by arranging fixed-rate interest obligations with maturities similar to the underlying assets. Additionally, in industrialized countries, customer financing assets are funded with liabilities denominated in the same currency. This practice effectively eliminates the risk of a major decline in interest margins resulting from adverse changes in the interest rate environment. Conversely, this practice also effectively eliminates the opportunity to materially increase margins when interest rates are declining.

More specifically, pay-fixed/receive-variable interest rate swaps are often used in place of more expensive fixed-rate debt for the purpose of match funding fixed-rate customer contracts. Pay-variable/receive-variable interest rate swaps (basis swaps) are used to transform variable rate, medium-term debt into commercial paper or local currency LIBOR rate obligations. Pay-variable/receive-fixed interest rate swaps are used to transform term fixed-rate debt into variable rate obligations. Where possible, the transactions performed within each of these three categories have enabled the cost-effective management of interest rate exposures.

While our existing portfolio of derivative instruments is intended to economically hedge interest rate risks to the extent possible, differences between the contract terms of our derivatives and the underlying related debt reduce our ability to obtain hedge accounting in accordance with SFAS No. 133. This results in mark-to-market valuation of the majority of our derivatives directly through earnings, which accordingly leads to increased earnings volatility.

At December 31, 2001 and 2000 we had outstanding single currency interest rate swap agreements with aggregate notional amounts of $4,415 and $15,471, respectively. The asset fair values at December 31, 2001 and 2000 were $111 and $7, respectively.

Foreign Currency Swap Agreements: We enter into cross-currency interest rate swap agreements, whereby we issue foreign currency-denominated debt and swap the proceeds and related interest payments with a counterparty. In return, we receive and effectively denominate the debt in local currencies. Currency swaps are utilized as economic hedges of the underlying foreign currency borrowings. As with our single currency interest rate swaps, we generally did not achieve hedge accounting on our cross-currency interest rate swaps and therefore we recorded the mark-to-market valuation through earnings.

At December 31, 2001 and 2000, we had outstanding cross-currency interest rate swap agreements with aggregate notional amounts of $1,481 and $4,222, respectively. The asset fair values at December 31, 2001 and 2000 were $17 and $122, respectively. Of the outstanding agreements at December 31, 2001, the largest single currency hedged was the Japanese yen. Contracts denominated in Japanese yen, Pound sterling and Euros accounted for over 95 percent of our cross-currency interest rate swap agreements.

During 2001, as a result of applying the new requirements of SFAS No. 133, we recorded net gains of $32 from the mark-to-market valuation of our interest rate derivatives primarily as a result of lower interest rates during the year combined with a higher notional amount of pay variable/receive fixed interest rate swaps. Hedge accounting was not applied to any of our single-currency interest rate swaps during 2001, due to the reasons previously discussed.

Fair Value Hedges--During 2001, certain Japanese yen/U.S. dollar cross-currency interest rate swaps with a notional amount of 65 billion yen were designated and accounted for as fair value hedges. The net ineffective portion recorded to earnings during 2001 was a loss of $7 and is included in Other, net. All components of each derivatives gain or loss are included in the assessment of the hedge effectiveness. Hedge accounting was discontinued in the fourth quarter 2001, after the swaps were terminated and moved to a different counterparty, because the new swaps did not satisfy SFAS No. 133 requirements. Hedge accounting is not being applied for any of our interest rate swaps as of December 31, 2001.

The aggregate notional amounts of interest rate swaps by maturity date and type at December 31, 2001 follow:

Single Currency Swaps	2002	2003	2004	2005	2006	Thereafter	Total
Pay fixed/receive variable	$ 190	$ 260	$ 442	$ 261	$ 31	$ --	$1,184
Pay variable/receive variable	37	--	--	--	--	--	37
Pay fixed/receive fixed	--	--	--	--	--	250	250
Pay variable/receive fixed	930	825	1,164	--	--	25	2,944
Total	$1,157	$1,085	$1,606	$ 261	$ 31	$ 275	$4,415
Interest rate paid	2.58%	1.70%	3.69%	6.65%	6.02%	6.50%	3.27%
Interest rate received	5.74%	2.34%	4.82%	2.39%	2.20%	7.48%	4.45%

Cross Currency Swaps	2002	2003	2004	2005	2006	Thereafter	Total
Pay fixed/receive variable	$ 424	$ 264	$ 86	$ 8	$ --	$ --	$ 782
Pay fixed/receive fixed	17	--	--	--	--	--	17
Pay variable/receive fixed	187	--	--	381	--	114	682
Total	$ 628	$ 264	$ 86	$ 389	$ --	$ 114	$1,481
Interest rate paid	4.20%	4.98%	5.94%	3.12%		3.43%	4.09%
Interest rate received	1.54%	1.97%	1.94%	1.51%		2.00%	1.67%

Foreign Exchange Risk Management.

Currency Derivatives: We utilize forward exchange contracts/purchased option contracts to hedge against the potentially adverse impacts of foreign currency fluctuations on foreign currency denominated assets and liabilities. Changes in the value of these currency derivatives are recorded in earnings together with the offsetting foreign exchange gains and losses on the underlying assets and liabilities.

We also utilize currency derivatives to hedge anticipated transactions, primarily forecasted purchases of foreign-sourced inventory and foreign currency lease and interest payments. These contracts are accounted for as cash flow hedges, and changes in their value are deferred in Accumulated other comprehensive income (AOCI) until the anticipated transaction is recognized through earnings. These contracts generally mature in six months or less.

Our credit constraints, and resultant inability to effectively engage in hedging, resulted in significant amounts of unhedged foreign currency denominated assets and liabilities during the year. In 2001 and 2000, we recorded net currency gains of $29 and $103, respectively, due to these unhedged positions, as impacted by changes in the underlying currencies.

At December 31, 2001 and 2000, we had outstanding forward exchange/purchased option contracts with notional values of $3,900 and $1,788, respectively. The significant increase reflects a shift in the hedging strategy for our foreign currency denominated debt from cross-currency interest rate swaps to forward exchange/purchased option contracts. Of the outstanding contracts at December 31, 2001, the largest single currency hedged was the Pound sterling. Contracts denominated in Pound sterling, Japanese yen, Euros and Canadian dollars accounted for approximately 90 percent of our forward exchange contracts. The asset (liability) fair values of our currency derivatives at December 31, 2001 and 2000 were $8 and $(59), respectively.

Accumulated Other Comprehensive Income. The following is a summary of changes in AOCI resulting from the application of SFAS No. 133 during 2001:

	Opening Balance	Transition Gains (Losses)	Net Gains (Losses)	Reclass to Statement of Operations*	Closing Balance 2001
Variable Interest Paid	--	(35)	--	20	(15)
Inventory Purchases	--	--	(5)	5	--
Foreign Currency Interest Payments	--	--	(4)	2	(2)
Pre-tax subtotal	--	(35)	(9)	27	(17)
Tax Expense	--	14	4	(10)	8
Fuji Xerox, net	--	2	--	--	2
Total	--	(19)	(5)	17	(7)

* Includes $12 reclassification of after-tax transition loss of $19.

No amount of ineffectiveness was recorded to the Consolidated Statement of Operations during 2001 for our designated cash flow hedges and all components of each derivatives gain or loss are included in the assessment of hedge effectiveness. The amount reclassified to earnings during 2001 represents the recognition of deferred gains or losses along with the underlying hedged transactions. The remaining amount deferred of $(7) at December 31, 2001 is expected to be reclassified to earnings during 2002.

Net Investment Hedges. We also utilize currency derivatives to hedge against the potentially adverse impacts of foreign currency fluctuations on certain of our investments in foreign entities. During 2001, $18 of net after-tax gains related to hedges of our net investments in Xerox Brazil and Fuji Xerox were recorded in the cumulative translation adjustments account.

Fair Value of Financial Instruments. The estimated fair values of our financial instruments at December 31, 2001 and 2000 follow:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 3,990	$ 3,990	$ 1,750	$ 1,750
Accounts receivable, net	1,896	1,896	2,269	2,269
Short-term debt	6,637	6,503	3,080	2,763
Long-term debt	10,128	9,261	15,557	12,196

The fair value amounts for Cash and cash equivalents and Accounts receivable, net approximate carrying amounts due to the short maturities of these instruments.

The fair value of Short- and Long-term debt was estimated based on quoted market prices for these or similar issues or on the current rates offered to us for debt of similar maturities. The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date. We have no plans to retire significant portions of our debt prior to scheduled maturity.

Note 14--Employee Benefit Plans

We sponsor numerous pension and other postretirement benefit plans, primarily retiree health, in our U.S. and international operations. Information regarding our benefit plans is presented below:

	Pension Benefits		Other Benefits	
	2001	2000	2001	2000
Change in Benefit Obligation				
Benefit obligation, January 1	$ 8,255	8,418	$ 1,314	$ 1,060
Service cost	174	167	28	24
Interest cost	(184)	453	99	85
Plan participants' contributions	19	19	--	--
Plan amendments	--	1	--	--
Actuarial loss	76	48	136	218
Currency exchange rate changes	(99)	(197)	(3)	(2)
Divestitures	--	(15)	--	--
Curtailments	34	(10)	(1)	--
Special termination benefits	--	34	--	4
Benefits paid/settlements	(669)	(663)	(92)	(75)
Benefit obligation, December 31	7,606	8,255	1,481	1,314
Change in Plan Assets				
Fair value of plan assets, January 1	8,626	8,771	--	--
Actual return on plan assets	(843)	651	--	--
Employer contribution	42	84	92	75
Plan participants' contributions	19	19	--	--
Currency exchange rate changes	(135)	(218)	--	--
Divestitures	--	(18)	--	--
Benefits paid	(669)	(663)	(92)	(75)
Fair value of plan assets, December 31	7,040	8,626	--	--
Funded status (including under-funded and non-funded plans)	(566)	371	(1,481)	(1,314)
Unamortized transition assets	(1)	(15)	--	--
Unrecognized prior service cost	8	17	(2)	(3)
Unrecognized net actuarial (gain)loss	434	(433)	250	120
Net amount recognized	$ (125)	$ (60)	$(1,233)	$(1,197)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Prepaid benefit cost	$ 597	$ 600	$ --	$ --
Accrued benefit liability	(785)	(690)	(1,233)	(1,197)
Intangible asset	7	3	--	--
Accumulated other comprehensive income	56	27	--	--
Net amount recognized	$ (125)	$ (60)	$(1,233)	$(1,197)
Under-funded or non-funded plans				
Aggregate benefit obligation	$ 5,778	$ 5,743	$ 1,481	$ 1,314
Aggregate fair value of plan assets	$ 5,039	$ 5,322	$ --	$ --
Plans with under-funded or non-funded accumulated benefit obligations				
Aggregate accumulated benefit obligation	$ 4,604	$ 509		
Aggregate fair value of plan assets	$ 4,157	$ 180		

	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
Weighted average assumptions as of December 31						
Discount rate	6.8%	7.0%	7.4%	7.2%	7.5%	8.0%
Expected return on plan assets	8.9%	8.9%	8.9%			
Rate of compensation increase	3.8%	3.8%	4.2%			

Our domestic retirement defined benefit plans provide employees a benefit at the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

	Pension Benefits			Other Benefits		
	2001	2000	1999	2001	2000	1999
Components of Net Periodic Benefit Cost						
Defined benefit plans						
Service cost	$ 174	$ 167	$ 191	$ 28	$ 24	$ 27
Interest cost/(1)/	(184)	453	1,009	99	85	77
Expected return on plan assets/(2)/	81	(522)	(1,090)	--	--	--
Recognized net actuarial loss	7	4	11	3	--	1
Amortization of prior service cost	9	4	8	--	--	--
Recognized net transition asset	(14)	(16)	(18)	--	--	2
Recognized curtailment/settlement (gain) loss	26	(46)	(9)	--	--	--
Net periodic benefit cost	99	44	102	30	109	107
Defined contribution plans	21	14	28	--	--	--
Total	$ 120	$ 58	$ 130	$ 130	$ 109	$ 107

/(1)/ Interest cost includes interest expense on non-TRA obligations of $216, $225 and $204 and interest (income) expense directly allocated to TRA participant accounts of $(400), $228 and $805 for the years ended December 31, 2001, 2000 and 1999, respectively.

/(2)/ Expected return on plan assets includes expected investment income on non-TRA assets of $319, $294 and $285 and actual investment (losses) income on TRA assets of $(400), $228 and $805 for the years ended December 31, 2001, 2000 and 1999, respectively.

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown above in the actual return on plan assets caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. For measurement purposes, a 10 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002, decreasing gradually to 5.2 percent in 2006 and thereafter.

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

	One-percentage-point increase	One-percentage point decrease
Effect on total service and interest cost components	$ 5	$ (4)
Effect on postretirement benefit obligation	$ 72	$ (62)

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

The ESOP will repay its borrowings from dividends on the Convertible Preferred and from our contributions. The ESOP's debt service is structured such that our annual contributions (in excess of dividends) essentially correspond to a specified level percentage of participant compensation. As the borrowings are repaid, the Convertible Preferred is allocated to ESOP participants and Deferred ESOP benefits are reduced by principal payments on the borrowings. The ESOP borrowings are $135 at December 31, 2001 and will mature in 2003 at which time all ESOP shares will have been allocated to the participants. Most of our domestic employees are eligible to participate in the ESOP.

During 2001, and in connection with our decision to eliminate the quarterly dividends on our common stock, dividends on the Convertible Preferred were eliminated beginning in July. As a result, we increased our annual contribution to the ESOP in order to meet our debt service obligations as required under the terms of the plan. The increased contributions resulted in additional compensation expense being recorded. As of December 31, 2001 two quarterly dividends had not been paid, amounting to $25 in arrears. Additionally, we did not pay $12 in dividends that were due in both January and April 2002. If dividends are not paid for six quarterly dividend periods (whether or not consecutive) the holders of the ESOP shares have the right to elect two Directors to our Board of Directors. The Board of Directors intends to restore the dividend on the Convertible Preferred Stock when circumstances permit.

Information relating to the ESOP for the three years ended December 31, 2001 follows:

	2001	2000	1999
Interest on ESOP Borrowings	$ 15	$ 24	$ 28
Dividends declared on Convertible Preferred Stock	13	53	54
Cash contribution to the ESOP	88	49	44
Compensation expense	89	48	46

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

Note 15--Income and Other Taxes

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

Income (loss) before income taxes for the three years ended December 31, 2001 consists of the following:

	2001	2000	1999
Domestic income (loss)	$(155)	$ 76	$ 840
Foreign income (loss)	520	(443)	448
Income (loss) before income taxes	$ 365	$(367)	$1,288

Provisions (benefits) for income taxes for the three years ended December 31, 2001 consist of the following:

	2001	2000	1999
Federal income taxes			
Current	$ 9	$ (18)	$ 178
Deferred	(101)	(95)	64
Foreign income taxes			
Current	474	73	122
Deferred	114	(45)	24
State income taxes			
Current	(2)	5	41
Deferred	(9)	10	17
Income taxes	$ 485	$ (70)	$ 446

A reconciliation of the U.S. federal statutory income tax rate to the effective income tax rate for the three years ended December 31, 2001 follows:

	2001	2000	1999
U.S. federal statutory income tax rate	35.0%	(35.0)%	35.0%
Foreign earnings and dividends taxed at different rates	44.2	48.3	(9.4)
Sale of partial ownership interest in Fuji Xerox	31.9	--	--
Goodwill amortization	2.8	3.0	.9
Tax-exempt income	(3.6)	(4.3)	(1.5)
State taxes	(1.2)	1.1	2.9
Audit resolutions	(38.5)	(34.1)	--
Dividends on Employee Stock Ownership Plan shares	(1.0)	(3.7)	(1.0)
Effect of tax rate change on deferred tax assets and liabilities	(2.9)	--	--
Change in valuation allowance for deferred tax assets	67.8	3.2	7.1
Other	(1.6)	2.4	.6
Effective income tax rate	132.9%	(19.1)%	34.6%

The difference between the 2001 effective tax rate of 132.9 percent and the U.S. federal statutory income tax rate relates primarily to the recognition of deferred tax asset valuation allowances resulting from our recoverability assessments, the taxes incurred in connection with the sale of our partial interest in Fuji Xerox and continued losses in low tax jurisdictions. The gain for tax purposes on the sale of Fuji Xerox was disproportionate to the gain for book purposes as a result of a lower tax basis in the investment. Other items favorably impacting the tax rate included a tax audit resolution and additional tax benefits arising from prior period restructuring provisions.

On a loss basis, the difference between the 2000 effective tax rate of 19.1 percent and the U.S. federal statutory income tax rate relates primarily to continued losses in low tax jurisdictions, the recognition of deferred tax asset valuation allowances resulting from our recoverability assessments and additional tax benefits arising from the favorable resolution of tax audits.

The 1999 effective tax rate benefited from increases in foreign tax credits as well as a shift in the mix of our worldwide profits, partially offset by the recognition of deferred tax asset valuation allowances.

On a consolidated basis, we paid a total of $57, $354 and $238 in income taxes to federal, foreign and state income-taxing authorities in 2001, 2000 and 1999, respectively.

Total income tax expense (benefit) for the three years ended December 31, 2001 was allocated as follows:

	2001	2000	1999
Income taxes (benefits) on income (loss)	$485	$ (70)	$446
Tax benefit included in minorities' interests/(1)/	(23)	(20)	(20)
Extraordinary gain	26	--	--
Discontinued operations	--	--	(26)
Goodwill	2	(42)	--
Common shareholders' equity/(2)/	1	38	(119
Total	$491	$ (94)	$281

/(1)/ Benefit relates to preferred securities as more fully described in Note 17.

/(2)/ For dividends paid on shares held by the ESOP, tax effects of certain cumulative translation adjustments, tax benefit on nonqualified stock options and accounting for certain derivatives.

In substantially all instances, deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings included in consolidated retained earnings at December 31, 2001 was approximately $3.4 billion. These earnings have been permanently reinvested and we do not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings. Since April 1, 2001, deferred taxes of $4 have been provided on the current year undistributed earnings of Fuji Xerox.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 2001 and 2000 follow:

	2001	2000
Tax effect of future tax deductions		
Research and development	$1,007	$ 866
Depreciation	438	470
Postretirement medical benefits	464	448
Restructuring reserves	122	77
Other operating reserves	202	294
Allowance for doubtful accounts	182	145
Deferred compensation	180	150
Tax credit carryforwards	185	240
Net operating losses	295	70
Other	193	178
	3,268	2,938
Valuation allowance	(474)	(187)
Total deferred tax assets	$2,794	$ 2,751
Tax effect of future taxable income		
Installment sales and leases	$ (358)	$ (316)
Unearned income	(820)	(875)
Other	(150)	(281)
Total deferred tax liabilities	(1,328)	$(1,472)
Total deferred taxes, net	$1,466	$ 1,279

The above amounts are classified as current or long-term in the Consolidated Balance Sheets in accordance with the asset or liability to which they relate. Current deferred tax assets at December 31, 2001 and 2000 amounted to $548 and $444, respectively.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more likely than not, be realized in the future. The valuation allowance for deferred tax assets as of January 1, 2000 was $180. The net change in the total valuation allowance for the years ended December 31, 2001 and 2000 was an increase of $287 and $7, respectively. The valuation allowance relates to certain foreign net operating loss carryforwards, foreign tax credit carryforwards and deductible temporary differences for which we have concluded it is more likely than not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more likely than not that the deferred tax assets for which a valuation allowance was determined to be unnecessary will be realized in the ordinary course of operations based on scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2001, we had tax credit carryforwards of $185 available to offset future income taxes, of which $143 is available to carryforward indefinitely while the remaining $42 will begin to expire, if not utilized, in 2004. We also had net operating loss carryforwards for income tax purposes of $219 that will expire in 2002 through 2006, if not utilized, and $1.4 billion available to offset future taxable income indefinitely.

Our Brazilian operations have received assessments for indirect taxes totaling approximately $380 related principally to the internal transfer of inventory. We do not agree with these assessments and intend to vigorously defend our position. We, as supported by the opinion of legal counsel, do not believe that the ultimate resolution of these assessments will materially impact our results of operations, financial position or cash flows.

Note 16--Litigation and Regulatory Matters

As more fully discussed below, we are a defendant in numerous litigation and regulatory matters involving securities law, patent law, environmental law, employment law and ERISA. Should these matters result in an adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such judgment or settlement occurs.

Accuscan, Inc. v. Xerox Corporation: On April 11, 1996, an action was commenced by Accuscan, Inc. (Accuscan), in the United States District Court for the Southern District of New York, against the Company seeking unspecified damages for infringement of a patent of Accuscan which expired in 1993. The suit, as amended, was directed to facsimile and certain other products containing scanning functions and sought damages for sales between 1990 and 1993. On April 1, 1998, the jury entered a verdict in favor of Accuscan for $40. However, on September 14, 1998, the court granted our motion for a new trial on damages. The trial ended on October 25, 1999 with a jury verdict of $10. Our motion to set aside the verdict or, in the alternative, to grant a new trial was denied by the court. We appealed to the Court of Appeals for the Federal Circuit (CAFC) which found the patent not infringed, thereby terminating the lawsuit subject to an appeal which has been filed by Accuscan to the U.S. Supreme Court. The decision of the U.S. Supreme Court was to remand the case (along with eight others) back to the CAFC to consider its previous decision based on the Supreme Court's May 28, 2002 ruling in the Festo case.

Christine Abarca, et al. v. City of Pomona, et al. (Pomona Water Cases): On June 24, 1999, the Company was served with a summons and complaint filed in the Superior Court of the State of California for the County of Los Angeles. The complaint was filed on behalf of 681 individual plaintiffs claiming damages as a result of our alleged disposal and/or release of hazardous substances into the soil, air and groundwater. On July 22, 1999, April 12, 2000, November 30, 2000, March 31, 2001 and May 24, 2001, respectively, five additional complaints were filed in the same court on behalf of an additional 79, 141, 76, 51, and 29 plaintiffs, respectively, with the same claims for damages as the June 1999 action. Four of the five additional cases have been served on the Company. In addition, we have been informed that a similar action will be filed in the near future on behalf of another six plaintiffs.

Plaintiffs in all six cases further allege that they have been exposed to such hazardous substances by inhalation, ingestion and dermal contact, including but not limited to hazardous substances contained within the municipal drinking water supplied by the City of Pomona and the Southern California Water Company. Plaintiffs' claims against the Company include personal injury, wrongful death, property damage, negligence, trespass, nuisance, fraudulent concealment, absolute liability for ultra-hazardous activities, civil conspiracy, battery and violation of the California Unfair Trade Practices Act. Damages are unspecified.

We deny any liability for the plaintiffs' alleged damages and intend to vigorously defend these actions. We have not answered or appeared in any of the cases because of an agreement among the parties and the court to stay these cases pending resolution of several similar cases before the California Supreme Court. In February 2002, the California Supreme Court issued its decision permitting the lawsuits to proceed against all defendants. The trial court is expected to lift the stay within the next 30 to 90 days for both the six Xerox cases and the unrelated Southern California ground water case with which they are coordinated. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In re Xerox Corporation Securities Litigation: A consolidated securities law action (consisting of 17 cases) is pending in the United States District Court for the District of Connecticut. Defendants are the Company, Barry Romeril, Paul Allaire and G. Richard Thoman. The consolidated action purports to be a class action on behalf of the named plaintiffs and all other purchasers of common stock of the Company during the period between October 22, 1998 through October 7, 1999 (Class Period). The amended consolidated complaint in the action alleges that in violation of Section 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (34 Act), and Securities and Exchange Commission Rule 10b-5 thereunder, each of the defendants is liable as a participant in a fraudulent scheme and course of business that operated as a fraud or deceit on purchasers of the Company's common stock during the Class Period by disseminating materially false and misleading statements and/or concealing material facts. The amended complaint further alleges that the alleged scheme: (i) deceived the investing public regarding the economic capabilities, sales proficiencies, growth, operations and the intrinsic value of the Company's common stock; (ii) allowed several corporate insiders, such as the named individual defendants, to sell shares of privately held common stock of the Company while in possession of materially adverse, non-public information; and (iii) caused the individual plaintiffs and the other members of the purported class to purchase common stock of the Company at inflated prices. The amended consolidated complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the purported class against all defendants, jointly and severally, for all damages sustained as a result of defendants' alleged wrongdoing, including interest thereon, together with reasonable costs and expenses incurred in the action, including counsel fees and expert fees. On September 28, 2001, the court denied the defendants' motion for dismissal of the complaint. On November 5, 2001, the defendants answered the complaint. The parties are engaged in discovery. The named individual defendants and we deny any wrongdoing and intend to vigorously defend the action. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

In re Xerox Derivative Actions: A consolidated putative shareholder derivative action is pending in the Supreme Court of the State of New York, County of New York against several current and former members of the Board of Directors including William F. Buehler, B.R. Inman, Antonia Ax:son Johnson, Vernon E. Jordan, Jr., Yotaro Kobayashi, Hilmar Kopper, Ralph Larsen, George J. Mitchell, N.J. Nicolas, Jr., John E. Pepper, Patricia Russo, Martha Seger, Thomas C. Theobald, Paul Allaire, G. Richard Thoman, Anne Mulcahy and Barry Romeril, and KPMG, LLP. The plaintiffs purportedly brought this action in the name of and for the benefit of the Company, which is named as a nominal defendant, and its public shareholders.

The second consolidated amended complaint alleges that each of the director defendants breached their fiduciary duties to the Company and its shareholders by, among other things, ignoring indications of a lack of oversight at the Company and the existence of flawed business and accounting practices within the Company's Mexican and other operations; failing to have in place sufficient controls and procedures to monitor the Company's accounting practices; knowingly and recklessly disseminating and permitting to be disseminated, misleading information to shareholders and the investing public; and permitting the Company to engage in improper accounting practices. The plaintiffs further allege that each of the director defendants breached their duties of due care and diligence in the management and administration of the Company's affairs and grossly mismanaged or aided and abetted the gross mismanagement of the Company and its assets. The second amended complaint also asserts claims of negligence, negligent misrepresentation, breach of contract and breach of fiduciary duty against KPMG. Additionally, plaintiffs claim that KPMG is liable to Xerox for contribution, based on KPMG's share of the responsibility for any injuries or damages for which Xerox is held liable to plaintiffs in related pending securities class action litigation. On behalf of the Company, the plaintiffs seek a judgment declaring that the director defendants violated and/or aided and abetted the breach of their fiduciary duties to the Company and its shareholders; awarding the Company unspecified compensatory damages against the director defendants, individually and severally, together with pre-judgement

and post-judgement interest at the maximum rate allowable by law; awarding the Company punitive damages against the director defendants; awarding the Company compensatory damages against KPMG; and awarding plaintiffs the costs and disbursements of this action, including reasonable attorneys' and experts' fees. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

Carlson v. Xerox Corporation, et al.: A consolidated securities law action (consisting of 21cases) is pending in the United States District Court for the District of Connecticut against the Company, KPMG LLP (KPMG), and Paul A. Allaire, G. Richard Thoman, Anne M. Mulcahy, Barry D. Romeril, Gregory Tayler and Philip Fishbach. The consolidated action purports to be a class action on behalf of the named plaintiffs and all purchasers of securities of, and bonds issued by, the Company during the period between February 17, 1998 through February 6, 2001 (Class). Among other things, the second consolidated amended complaint, filed on February 11, 2002, generally alleges that each of the Company, KPMG, and the individual defendants violated Section 10(b) of the 34 Act and Securities and Exchange Commission Rule 10b-5 thereunder. The individual defendants are also allegedly liable as "controlling persons" of the Company pursuant to Section 20(a) of the 34 Act. Plaintiffs claim that the defendants participated in a fraudulent scheme that operated as a fraud and deceit on purchasers of the Company's common stock by disseminating materially false and misleading statements and/or concealing material adverse facts relating to the Company's Mexican operations and other matters relating to the Company's accounting practices and financial condition. The plaintiffs further allege that this scheme deceived the investing public regarding the true state of the Company's financial condition and caused the plaintiffs and other members of the alleged Class to purchase the Company's common stock and bonds at artificially inflated prices. The second consolidated amended complaint seeks unspecified compensatory damages in favor of the plaintiffs and the other members of the alleged Class against the Company, KPMG and the individual defendants, jointly and severally, including interest thereon, together with reasonable costs and expenses, including counsel fees and expert fees. On May 6, 2002, the Company and the individual defendants filed a motion to dismiss the second consolidated amended complaint. KPMG filed a separate motion to dismiss. The individual defendants and we deny any wrongdoing and intend to vigorously defend the action. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Bingham v. Xerox Corporation, et al.: A lawsuit filed by James F. Bingham, a former employee of the Company, is pending in the Superior Court of Connecticut, Judicial District of Waterbury (Complex Litigation Docket) against the Company, Barry D. Romeril, Eunice M. Filter and Paul Allaire. The complaint alleges that the plaintiff was wrongfully terminated in violation of public policy because he attempted to disclose to senior management and to remedy alleged accounting fraud and reporting irregularities. The plaintiff further claims that the Company and the individual defendants violated the Company's policies/commitments to refrain from retaliating against employees who report ethics issues. The plaintiff also asserts claims of defamation and tortious interference with a contract. He seeks: (i) unspecified compensatory damages in excess of $15 thousand, (ii) punitive damages, and (iii) the cost of bringing the action and other relief as deemed appropriate by the court. The parties are engaged in discovery. The individuals and we deny any wrongdoing and intend to vigorously defend the action. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Berger, et al. v. RIGP: A class was certified in an action originally filed in the United States District Court for the Southern District of Illinois on July 25, 2000 against the Company's Retirement Income Guarantee Plan (RIGP). The RIGP represents the primary U.S. pension plan for salaried employees. Plaintiffs bring this action on behalf of themselves and an alleged class of over 25,000 persons who received lump sum distributions from RIGP after January 1, 1990. Plaintiffs assert violations of the Employee Retirement Income Security Act (ERISA), claiming that the lump sum distributions were improperly calculated. On July 3, 2001 the court granted the Plaintiffs' motion for summary judgment, finding the lump sum calculations violated ERISA. RIGP denies any wrongdoing and intends to appeal the District Court's ruling. Although the damages sought were not specified in the complaint, the Plaintiffs submitted papers in December 2001 claiming $284 in damages.

Securities and Exchange Commission Investigation and Review: On April 11, 2002 we announced that we had reached a settlement with the SEC on the previously disclosed proposed allegations related to matters that had been under investigation since June 2000. As a result, the Commission filed on April 11, 2002 a complaint, which we simultaneously settled by consenting to the entry of an Order enjoining us from future violations of Section 17(a) of the Securities Act of 1933, Sections 10(b), 13(a) and 13(b) of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, 13a-1, 13a-13 and 13b2-1 thereunder, requiring payment of a civil penalty of $10, and imposing other ancillary relief. We neither admitted nor denied the allegations of the complaint.

Under the terms of the settlement, we have restated our financial statements for the years 1997 through 2000 as well as adjusted previously announced 2001 results. See Note 2 for more information regarding the adjustments and restatements.

As part of the settlement, and to allow for the additional time required to prepare the restatement and to make these adjustments, the Commission issued an Order pursuant to Section 36 of the Exchange Act (Exemptive Order) permitting us and our subsidiary, Xerox Credit Corporation, to file our respective 2001 Form10-Ks and first-quarter 2002 Form 10-Qs on or before June 30, 2002. The Exemptive Order provides that such filings made on or before June 30, 2002 will be deemed to have been filed on the prescribed due date.

We have also agreed as part of the settlement that a special committee of our Board of Directors will retain an independent consultant to review our material accounting controls and policies. The Board will share the outcome of this review with the SEC.

Pitney Bowes, Inc. v. Xerox Corporation and Fuji Xerox Co., Ltd.: On June 19, 2001, an action was commenced by Pitney Bowes in the United States District Court for the District of Connecticut against the Company seeking unspecified damages for infringement of a patent of Pitney Bowes which expired on May 31, 2000. Plaintiff claims that two printers containing image enhancement functions infringe the patent and seeks damages in the unspecified amount for sales between June 1995 and May 2000. We filed our answer and counterclaims on October 1, 2001. In December, 2001, a companion case against Lexmark and others on the patent in suit was transferred out of Connecticut to Kentucky. The Xerox and Fuji Xerox case was transferred to Kentucky and consolidated with the other infringement cases. We deny any wrongdoing and intend to vigorously defend the action. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Florida State Board of Administration, et al. v. Xerox Corporation, et al.: On January 4, 2002, the Florida State Board of Administration, the Teachers' Retirement System of Louisiana and Franklin Mutual Advisers filed an action in the United States District Court for the Northern District of Florida (Tallahassee Division) against the Company, Paul Allaire, G. Richard Thoman, Barry Romeril, Anne Mulcahy, Philip Fishbach, Gregory Tayler, Eunice M. Filter and KPMG LLP (KPMG). The plaintiffs allege that each of the Company, the individual defendants and KPMG violated Sections 10(b) and 18 of the Securities Exchange Act of 1934, as amended (the 34 Act), Securities and Exchange Commission Rule 10b-5 thereunder, the Florida Securities Investors Protection Act, Fl. Stat. ss. 517.301, and the Louisiana Securities Act, R.S. 51:712(A). The plaintiffs further claim that the individual defendants are each liable as "controlling persons" of the Company pursuant to Section 20 of the 34 Act and that each of the defendants is liable for common law fraud and negligent misrepresentation. The complaint generally alleges that the defendants participated in a scheme and course of conduct that deceived the investing public by disseminating materially false and misleading statements and/or concealing material adverse facts relating to the Company's Mexican operations and other matters relating to the Company's financial condition and accounting practices. The plaintiffs contend that in relying on false and misleading statements allegedly made by the defendants during the period between February 15, 1998 and February 6, 2001, they bought shares of the Company's common stock at artificially inflated prices. As a result, they allegedly suffered aggregated cash losses of almost $100. The plaintiffs seek, among other things, unspecified compensatory damages against the Company, the individual defendants and KPMG, jointly and severally, including prejudgment interest thereon, together with the costs and disbursements of the action, including their actual attorneys' and experts' fees. On March 8, 2002, the individual defendants and we filed a motion before the Judicial Panel on Multidistrict Litigation seeking to transfer this action and any related tagalong actions to the United States District Court for the District of Connecticut for consolidation or coordination for pre-trial purposes with the 21 consolidated actions currently pending there under the caption, Carlson v. Xerox et al. On June 19, 2002, the motion to transfer was granted. The individual defendants and we deny any wrongdoing alleged in the complaint and intend to vigorously defend the action. Based on the stage of the litigation, it is not possible to estimate the amount of loss or range of possible loss that might result from an adverse judgment or a settlement of this matter.

Xerox Corporation v. 3Com Corporation, et al.: On April 28, 1997, we commenced an action against Palm for infringement of the Xerox "Unistrokes" handwriting recognition Patent by the Palm Pilot using "Graffiti." On January 14, 1999, the U.S. Patent and Trademark Office (PTO) granted the first of two 3Com/Palm requests for reexamination of the Unistrokes patent challenging its validity. The PTO concluded its reexaminations and confirmed the validity of all 16 claims of the original Unistrokes patent. On June 6, 2000, the judge narrowly interpreted the scope of the Unistrokes patent claims and, based on that narrow determination, found the Palm Pilot with Graffiti did not infringe the Unistrokes patent claims. On October 5, 2000, the Court of Appeals for the Federal Circuit (CAFC) reversed the finding of no infringement and sent the case back to the lower court to continue toward trial on the infringement claims. On December 20, 2001, the District Court granted our motions on infringement and for a finding of validity thus establishing liability. On December 21, 2001, Palm appealed to the CAFC. We moved for a trial on damages and an injunction or bond in lieu of injunction. The District Court denied our motion for a temporary injunction, but ordered a $50 bond to be posted to protect us against future damages until the trial. Palm issued a $50 Irrevocable Letter of Credit in favor of Xerox. The District Court's decision is now on appeal before the Court of Appeals for the Federal circuit.

Pall v. Buehler, et al.: On May 16, 2002, a shareholder commenced a derivative action in the United States District Court for the District of Connecticut against KPMG Peat Marwick (KPMG). The Company was named as a nominal defendant. Plaintiff purported to bring this action derivatively in the right, and for the benefit, of the Company. He contended that he is excused from complying with the prerequisite to make a demand on the Xerox Board of Directors, and that such demand would be futile, because the directors are disabled from making a disinterested, independent decision about whether to prosecute this action. In the original complaint, plaintiff alleged that KPMG, the Company's former outside auditor, breached its duties of loyalty and due care owed to Xerox by repeatedly acquiescing in, permitting and aiding and abetting the manipulation of Xerox's accounting and financial records in order to improve the Company's publicly reported financial results. He further claimed that KPMG committed malpractice and breached its duty to use such skill, prudence and diligence as other members of the accounting profession commonly possess and exercise. Plaintiff claimed that as a result of KPMG's breaches of duties, the Company has suffered loss and damage. On May 29, 2002, plaintiff amended the complaint to add as defendants the present and certain former directors of the Company. He added claims against each of them for breach of fiduciary duty, and separate additional claims against the directors who are or were members of the Audit Committee of the Board of Directors, based upon the alleged failure, inter alia, to implement, supervise and maintain proper accounting systems, controls and practices. The amended derivative complaint demands a judgment declaring that the defendants have violated and/or aided and abetted the breach of fiduciary and professional duties to the Company and its shareholders; awarding the Company unspecified compensatory damages, together with pre-judgment and post-judgment interest at the maximum rate allowable by law; awarding the Company punitive damages; awarding the plaintiff the costs and disbursements of the action, including reasonable attorneys' and experts' fees; and granting such other or further relief as may be just and proper under the circumstances. The plaintiff has identified this action as a "related case" to Carlson v. Xerox

Corporation, et al., a consolidated securities law action currently pending in the same court. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

Lerner v. Allaire, et al.: On June 6, 2002, a shareholder, Stanley Lerner, commenced a derivative action in the United States District Court for the District of Connecticut against Paul A. Allaire, William F. Buehler, Barry D. Romeril, Anne M. Mulcahy and G. Richard Thoman. The plaintiff purports to bring the action derivatively, on behalf of the Company, which is named as a nominal defendant. Previously, on June 19, 2001, Lerner made a demand on the Board of Directors to commence suit against certain officers and directors to recover unspecified damages and compensation paid to these officers and directors. In his demand, Lerner contended, inter alia, that management was aware since 1998 of material accounting irregularities and failed to take action and that the Company has been mismanaged. At its September 26, 2001 meeting, the Board of Directors appointed a special committee to consider, investigate and respond to the demand. The special committee is still deliberating. In this action, plaintiff alleges that the individual defendants breached their fiduciary duties of care and loyalty by disguising the true operating performance of the Company through improper undisclosed accounting mechanisms between 1997 and 2000. The complaint alleges that the defendants benefited personally, through compensation and the sale of company stock, and either participated in or approved the accounting procedures or failed to supervise adequately the accounting activities of the Company. The plaintiff demands a judgment declaring that defendants intentionally breached their fiduciary duties to the Company and its shareholders; awarding unspecified compensatory damages to the Company against the defendants, individually and severally, together with pre-judgment and post-judgment interest; awarding the Company punitive damages; awarding the plaintiff the costs and disbursements of the action, including reasonable attorneys' and experts' fees; and granting such other or further relief as may be just and proper. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

Other Matters: It is our policy to carefully investigate, often with the assistance of outside advisers, allegations of impropriety that may come to our attention. If the allegations are substantiated, appropriate prompt remedial action is taken. In India, we have learned of certain improper payments made over a period of years in connection with sales to government customers by employees of our majority-owned subsidiary in that country. This activity was terminated when we became aware of it. We have investigated the activity and recently reported it to the staff of the SEC. We estimate the amount of such payments in 2000, the year the activity was stopped, to be approximately $600 to $700 thousand. In 2000 the Indian company had revenue of approximately $130. We are investigating certain transactions of our unconsolidated South African affiliate that appear to have been improperly recorded as part of an effort to sell supplies outside of its authorized territory. Recently, we received an anonymous, unsubstantiated allegation, stated to be based upon rumor, that improper payments were made in connection with government sales in a South American subsidiary. We have not yet completed a full investigation, however, we have not found anything that substantiates the allegation as of the date of this filing. We have discussed these matters recently with the staff of the SEC. Based on our consideration of these matters to date, we do not believe that they are material to our financial statements.

Note 17--Preferred Securities

As of December 31, 2001, we have four series of outstanding preferred securities. In total we are authorized to issue 22 million shares of cumulative preferred stock, $1 par value.

Convertible Preferred Stock. As more fully described in Note 14, we sold, for $785, 10 million shares of our Series B Convertible Preferred Stock (ESOP shares) in 1989 in connection with the establishment of our ESOP. As employees with vested ESOP shares leave the Company, these shares are redeemed by us. We have the option to settle such redemptions with either shares of common stock or cash.

Outstanding preferred stock related to our ESOP at December 31, 2001 and 2000 follows (shares in thousands):

	2001		2000	
	Shares	Amount	Shares	Amount
Convertible Preferred Stock	7,730	$605	8,257	$647

Preferred Stock Purchase Rights. We have a shareholder rights plan designed to deter coercive or unfair takeover tactics and to prevent a person or persons from gaining control of us without offering a fair price to all shareholders. Under the terms of the plan, one-half of one preferred stock purchase right (Right) accompanies each share of outstanding common stock. Each full Right entitles the holder to purchase from us one three-hundredth of a new series of preferred stock at an exercise price of $250. Within the time limits and under the circumstances specified in the plan, the Rights entitle the holder to acquire either our common stock, the surviving company in a business combination, or the purchaser of our assets, having a value of two times the exercise price. The Rights, which expire in April 2007, may be redeemed prior to becoming

exercisable by action of the Board of Directors at a redemption price of $.01 per Right. The Rights are non-voting and, until they become exercisable, have no dilutive effect on the earnings per share or book value per share of our common stock.

Company-obligated, Mandatorily Redeemable Preferred Securities of Subsidiary Trusts Holding Solely Subordinated Debentures of the Company. The components of Company-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debentures of the Company at December 31, 2001 and 2000 follow:

	2001	2000
Trust II	$1,005	$ --
Trust I	639	638
Deferred Preferred Stock	43	46
Total	$1,687	$684

Trust II. In 2001, Xerox Capital Trust II (Capital II), a trust sponsored and wholly owned by us, issued 20.7 million 7.5 percent convertible trust preferred securities to investors for an aggregate liquidation amount of $1,035 and 0.6 million shares of common securities to us for an aggregate liquidation amount of $32. With the proceeds from these securities, Capital II purchased $1,067 aggregate principal amount of 7.5 percent convertible junior subordinated debentures due 2021 of Xerox Funding LLC II (Funding), a wholly owned subsidiary of ours. With the proceeds from these securities, Funding purchased $1,067 aggregate principal amount of 7.5 percent convertible junior subordinated debentures due 2021 of the Company. Capital II's assets consist principally of Funding's debentures, and Funding's assets consist principally of our debentures. On a consolidated basis, we received net proceeds of $1,004 which is net of $31 of fees and expenses. The initial carrying value is being accreted to liquidation value through Minorities' interests in earnings of subsidiaries over three years to the earliest redemption date. As of December 31, 2001, the initial carrying value had accreted to $1,005. We used the net proceeds from the issuance of our debentures for general corporate purposes, including the payment of our indebtedness. Our debentures, along with those of Funding, and related income statement effects are eliminated in our consolidated financial statements. Distributions on the trust preferred securities are charged, net of tax, to Minorities' interests in earnings of subsidiaries and amounted to $4 in 2001. We have effectively guaranteed, fully and unconditionally on a subordinated basis, the payment and delivery by Funding of all amounts due on the Funding debentures and the payment and delivery by Capital II of all amounts due on the trust preferred securities, in each case to the extent required under the terms of the securities.

The trust preferred securities accrue and pay cash distributions quarterly at a rate of 7.5 percent per annum of the stated liquidation amount of fifty dollars per trust preferred security. Concurrently with the initial issuance of the trust preferred securities, Funding issued 0.2 million common securities to us for an aggregate liquidation amount of $229, the proceeds of which Funding used to purchase and deposit with a pledge trustee U.S. treasuries to secure, through the distribution payment date occurring on November 27, 2004, Funding's obligations under its debentures. As of December 31, 2001, $74 and $155 are included in Deferred taxes and other current assets and Intangible and other assets, net, respectively, representing the amounts pledged by Funding. The trust preferred securities are convertible at any time, at the option of the investors, into 5.4795 shares of our common stock per trust preferred security, subject to adjustment. The trust preferred securities are mandatorily redeemable upon the maturity of the debentures on November 27, 2021 at fifty dollars per trust preferred security plus accrued and unpaid distributions. Investors may require us to cause Capital II to purchase all or a portion of the trust preferred securities on December 4, 2004, and November 27, 2006, 2008, 2011 and 2016 at a price of fifty dollars per trust preferred security, plus accrued and unpaid distributions. In addition, if we undergo a change in control on or before December 4, 2004, investors may require us to cause Capital II to purchase all or a portion of the trust preferred securities. In either case, the purchase price for such trust preferred securities may be paid in cash or common stock of the Company, or a combination thereof. If the purchase price or any portion thereof consists of common stock, investors will receive such common stock at a value of 95 percent of its then prevailing market price. Capital II may redeem all, but not part, of the trust preferred securities for cash prior to December 4, 2004 only if specified changes in tax and investment law occur, at a redemption price of 100 percent of their liquidation amount plus accrued and unpaid distributions. On or at anytime after December 4, 2004, Capital II may redeem all or a portion of the trust preferred securities for cash at declining redemption prices, with an initial redemption price of 103.75 percent of their liquidation amount.

Trust I. In 1997, a trust sponsored and wholly owned by us issued $650 aggregate liquidation amount of preferred securities (the Original Preferred Securities) to investors and 20,103 shares of common securities to us, the proceeds of which were invested by the trust in $670 aggregate principal amount of our newly issued 8 percent Junior Subordinated Debentures due 2027 (the Original Debentures). Pursuant to a registration statement filed by us and the trust with the Securities and Exchange Commission in 1997, Original Preferred Securities with an aggregate liquidation preference amount of $644 and Original Debentures with a principal amount of $644 were exchanged for a like amount of preferred securities (together with the Original Preferred Securities, the Preferred Securities) and 8 percent Junior Subordinated Debentures due 2027 (together with the Original Debentures, the Debentures) which were registered under the Securities Act of 1933. The

Debentures represent all of the assets of the trust. The Debentures and related income statement effects are eliminated in our consolidated financial statements.

The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8 percent per annum of the stated liquidation amount of $1,000 per Preferred Security. These distributions are recorded in Minorities' interests in earnings of subsidiaries in the Consolidated Statements of Operations. We have guaranteed (the Guarantee), on a subordinated basis, distributions and other payments due on the Preferred Securities. The Guarantee and our obligations under the Debentures and in the indenture pursuant to which the Debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities.

The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be $1,000 per share plus accrued and unpaid distributions to the date fixed for redemption. Total net proceeds were $637, net of $13 in fees and expenses. The initial carrying value is being accreted to liquidation value over the remaining term. As of December 31, 2001, the initial carrying value had accreted to $639.

Deferred Preferred Stock. In 1996, a subsidiary of ours issued 2 million deferred preferred shares for Canadian (Cdn.) $50 ($37 U.S.). These shares are mandatorily redeemable on February 28, 2006 for Cdn. $90 (equivalent to $56 U.S. at December 31, 2001). The difference between the redemption amount and the proceeds from the issue is being amortized, through the redemption date, to Minorities' interests in earnings of subsidiaries in the Consolidated Statements of Operations. As of December 31, 2001, $13 remained to be amortized. We have guaranteed the redemption value.

Note 18--Common Stock

We have 1.05 billion authorized shares of common stock, $1 par value. At December 31, 2001 and 2000, 113 and 98 million shares, respectively, were reserved for issuance under our incentive compensation plans. In addition, at December 31, 2001, 18 million common shares were reserved for the conversion of $591 of convertible debt, 43 million common shares were reserved for conversion of ESOP-related Convertible Preferred Stock and 113 million common shares were reserved for the conversion of Convertible Trust Preferred Securities.

Extraordinary Gain. We retired $377 of long-term debt through the exchange of 41 million shares of common stock valued at $311 in 2001. These retirements resulted in a pre-tax extraordinary gain of $66 ($40 after taxes) for a net equity increase of $351.

Treasury Stock. In 1996, the Board of Directors authorized us to repurchase up to $1 billion of our common stock. No shares were repurchased during 2001, 2000 or 1999. Between 1996 and 1998 we had repurchased 21 million shares for $594. Common shares issued for stock option exercises, conversion of convertible securities and other exchanges were partially satisfied by reissuances of treasury shares. At this time, we are effectively prohibited from purchasing additional shares as a result of covenants in our recent capital markets transactions. There were no treasury shares outstanding as of December 31, 2001 or 2000.

Put Options. In connection with the share repurchase program, during 2000 and 1999, we sold 7.5 and 0.8 million put options, respectively, that entitled the holder to sell one share of our common stock to us at maturity at a specified price.

In 2000, we recorded the receipt of a premium of approximately $24 on the sale of equity put options. This premium was recorded as an addition to Common stock, including additional paid in capital. In October 2000, the holder of these equity put options exercised their option for early termination and settlement. The cost of this settlement to us was approximately $92 for 7.5 million shares with an average strike price of $18.98 per share. This transaction was recorded as a reduction of Common stock, including additional paid in capital.

At December 31, 2000, 0.8 million put options remained outstanding with a strike price of $40.56 per share. Under the terms of this contract we had the option of physical or net cash settlement. Accordingly, this amount was classified as temporary equity in the Consolidated Balance Sheet at December 31, 2000. In January 2001 these put options were net cash settled for $28. Funds for this net cash settlement were obtained by selling 5.9 million unregistered shares of our common stock for proceeds of $28.

Stock Option and Long-term Incentive Plans. We have a long-term incentive plan whereby eligible employees may be granted non-qualified stock options, shares of common stock (restricted or unrestricted) and performance/incentive unit rights. Beginning in 1998 and subject to vesting and other requirements, performance/incentive unit rights are typically paid in our common stock. The value of each performance/ incentive unit is based on the growth in earnings per share during the year in which granted. Performance/ incentive units ratably vest in the three years after the year awarded. Compensation

expense recorded for performance/incentive units at December 31, 2000 and 1999 was $5 and $18, respectively. No amounts were recorded in 2001 as the balance of the 1999 and 2000 performance/incentive measures were not met. This plan was discontinued in 2001.

We granted 1.9, 0.4 and 0.3 million shares of restricted stock to key employees for the years ended December 31, 2001, 2000 and 1999, respectively. No monetary consideration is paid by employees who receive restricted shares. Compensation expense for restricted grants is based upon the grant date market price and is recorded over the vesting period which on average ranges from 1 to 3 years. Compensation expense recorded for restricted grants was $15, $18 and $22 in 2001, 2000 and 1999, respectively.

Stock options and rights are settled with newly issued or, if available, treasury shares of our common stock. Stock options generally vest in three years and expire between eight and ten years from the date of grant. The exercise price of the options is equal to the market value of our common stock on the effective date of grant.

At December 31, 2001 and 2000, 39.7 and 36.0 million shares, respectively, were available for grant of options or rights. The following table provides information relating to the status of, and changes in, options granted:

	2001		2000		1999	
Employee Stock Options	Stock Options	Average Option Price	Stock Options	Average Option Price	Stock Options	Average Option Price
	(Options in thousands)					
Outstanding at January 1	58,233	$35	43,388	$42	30,344	$33
Granted	15,085	5	19,338	22	19,059	51
Cancelled	(4,479)	28	(4,423)	38	(870)	47
Exercised	(10)	5	(70)	22	(5,145)	23
Outstanding at December 31	68,829	29	58,233	35	43,388	42
Exercisable at end of year	36,388		23,346		13,467	

Options outstanding and exercisable at December 31, 2001 are as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	In thousands except per-share data				
$ 4.75 to $6.98	12,533	9.00	$4.76	7	$ 4.75
7.13 to 10.35	1,813	9.71	8.58	--	--
10.94 to 16.38	266	7.27	14.67	89	15.02
16.91 to 23.25	20,389	6.36	21.53	11,030	21.33
25.38 to 36.70	13,726	4.65	31.58	9,872	33.47
41.72 to 60.95	20,102	5.33	53.13	15,390	52.45
$4.75 to $60.95	68,829	6.29	$29.34	36,388	$37.77

We do not recognize compensation expense relating to employee stock options because the exercise price of the option equals the fair value of the stock on the effective date of grant. If we had elected to recognize compensation expense, and therefore determined the compensation based on the value as determined by the modified Black-Scholes option pricing model, the pro forma net (loss) income and (loss) earnings per share would have been as follows:

	2001	2000 Restated Note 2	1999 Restated Note 2
Net (loss) income--as reported	$ (71)	$ (273)	$ 844
Net (loss) income--pro forma	(145)	(374)	755
Basic EPS--as reported	(0.12)	(0.48)	1.20
Basic EPS--pro forma	(0.23)	(0.63)	1.07
Diluted EPS--as reported	(0.12)	(0.48)	1.17
Diluted EPS--pro forma	(0.23)	(0.63)	1.05

As reflected in the pro forma amounts in the previous table, the fair value of each option granted in 2001, 2000 and 1999 was $2.40, $7.50 and $15.83, respectively. The fair value of each option was estimated on the date of grant using the following weighted average assumptions:

	2001	2000	1999
Risk-free interest rate	5.1%	6.7%	5.1%
Expected life in years	6.5	7.1	6.2
Expected price volatility	51.4%	37.0%	28.0%
Expected dividend yield	2.7%	3.7%	1.8%

Note 19--Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders (the numerator) by the weighted-average number of common shares outstanding (the denominator) for the period. Diluted earnings per share assumes that any dilutive convertible preferred shares, convertible subordinated debentures, and convertible securities outstanding were converted, with related preferred stock dividend requirements and outstanding common shares adjusted accordingly. It also assumes that outstanding common shares were increased by shares issuable upon exercise of those stock options for which market price exceeds the exercise price, less shares which could have been purchased by us with the related proceeds. In periods of losses, diluted loss per share is computed on the same basis as basic loss per share as the inclusion of any other potential shares outstanding would be anti-dilutive.

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

	2001			2000 Restated Note 2			1999 Restated Note 2		
	Income	Shares	Per-Share Amount	Income	Shares	Pre-Share Amount	Income	Shares	Per-Share Amount
	(Shares in thousands)								
Basic EPS									
Net (loss) income before extraordinary gain and cumulative effect of change in accounting principle	(109)			$(273)			$844		
Accrued dividends on preferred stock, net	$ (12)			$ (46)			(46)		
Basic EPS before extraordinary gain and cumulative effect of change in accounting principle	$ (121)	704,181	$(0.17)	$(319)	667,581	$ (0.48)	$798	663,17	$1.20
Extraordinary gain	40	704,181	0.05						
Cumulative effect of change in accounting principle	(2)	704,181	--						
Basic EPS	$ (83)	704,181	$(0.12)	$(319)	667,581	$ (0.48)	$798	663,17	$1.20
Diluted EPS									
Stock options and other incentives								8,727	
ESOP Adjustment, net of tax							51	51,989	
Convertible debt, net of tax							3	5,287	
Diluted EPS	$(83)	704,181	$(0.12	$(319)	667,581	$ (0.48)	$852	729,17	$1.17

The 2001 and 2000 computation of diluted loss per share did not include the effects of 69 and 58 million stock options, respectively, because either: i) their respective exercise prices were greater than the corresponding market value per share of our common stock or ii) where the respective exercise prices were less than the corresponding market value per share of our common stock, the inclusion of such options would have been anti-dilutive.

In addition, the following securities that could potentially dilute basic EPS in the future were not included in the computation of diluted EPS because to do so would have been anti-dilutive for 2001 and 2000 (in thousands of shares):

	2001	2000
Convertible preferred stock	78,473	50,605
Mandatorily redeemable preferred securities--Trust II	113,426	--
3.625% Convertible subordinated debentures	7,129	7,903
Other convertible debt	1,992	5,287
Total	201,020	63,795

Note 20--Subsequent Events

In June 2002 and as further described in Note 1 and Note 12, we entered into a $4.2 billion amended and restated credit agreement with a group of lenders which replaced our previous debt facility.

In May 2002, GE Capital and we launched the Xerox Capital Services (XCS) venture. XCS manages our customer administration and leasing activities in the U.S., including various financing programs, credit approval, order processing, billing and collections.

In May and March 2002, we received additional financing totaling $765 from GE Capital secured by lease receivables in the U.S. Net fees of $5 were paid in connection with the transactions and have been capitalized as debt issue costs. In connection with these transactions, $35 of the $765 in proceeds was required to be held in reserve, as security for our supply and service obligations inherent in the transferred contracts. The amount held will be released ratably as the underlying borrowing is repaid.

In May 2002, we entered into an agreement to transfer part of our financing operations in Germany to GE Capital. We received a $77 loan from GE Capital secured by certain of our finance receivables in Germany. Cash proceeds of $65 were net of $12 of escrow requirements.

In May 2002, we received an additional loan from GE Capital of $106 secured by portions of our lease receivable portfolio in the U.K.

In April 2002, we sold our leasing business in Italy to a third party for approximately $207 in cash plus the assumption of $20 of debt. We can also receive retained interests up to approximately $30 based on the occurrence of certain future events. This sale is part of an agreement under which the third party will provide ongoing, exclusive equipment financing to our customers in Italy.

In March 2002, we determined that $72 of our capitalized software was permanently impaired. This determination was based on our assessment of the usefulness of such software as of that date. This amount will be reflected as a charge in our operating results for the first quarter of 2002.

In February 2002, we received a $291 loan from GE Capital, secured by certain of our finance receivables in Canada. Cash proceeds of $281 were net of $8 of escrow requirements and $2 of fees.

In January 2002, we completed an unregistered offering in the U.S. ($600) and Europe ((euro)225) of 9 3/4 percent senior notes due in 2009 and received net cash proceeds of $746, which includes $559 and (euro)209. The notes were issued at a 4.833 percent discount and will pay interest semiannually on January 15 and July 15. In March 2002, we filed a registration statement to exchange registered notes for these unregistered notes. This registration statement has not yet been declared effective.

QUARTERLY RESULTS OF OPERATIONS (Unaudited) In millions, except per-share data

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
	Restated Note 2	Restated Note 2	Restated Note 2		
Revenues	$ 4,291	$ 4,283	$ 4,052	$ 4,382	$ 17,008
Costs and Expenses	3,653	4,560	4,130	4,300	16,643
Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain, and Cumulative Effect of Change in Accounting Principle	638	(277)	(78)	82	365
Income taxes (benefits)	427	(134)	(70)	262	485
Equity in net income of unconsolidated affiliates	3	31	--	19	53
Minorities' interests in earnings of subsidiaries	(7)	(10)	(9)	(16)	(42)
(Loss) Income before Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	207	(122)	(17)	(177)	(109)
Extraordinary gain, net of taxes	17	18	1	4	40
Cumulative effect of change in accounting principle	(2)	--	--	--	(2)
Net (Loss) Income	$ 222	$ (104)	$ (16)	$ (173)	$ (71)
Basic (Loss) Earnings per Share	$ 0.31	$ (0.15)	$ (0.02)	$ (0.24)	$ (0.12)
Diluted (Loss) Earnings per Share/(2)/	$ 0.28	$ (0.15)	$ (0.02)	$ (0.24)	$ (0.12)
2000				Restated Note 2	Restated Note 2
Revenues	$ 4,558	$ 4,765	$ 4,474	$ 4,954	$ 18,751
Costs and Expenses	4,933	4,566	4,608	5,011	19,118
Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain, and Cumulative Effect of Change in Accounting Principle	(375)	199	(134)	(57)	(367)
Income taxes (benefits)	(143)	77	305	(309)	(70)
Equity in net income of unconsolidated affiliates	5	47	11	3	66
Minorities' interests in earnings of subsidiaries	(11)	(11)	(10)	(10)	(42)
Net (Loss) Income	$ (238)	$ 158	$ (438)	$ 245	$ (273)
Basic (Loss) Earnings per Share	$ (0.37)	$ 0.22	$ (0.67)	$ 0.35	$ (0.48)
Diluted (Loss) Earnings per Share/(2)/	$ (0.37)	$ 0.21	$ (0.67)	$ 0.32	$ (0.48)

Previously Reported

2001/(1)/	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	$ 4,201	$ 4,137	$ 3,902	$ 4,262	$ 16,502
Costs and Expenses	3,607	4,620	4,150	4,262	16,639
Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain, and Cumulative Effect of Change in Accounting Principle	594	(483)	(248)	--	(137)
Income taxes (benefits)	403	(160)	(56)	6	193
Equity in net income of unconsolidated affiliates	3	30	(1)	15	47
Minorities' interests in earnings of subsidiaries	(6)	(6)	(19)	(17)	(48)
(Loss) Income before Extraordinary Gain and Cumulative Effect of Change in Accounting Principle	188	(299)	(212)	(8)	(331)
Extraordinary gain, net of taxes	17	18	1	4	40
Cumulative effect of change in accounting principle	(2)	--	--	--	(2)
Net (Loss) Income	$ 203	$ (281)	$ (211)	$ (4)	$ (293)
Basic (Loss) Earnings per Share	$ 0.28	$ (0.40)	$ (0.29)	$ (0.01)	$ (0.43)
Diluted (Loss) Earnings per Share/(2)/	$ 0.25	$ (0.40)	$ (0.29)	$ (0.01)	$ (0.43)
2000					
Revenues	$ 4,540	$ 4,778	$ 4,503	$ 4,880	$ 18,701
Costs and Expenses	4,901	4,531	4,738	4,915	19,085
Income (Loss) before Income Taxes (Benefits), Equity Income, Minorities' Interests, Extraordinary Gain, and Cumulative Effect of Change in Accounting Principle	(361)	247	(235)	(35)	(384)
Income taxes (benefits)	(120)	79	(44)	(24)	(109)
Equity in net income of unconsolidated affiliates	4	46	10	1	61
Minorities' interests in earnings of subsidiaries	(11)	(12)	(10)	(10)	(43)
Net (Loss) Income	$ (248)	$ 202	$ (191)	$ (20)	$ (257)
Basic (Loss) Earnings per Share	$ (0.39)	$ 0.29	$ (0.30)	$ (0.04)	$ (0.44)
Diluted (Loss) Earnings per Share/(2)/	$ (0.39)	$ 0.27	$ (0.30)	$ (0.04)	$ (0.44)

/(1)/ 2001 fourth quarter and full year were announced in a press release dated January 28, 2002. First, second and third quarters were included in form 10-Q's filed with the SEC.

/(2)/ The sum of quarterly diluted (loss) earnings per share differ from the full-year amounts because securities that are anti-dilutive in certain quarters are not anti-dilutive on a full-year basis.

	2001	2000 Restated	1999 Restated	1998 Restated	1997 Restated
	(Dollars in millions, except per-share data)				
Per-Share Data					
(Loss) earnings from continuing operations					
Basic	$ (0.12)	$ (0.48)	$ 1.20	$ (0.32)	$ 1.30
Diluted	(0.12)	(0.48)	1.17	(0.32)	1.24
Dividends declared	0.05	0.65	0.80	0.72	0.64
Operations					
Revenues	$ 17,008	$ 18,751	$ 18,995	$ 18,777	$ 17,457
Sales	7,443	8,839	8,967	8,996	8,303
Service, outsourcing, and rentals	8,436	8,750	8,853	8,742	8,192
Finance Income	1,129	1,162	1,175	1,039	962
Research and development expenses	997	1,064	1,020	1,045	1,080
Selling, administrative and general expenses	4,728	5,518	5,204	5,314	5,196
(Loss) income from continuing operations	(71)	(273)	844	23	893
Net (loss) income	(71)	(273)	844	(167)	893
Financial Position					
Cash and cash equivalents	$ 3,990	$ 1,750	$ 132	$ 79	$ 75
Accounts and finance receivables, net	11,574	13,067	13,487	13,272	11,548
Inventories	1,364	1,983	2,344	2,554	2,094
Equipment on operating leases, net	804	1,266	1,423	1,650	1,517
Land, buildings and equipment, net	1,999	2,527	2,458	2,366	2,373
Investment in discontinued operations	749	534	1,130	1,669	2,819
Total assets	27,689	28,253	27,803	27,775	26,064
Consolidated capitalization					
Short-term debt	6,637	3,080	4,626	4,221	3,796
Long-term debt	10,128	15,557	11,521	11,104	9,074
Total debt	16,765	18,637	16,147	15,325	12,870
Deferred ESOP benefits	(135)	(221)	(299)	(370)	(434)
Minorities' interests in equity of subsidiaries	73	87	75	81	88
Obligation for equity put options	--	32	--	--	--
Company-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debentures of the Company	1,687	684	681	679	676
Preferred stock	605	647	669	687	705
Common shareholders' equity	1,820	1,801	2,953	3,026	3,605
Total capitalization/(1)/	20,815	21,667	20,226	19,428	17,510
Selected Data and Ratios					
Common shareholders of record at year-end	59,830	59,879	55,766	52,001	54,687
Book value per common share	$ 2.51	$ 2.68	$ 4.42	$ 4.59	$ 5.51
Year-end common stock market price	$ 10.42	$ 4.63	$ 22.69	$ 59.00	$ 36.94
Employees at year-end	78,900	92,500	94,600	92,700	91,500
Gross margin	38.2%	37.4%	42.3%	44.3%	44.8%
Sales gross margin	30.5%	31.2%	37.2%	40.5%	39.5%
Service, outsourcing, and rentals gross margin	42.2%	41.1%	44.7%	46.6%	48.4%
Finance gross margin	59.5%	57.1%	63.0%	58.2%	58.6%
Working capital	$ 2,340	$ 4,928	$ 2,965	$ 2,959	$ 2,444
Current ratio	1.2	1.8	1.3	1.3	1.3
Cost of additions to land, buildings and equipment	$ 219	$ 452	$ 594	$ 566	$ 520
Depreciation on buildings and equipment	$ 402	$ 417	$ 416	$ 362	$ 400

/(1)/ Total capitalization is comprised of total debt, deferred ESOP benefits, minorities' interests in equity of subsidiaries, obligation for equity put options, Company-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debentures of the Company, preferred stock, and common shareholders' equity.

Officers
- --------

Anne M. Mulcahy
Chairman and
Chief Executive Officer

Allan E. Dugan
Executive Vice President,
Corporate Business Ethics and Compliance

Carlos Pascual
Executive Vice President
President, Developing Markets Operations

Ursula M. Burns
Senior Vice President
President, Document Systems and Solutions Group

Thomas J. Dolan
Senior Vice President
President, Xerox Global Services

James A. Firestone
Senior Vice President
President, Corporate Operations Group

Herve J. Gallaire
Senior Vice President
President, Xerox Innovation Group and
Chief Technology Officer

Anshoo S. Gupta
Senior Vice President
President, Production Systems Group
Document Systems and Solutions Group

Gilbert J. Hatch
Senior Vice President
President, Office Systems Group

Michael C. Mac Donald
Senior Vice President
President, North American Solutions Group

Hector J. Motroni
Senior Vice President and Chief Staff Officer

Brian E. Stern
Senior Vice President
President, Xerox Supplies Business Group
Document Systems and Solutions Group

Lawrence A. Zimmerman
Senior Vice President and Chief Financial Officer

Guilherme M.N. Bettencourt
Vice President
Presidente, Xerox do Brasil, Ltda.
Developing Markets Operations

Richard F. Cerrone
Vice President
Senior Vice President and General Manger
North American Agent Operations

Christina E. Clayton
Vice President and General Counsel

Patricia A. Cusick
Vice President and Chief Information Officer
Corporate Operations Group

J. Michael Farren
Vice President
External Affairs

Anthony M. Federico
Vice President
Development
Document Systems and Solutions Group

Emerson U. Fullwood
Vice President
Executive Chief Staff Officer
Developing Markets Operations

James H. Lesko
Vice President
President, e-Business and TeleWeb
Corporate Operations Group

Rafik O. Loutfy
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Center Manager, Xerox Research Centre of Canada
Xerox Innovation Group

Jean-Noel Machon
Vice President
President, European Solutions Group

Diane E. McGarry
Vice President
Chief Marketing Officer, Corporate Marketing and Communications
Corporate Operations Group

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President, Office Printing Business Group

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Vice President
Human Resources

Russell Y. Okasako
Vice President
Taxes

Ronald E. Rider
Vice President
Center Manager, Digital Imaging Technology Center
Xerox Innovation Group

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Vice President
Senior Vice President,
DocuColor iGen3 Business
Document Systems and Solutions Group

Gregory B. Tayler
Vice President and Treasurer

Leslie F. Varon
Vice President and Secretary

Armando Zagalo de Lima
Vice President
Senior Vice President and Chief Operating Officer
European Solutions Group

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Assistant Treasurer and Director,
Global Risk Management

Gary R. Kabureck
Assistant Controller and Chief Accounting Officer

Timothy J. MacCarrick
Assistant Treasurer

Richard Ragazzo
Assistant Controller

Martin S. Wagner
Assistant Secretary
Associate General Counsel,
Corporate Finance and Ventures

Directors
- ---------

Antonia Ax:son Johnson 2, 3
Chairman
Axel Johnson Group
Stockholm, Sweden

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Senior Managing Director
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New York, New York
Of Counsel
Akin, Gump, Strauss, Hauer & Feld, LLP
Attorneys-at-Law, Washington, DC

Yotaro Kobayashi
Chairman of the Board
Fuji Xerox Co., Ltd.
Tokyo, Japan

Hilmar Kopper 2, 5
Former Chairman of the Supervisory Board
Deutsche Bank AG
Frankfurt, Germany

Ralph S. Larsen 1, 3, 5
Former Chairman and Chief Executive Officer
Johnson & Johnson
New Brunswick, New Jersey

George J. Mitchell 4, 5
Chairman
Verner, Liipfert, Bernhard, McPherson & Hand
Washington, DC

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N. J. Nicholas, Jr. 2, 4
Investor
New York, New York

John E. Pepper 2, 3
Chairman, Executive Committee of the Board
The Procter & Gamble Company
Cincinnati, Ohio

Martha R. Seger 2, 4
Financial Economist and
Former Member Federal Reserve Board
Ann Arbor, Michigan

Thomas C. Theobald 2, 3
Managing Director
William Blair Capital Partners, LLC
Chicago, Illinois

/1/ Member of the Executive Committee
/2/ Member of the Audit Committee
/3/ Member of the Executive Compensation and Benefits Committee
/4/ Member of the Finance Committee
/5/ Member of the Nominating Committee

How to Reach Us

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United Kingdom
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Products and Services

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

... 585 347-9922 for technical support for small office or home office product

... 877 362-6567 for information on the full line of Xerox office printers

Additional Information

The Xerox Foundation and CommunityInvolvement Program: 203 968-3333

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

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

Questions from Students and Educators:
E-mail: Nancy.Dempsey@usa.xerox.com

Independent Accountants
PricewaterhouseCoopers LLP
300 Atlantic Street
Stamford, CT 06901
203 539-3000

Dividends Paid to Shareholders

At its July 9, 2001 meeting, the Company's Board of Directors eliminated the dividend on the common stock. Previously, at its October 9, 2000 and February 5, 2001 meetings, the Board declared a dividend of $0.05 per share payable on January 1, 2001 and April 1, 2001. At its July 9, 2001 meeting, the Board of Directors also decided to suspend the quarterly dividend on the preferred stock, which had previously been $1.5625 per share. The Series B Convertible Preferred stock was issued in July 1989 in connection with the formation of a Xerox Employee Stock Ownership Plan.

Xerox Common Stock Prices and Dividends
New York Stock Exchange composite prices

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$ 8.43	$ 11.35	$9.58	$10.42
Low	5.03	4.95	6.72	6.58
Dividends Paid	$ 0.05	$ 0.05	$0.00	$ 0.00

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$28.19	$ 28.13	$20.38	$15.31
Low	20.13	19.19	14.81	4.44
Dividends Paid	$ 0.20	$ 0.20	$ 0.20	$ 0.20

Stock Listed and Traded

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

Shareholder Information

For Investor Information, including comprehensive earnings releases:

www.xerox.com/investor or www.xerox.com and select "investor information."
Earnings releases also available by mail: 800-828-6396

For shareholder services, call 800-828-6396 (TDD: 800-368-0328) or 781-575-3222, or write to EquiServe Trust Company, N.A., P.O. Box 43010, Providence, RI 02940-3010 or use email available at www.equiserve.com.

Investment professionals may contact:

James A. Ramsey, Director, Investor Relations
James.Ramsey@usa.xerox.com

Cindy Johnston, Manager, Investor Relations
Cindy.Johnston@usa.xerox.com

EXHIBIT 21

Subsidiaries of Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of June 13, 2002. A subsidiary is a company in which Xerox Corporation or a subsidiary of Xerox Corporation holds 50% or more of the voting stock. The names of a number of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary	Incorporated In
AMTX, Inc.	Delaware
Bradley Company	Ohio
Carmel Valley, Inc.	Delaware
Chrystal Software, Inc.	Delaware
ContentGuard Holdings, Inc.	Delaware (17)
ContentGuard, Inc.	Delaware
Copicentro N.V.	Netherlands Antilles
FairCopy Services Inc.	Canada
Fourth Xerox Receivables LLC	Delaware
GroupFire, Inc.	California
Gyricon Media Inc.	Delaware (19)
IGHI, Inc.	Delaware
Xerox Global Services Limited	United Kingdom
Delphax Systems (UK) Limited	United Kingdom
Delphax Systems GmbH	Germany
Delphax Systems OY	Finland
InConcert, Inc.	Delaware
Infotonics Technology Center Inc.	New York (20)
Institute for Research on Learning	Delaware
Intelligent Electronics, Inc.	Pennsylvania
Intellinet, Ltd.	Pennsylvania
RNTS, Inc.	Colorado
Xerox Connect, Inc.	Pennsylvania
InXight Software, Inc.	Delaware
Inxight UK Limited	United Kingdom
Jeremiad Co.	Delaware
Kapwell Holdings, Ltd.	Bermuda
Proyectos Inverdoco, C.A.	Venezuela
Xerox de Venezuela, C.A.	Venezuela (6)
Leeroit S.A.	Ecuador
LiveWorks, Inc.	Delaware
Low-Complexity Manufacturing Group, Inc.	Delaware
New PARC LLC	Delaware
Pacific Services and Development Corporation	Delaware
Inversiones San Simon, S.A.	Venezuela
Estacionamiento Bajada III, C.A.	Venezuela
PageCam, Inc.	Delaware
Palo Alto Research Center Incorporated	Delaware
PixelCraft, Inc.	Delaware
Securities Information Center, Inc.	Delaware
SCC Burton Corporation	Delaware
79861 Ontario Inc.	Ontario
TEPC, LLC	Delaware (18)
Terabank Systems, Inc.	Delaware
The Xerox Foundation	Delaware
Third Xerox Receivables LLC	Delaware
Uppercase, Inc.	Delaware
Via Xerox Relocation Company, Inc.	New York
XDI, Inc.	Delaware
Xerox Antilliana N.V.	Netherlands Antilles

Xerox Antilliana (Aruba) N.V.	Aruba
Xerox Antilliana (St. Maarten) N.V.	Netherlands Antilles
Xerox Argentina, I.C.S.A.	Argentina
Xerox Canada Capital Ltd.	Canada
Xerox Canada Inc.	Ontario
832667 Ontario Inc.	Ontario
1192990 Ontario Inc.	Ontario
1324029 Ontario Inc.	Ontario
1343175 Ontario Inc.	Ontario
Xerox (Barbados) SRL	Barbados (16)
Xerox (Barbados) Leasing SRL	Barbados
Xerox Business Centre (Ireland) Limited	Ireland
Xerox Electronic (Ireland) Limited	Ireland
Xerox Finance (Luxembourg) Sarl	Luxembourg
Xerox Hardware (Ireland) Limited	Ireland
Xerox Toner (Ireland) Limited	Ireland
Xerox Canada Acceptance Inc.	Canada
Xerox Canada Facilities Management Ltd.	Ontario
Xerox Canada Finance Inc.	Ontario
Xerox Canada Ltd.	Canada (5)
965905 Alberta Ltd.	Alberta
Xerox Canada Manufacturing & Research Inc.	Ontario
Xerox Capital, LLC	Turks & Caicos Islands (10)
Xerox Capital Management LLC	Delaware
Xerox Investment Management LLC	Delaware
Xerox Capital de Mexico, S.A. de C.V.	Mexico
Xerox Capital Services LLC	Delaware
Xerox Capital Trust I	Delaware (12)
Xerox Capital Trust II	Delaware
Xerox de Chile S.A.	Chile
Xerox de Colombia S.A.	Colombia
Xerox Color Printing, Inc.	Delaware
Xerox ColorgrafX Systems, Inc.	California
Xerox de Costa Rica, S.A.	Costa Rica
Xerox Developing Markets Limited	Bermuda
Sidh Securities Limited	Mauritius
Xerox Dominicana, C. por A.	Dominican Republic
Xerox del Ecuador, S.A.	Ecuador
Xerox de El Salvador, S.A. de C.V.	El Salvador
Xerox Export, LLC	Delaware
Xerox Finance, Inc.	Delaware
Xerox (Austria) Holdings GmbH	Austria
Xerox Investments Holding (Bermuda) Limited	Bermuda
Xerox Financial Services, Inc.	Delaware
Ridge Reinsurance Limited	Bermuda
Talegen Holdings, Inc.	Delaware
Apprise Corp.	New Jersey
Talegen Properties, Inc.	Delaware
VRN Inc.	Delaware
Xerox Credit Corporation	Delaware
Fifth XCC Receivables LLC	Delaware
Second XCC Receivables LLC	Delaware
XCC Receivables LLC	Delaware
Xerox Foreign Sales Corporation	Barbados
Xerox Funding Corporation	Delaware
Xerox Funding LLC II	Delaware
Xerox de Guatemala, S.A.	Guatemala
XGUA Servicios, Ltda.	Guatemala
Xerox d'Haiti, S.A.	Haiti
Xerox de Honduras, S.A.	Honduras
Xerox Holding LLC	Delaware
Xerox Equipment LLC	Delaware
Xerox Funding LLC	Delaware
Xerox Equipment Lease Owner Trust 2001-1	Delaware

Xerox Imaging Systems, Inc.	Delaware
Xerox International Joint Marketing, Inc.	Delaware
Xerox International Partners	California (11)
Xerox International Realty Corporation	Delaware
Xerox Canada Realty Inc.	Ontario (3)
Xerox Investments Europe B.V.	Netherlands
Xerox Holdings (Ireland) Limited	Ireland
Xerox (Europe) Limited	Ireland
Bipolar Limited	Ireland
Xerox Channels Limited	Ireland
Xerox Ink Jet (Ireland) Limited	Ireland
Xerox Ink Tanks (Ireland) Limited	Ireland
Xerox XF Holdings (Ireland) Limited	Ireland
Xerox Finance (Ireland) Limited	United Kingdom
Xerox Leasing Ireland Limited	Jersey
Xerox Israel Ltd.	Israel
Xerox UK Holdings Limited	United Kingdom
Triton Business Finance Limited	United Kingdom
Xerox Engineering Systems Europe Limited	United Kingdom
Xerox Research (UK) Limited	United Kingdom
Xerox Trading Enterprises Limited	United Kingdom
Xerox Overseas Holdings Limited	United Kingdom
Xerox Business Equipment Limited	United Kingdom
Xerox Computer Services Limited	United Kingdom
Xerox Mailing Systems Limited	United Kingdom0
Xerox Capital (Europe) plc	United Kingdom (14)
XRO Limited	United Kingdom
Nemo (AKS) Limited	United Kingdom
XRI Limited	United Kingdom
RRXH Limited	United Kingdom (13)
RRXO Limited	United Kingdom
RRXIL Limited	United Kingdom (7)
Xerox Holding (Nederland) B.V.	Netherlands
Xerox Manufacturing (Nederland) B.V.	Netherlands
Xerox Office Printing Distribution B.V.	Netherlands
Xerox XHB Limited	Bermuda (7)
Xerox XIB Limited	Bermuda (7)
Xerox Limited	United Kingdom (7)
City Paper Limited	United Kingdom
Continua Limited	United Kingdom
Continua S.A.	France
Continua Sanctum Limited	United Kingdom
Mitcheldean Enterprise Workshops Limited	United Kingdom
NV Xerox Credit S.A.	Belgium
NV Xerox Management Services S.A.	Belgium
N.V. Xerox S.A.	Belgium
The Xerox (UK) Trust	United Kingdom
Westbourne Limited	United Kingdom
Xerox AB	Sweden
RE Forvaltning AB	Sweden
Amanuens Document AB	Sweden
Xerox AG	Switzerland
Xerox Office Supplies AG	Switzerland
Xerox A/S	Denmark
Xerox Finans	Denmark
Xerox AS	Norway
Xerox Austria GmbH	Austria
Xerox Business Services GmbH	Austria
Xerox Leasing GmbH	Austria
Xerox Office Supplies GmbH	Austria
Xerox Beograd d.o.o.	Yugoslavia
Xerox Bulgaria	Bulgaria
Xerox Buro Araciari Ticaret ve Servis A.S.	Turkey
Xerox Channels Limited	United Kingdom
Xerox (C.I.S.) LLC	Russia

Xerox Credit AB	Sweden
XEROX CZECH Republic s r.o.	Czech Republic
Xerox Direct Rhein-Main GmbH	Germany
Xerox Espana-The Document Company, S.A.U.	Spain
Xerox Renting S.A.U.	Spain
Xerox de Financiacion S.A.U., E.F.C.	Spain
Xerox Office Supplies S.A.U.	Spain
Xerox Exports Limited	United Kingdom
Xerox Fabricacion S.A.U.	Spain
Xerox Finance AG	Switzerland
Xerox Finance (Nederland) BV	Netherlands
Xerox GmbH	Germany
Xerox Dienstleistungsgesellschaft GmbH	Germany
Xerox Leasing Deutschland GmbH	Germany
Xerox Office Printing GmbH	Germany
Xerox Reprographische Services GmbH	Germany
Xerox Service GmbH	Germany100
Xerox Hellas AEE	Greece
Xerox Hungary Ltd	Hungary
Xerox (Ireland) Limited	Ireland
Xerox Leasing (Europe) Limited	United Kingdom
Xerox Modicorp Ltd	India (9)
Xerox (Nederland) BV	Netherlands
"Veco" Beheer Onroerend Goed BV	Netherlands
Xerox Document Supplies BV	Netherlands
Xerox Rentalease BV	Netherlands
Xerox Services BV	Netherlands
Xerox (Nigeria) Limited	Nigeria
Xerox Office Printing S.A.S	France
Xerox Oy	Finland
Asunto Oy Kristiinanvalli	Finland
Xerox Pensions Limited	United Kingdom
Xerox Polska Sp.zo.o	Poland
Xerox Portugal Equipamentos de Escritorio, Limitada	Portugal
CREDITEX - Aluguer de Equipamentos S.A.	Portugal
Xerox Professional Services Limited	United Kingdom
Xerox (Romania) Echipmante Si Servici S.A.	Romania
Xerox (Romania) SRL	Romania
Xerox Slovenia d.o.o.	Slovenia
Xerox South Africa (Proprietary) Limited	South Africa
Ithuba Lethy Xerox (Pty) Limited	South Africa
Koerikai Xerox (Pty) Ltd.	South Africa
Laser Facilities (Proprietary) Limited	South Africa
Letlapa Xerox (Pty) Ltd.	South Africa
University Document Management Services (Proprietary) Limited	South Africa
Xerox S.p.A.	Italy
Xerox Noleggi S.p.A.	Italy
Xerox Telebusiness GmbH	Germany
Xerox - THE DOCUMENT COMPANY S.A.S.	France
Burofinance S.A.	France
Xerobail S.A.	France
Xerox Document Services SNC	France
Set Electronique SA	France
SCI Hieroglyphe	France
Set Belgium (EPC)	Belgium
Set Engineering SA	France
Set Italia	Italy
Set R&D Belgium (EES)	Belgium
Set UK Limited	United Kingdom
Xerox Business Services SNC	France
Xerox Document Supplies SNC	France
Xerox (UK) Limited	United Kingdom
Bessemer Trust Limited	United Kingdom
Inserco Manufacturing Limited	United Kingdom

Xerox Finance Limited	United Kingdom
Xerox Office Supplies Limited	United Kingdom
Xerox (R & S) Limited	United Kingdom
Xerox (Ukraine) Ltd LLC	Ukraine
Xexco Trading Limited	United Kingdom
Xerox West Africa Limited	United Kingdom
Xerox (Jamaica) Limited	Jamaica
Xerox Latinamerican Holdings, Inc.	Delaware
Xerox Lease Funding LLC	Delaware
Xerox Lease Equipment LLC	Delaware
Xerox Mexicana, S.A. de C.V.	Mexico
Xerox Middle East Investments (Bermuda) Limited	Bermuda
Bessemer Insurance Limited	Bermuda
Reprographics Egypt Limited	Egypt
Xerox Egypt S.A.E.	Egypt
Xerox Finance Leasing S.A.E.	Egypt
Xerox Equipment Limited	Bermuda
Xerox Maroc S.A.	Morocco (2)
Xerox Products Limited	Bermuda
Xerox de Nicaragua, S.A.	Nicaragua
Xerox de Panama, S.A.	Panama
Xerox del Paraguay SRL	Paraguay
Xerox Participacoes Ltda.	Brazil
Xerox do Brasil Ltda.	Brazil
Astor Administracao De Bens e Participacoes Ltda.	Brazil (1)
Centro de Desenvolvimiento de Sistemas de Vitoria S/A	Brazil
J.D.R. Vitoria Equipamentos S.A.	Brazil
Xerox Comercio e Industria Ltda	Brazil
Modern High Tech Web SA	Brazil
Xerox Desenvolvimento de Sistemas e de Technologia Ltda	Brazil
Xerox del Peru, S.A.	Peru
Xerox Real Estate Services, Inc.	New York
Xerox Realty Corporation	Delaware
Lansdowne Residential LLC	Virginia
Xerox Realty Corp. (California)	California
XRC Realty Corp. West	California
Xerox Servicios Tecnicos, C.A.	Venezuela
Xerox Special Holding LLC	Delaware
Xerox Special Funding LLC	Delaware
Xerox Special Equipment LLC	Delaware
Xerox Trinidad Limited	Trinidad
Xerox Uruguay S.A.	Uruguay
Xerox Zona Libre, S.A.	Panama
XESystems, Inc.	Delaware
XE Holdings, Inc.	Delaware
Xerox Engineering Systems AG	Switzerland
Xerox Engineering Systems Espanola SA	Spain
Xerox Engineering Systems SpA	Italy
Xerox Engineering Copy Systems Suzhou Co. Ltd.	Japan
Xerox Engineering Systems B.V.	Netherlands
Xerox Engineering Systems GmbH	Germany
Xerox Engineering Systems N.V.	Belgium
Xerox Engineering Systems S.A.	France
XESystems Canada Inc.	Ontario
XESystems Foreign Sales Corporation	Barbados
XESystems UK Limited	United Kingdom
Xerox Engineering Systems Limited	United Kingdom
Xtended Memory Systems	California

(1) Owned 80.8% by Xerox do Brasil, Ltda. and 19.2% by Xerox (Barbados) SRL and 2 shares by Carlos A. Salles.
(2) Owned 50.01% by IXEM and 49.98% by RXIL.

(3) 1,000 shares held by Xerox Canada Inc. and 9,000 shares held by Xerox International Realty Corporation.
(4) Owned 15% by Fuji Xerox Limited and 85% by McCarthy, Crisanti & Maffei.
(5) Owned 65% by Xerox Canada Inc. and 35% by Xerox Canada Finance Inc.
(6) Owned 36.75% by Kapwell, Ltd., 50% by Xerox Servicios Tecnicos, C.A., and 13.25% by Inversiones San Simon, S.A
(7) Includes indirect holdings.
(8) Owned 90% by Fuji Xerox Co. Ltd. and 10% by Xerox (China) Limited.
(9) Owns 50% plus one share.
(10) Owned 99.9% by Xerox Corporation and .1% by Pacific Services and Development Corporation, a wholly-owned subsidiary of Xerox Corporation.
(11) Xerox International Partners is a California general partnership between FX Global, Inc. (49%) and Xerox International Joint Marketing, Inc. (51%).
(12) Xerox Capital Trust I is a Delaware statutory business trust which is 100% beneficially owned by Xerox Corporation. The Trust is a special purpose financing vehicle.
(13) 50% owned by XRI Limited.
(14) Owned 99% by Xerox Overseas Holdings Limited and 1% by Mitcheldean Enterprise Workshops Limited as nominee for Xerox Overseas Holdings Limited.
(15) Owned 64.29% by Fuji Xerox Co., Ltd. and 35.71% by Fuji Xerox Asia Pacific Pte Ltd.
(16) Owned 88.27% by Xerox Canada Inc. and 11.73% by Xerox Corporation.
(17) Owned 75% by Xerox Corporation and 25% by Microsoft Corporation.
(18) Owned 65% by Xerox Corporation and 35% by e-PaperSign, LLC.
(19) Owned 50% by Xerox Corporation and 50% by e-PaperSign, LLC.
(20) This a not-for-profit corporation which will act as a research and development consortium of businesses and universities. The initial members are Xerox, Corning, Kodak, University of Rochester, RIT and Cornell.
(21) Owned 10% by Fuji Xerox Co., Ltd. and 9% by Fuji Xerox Office Supply Co., Ltd.

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 33-32215, 333-73173) and S-8 (No. 333-93269, 333-09821, 333-22059, 333-22037, 333-22313, 333-35790, 33-65269, 33-44314, 2-86275, 2-86274) of Xerox Corporation of our report dated June 26, 2002, which contains an explanatory paragraph indicating that the Company's 1999 and 2000 consolidated financial statements, previously audited by other independent accountants, has been restated, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Stamford, CT
June 26, 2002

DIRECTORS

Shareholders annually elect directors to serve for one year and until their successors have been elected and shall have qualified. The nine persons whose biographies appear on the following pages have been proposed by the Board of Directors based on a recommendation by the Nominating Committee of the Board of Directors, none of whose members is an officer of the Company.

Seven of the nine nominees are neither employees nor former employees of Xerox, its subsidiaries or associated companies. These Board members bring to us valuable experience from a variety of fields.

If for any reason, which the Board of Directors does not expect, a nominee is unable to serve, the proxies may use their discretion to vote for a substitute proposed by the Board of Directors.

Committee Functions, Membership and Meetings

Our Board of Directors has several standing committees: the Audit, Nominating, Executive Compensation and Benefits, Finance and Executive Committees. Here is a description of each Committee, the number of meetings held during 2001 and its membership during 2001:

Audit Committee (13 meetings)

Responsibility:

o annually recommend to the Board for its nomination, for submission to the shareholders for their election, a firm of independent certified public accountants (Auditor);

o review periodically the independence of the Auditor;

o review the annual fees of the Auditor;

o review the annual audited financial statements, changes in accounting policies, financial reporting practices and significant reporting issues and judgments made in connection with the preparation of such audited financial statements;

o review with the Auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to communications with audit committees;

o review the comments and recommendations contained in the Auditor's and Director of Internal Audit's annual summary audit management reports and executive management's response to those reports;

o review with the management, Auditor and Director of Audit the adequacy of internal controls that could significantly affect the Company's financial statements;

o make a recommendation to the Board with respect to the audited financial statements to be included in the Company's Annual Report to Shareholders and the Form 10-K to be filed with the Securities and Exchange Commission;

o examine and make recommendations, if any, with respect to the plans for and the results of the annual audit conducted by the Auditor and the Director of Audit;

o discuss with management and the Auditor the Company's quarterly

financial results prior to the release of earnings and/or the filing of the Company's quarterly report on Form 10-Q; and

o review at least annually with the Company's Ethics Compliance Officer the status and results of the annual ethics compliance program.

A Report of the Audit Committee appears below under "Report of the Audit Committee".

Members: Antonia Ax:son Johnson, Hilmar Kopper, N. J. Nicholas, Jr., John E. Pepper, Martha R. Seger and Thomas C. Theobald, all non-employee directors.

Chairman: Mr. Theobald

All of the members of the Audit Committee are independent as defined in the listing standards of the New York Stock Exchange, Inc.

Nominating Committee (one meeting)

Responsibility: recommends to the Board of Directors nominees for election as directors of the Company. The Committee considers the performance of incumbent directors in determining whether to recommend their nomination.

Members: Vernon E. Jordan, Jr., Hilmar Kopper, Ralph S. Larsen and George J. Mitchell

Chairman: Mr. Jordan

Executive Compensation and Benefits Committee (seven meetings)

Responsibility:

o recommends to the Board of Directors the remuneration arrangements for senior management of the Company, including the adoption of compensation plans in which senior management is eligible to participate and the granting of benefits under any such plans and

o consults with the Chief Executive Officer and advises the Board with respect to senior management succession planning.

Members: Antonia Ax:son Johnson, Ralph S. Larsen, John E. Pepper and Thomas C. Theobald, all non-employee directors.

Chairman: Mr. Larsen

Finance Committee (four meetings)

Responsibility:

o oversees the investment management of the Company's employee savings and retirement plans and

o reviews the Company's asset mix, capital structure and strategies, financing strategies, insurance coverage and dividend policy.

Members: Vernon E. Jordan, Jr., George J. Mitchell, N. J. Nicholas, Jr. and Martha R. Seger, all non-employee directors.

Chairman: Mr. Nicholas

Executive Committee (one meeting)

The Executive Committee has all the authority of the Board of

Directors, except with respect to certain matters that by statute may not be delegated by the Board of Directors. The committee acts only in the intervals between meetings of the full Board of Directors. It acts usually in those cases where it is not feasible to convene a special meeting or where the agenda is the technical completion of undertakings already approved in principle by the full Board.

Members: Paul A. Allaire, Vernon E. Jordan, Jr., Ralph S. Larsen and Anne M. Mulcahy.

Chairman: Mr. Allaire

Attendance and Compensation of Directors

Attendance: 17 meetings of the Board of Directors and 26 meetings of the Board committees were held in 2001. All incumbent directors other than Hilmar Kopper and John E. Pepper attended at least 75 percent of the total number of meetings of the Board of Directors and Board committees on which they served.

We believe that attendance at meetings is only one means by which directors may contribute to the effective management of the Company and that the contributions of all directors have been substantial and are highly valued.

Summary of Director Annual Compensation

The compensation of Directors during 2001 was as follows:

Cash	$40,000
Committee Meetings	$1,500 (for each meeting attended which is not held in connection with a regular Board meeting)
Commitment of Time Outside Meetings	$1,500 per activity*
Committee Chairmen	$10,000 (per year for non-employee Chairmen of Board Committees)
Restricted Stock	$25,000 (number of shares based upon market value at time fee is payable-quarterly)
Options	5,000 shares
Expenses	Out-of-pocket expenses in connection with service

* Applies only to commitment of a significant amount of time on substantive matters including informal meetings of the Board or a Committee on days when there is no formal meeting of the Board or such Committee. Payment of such fees are subject to prior approval by the Chairman of the Executive Compensation and Benefits Committee except in the case of the Chairman of such Committee which must be approved by a majority of the members of such Committee.

Eligibility: Directors who are our employees receive no compensation for service as a director. Directors who are employees of subsidiary companies are not eligible to receive stock option awards.

Options: Issued at the fair market value on date of grant (generally on the date of the annual meeting of shareholders). The options vest over a three year period. Upon the occurrence of a change in control, as defined, all outstanding options become exercisable.

Restricted Stock: The number of shares issued is based on the market value at the time the fee is payable, which is in quarterly installments. The shares held by directors under this Plan are included in the Xerox securities owned shown in the biographies of the directors which appear on the pages that follow. The shares may not be sold or

transferred except upon death, retirement, disability, change in control or termination as a director with the consent of the majority of the Board.

Director Biographies

Terms Used in Biographies

To help you consider the nominees, we use a biographical format that provides a ready reference on their backgrounds. Certain terms used in the biographies may be unfamiliar to you, so we are defining them here.

"Xerox securities owned" means the Company's Common Stock, including restricted shares of Common Stock issued under the Restricted Stock Plan For Directors, and Series B Convertible Preferred Stock. Series B shares are owned through the individual's account in the Xerox Employee Stock Ownership Plan. None of the nominees owns any of the Company's other securities.

"Options/Rights" is the number of the Company's shares of Common Stock subject to stock options and incentive stock rights held by a nominee.

"Immediate family" means the spouse, the minor children and any relatives sharing the same home as the nominee.

Unless otherwise noted, all Xerox securities held are owned beneficially by the nominee. This means he or she has or shares voting power and/or investment power with respect to the securities, even though another name -- that of a broker, for example -- appears in the Company's records. All ownership figures are as of May 31, 2002.

For information on compensation for officers, see the compensation section which follows.

Antonia Ax:son Johnson

Age: 58 Director since: 1996

Xerox securities owned: 8,394 common shares and an indirect interest in approximately 15,484 common shares through the Deferred Compensation Plan

Options/Rights: 30,000 common shares

Occupation: Chairman, Axel Johnson Group

Education: BA, MA, University of Stockholm, Sweden

Other Directorships: Axel Johnson AB; Axel Johnson Inc.; Axel Johnson International; AhlensAB; Axfood AB; Nordstjernan AB; NCC AB; Axel and Margaret Ax:son Johnson Foundation

Other Background: In 1971 joined the Axel Johnson Group; became primary stockholder in 1975 and Owner and Chairman in 1982. Chairman of the City Mission of Stockholm, and The World Childhood Foundation. Board Member, Royal Swedish Academy of Engineering Sciences. Member of the Audit and Executive Compensation and Benefits Committees of Xerox.

Vernon E. Jordan, Jr.

Age: 66 Director since: 1974

Xerox securities owned: 34,709 common shares and an indirect interest in approximately 6,809 common shares through the Deferred Compensation Plan

Options/Rights: 30,000 common shares

Occupation: Senior Managing Director, Lazard Freres & Co. LLC; Of Counsel, Akin, Gump, Strauss, Hauer & Feld, LLP
Education: BA, DePauw University; JD, Howard University Law School

Other Directorships: America Online Latin America, Inc.; American Express Company; Asbury Automotive Group; Callaway Golf Company; Clear Channel Communications, Inc.; Dow Jones & Co., Inc.; Howard University; J.C. Penney Company, Inc.; Revlon Group; Sara Lee Corporation; Shinsei Bank, Ltd (Senior Advisor) and LBJ Foundation.

Other Background: Joined Lazard Freres & Co. LLC in January 2000. Became a partner in the law firm of Akin, Gump, Strauss, Hauer & Feld in 1982, following ten years as President of the National Urban League, Inc. Member of the Bar of Arkansas, Georgia and the District of Columbia as well as the U.S. Supreme Court Bar. Co-Chair of the Ad Council's Advisory Committee on Public Issues. Member of the Council on Foreign Relations, The American Law Institute, the American Bar Association, the National Bar Association and the Bilderberg Meetings. Member of the International Advisory Board of DaimlerChrysler; Fuji Bank and Barrick Gold. Former Member of the National Advisory Commission on Selective Service, the American Revolution Bicentennial Commission, the Presidential Clemency Board, the Advisory Council on Social Security, the Secretary of State's Advisory Committee on South Africa, the President's Advisory Committee of the Points of Light Foundation and the Council of the White House Conference "To Fulfill These Rights." Chairman of the Nominating Committee and member of the Executive and Finance Committees of Xerox.

Yotaro Kobayashi

Age: 68 Director since: 1987

Xerox securities owned: 40,203 common shares

Options/Rights: 21,700 common shares

Occupation: Chairman of the Board, Fuji Xerox Co., Ltd.

Education: BA, Keio University; MBA, Wharton Graduate School, University of Pennsylvania

Other Directorships: Fuji Xerox Co., Ltd.; Callaway Golf Company; Nippon Telegraph and Telephone Corporation; and American Productivity & Quality Center.

Other Background: Joined Fuji Photo Film Co., Ltd. in 1958 and was assigned to Fuji Xerox Co., Ltd. in 1963. Named President and Chief Executive Officer in 1978, Chairman and Chief Executive Officer in 1992 and Chairman of the Board in 1999. Chairman, Keizai Doyukai (Japan Association of Corporate Executives). Pacific Asia Chairman of the Trilateral Commission and Chairman of the Aspen Institute Japan. Member, the International Council of JP Morgan; the International Advisory Board of Booz Allen & Hamilton Inc.; the International Advisory Board of the Council on Foreign Relations; International Advisory Panel member for Singapore Technologies; the Advisory Council of the Institute for International Studies, Stanford University; the Board of Trustees, University of Pennsylvania and Keio University.

Hilmar Kopper

Age: 67 Director since: 1991

Xerox securities owned: 27,786 common shares

Options/Rights: 25,050 common shares

Occupation: Former Chairman of the Supervisory Board, Deutsche BankAG

Education: High school diploma

Other Directorships: Akzo Nobel NV; Bayer AG; DaimlerChrysler AG; Solvay SA; Unilever NV

Other Background: Apprenticeship with Rheinisch-Westfalischen Bank AG in Cologne, 1954. Management trainee at J. Henry Schroder Banking Corporation, New York. Foreign Department, Deutsche Bank's Central Office in Dusseldorf and Manager, Leverkusen branch, 1969. Appointed to the Board of Managing Directors of Deutsche Bank subsidiary European Asian Bank AG in Hamburg, 1972. Executive Vice President, Deutsche Bank AG, 1975; and Member of the Board of Managing Directors, Deutsche Bank AG, 1977. Spokesman of the Board of Managing Directors, December 1989 to May 1997. Member of the Audit and Nominating Committees of Xerox.

Ralph S. Larsen

Age: 63 Director since: 1990

Xerox securities owned: 28,379 common shares and an indirect interest in approximately 35,505 common shares through the Deferred Compensation Plan

Options/Rights: 30,000 common shares

Occupation: Former Chairman and Chief Executive Officer, Johnson & Johnson

Education: BBA, Hofstra University

Other Directorships: Johnson & Johnson; AT&T Wireless

Other Background: Joined Johnson & Johnson in 1962, was named Vice President of Marketing, McNeil Consumer Products Company in 1980. President of Becton Dickinson's Consumer Products Division, 1981 to 1983. Returned to Johnson & Johnson as President of its Chicopee subsidiary in 1983. Named a company Group Chairman in 1986, and Chairman of the Board and Chief Executive Officer in 1989 and retired in 2002. Former Chairman and a member of the Executive Committee of The Business Council and member of the Policy Committee of The Business Roundtable. Fellow, American Academy of Arts and Sciences. Served two years in the U.S. Navy. Chairman of the Executive Compensation and Benefits Committee and member of the Executive and Nominating Committees of Xerox.

Anne M. Mulcahy

Age: 49 Director since: 2000

Xerox securities owned: 291,012 common shares; 631 Series B Convertible Preferred shares and an indirect interest in approximately 36,298 shares through the Deferred Compensation Plan

Options/Rights: 3,681,448 common shares

Occupation: Chairman and Chief Executive Officer, Xerox Corporation

Education: BA, Marymount College

Other Directorships: Target Corporation; Axel Johnson Inc.;

Catalyst; Fannie Mae; Fuji Xerox Company, Ltd.

Other Background: Joined Xerox in 1976 as a sales representative and held various sales and senior management positions. Named Vice President for Human Resources in 1992; Senior Vice President in 1998; and Executive Vice President in 1999. Elected President and Chief Operating Officer in May 2000, Chief Executive Officer in August 2001 and assumed the additional role of Chairman on January 1, 2002. Chairman of the Executive Committee of Xerox.

N. J. Nicholas, Jr.

Age: 62 Director since: 1987

Xerox securities owned: 26,390 common shares and an indirect interest in approximately 37,135 common shares through the Deferred Compensation Plan

Options/Rights: 30,000 common shares

Occupation: Investor

Education: BA, Princeton University; MBA, Harvard University Graduate School of Business Administration

Other Directorships: Boston Scientific Corporation; priceline.com, Incorporated; DB CapitalPartners

Other Background: President and Co-Chief Executive Officer, Time-Warner Inc., 1990 to 1992. Former member of the President's Advisory Committee on Trade Policy and Negotiations and the President's Commission on Environmental Quality. Chairman of the Advisory Board of Columbia University Graduate School of Journalism, Trustee of Environmental Defense and a member of the Council on Foreign Relations. Chairman of the Finance Committee and member of the Audit Committee of Xerox.

John E. Pepper

Age: 63 Director since: 1990

Xerox securities owned: 66,929 common shares and an indirect interest in approximately 5,915 common shares through the Deferred Compensation Plan: immediate family owns 21,000 shares

Options/Rights: 30,000 common shares

Occupation: Chairman of the Executive Committee, The Procter & Gamble Company

Education: BA, Yale University

Other Directorships: Motorola, Inc.; The Procter & Gamble Company

Other Background: Joined Procter & Gamble in 1963. Named Executive Vice President and elected to the Board of Directors in 1984, named President in 1986, Chairman and Chief Executive in 1995, Chairman in 1999, retired as an active employee in September 1999, and re-elected Chairman of the Board in June 2000. Co-Chair, Development Campaign and Member, Executive Committee, National Underground Railroad Freedom Center. Fellow, Yale Corporation. Trustee, Christ Church Endowment Fund. Member of Executive Committee, Cincinnati Youth Collaborative. Member, American Society of Corporate Executives and Partnership for Drug Free America. Served three years in the U.S. Navy. Member of the Audit and Executive Compensation and Benefits Committees of Xerox.

Thomas C. Theobald

Age: 64 Director since: 1983

Xerox securities owned: 27,802 common shares and an indirect interest in approximately 10,189 common shares through the Deferred Compensation Plan

Options/Rights: 30,000 common shares

Occupation: Managing Director, William Blair Capital Partners, LLC

Education: AB, College of the Holy Cross; MBA, Harvard University Graduate School of Business Administration

Other Directorships: Anixter International; Jones, Lang, LaSalle Inc.; The MONY Group; Liberty Funds

Other Background: Began career with Citibank in 1960, appointed Vice Chairman and elected a Director of Citicorp in 1982. Chairman, Continental Bank Corporation, 1987 to 1994. Director of The MacArthur Foundation and the Associates of Harvard Business School. Life Trustee, Northwestern University. Member of the Committee on Architecture of the Art Institute of Chicago. Chairman of the Audit Committee and member of the Executive Compensation and Benefits Committee of Xerox.

EXECUTIVE OFFICERS

Executive Officer Biographies

Anne M. Mulcahy has served as President and Chief Operating Officer of Xerox Corporation since May 2000. She has also served as Chief Executive Officer since August 2001, and assumed the additional role of Chairman on January 1, 2002. Prior to her election as President and Chief Operating Officer, Ms. Mulcahy served as Senior Vice President from 1998 to 1999; and Executive Vice President from 1999 to 2000.

Carlos Pascual is an Executive Vice President of Xerox Corporation and President of Xerox Developing Markets Operations. He was appointed to this position January 2000 and has been an Executive Vice President since January 1999. His organization is focused on growth opportunities in emerging markets and countries around the world, including Latin America, the Middle East, Africa, the Eurasian countries, India and Russia. Prior to his current assignment, Mr. Pascual was Deputy Executive Officer within the Industry Solutions Operations business organization, and served as President, United States Customer Operations, from 1995 to 1998.

Lawrence A. Zimmerman is Senior Vice President and Chief Executive Office of Xerox Corporation. He was appointed to this position June 2002. Prior to joining Xerox in 2002, Mr. Zimmerman had been with System Software Associates, Inc., where he was Executive Vice President and Chief Financial Officer from 1998 - 1999. Prior to that, he retired from International Business Machines Corporation (IBM), where he was Senior Finance Executive for IBM's Server Division from 1996 - - 1998, Vice President of Finance for Europe, Middle East and Africa Operations from 1994 - 1996 and IBM Corporate Controller from 1991 - 1994. He held various other positions at IBM from 1967 - 1991.

Ursula M. Burns is President of the Document Systems and Solutions Group at Xerox Corporation. She was named to this position in October 2001. She has also served as Senior Vice President, Corporate Strategic Services since May, 2000. The Document Systems and Solutions Group manages all product development, manufacturing and marketing

capabilities for the high-end production printing market, including software and color and monochrome systems. It also manufactures and markets Xerox supplies. From 1992 to 2000, Ms. Burns led several business teams, including the office color and fax business, office network copying business and the departmental business unit.

Thomas J. Dolan is President of the Xerox Global Services group at Xerox Corporation. He was named to this position in October 2001. He is also a Corporate Senior Vice President, appointed January 1999. Xerox Global Services' mission is to be a global leader in the growing document, content and knowledge management markets. Previously, Mr. Dolan served as President of the Global Solutions Group, where he was responsible for production printing, publishing and color product development, as well as the development and marketing of industry-specific solutions. In 1999, Mr. Dolan served as President of North American Solutions Group. Before that, he served two years as President of Xerox Business Services, the Company's document outsourcing business.

James A. Firestone is President, Corporate Operations Group at Xerox Corporation. He was appointed to this position October 2001. He is also a Senior Vice President, appointed October 1998. Mr. Firestone is responsible for the strategy and operational support functions that are managed as centralized corporate initiatives. This includes strategy, alliances, marketing and communications, e-Business and TeleWeb, information management, Xerox International Partners and Fuji Xerox relations. Prior to joining Xerox in 1998, Mr. Firestone had been with IBM where he was General Manager, Consumer Division from 1995 - 1998. He was President, Consumer Services at Ameritech Corporation from 1993 to 1995. Prior to this, he was with American Express Company where he was President, Travelers Cheques in 1993, Executive Vice President, Small Business and Corporate Services from 1989 - 1993, President, Travel Related Services - Japan from 1984 to 1989, Vice President, Finance and Planning, Travel Related Services - Japan from 1982 - 1984 and he held various other positions at American Express in Japan and at their headquarters from 1978 - 1982.

Herve J. Gallaire became President of the Xerox Innovation Group for Xerox Corporation in October 2001. He was named a Corporate Senior Vice President in December 1999. Mr. Gallaire, who is Xerox's Chief Technology Officer, is responsible for maximizing the company's billion- dollar annual investment in research and development. He is in charge of worldwide research and technology organizations, intellectual property management and licensing, and several technology companies in the Xerox portfolio. Prior to 1999, Mr. Gallaire managed the Xerox Research Centre Europe in Grenoble, France, from 1993 to 1998, during which period he became Chief Architect of the corporation and Vice President of the Xerox Architecture Center. Most recently, he served as Senior Vice President for Xerox Research and Technology.

Gilbert J. Hatch is President of the Office Systems Group at Xerox Corporation. He was named to this position in September 1999 Mr. Hatch is also a Corporate Senior Vice President, appointed October 1999. Mr. Hatch is responsible for the design and marketing of Xerox's Document Centre and WorkCentre Pro digital multifunction systems, and for managing Omnifax, a sales and service company.

Michael C. MacDonald is President of the North American Solutions Group for Xerox Corporation. He was named to the position June 2000. He was appointed a Corporate Senior Vice President for Xerox Corporation in July 2000. Mr. Mac Donald's organization is responsible for all products, services and solutions sold by the Xerox direct sales force in the United States and Canada. Prior to his appointment in 2000, he was Senior Vice President, Marketing, and Chief of Staff for NASG, where he was responsible for the enterprise-wide marketing organization.

Hector J. Motroni is Senior Vice President and Chief Staff Officer at Xerox Corporation. He was named to this position and became a Corporate Senior Vice President in January 1999. Mr. Motroni is responsible for human resources, office of the general counsel, external affairs, quality, and business excellence, facilities, real estate and general services. Prior to his present appointment, he was the corporation's Vice President, Human Resources and Quality.

Christina E. Clayton has been Vice President and General Counsel of Xerox Corporation since July 2000. She also became a corporate officer on that date. Ms. Clayton is responsible for managing the Office of General Counsel and for the legal affairs of the company, including legal counseling, litigation and patent acquisition. Prior to her appointment as Vice President and General Counsel, she served as Deputy General Counsel of Xerox Corporation.

Jean-Noel Machon is the President of the European Solutions Group (ESG) for Xerox Corporation. He was appointed to this position in September 2000. He has been a corporate officer since July 2000. Mr. Machon is responsible for managing the company's multi-billion-dollar European operations, driving business activity in more than 20 countries. ESG, headquartered in Ballycoolin (Dublin) and Uxbridge, markets Xerox's products, solutions and services throughout Europe and has manufacturing operations in Ireland, the United Kingdom and Holland and advanced research and development center in Grenoble, France. Prior to 2000, Mr. Machon was President of Xerox's General Market Operations Europe and North American General Markets Group and was previously Deputy Managing Director of GMO in Europe. GMO focuses on on-site support of Xerox office and printing products and manages the European concessionaire channel.

James J. Miller is President, Office Printing Business for Xerox Corporation. He was appointed to this position October 2001. He was elected a Corporate Vice President in July 2000. Mr. Miller is responsible for the Office Printing Business worldwide, the North American Agent Operations, and the North American Dealer Channel.

Gregory B. Tayler is Corporate Treasurer at Xerox Corporation. He was named to this position in November 2001. Mr. Tayler is also a Corporate Vice President, appointed March 2000. As Treasurer, Mr. Tayler maintains the capital structure of the corporation, including developing worldwide funding strategies and overseeing customer equipment financing initiatives. He is also the corporation's primary interface to the capital markets, including credit rating agencies. Most recently, he served as Corporate Controller, overseeing financial planning and analysis, accounting, financial systems and operations. From 1997-1999, he served as Director, Accounting Policy and control. He was subsequently named Xerox Corporation's Assistant Treasurer, Global Capital Markets.

Leslie F. Varon is Vice President and Secretary for Xerox Corporation. She was named to this position October 2001. She was elected a Corporate Vice President in August 2001. Ms. Varon is responsible for corporate governance, for the communication and interpretation of the company's results and business strategies to shareholders and the investment community, and for shareholder services. From June, 1997 to August, 2001 she served as director, investor relations.

Gary R. Kabureck has served as the Assistant Corporate Controller and Chief Accounting Officer of Xerox Corporation since January, 2000. Mr. Kabureck is responsible for our worldwide books of account and finance systems; internal control and audit coordination activities; finance training; management of our non-standard agreements process; and maintaining, developing and interpreting our accounting policies. He attends Audit Committee meetings as a management invitee. Beginning in

January 1997 and through January 2000, he served as our Vice President for Financial Services.

OWNERSHIP OF COMPANY SECURITIES

We do not know of any person who, or group which, owns beneficially more than 5% of any class of its equity securities as of December 31, 2001, except as set forth below (1).

TITLE OF CLASS	NAME AND ADDRESS OF BENEFICIAL OWNER	AMOUNT BENEFICIALLY OWNED OF CLASS	PERCENT OF CLASS
Series B Convertible Preferred Stock (2)	State Street Bank and Trust Company, as Trustee 225 Franklin Street Boston, MA 02110 (3)	7,729,617	100%
Common Stock	State Street Bank and Trust Company, as Trustee under other plans and accounts 225 Franklin Street Boston, MA 02110	93,614,897 (4)	12.5% (5)
Common Stock	Brandes Investment Partners, L.P. 11988 El Camino Real, Suite 500 San Diego, CA 92130	76,001,506 (6)	10.6%
Common Stock	Dodge & Cox One Sansome Street, 35th Floor San Francisco, CA 94104	71,899,723 (7)	10.0%

(1) The words "group" and "beneficial" are as defined in regulations issued by the Securities and Exchange Commission (SEC). Beneficial ownership under such definition means possession of sole voting power, shared voting power, sole dispositive power or shared dispositive power. The information provided in this table is based solely upon the information contained in the Form 13G filed by the named entity with the SEC.

(2) These shares have equal voting rights with the Common Stock except that each share of Preferred Stock has six votes per share.

(3) Held as Trustee under the Xerox Employee Stock Ownership Plan. Each participant may direct the Trustee as to the manner in which shares allocated to his or her account shall be voted. The Trust Agreement provides that the Trustee shall vote any shares allocated to participants' accounts as to which it has not received voting instructions in the same proportions as shares in participants' accounts as to which voting instructions are received. Shares which have not been allocated are voted in the same proportion. The power to dispose of shares is governed by the terms of the Plan and elections made by participants.

(4) Within this total as to certain of the shares, State Street Bank and Trust Company has sole voting power for 12,978,872 shares, shared voting power for 78,674,296 shares, sole dispositive power for 15,076,657 shares and shared dispositive power for 78,538,240 shares.

(5) Percentage based upon assumption that all Series B Convertible

Preferred Stock were converted into 46,377,702 shares of Common Stock.

(6) Brandes Investment Partners, L.P. and its affiliate companies and partners own these shares in aggregate and have shared voting power for 61,946,980 and shared dispositive power for 76,001,506.

(7) Information is as of February 28, 2002. Within the total reported, as to certain of the shares, Dodge & Cox has sole voting power for 67,725,423 shares, shared voting power for 695,700 shares, sole dispositive power for 71,899,723 shares and no shared dispositive power for any of the shares.

Shares of Common Stock and Series B Convertible Preferred Stock (converted to Common Stock at a ratio of six to one) of the Company owned beneficially by its directors and nominees for director, each of the current executive officers named in the Summary Compensation Table below and directors and all current officers as a group, as of May 31, 2002 (except as otherwise noted below), were as follows:

NAME OF BENEFICIAL OWNER	AMOUNT BENEFICIALLY OWNED	TOTAL STOCK INTEREST
Ursula M. Burns	175,623	591,756
Allan E. Dugan	617,291	1,245,910
James A. Firestone	488,146	773,917
Anonia Ax:son Johnson	33,393	53,878
Vernon E. Jordan, Jr.	59,708	71,508
Yotaro Kobayashi	56,902	61,903
Hilmar Kopper	47,835	52,836
Ralph S. Larsen	53,378	93,884
Michael C. Mac Donald	110,506	372,533
George J. Mitchell	35,483	45,656
Anne M. Mulcahy	1,041,190	4,012,541
N. J. Nicholas, Jr.	51,389	93,525
John E. Pepper	91,928	102,845
Martha R. Seger	43,392	59,104
Thomas C. Theobald	52,801	67,991
Directors and All Officers as a group*	6,175,736	17,179,482

* Within the totals shown, information for all individuals named above and for all other Section 16(a) reporting officers is as of May 31, 2002 and for all other officers is as of March 31, 2002.

Percent Owned by Directors and Officers: Less than 1% of the aggregate number of shares of Common Stock and Series B Stock outstanding at May 31, 2002 is owned by each director and officer. The amount beneficially owned by all directors and officers as a group amounted to approximately 1%.

Amount Beneficially Owned: The numbers shown are the shares of Common Stock considered owned by the directors and officers in accordance with SEC rules. Shares of Common Stock which officers and directors had a right, within 60 days, to acquire upon the exercise of options or rights are included. All these are counted as outstanding for purposes of computing the percentage of Common Stock and Series B Stock outstanding and beneficially owned.

Total Stock Interest: The numbers shown include the amount shown in the Amount Beneficially Owned column plus options held by officers not exercisable within 60 days, incentive stock units and restricted shares. The numbers also include the interests of officers and directors in the Xerox Stock Fund under the Profit Sharing and Savings Plan and the Deferred Compensation Plans.

EXECUTIVE COMPENSATION

Report of the Executive Compensation and Benefits
Committee of the Board of Directors

Executive Officer Compensation

The Executive Compensation and Benefits Committee (Committee) of the Board of Directors determines the compensation paid to the Company's executive officers. The Committee's members are all independent, non- employee directors of the Company. The Committee does the following:

- o establishes the policies that govern the compensation paid to Xerox executive officers,
- o determines overall and individual compensation goals and objectives,
- o makes awards; and
- o certifies achievement of performance under the Company's various annual and long-term incentive plans and approves actual compensation payments.

Under the Committee's established policy, compensation and benefits provided executive officers are targeted at levels equal to or better than the compensation paid by a peer group of companies for equivalent skills and competencies for positions of similar responsibilities and desired levels of performance. The Company's executive compensation policies, plans and programs are designed to provide competitive levels of compensation that align pay with the Company's annual and long-term performance objectives. They also recognize corporate and individual achievement while supporting the Company objectives of attracting, motivating and retaining high-performing executives.

In determining compensation levels to meet compensation policy objectives, the Committee annually reviews, evaluates and compares Xerox executive officer compensation to relevant external competitive compensation data. During the year, the Committee reviewed the reported compensation data of firms that were part of the Business Week Computers and Peripherals Industry Group (included in the data shown on the performance graph on page TBD below). The Committee also reviewed a broader group of organizations with which the Company is likely to compete for executive expertise and which are of similar size and scope. The latter group includes large capitalization, global companies in technology, office equipment and other industries.

The Committee sets base salaries taking into account the competitive data referenced above. In addition, a substantial portion, generally two-thirds or more of targeted total compensation, of each executive officer's total compensation is at risk and variable from year to year because it is linked to specific performance measures of the business.

The year 2001 presented the Company with many unique challenges. Foremost among these challenges was the need to retain the senior leadership team in order to successfully design and begin the implementation of the Company's turnaround program. The principal retention and variable pay programs used by the Committee in 2001 to achieve the Company's leadership retention objectives and alignment with the Company's turnaround efforts are briefly described below:

2001 Cash Retention Awards: At its February 5, 2001 meeting, the Committee approved cash retention awards totaling approximately $2.8 million to be payable to 31 corporate officers, including James A.

Firestone (awards totaling $157,900), Ursula M. Burns (awards totaling $211,000) and Michael C. Mac Donald (awards totaling $152,500), assuming they remained employed by the Company through the designated payment dates.

Annual Performance Incentive Plan (APIP): Under APIP, executive officers of the Company may be eligible to receive performance-related cash payments. Payments are, in general, only made if Committee-established annual performance objectives are met.

The Committee approved an annual incentive target and maximum opportunity, expressed as a percentage of 2001 base salary, for each participating officer. At its meeting held on February 5, 2001, the Committee established overall threshold, target and maximum measures of performance and associated payment schedules.

The performance measures and weightings for 2001 were cash management (40%), performance profit (40%), and revenue (20%). Additional goals were also established for each officer that included business-unit specific and/or individual performance goals and objectives. The weights associated with each business-unit specific or individual performance goal and objective used vary and range from 20 percent to 50 percent of the total.

For 2001, the performance against the measures established at the February 5, 2001 meeting was as follows: cash management was above targeted levels, revenue growth was negative, and performance profit was below threshold level. In view of significant concerns with respect to executive retention and the need to continue progress on the Company's turnaround program, at its April 2, 2001 meeting, the Committee approved the payment of amounts equal to annual APIP target awards to participating executives, including all executive officers. As approved by the Committee, annual target award amounts were paid over four quarterly payments. Based on performance against business metrics, no additional APIP payouts were made for 2001 in relation to overall business performance. However, four officers, including Michael C. Mac Donald, received an additional payment under APIP reflecting their organizational performance.

Base Salary Adjustments: At its meeting on February 5, 2001, following a review of competitive information, the Committee approved base salary adjustments for select officers. The approved adjustments averaged 2.3% on an annualized basis.

Certain executive officers received an additional adjustment to their base salary level during 2001 as a result of new responsibilities, to reflect competitive market levels, and/or to address unique retention concerns.

Executive Performance Incentive Plan (EPIP): Approved by shareholders at the Company's Annual Meeting on May 18, 1995, EPIP provides the Committee with an incentive vehicle to compensate eligible executives for significant contributions to the performance of the Company. By design, EPIP permits the tax deductibility of payments made under EPIP even if an executive's compensation exceeds $1,000,000 in any year. Under federal tax law such excess would not be deductible in certain circumstances.

Under EPIP the Committee established a pool of 2% of the Company's Document Processing profit before tax (PBT) for the 2001 one-year performance period. For the three-year period commencing in 1999, a pool of 1 1/2% of cumulative PBT was established. Ten percent (10%) of the resulting PBT pool was made payable to Mr. Allaire. Five percent (5%) of the pool was made payable to each of the other participants in EPIP.

EPIP gives the Committee discretion to reduce the amount otherwise payable under an award to any participant to any amount, including zero, except in the case of a change in control as defined. The Committee cannot increase the amount determined by the above formula.

For the full year 2001, Paul A. Allaire, Anne M. Mulcahy and other executive officers participated in EPIP.

For 2001, the PBT pool amounted to zero because of the Company's failure to achieve positive PBT for the year.

Leveraged Executive Equity Plan (LEEP): Under the terms of the 1991 Long-Term Incentive Plan, the Committee implemented a three-year plan beginning in 1998 for key management executives, including most executive officers. The plan focuses on the achievement of performance objectives of the Document Processing business of the Company. When the objectives of the plan are achieved, shareholder value is enhanced and the plan provides for an opportunity to realize long-term financial rewards. The 1998-2000 performance cycle of LEEP required each executive participant to maintain, directly or indirectly, an investment in shares of common stock of the Company having a value as of December 31, 1997 of either 100%, 200%, 300% or 400% of a participant's annual base salary (investment shares).

In 1998, the Committee granted awards under LEEP to approximately 40 key executives that provided for non-qualified stock options for shares of common stock and incentive stock units. The award to each participant was based on the ratio of ten option shares and two incentive stock units for each investment share. The options became exercisable in three annual cumulative installments beginning in the year following the award. The incentive stock rights are payable in shares of common stock and vest in three annual installments beginning in the year following the award, provided specific Document Processing earnings per share (EPS) goals were achieved for each preceding year.

Thirty-three percent (33%) of the non-qualified stock options granted under the 1998 cycle became exercisable on January 1, 1999, January 1, 2000 and January 1, 2001, respectively.

For 2001, the EPS goal was not achieved and none of the incentive stock units vested.

At its meeting on December 4, 2000, the Committee approved a new three- year (2001-2003) performance cycle of LEEP (New LEEP). New LEEP is intended to deliver highly competitive compensation opportunities linked to the successful implementation of the Company's turnaround program and to provide significant retention incentives for participating executives.

New LEEP consists primarily of three equal annual grants of stock options and restricted stock. Award levels are determined to provide competitive long-term incentive opportunities if the business turnaround program is successfully implemented. Stock options under New LEEP vest fully after three years and remain exercisable for ten years following their date of grant. Restricted stock awarded under New LEEP vests 100% after one year. All executive officers and select other senior executives are eligible for New LEEP. The first annual grant under New LEEP was made on January 1, 2001. The second annual grant was made on January 1, 2002. There is no requirement for investment shares under New LEEP.

CEO Challenge Bonus: At its February 7, 2000 meeting, the Committee established the CEO Challenge Bonus program for the calendar years 2000 and 2001. The goals of the CEO Challenge Bonus program were to support the Company's need to retain key executives and provide additional

incentives to improve the financial performance of the Company. Participants in LEEP, including the executive officers, were eligible to participate in the CEO Challenge Bonus. The CEO Challenge bonus provided an annual opportunity equal to one-half of each executive's annual bonus target amount payable over a period of four quarters if performance targets were met. For 2001, the CEO Challenge Bonus was based on quarterly EPS targets. The EPS targets for two quarters were achieved and bonus amounts were paid accordingly. For the remaining quarters of 2001, EPS targets were not achieved and bonus opportunities were forfeited. The CEO Challenge Bonus Program was terminated on December 31, 2001.

Chief Executive Officer Compensation

The compensation paid to Paul A. Allaire, Chairman and Chief Executive Officer from January 1, 2001 until July 31, 2001, and Chairman from August 1, 2001 through December 31, 2001 when he retired, was established by the Committee at its December 4, 2000, February 5, 2001 and April 2, 2001 meetings. The Committee's actions are described below as they relate to Mr. Allaire's compensation as reported in the charts and tables that accompany this report.

Base Salary: Mr. Allaire's annualized base salary remained at $1,200,000.

2001 Bonus: Mr. Allaire's annual target bonus remained at 100% of base salary and quarterly CEO Challenge bonus target remained at 13% of base salary. Target bonus payments were made pursuant to the Committee's action on April 2, 2001. The CEO Challenge bonus was paid for two quarters of 2001.

Long-Term Incentive: As previously disclosed, Mr. Allaire received an award under the New LEEP program as described earlier in the section summarizing Executive Officer Compensation. Under New LEEP, on January 1, 2001, Mr. Allaire received a stock option grant for 350,000 shares that vested on January 1, 2002, and a restricted stock award of 350,000 shares that vested on January 1, 2002. In addition, effective January 1, 2001, Mr. Allaire was awarded participation in a cash long-term incentive program that would have paid Mr. Allaire $3,000,000 at target levels of Company performance (maximum of $5,000,000), subject to negative discretion by the Committee, for the performance cycle ending December 31, 2001. Because the Company's performance was below threshold on the measures established under the cash long-term incentive program, no payments were made to Mr. Allaire under this program.

The Committee made these awards to provide the incentives necessary to retain and motivate Mr. Allaire to take the actions necessary to implement the turnaround program, focus Mr. Allaire on the development of his successor and provide compensation competitive with the Chairmen and Chief Executive Officers of other companies. Mr. Allaire received no additional separation benefits in connection with his retirement.

Effective August 1, 2001, Anne M. Mulcahy was elected Chief Executive Officer of the Company. Effective January 1, 2002, she was elected to the additional role of Chairman, upon the retirement of Mr. Allaire.

During the year, the Committee took the following actions with respect to the compensation paid to Mrs. Mulcahy.

Base Salary: Mrs. Mulcahy's annualized base salary remained at $1,000,000.

2001 Bonus: Mrs. Mulcahy's annual target bonus remained at 100% of base salary and her quarterly CEO Challenge Bonus target remained at 13% of base salary. Target bonus payments were made pursuant to the Committee's

action on April 2, 2001. The CEO Challenge Bonus was paid for two quarters of 2001.

Long-Term Incentive: Mrs. Mulcahy received an award under the New LEEP program as described earlier in the section summarizing executive officer compensation. On January 1, 2001, Mrs. Mulcahy received a stock option grant for 934,600 shares that will vest one-third each January 1st following the grant effective date, and a restricted stock award for 250,000 shares that vested on January 1, 2002. At its meeting on August 28, 2001, following Mrs. Mulcahy's election as Chief Executive Officer, the Committee awarded Mrs. Mulcahy a stock option grant for 1,000,000 shares that will vest five years from the grant effective date.

Pursuant to New LEEP, effective on January 1, 2002, Mrs. Mulcahy received a stock option grant for 934,600 shares that will vest one- third each January 1st following the grant effective date, and a restricted stock award for 250,000 shares that will vest on January 1, 2003.

Retirement arrangement: At its meeting on August 28, 2001, following Mrs. Mulcahy's election as Chief Executive Officer, the Committee approved an enhanced retirement benefit for Mrs. Mulcahy that will pay a benefit beginning at age 55.

The Committee made these awards to provide the incentives necessary to retain Mrs. Mulcahy and to motivate her to take the actions necessary to implement the turnaround program and to restore shareholder value.

Detailed information concerning Mrs. Mulcahy's compensation as well as that of other highly compensated executives is displayed on the accompanying charts and tables.

Ralph S. Larsen, Chairman
Antonia Ax:son Johnson
John E. Pepper
Thomas C. Theobald

SUMMARY COMPENSATION TABLE

The Summary Compensation Table below provides certain compensation information for the Chief Executive Officer and the most highly compensated key executive officers (Named Officers) serving at the end of the fiscal year ended December 31, 2001, and for Paul A. Allaire who served as Chief Executive Officer through July 31, 2001, for services rendered in all capacities during the fiscal years ended December 31, 2001, 2000, and 1999. The table includes the dollar value of base salary, bonus earned, option awards (shown in number of shares) and certain other compensation, whether paid or deferred.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Cash Bonus ($)(A)	Other Annual Compensation ($)(B)	Long-Term Compensation Awards: Restricted Stock ($)(C)	Long-Term Compensation Awards: Underlying Options/SARs (#)(D)	All Other Compensation ($)(E)
Anne M. Mulcahy	2001	1,000,000	1,250,000	45,616	1,156,250	1,934,600	42,063
Chief Executive Officer	2000	721,667	45,063	115,023	2,681,250	310,000	34,642
	1999	425,000	0	88,647	0	15,328	13,578
Paul A. Allaire	2001	1,200,000	1,500,000	50,954	1,618,750	350,000	16,849
Chairman and Chief	2000	1,125,000	121,875	162,881	2,681,250	450,000	17,055
Executive Officer (F)	1999	975,000	0	118,644	0	54,764	16,290
Barry D. Romeril	2001	675,000	1,175,000	49,089	963,125	467,300	27,708
Vice Chairman	2000	641,667	57,500	132,515	804,375	150,000	27,729
	1999	575,000	0	175,351	0	24,415	27,141
Allan E. Dugan	2001	500,000	437,500	34,876	346,875	280,400	29,657
Executive Vice President	2000	462,500	37,188	99,471	0	50,000	29,702
	1999	425,000	0	112,044	0	16,066	29,085
James A. Firestone	2001	400,750	463,975	22,179	115,625	93,500	17,853
Senior Vice President	2000	386,000	28,950	39,577	268,125	50,000	18,409
	1999	384,167	0	31,283	274,024	10,857	18,436
Ursula M. Burns	2001	386,500	507,475	25,892	370,000	149,600	17,250
Senior Vice President	2000	326,667	15,000	53,863	268,125	40,000	17,650
	1999	240,000	0	172,200	0	6,255	12,274
Michael C. Mac Donald ...	2001	355,500	495,775	41,489	115,625	93,500	18,537
Senior Vice President	2000	321,939	18,750	53,319	0	30,000	19,133
	1999	265,000	0	73,080	0	7,466	10,501

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(A) This column reflects annual cash bonuses earned during the years indicated under EPIP and for the years 2001 and 2000 includes the CEO Challenge Bonus. For 2001, the amount also includes payment of the annual target bonus to all covered officers and the payment of cash retention awards as discussed in the "Report of the Executive Compensation and Benefits Committee of the Board of Directors" as follows: Anne M. Mulcahy--$0, Paul A. Allaire--$0, Allan E. Dugan--$0, James A. Firestone--$157,900, Ursula M. Burns--$211,000, and Michael C. MacDonald--$152,500. Included in the 2001 amount for Barry D. Romeril is a special bonus payment of $500,000 as described under the section, "Termination Agreements".

(B) Other Annual Compensation includes executive expense allowance, dividend equivalents paid on outstanding incentive stock rights and restricted stock awards, perquisite compensation, tax-related reimbursements arising from relocation and/or international assignments and above-market interest.

(C) As discussed in the report of the Executive Compensation and Benefits Committee, for 2001 this column reflects restricted stock awarded under New Leep which is a three-year performance cycle that began on January 1, 2001. Restricted stock awarded vests one year from the date of the grant and provides the payment of dividend equivalents at the same time and in the same amount declared on one share of the Company's common stock. For 2000 and 1999, this column reflects incentive stock units awarded under the 1991 Plan or a predecessor plan where each unit represents one share of stock to be issued upon vesting at the attainment of a specific retention period. Each unit is entitled to the payment of dividend equivalents at the same time and in the same amount declared on one share of the Company's common stock. The number of restricted shares and units held by the Named Officers and their value as of December 31, 2001 (based upon the closing market price on that date of $10.42) was as follows: Anne M. Mulcahy--353,440 ($3,682,845), Paul A. Allaire--400,000 ($4,168,000), Barry D. Romeril-- 244,650 ($2,549,253), Allan E. Dugan--75,000 ($781,500), James A.

Firestone--38,580 ($402,004), Ursula M. Burns--123,800 ($1,289,996), and Michael C. MacDonald--65,188 ($679,259). Excludes the second installment of grants of restricted stock made on January 1, 2002 under New LEEP as follows: Anne M. Mulcahy--250,000 ($2,591,250), Paul A. Allaire--0 ($0), Barry D. Romeril--0 ($0), Allan E. Dugan--75,000 ($777,375), James A. Firestone--32,500 ($336,863), Ursula M. Burns--80,000 ($829,200), and Michael C. MacDonald --25,000 ($259,125).

(D) All stock options were awarded under the 1991 Plan. Stock options were awarded under New LEEP on January 1, 2001. Excludes the second installment of grants of stock options made on January 1, 2002 under New LEEP as follows: Anne M. Mulcahy--934,600, Paul A. Allaire--0, Barry D. Romeril--0, Allan E. Dugan--280,400, James A. Firestone--121,500, Ursula M. Burns--149,600, and Michael C. MacDonald --93,500.

(E) The amount shown in this column consists of the estimated dollar value of the benefit to the officer from the Company's portion of insurance premium payments under the Company's Contributory Life Insurance Plan on an actuarial basis. The Company will recover all of its premium payments at the end of the term of the policy, generally at age 65.

(F) Retired effective January 1, 2002.

OPTION GRANTS

The following table sets forth information concerning awards of stock options to the Named Officers under the Company's 1991 Plan during the fiscal year ended December 31, 2001. The amounts shown for potential realizable values are based upon arbitrarily assumed annualized rates of stock price appreciation of five and ten percent over the full ten-year term of the options, pursuant to SEC regulations. Based upon a ten-year option term, this would result in stock price increases of 63% and 159% respectively or $7.7372 and $12.3203 for the options with the $4.75 exercise price and $15.0673 and $23.9921 for the options with the $9.25 exercise price. The amounts shown as potential realizable values for all shareholders represent the corresponding increases in the market value of 722,314,289 shares outstanding held by all shareholders as of December 31, 2001. Any gains to the Named Officers and the shareholders will depend upon future performance of the common stock of the Company as well as overall market conditions.

OPTION GRANTS IN LAST FISCAL YEAR

	Individual Grants (1)(2)				Potential Realizable Value At Assumed Annual Rates Of Stock Price Appreciation For Option Term	
Name	Number of Securities Underlying Options Granted(#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($ /SH)	Expiration Date	5%($)	10%($)
Anne M. Mulcahy	934,600(3)	12.72%	$4.75	12/31/10	$ 2,791,883	$ 7,075,181
	1,000,000(4)		9.25	12/31/11	5,817,275	14,742,118
Paul A. Allaire	350,000(5)	2.30%	4.75	12/31/10	1,045,537	2,649,597
Barry D. Romeril	467,300(3)	3.07%	4.75	12/31/10	1,395,942	3,537,590
Allan E. Dugan	280,400(3)	1.84%	4.75	12/31/10	837,625	2,122,706
James A. Firestone	93,500(3)	0.61%	4.75	12/31/10	279,308	707,821
Ursula M. Burns	149,600(3)	0.98%	4.75	12/31/10	446,893	1,132,513
Michael C. Mac Donald ..	93,500(3)	0.61%	4.75	12/31/10	279,308	707,821
All Shareholders	N/A	N/A	N/A	N/A	$4,708,400,497	$11,766,819,891

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1. Exercise price is based upon fair market value on the effective date of the award. Excludes the second installment of grants of stock options made on January 1, 2002 under New LEEP as follows: Anne M. Mulcahy--934,600, Paul A. Allaire--0, Barry D. Romeril--0, Allan E. Dugan--280,400, James A. Firestone--121,500, Ursula M. Burns--149,600, and Michael C. MacDonald--93,500.

2. Options may be accelerated as a result of a change in control as described under "Option Surrender Rights".

3. Exercisable 33% on each of the following dates: January 1, 2002; January 1, 2003; and January 1, 2004.

4. Exercisable 100% on August 28, 2006.

5. Exercisable 100% on January 1, 2002.

OPTION EXERCISES/YEAR-END VALUES

The following table sets forth for each of the Named Officers the number of shares underlying options and SARs exercised during the fiscal year ended December 31, 2001, the value realized upon exercise, the number of options/SARs unexercised at year-end and the value of unexercised in-the-money options/SARs at year-end.

AGGREGATE OPTION/SAR EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUE

Name	Value of Shares Underlying Options/SARs Exercised(#)	Value Realized($)	Number of Shares Underlying Unexercised Options/SARs at FY-End(#)		Value of Unexercised In-the-Money Options/SARs at FY End($)(A)	
			Exercisable	Unexercisable	Exercisable	Unexercisable(B)
Anne M. Mulcahy.....	0	$0	309,401	2,134,007	$0	$6,362,779
Paul A. Allaire.....	0	$0	2,171,910	523,724	$0	$1,965,250
Barry D. Romeril.....	0	$0	404,281	589,814	$0	$2,623,890
Allan E. Dugan.....	0	$0	350,273	345,053	$0	$1,574,446
James A. Firestone.....	0	$0	362,000	154,357	$0	$ 525,003
Ursula M. Burns.....	0	$0	51,360	195,435	$0	$ 840,004
Michael C. Mac Donald....	0	$0	54,009	130,177	$0	$ 525,003

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(A) Excludes the second installment of grants of stock options made on January 1, 2002 under New LEEP as follows: Anne M. Mulcahy--934,600, Paul A. Allaire--0, Barry D. Romeril--0, Allan E. Dugan--280,400, James A. Firestone--121,500, Ursula M. Burns--149,600, and Michael C. MacDonald--93,500.

(B) The value of unexercised options/SARs is based upon the difference between the exercise price and the average of the high and low prices on December 31, 2001 of $10.365. Option/SARs may be accelerated as a result of a change in control as described under "Option Surrender Rights".

RETIREMENT PLANS

Retirement benefits are provided to the executive officers of the

Company including the Named Officers primarily under unfunded executive supplemental plans and, due to Internal Revenue Code limitations, to a much lesser extent under the Company's Retirement Income Guarantee Plan. The table below shows, under the plans, the approximate annual retirement benefit that would accrue for the number of years of credited service at the respective average annual compensation levels. The earliest retirement age for benefit commencement generally is age 60. In the event of a change in control (as defined in the plans) there is no age requirement for eligibility. The benefit accrues generally at the rate of 1 2/3% per year of credited service, but for certain mid- career hire executives the rate is accelerated to 2 1/2%, including Barry D. Romeril and Allan E. Dugan. An accelerated benefit accrual also applies to Officers who were designated as Grandfathered Officers with twice the 1 2/3% accrual for 15 years and these participants are permitted to retire as early as age 55 (this group includes both Paul A. Allaire and Anne M. Mulcahy). No additional benefits are payable for participation in excess of 30 years for those accruing benefits at the rate of 1 2/3% per year, 20 years for those accruing benefits at the rate of 2 1/2% per year and 15 years for the Grandfathered Officers.

Average Annual Compensation for Five Highest Years	Annual Age 65 Benefits For Years of Credited Service Indicated			
	15 Years	20 Years	25 Years	30 Years
300,000	70,000	93,000	117,000	140,000
400,000	95,000	127,000	158,000	190,000
600,000	145,000	193,000	242,000	290,000
800,000	195,000	260,000	325,000	390,000
1,000,000	245,000	327,000	408,000	490,000
1,200,000	295,000	393,000	492,000	590,000
1,400,000	345,000	460,000	575,000	690,000
1,600,000	395,000	527,000	658,000	790,000
1,800,000	445,000	593,000	742,000	890,000
2,000,000	495,000	660,000	825,000	990,000
2,200,000	545,000	727,000	908,000	1,090,000
2,400,000	595,000	793,000	992,000	1,190,000
2,600,000	645,000	860,000	1,075,000	1,290,000
2,800,000	695,000	927,000	1,158,000	1,390,000
3,000,000	745,000	993,000	1,242,000	1,490,000
3,200,000	795,000	1,060,000	1,325,000	1,590,000
3,400,000	845,000	1,127,000	1,408,000	1,690,000
3,600,000	895,000	1,193,000	1,492,000	1,790,000
3,800,000	945,000	1,260,000	1,575,000	1,890,000

The maximum benefit is 50% of the five highest years' average annual compensation reduced by 50% of the primary social security benefit payable at age 65. The benefits shown are payable on the basis of a straight life annuity and a 50% survivor annuity for a surviving spouse. The plans provide a minimum benefit of 25% of defined compensation reduced by such social security benefit other than for the key executives accruing benefits at the accelerated rate.

The following individuals have the years of credited service for purposes of the plans as follows:

Name	Years of Credited Service (A)
Paul A. Allaire (B)	30
Anne M. Mulcahy	30
Barry D. Romeril	13

Allan E. Dugan 18
James A. Firestone 4
Ursula M. Burns 21
Michael C. MacDonald 25

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(A) Thirty years is the maximum permitted credited service under the plans. Credited service shown reflects the accelerated accrual for mid- career hire executives and Grandfathered Officers. The years of credited service reflected can be applied to the annual benefit table above to determine the annual benefit.

(B) Upon Mr. Allaire's death, Mr. Allaire's alternate payee will receive a full and unreduced 50% survivor benefit based on Mr. Allaire's accrued benefits under the plans.

Compensation under the plans includes the amounts shown in the salary and bonus columns under the Summary Compensation Table other than payments under the 1991 Plan to the extent included in the bonus column.

The five highest years average compensation for purposes of the plans as of the end of the last fiscal year for the Named Officers is: Paul A. Allaire $2,480,485; Anne M. Mulcahy $868,862; Barry D. Romeril $967,567; Allan E. Dugan $722,243; James A. Firestone $574,781; Ursula M. Burns $381,861; and Michael C. MacDonald $402,235.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Severance Agreements

In October 2000, with the approval of the Executive Compensation and Benefits Committee and the Board, the Company entered into agreements with five of its executive officers, including Paul A. Allaire, Anne M. Mulcahy, and Barry D. Romeril, which provide severance benefits in the event of termination of employment under certain circumstances following a change in control of the Company (as defined). The circumstances are termination by the Company, other than because of death or disability, commencing prior to a potential change in control (as defined), or for cause (as defined), or by the officers for good reason (as defined). The officer would be entitled to receive a lump sum severance payment equal to three times the sum of:

. the greater of (1) the officer's annual rate of base salary on the date notice of termination is given and (2) his/her annual rate of base salary in effect immediately prior to the change in control and

. the greater of (1) the annual target bonus applicable to such officer for the year in which such notice is given and (2) the annual target bonus applicable to such officer for the year in which the change in control occurs.

"Cause" for termination by the Company is the:

(i) willful and continued failure of the officer to substantially perform his/her duties,

(ii) willful engagement by the officer in materially injurious conduct to the Company, or

(iii) conviction of any crime which constitutes a felony.

"Good reason" for termination by the officer includes, among other things:

(i) the assignment of duties inconsistent with the individual's

status as an executive or a substantial alteration in responsibilities (including ceasing to be an executive officer of a public company),

(ii) a reduction in base salary and/or annual bonus,

(iii) the relocation of the officer's principal place of business, and

(iv) the failure of the Company to maintain compensation plans in which the officer participates or to continue providing certain other existing employment benefits.

The agreements provide for the continuation of certain welfare benefits for a period of 36 months following termination of employment and contain a gross-up payment (as defined) if the total payments (as defined) are subject to excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended.

The agreements also provide that in the event of a potential change in control (as defined) each officer, subject to the terms of the agreements, will remain in the employ of the Company for nine months following the occurrence of any such potential change in control.

The agreements are automatically renewed annually unless the Company gives notice that it does not wish to extend them. In addition, the agreements will continue in effect for two years after a change in control of the Company.

The Company has also entered into agreements with 40 other officers or other key executives, including Ursula M. Burns, Allan E. Dugan, James A. Firestone and Michael C. MacDonald, that provide identical benefits described above, except that these officers and key executives would be entitled to receive a lump-sum severance payment equal to two times their annual compensation and they would receive welfare benefits continuance for a period of 24 months.

Termination Arrangements

On April 9, 2001, the Executive Compensation and Benefits Committee adopted a policy consistent with an existing practice, which authorizes the Chairman of the Board and CEO to enter into salary continuance agreements with selected officers who are nearing retirement. The purpose of the policy is to serve as a retention device. The salary continuance period can range between 12 and 24 months and would commence on a date as determined by the CEO. Salary is based upon the monthly salary in effect when the salary continuance begins. The current form of agreement provides that engagement by the officer in any "Detrimental Activity", as defined, would result in forfeiture of salary continuance, unfunded retirement benefits and bonuses and the cancellation of outstanding options. The Company has entered into such agreements with certain officers, including Barry D. Romeril.

In connection with his retirement from the Company, a revised compensation continuance agreement dated October 3, 2001, with Barry D. Romeril was entered into by the Company which had been approved by the Committee at its meeting on September 26, 2001. Among other things, the revised agreement with Barry D. Romeril provided for:

. Compensation continuance at the rate of $101,250 per month for 24 months, commencing in January 2002;

. Award of 50,000 Incentive Stock Rights, effective on September 26, 2001, that will vest on January 1, 2004,

. Payment of target bonus in two quarterly installments of $135,000, and

. Payment of an additional bonus amount of $500,000.

The additional compensation was provided to secure Barry D. Romeril's consulting services of up to 100 days during the period of compensation continuance in connection with financial transactions of strategic importance to the Company and to ensure a smooth transition to a new chief financial officer of the Company.

Employment Arrangements

In connection with his continued employment, the Company entered into an agreement with Carlos Pascual, Executive Vice President. The agreement was authorized by the Executive Compensation and Benefits Committee. The agreement arises out of changes made to Xerox Spain's pension plans

consistent with proposed Spanish law requirements. It is designed to mitigate the potential impact of U.S. income tax on Mr. Pascual's retirement benefit, if any, as a result of the change in Spanish law. Subject to certain conditions in the Agreement, the Company has agreed to indemnify Mr. Pascual for U.S. income tax on his Spanish pension, if necessary. The Agreement also provides that for a period of three years following Mr. Pascual's employment with the Company he will be provided with salary continuance at a rate of Spanish pesetas 4,389,600 per month (approximately $23,546 at current exchange rates) as he serves in the capacity of Chairman of Xerox Espana, S.A. at the discretion of the CEO of the Company. He will also be provided with relocation assistance in an amount not to exceed $100,000.

In connection with Lawrence A. Zimmerman joining the Company as Senior Vice President and Chief Financial Officer, the Company and Mr. Zimmerman entered into a Letter Agreement dated May 20, 2002. Under the terms of the Letter Agreement, which was presented to and approved by the Executive Compensation and Benefits Committee, Mr. Zimmerman's initial annual base salary was fixed at $450,000 and target bonus of 70% of base salary was established. The actual bonus amount will depend upon Company performance and Mr. Zimmerman's performance against specified personal objectives during 2002. He was also awarded options with respect to 271,500 shares at an option price of $8.975 per share, the fair market value per share on the effective date of his election. Of these, 150,000 were issued as a signing bonus and fully vest on January 1, 2005, while the balance of 121,000 were issued as part of his initial New LEEP award and vest in annual installments of one-third commencing on January 1, 2003. The New LEEP award also included an award of 32,500 restricted shares of Common Stock vesting on January 1, 2003. Under the Letter Agreement, Mr. Zimmerman will participate in the Supplemental Executive Retirement Plan with a minimum retirement benefit of 12.5% of his average eligible compensation after 2.5 years of service. The Company has also entered into a Severance Agreement with Mr. Zimmerman of the kind described above under "Severance Agreements". The Severance Agreement would provide a lump-sum severance payment equal to two times his annual compensation. The Letter Agreement also provides for a lump sum payment by the Company of $90,000, less applicable withholding taxes, in lieu of expenses related to his relocation from Boulder, Colorado.

Option Surrender Rights

All non-qualified options under the 1991 and the 1998 Plans are accompanied by option surrender rights. If there is a change in control, as defined in the plans, all such rights which are in the money become payable in cash based upon a change in control price as defined in the plans. The 1991 Plan also provides that upon the occurrence of such an

event, all restricted stock and incentive stock rights become payable in cash. In the case of rights payable in shares, the amount of cash is based upon such change in control price and in the case of rights payable in cash, the cash value of such rights. Rights payable in cash but which have not been valued at the time of such an event are payable at the maximum value as determined by the Executive Compensation and Benefits Committee at the time of the award. Upon accelerated payment, such rights and any related non-qualified stock options will be canceled.

Grantor Trusts

The Company has established grantor trusts with a bank for the purpose of paying amounts due under the deferred compensation plan and the severance agreements described above, and the unfunded supplemental retirement plans described above. The trusts are presently unfunded, but the Company would be required to fund the trusts upon the occurrence of certain events.

Legal Services

The law firm of Akin, Gump, Strauss, Hauer & Feld LLP, of which Vernon E. Jordan, Jr. is of counsel, was retained by and rendered services to the Company in 2001.

Litigation

In re Xerox Derivative Actions: A consolidated putative shareholder derivative action is pending in the Supreme Court of the State of New York, County of New York against several current and former members of the Board of Directors including William F. Buehler, B.R. Inman, Antonia Ax:son Johnson, Vernon E. Jordan, Jr., Yotaro Kobayashi, Hilmar Kopper, Ralph Larsen, George J. Mitchell, N.J. Nicolas, Jr., John E. Pepper, Patricia Russo, Martha Seger, Thomas C. Theobald, Paul Allaire, G. Richard Thoman, Anne Mulcahy and Barry Romeril, and KPMG, LLP. The plaintiffs purportedly brought this action in the name of and for the benefit of the Company, which is named as a nominal defendant, and its public shareholders. The second consolidated amended complaint alleges that each of the director defendants breached their fiduciary duties to the Company and its shareholders by, among other things, ignoring indications of a lack of oversight at the Company and the existence of flawed business and accounting practices within the Company's Mexican and other operations; failing to have in place sufficient controls and procedures to monitor the Company's accounting practices; knowingly and recklessly disseminating and permitting to be disseminated, misleading information to shareholders and the investing public; and permitting the Company to engage in improper accounting practices. The plaintiffs further allege that each of the director defendants breached their duties of due care and diligence in the management and administration of the Company's affairs and grossly mismanaged or aided and abetted the gross mismanagement of the Company and its assets. The second amended complaint also asserts claims of negligence, negligent misrepresentation, breach of contract and breach of fiduciary duty against KPMG. Additionally, plaintiffs claim that KPMG is liable to Xerox for contribution, based on KPMG's share of the responsibility for any injuries or damages for which Xerox is held liable to plaintiffs in related pending securities class action litigation. On behalf of the Company, the plaintiffs seek a judgment declaring that the director defendants violated and/or aided and abetted the breach of their fiduciary duties to the Company and its shareholders; awarding the Company unspecified compensatory damages against the director defendants, individually and severally, together with pre-judgment and post-judgment interest at the maximum rate allowable by law; awarding the Company punitive damages against the director

defendants; awarding the Company compensatory damages against KPMG; and awarding plaintiffs the costs and disbursements of this action, including reasonable attorneys' and experts' fees. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

Pall v. Buehler, et al.: On May 16, 2002, a shareholder commenced a derivative action in the United States District Court for the District of Connecticut against KPMG Peat Marwick (KPMG). The Company was named as a nominal defendant. Plaintiff purported to bring this action derivatively in the right, and for the benefit, of the Company. He contended that he is excused from complying with the prerequisite to make a demand on the Xerox Board of Directors, and that such demand would be futile, because the directors are disabled from making a disinterested, independent decision about whether to prosecute this action. In the original complaint, plaintiff alleged that KPMG, the Company's former outside auditor, breached its duties of loyalty and due care owed to Xerox by repeatedly acquiescing in, permitting and aiding and abetting the manipulation of Xerox's accounting and financial records in order to improve the Company's publicly reported financial results. He further claimed that KPMG committed malpractice and breached its duty to use such skill, prudence and diligence as other members of the accounting profession commonly possess and exercise. Plaintiff claimed that as a result of KPMG's breaches of duties, the Company has suffered loss and damage. On May 29, 2002, plaintiff amended the complaint to add as defendants the present and certain former directors of the Company. He added claims against each of them for breach of fiduciary duty, and separate additional claims against the directors who are or were members of the Audit Committee of the Board of Directors, based upon the alleged failure, inter alia, to implement, supervise and maintain proper accounting systems, controls and practices. The amended derivative complaint demands a judgment declaring that the defendants have violated and/or aided and abetted the breach of fiduciary and professional duties to the Company and its shareholders; awarding the Company unspecified compensatory damages, together with pre-judgment and post-judgment interest at the maximum rate allowable by law; awarding the Company punitive damages; awarding the plaintiff the costs and disbursements of the action, including reasonable attorneys' and experts' fees; and granting such other or further relief as may be just and proper under the circumstances. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

Lerner v. Allaire, et al.: On June 6, 2002, a shareholder, Stanley Lerner, commenced a derivative action in the United Stales District Court for the District of Connecticut against Paul A. Allaire, William F. Buehler, Barry D. Romeril, Anne M. Mulcahy and G. Richard Thoman. The plaintiff purports to bring the action derivatively, on behalf of the Company, which is named as a nominal defendant. Previously, on June 19. 2001, Lerner made a demand on the Board of Directors to commence suit against certain officers and directors to recover unspecified damages and compensation paid to these officers and directors. In his demand, Lerner contended, inter alias, that management was aware since 1998 of material accounting irregularities and failed to take action and that the Company has been mismanaged. At its September 26. 2001 meeting, the Board of Directors appointed a special committee to consider, investigate and respond to the demand. The special committee is still deliberating. In this action, plaintiff alleges that the individual defendants breached their fiduciary duties of care and loyalty by disguising the true operating performance of the Company through improper undisclosed accounting mechanisms between 1997 and 2000. The complaint alleges that the defendants benefited personally, through compensation and the sale of company stock, and either participated in or approved the accounting procedures or failed to supervise adequately the accounting activities of the Company. The plaintiff demands a judgment declaring that defendants intentionally breached their fiduciary duties to (he Company and its shareholders; awarding unspecified compensatory damages to the Company against the defendants, individually and severally, together with pre-judgment and post-judgment interest; awarding the Company punitive damages; awarding the plaintiff the costs and disbursements of the action, including reasonable attorneys' and experts' fees; and granting such other or further relief as may be just and proper. The individual defendants deny the wrongdoing alleged and intend to vigorously defend the litigation.

TEN-YEAR PERFORMANCE COMPARISON

The chart below provides a comparison of Xerox cumulative total shareholder return with the Standard & Poor's 500 Composite Stock Index and the Business Week Computers and Peripherals Industry Group, excluding Xerox (Peer Group).

COMPANY NAME/INDEX	BASE PERIOD DEC 91	DEC 92	DEC 93	DEC 94	DEC 95	DEC 96	DEC 97	DEC 98	DEC 99	DEC 00	DEC 01
XEROX CORP	$100	$120.48	$141.13	$161.05	$228.50	$269.43	$385.01	$623.77	$244.87	$ 51.67	$117.38
S&P 500 INDEX	100	107.62	118.46	120.03	165.13	203.05	270.79	348.18	421.44	383.07	337.54
BUSINESS WEEK COMPUTERS & PERIPHERALS	100	83.26	94.22	121.15	165.16	238.28	332.15	598.73	903.60	627.54	495.68

The Peer Group consists of the following companies as of December 31, 2001: Apple Computer, Compaq Computer, Dell Computer, EMC, Gateway, Hewlett-Packard, International Business Machines, Lexmark International, Maxtor, Palm, Quantum DLT and Storage Systems, Silicon Graphics, Storage Technology, Sun Microsystems, Unisys and Western Digital.

This chart assumes the investment of $100 on December 31, 1991 in Xerox Common Stock, the S&P 500 Index and the Peer Group Common Stock, and reinvestment of quarterly dividends at the monthly closing stock prices. The returns of each

company have been weighted annually for their respective stock market capitalizations in computing the S&P 500 and Peer Group indices.

DIRECTORS AND OFFICERS LIABILITY INSURANCE AND INDEMNITY

On June 21, 2002 the Company extended its policies for directors and officers liability insurance covering all directors and officers of the Company and its subsidiaries. The policies are issued by Executive Risk Specialty Indemnity, Inc., Gulf Insurance Company, XL Specialty Insurance Company, Twin City Fire Insurance Company, Houston Casualty Company, Rock River Insurance Company and Allied World Assurance Company. The policies have a one-year term from June 25, 2002 to June 25, 2003 and a total annual premium of $4,902,607.

The Company has received a payment under previously issued policies of $244,870 for reimbursement of investigation cost in connection with a shareholder derivative suit filed in the New York State Supreme Court, County of Monroe titled James M. Hartman vs. G. Richard Thoman et. al. The case has since been dismissed by the court and the time for appeal has expired.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

There was a failure to file Form 3, Beneficial Ownership Report, on a timely basis with the SEC as required under Section 16 (a) of the Securities Exchange Act of 1934 on behalf of James A. Firestone and

Jean-Noel Machon who purchased shares of the Company's common stock. The purchases were reported as soon as the omissions were discovered; for Mr. Firestone on September 27, 2001 and for Mr. Machon on January 10, 2002.