XEROX CORP
Form 424B3
March 15, 2006
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Filed Pursuant to Rule 424 B(3)
Registration No 333-111623

The information in this prospectus supplement and the accompanying prospectus is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission under the Securities Act of 1933. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Prospectus Supplement, Subject to Completion dated March 15, 2006,

To Prospectus Dated February 3, 2004

$400,000,000

Xerox Corporation

% Senior Notes due 2016

We are offering $ aggregate principal amount of our % senior notes due 2016, or the notes .

The notes will mature on , 2016. We will pay interest on the notes on each and , commencing , 2006.

We may redeem the notes at any time, and from time to time, by paying to the holders thereof 100% of the principal amount plus a make-whole redemption premium. If we undergo a change of control, we will be required to offer to purchase all of the notes from the holders.

The notes will initially be guaranteed by one of our subsidiaries on a senior basis. That subsidiary also currently guarantees our outstanding 9 3/4% Senior Notes due 2009, 7 1/8% Senior Notes due 2010, 7 5/8% Senior Notes due 2013 and 6 7/8% Senior Notes due 2011. We expect that subsidiary will cease to be a guarantor when we enter into our new credit facility. The notes will be unsecured and will rank senior to all our existing and future subordinated debt and will rank *pari passu* with our existing and future unsecured senior debt. The notes will not have the benefit of all of the covenants applicable to some of our existing unsecured senior debt. The notes will be effectively subordinated to any secured debt of Xerox as well as any secured debt of the guarantor subsidiary. The notes will be structurally subordinated to the debt and all other

obligations of our subsidiaries that are not guaranteeing the notes.

Investing in the notes involves a high degree of risk. See Risk Factors, beginning on page S-5 of this prospectus supplement and on page 2 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Public Offering Price	Underwriting Proceeds	Proceeds, before expenses, to us
Per note	%	%	%
Total	$	$	$

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect that delivery of the notes will be made to purchasers in book-entry form through The Depository Trust Company on or about , 2006.

Joint Book-Running Managers

JPMorgan **Goldman, Sachs & Co.**

Co-Lead Managers

Citigroup **Banc of America Securities LLC**
Bear, Stearns & Co. Inc. **Deutsche Bank Securities**

Co-Managers

Barclays Capital **BNP PARIBAS** **Merrill Lynch & Co.**

The date of this prospectus supplement is March , 2006

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with the documents incorporated by reference and the additional information described below under the heading Where You Can Find More Information.

If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus supplement or in a document incorporated or deemed to be incorporated by reference in this prospectus supplement will be deemed to be modified or superseded for purposes of this prospectus supplement to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated or deemed to be incorporated by reference in this prospectus supplement modifies or supersedes that statement. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute a part of this prospectus supplement. See Incorporation of Certain Documents By Reference in the accompanying prospectus.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act). In accordance with the Exchange Act, we file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). Our SEC file number is 1-4471. You can read and copy this information at the following location of the SEC:

Public Reference Room

100 F Street, N.E.

Room 1850

Washington, D.C. 20549

You can also obtain copies of these materials from this public reference room, at prescribed rates. Please call the SEC at 1-800-SEC-0330 for further information on its public reference room. The SEC also maintains a web site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that site is www.sec.gov.

This prospectus supplement and the accompanying prospectus, which forms a part of the registration statement, do not contain all the information that is included in the registration statement. You will find additional information about us in the registration statement. Any statements made in this prospectus supplement, the accompanying prospectus or any documents incorporated by reference concerning the provisions of legal documents are not necessarily complete and you should read the documents that are filed as exhibits to the registration

statement or otherwise filed with the SEC for a more complete understanding of the document or matter.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements included or incorporated by reference in this prospectus are deemed to be forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995 (the Litigation Reform Act). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

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

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. Such factors include, but are not limited to: the outcome of litigation and regulatory proceedings to which we may be a party; actions of competitors; changes and developments affecting our industry; quarterly or cyclical variations in financial results; development of new products and services; interest rates and cost of borrowing; our ability to maintain and improve cost efficiency of operations; changes in foreign currency exchange rates; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the foreign countries in which we do business; reliance on third parties for manufacturing of products and provision of services; and other risks that are set forth in the Risk Factors section in this prospectus supplement, the accompanying prospectus and in our Annual Report on Form 10-K for the year ended December 31, 2005 and the Legal Proceedings section, the Management s Discussion and Analysis of Results of Operations and Financial Condition section and other sections of our Annual Report on Form 10-K for the year ended December 31, 2005.

MARKET AND INDUSTRY DATA

Certain market and industry data included or incorporated by reference in this prospectus supplement and in the accompanying prospectus has been obtained from third party sources that we believe to be reliable. Market estimates are calculated by leveraging third-party forecasts from firms such as International Data Corporation and Infosource in conjunction with our assumptions about our markets. We have not independently verified such third party information and cannot assure you of its accuracy or completeness. While we are not aware of any misstatements regarding any market, industry or similar data presented herein, such data involves risks and uncertainties and is subject to change based on various factors, including those discussed under the headings Disclosure Regarding Forward-Looking Statements and Risk Factors in this prospectus supplement and in the accompanying prospectus as well as those listed under Forward Looking Statements and Risk Factors in the documents enumerated under Incorporation of Certain Documents by Reference including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2005 and under similarly captioned sections in future filings that we make with the SEC under the Exchange Act.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary may not contain all the information that may be important to you. You should read this entire prospectus supplement, the accompanying prospectus and those documents incorporated by reference into the prospectus supplement and the accompanying prospectus, including the risk factors and the financial statements and related notes, before making an investment decision. In this prospectus supplement, except as otherwise indicated herein, references to Xerox , the Company , we , us , or our refer to Xerox Corporation and its subsidiaries and, in the context of the notes, Xerox , the Company , we , us and our shall only refer to Xerox Corporation, the issuer of the notes.

The Company

We are a technology and services enterprise and a leader in the global document market. We develop, manufacture, market, service and finance a complete range of document equipment, software, solutions and services. We operate in over 160 countries worldwide, and distribute our products in the Western Hemisphere through divisions, wholly-owned subsidiaries and third-party distributors. In Europe, Africa, the Middle East, India and parts of Asia, we distribute our products through Xerox Limited and related non-U.S. companies. We had approximately 55,200 employees at December 31, 2005. Our revenues and net income in 2005 were approximately $15.7 billion and $978 million, respectively.

Our international operations represented approximately half of our total revenues in 2005. Our largest subsidiary outside the United States is Xerox Limited, which operates predominately in Europe. We conduct our Latin American operations through subsidiaries or distributors in over 38 countries. Fuji Xerox, an unconsolidated entity of which we own 25%, develops, manufactures and distributes document processing products in Japan, China, Hong Kong and other areas of the Pacific Rim, Australia and New Zealand.

Industry Overview

The document industry is transitioning from older technology light lens devices to digital systems, from black and white to color and from paper documents to an increased reliance on electronic documents. More and more people are creating and storing documents digitally and using the internet to easily exchange electronic documents. We believe these trends play to the strengths of our product and service offerings and represent opportunities for future growth within the $112 billion market we serve. Other areas for growth include the replacement of multiple single-function office devices with multifunction systems and the transition of low-end offset printing to digital technology.

Our Position

We develop document technologies, systems, solutions and services intended to improve our customers work processes and business results. Our success rests on our ability to understand our customers needs and provide innovative document management solutions and services that deliver value to them. We deliver value to customers by leveraging core competencies in technology, document knowledge, global sales and service, brand reputation and value added solutions across our three core markets, high-end production environments, small to large networked offices, and services led offerings for large enterprises. In our core markets of Production (estimated at $8 billion) and Office (estimated at $67 billion), we believe we are well placed to capture core growth opportunities by leading the transition to color and by reaching new customers with our broadened offerings and expanded distribution channels. We are expanding our core markets with Document Services (estimated at $20 billion) and we are creating new market opportunities with digital printing as a complement to traditional offset printing, which we refer to as the

Eligible Offset market. Within the Eligible Offset market,

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which is estimated at $17 billion, we offer leading digital technology, led by our market-making Xerox iGen3 ® technology and accompanied by the industry s broadest migration path to digital, which is designed to meet the increasing demand for short run, customized and quick turnaround offset quality printing.

Key Offerings

We compete in both monochrome (i.e., black and white) and color segments by providing a broad range of document products, solutions and services. Our products include high-end printing and publishing systems, digital multifunction devices (which can print, copy, scan and fax), digital copiers, laser and solid ink printers, fax machines, document-management software, and supplies such as toner, paper and ink. We provide software and solutions that can help businesses easily and affordably print books or create personalized documents for their customers and scan and route digital information. In addition, we provide a range of comprehensive document management services, such as operating in-house production centers, developing online document repositories and analyzing how customers can most efficiently create and share documents in the office.

Our Business Model

Our business model is an annuity model, based on increasing equipment sales and installations in order to increase the number of machines in the field that will produce pages and generate post sale and financing revenue streams. The majority of our equipment is sold through sales type leases that are recorded as equipment sale revenue. Equipment sales represent approximately 29% of our 2005 total revenue. Post sale and financing revenue includes equipment maintenance and consumable supplies, among other elements. We expect this large, recurring revenue stream to approximate three times the equipment sale revenue over the life of the lease. Accordingly, the number of equipment installations is a key indicator of post sale and financing revenue trends as increased machines in the field should lead to increased pages and ultimately increased post sale revenue. The increasing mix of color pages is also of significant importance to post sale revenue because color pages use more consumables per page than black and white. Thus, color pages generate approximately five times the revenue and profit per page as compared to black and white. In addition, market development, particularly within the Eligible Offset market, is key to increasing pages and we have leading tools and resources to develop this large market opportunity.

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The Offering

Issuer	Xerox Corporation.
Notes Offered	$400,000,000 aggregate principal amount of Senior Notes due 2016.
Maturity	, 2016.
Interest Rate	The notes will bear interest from , 2006 at the rate of % per annum, payable semi-annually.
Interest Payment Dates	and of each year, beginning on , 2006.
Guarantor	The notes will initially be guaranteed by one of our subsidiaries on a senior basis. That subsidiary also currently guarantees our outstanding 9 3/4% Senior Notes due 2009, 7 1/8% Senior Notes due 2010, 7 5/8% Senior Notes due 2013 and 6 7/8% Senior Notes due 2011 (collectively, the Existing Senior Notes). Our guarantor subsidiary represents less than 1% of our consolidated revenues and less than 1% of our consolidated assets for the year ended December 31, 2005 and as of December 31, 2005, respectively. As of December 31, 2005, on a *pro forma* basis giving effect to the notes offering and the application of proceeds therefrom, the Company had total secured debt of approximately $3.5 billion on a consolidated basis, of which approximately $308 million was secured debt solely of the Company and our guarantor subsidiary. If Xerox cannot make payments on the notes when they are due, our guarantor subsidiary must make them instead. We expect the guarantor subsidiary will cease to be a guarantor of the Existing Senior Notes and the notes when we enter into our new credit facility. See Certain Other Indebtedness and Preferred Stock 2006 Credit Facility .
Ranking	The notes are unsecured and will rank equally in right of payment with all of our other existing and future senior unsecured indebtedness. The notes will be effectively subordinated to all of the secured indebtedness of Xerox and the guarantor subsidiary which, as of December 31, 2005, was approximately $308 million. The notes will be structurally subordinated to all of the secured and unsecured indebtedness and other liabilities of our non-guarantor subsidiaries. As of December 31, 2005, our non-guarantor subsidiaries had approximately $6.5 billion of outstanding indebtedness and other liabilities, including trade payables but excluding intercompany liabilities.
Optional Redemption	We may redeem some or all of the notes offered hereby at any time at 100% of the principal amount plus a make-whole premium. See Description of the Notes Optional Redemption .

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Change of Control	If we undergo a change of control, we must give all holders of the Notes the opportunity to sell to us their notes at 101% of their face amount, plus accrued interest. We might not be able to pay to you the required price for Notes that you present to us upon a change of control, because: we might not have enough funds at that time; or the terms of our debt instruments may prevent us from paying.
Certain Covenants	The indenture governing the notes will contain covenants limiting our ability and our subsidiaries ability to: create certain liens; and consolidate or merge with, or convey, transfer or lease substantially all our assets to, another person. These limitations will be subject to a number of important qualifications and exceptions. You should read Description of the Notes Covenants for a description of these covenants.
Use of Proceeds	We intend to use the net proceeds of this offering to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured loan agreements, and for other general corporate purposes.
Risk Factors	See Risk Factors beginning on page S-5 of this prospectus supplement and on page 2 of the related prospectus for important information regarding us and an investment in the notes.
Further Issuances	We may create and issue further notes ranking equally with the notes (other than the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes). Such notes may be consolidated and form a single series with the notes.

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RISK FACTORS

You should carefully consider the risks described below, the risks set forth in the accompanying prospectus and the other information set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference before making an investment decision. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may also impair our business operations. The events discussed in the risk factors below, or the risk factors in the accompanying prospectus, may occur. If they do, our business, results of operations or financial condition could be materially adversely affected. In such an instance, the trading price of our securities, including the notes, could decline and you might lose all or part of your investment.

Risks related to the notes

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

We have, and after this offering and the application of the net proceeds therefrom will continue to have, a substantial amount of debt and other obligations. As of December 31, 2005, on a *pro forma* basis assuming the consummation of this offering, we would have had $7.7 billion of debt, on a consolidated basis, of which $3.5 billion would have been secured, and $0.7 billion of liabilities to subsidiary trusts issuing preferred securities outstanding.

Our substantial debt and other obligations could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic or industry conditions or downturns in our business;
- limit our ability to obtain additional financing for future working capital, capital expenditures, acquisitions, debt service requirements, cost efficiency initiatives and other general corporate requirements;
- increase our vulnerability to interest rate fluctuations because a significant portion of our debt has variable interest rates;
- require us to dedicate a substantial portion of our cash flow from operations on our debt and other obligations thereby reducing the availability of our cash flow from operations for other purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit, along with financial and other restrictive covenants in our debt agreements, among other things, our ability to borrow additional funds or dispose of assets;
- place us at a competitive disadvantage compared to our competitors that have less debt; and

become due and payable upon a change of control.

Despite our substantial debt, we may still be able to incur significantly more debt. As of December 31, 2005, after giving *pro forma* effect to this offering and the application of the net proceeds therefrom, we would have had approximately $700 million available for additional borrowing under our existing senior secured credit facility (the 2003 Credit Facility) and the covenants under our debt agreements would allow us to incur a significant amount of additional indebtedness. If new debt is added to our current debt levels, the risks described above could increase.

The notes will be structurally subordinated to all liabilities of our non-guarantor subsidiaries.

The notes will initially be guaranteed by only one of our subsidiaries and, if our new $1.25 billion unsecured credit facility (the 2006 Credit Facility) is finalized as we expect, the notes will not be guaranteed by any of

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our subsidiaries. Accordingly, the notes are structurally subordinated to indebtedness and other liabilities of Xerox s subsidiaries that do not guarantee the notes and are likely to become structurally subordinated to indebtedness and other liabilities of all of Xerox s subsidiaries. For the year ended December 31, 2005, before intercompany eliminations, Xerox s subsidiaries contributed $8.7 billion to our total revenues and held $13.2 billion of our total assets. In the event of a bankruptcy, liquidation or reorganization of any of our subsidiaries, these subsidiaries would pay the holders of their debts, preferred equity interests and their trade creditors before they would be able to distribute any of their assets to Xerox.

Our subsidiaries are separate and distinct legal entities and, except for our subsidiary guarantor of the notes offered hereby, have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that Xerox has to receive any assets of any of the subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of notes to realize proceeds from the sale of any of those subsidiaries assets, will be subordinated to the claims of those subsidiaries creditors, including trade creditors and holders of preferred equity interests of those subsidiaries.

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

Our liquidity is a function of our ability to successfully generate cash flows from a combination of efficient operations and improvements therein, funding from third parties, access to capital markets, securitizations and secured borrowings for our finance receivables portfolios. Our ability to maintain sufficient liquidity going forward depends on our ability to generate cash from operations and access to the capital markets, both of which are subject to general economic, financial, competitive, legislative, regulatory and other market factors that are beyond our control.

The 2003 Credit Facility contains affirmative and negative covenants including limitations on: issuance of debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends and certain other payments and intercompany loans. The 2003 Credit Facility contains financial maintenance covenants, including minimum EBITDA, as defined, maximum leverage (total adjusted debt divided by EBITDA), annual maximum capital expenditures limits and minimum consolidated net worth, as defined. The indentures governing our outstanding senior notes currently contain similar negative covenants. They do not, however, contain any financial maintenance covenants. Our U.S. Loan Agreement with General Electric Capital Corporation (GECC) (effective through 2010) relating to our customer financing program (the Loan Agreement) provides for secured loans up to $5.0 billion outstanding at any time. As of December 31, 2005, $1.7 billion was outstanding under this Loan Agreement. The Loan Agreement, as well as similar loan agreements with GE in the U.S., U.K. and Canada, incorporates the financial maintenance covenants contained in the 2003 Credit Facility, will incorporate such covenants from any future credit facility, including the 2006 Credit Facility if it is finalized as we expect, and contains other affirmative and negative covenants.

Any failure to be in compliance with any material provision or covenant of the 2003 Credit Facility or the Existing Senior Notes could have a material adverse effect on our liquidity, results of operations and financial condition. Failure to be in compliance with the covenants in the Loan Agreement, including the financial maintenance covenants incorporated from the 2003 Credit Facility, would result in an event of termination under the Loan Agreement and in such case GECC would not be required to make further loans to us. If GECC were to make no further loans to us, and assuming a similar facility was not established and that we were unable to obtain replacement financing in the public debt markets, it could materially adversely affect our liquidity and our ability to fund our customers purchases of equipment and this could materially adversely affect our results of operations.

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The indentures governing our Existing Senior Notes and certain of our financing agreements, including the 2003 Credit Facility, contain various covenants that limit the discretion of our management in operating our business and could prevent us from engaging in some beneficial activities. The notes offered by this prospectus supplement will not have the benefit of these covenants.

The indentures governing our Existing Senior Notes limit, and the 2003 Credit Facility limits, our ability to, among other things, issue debt and preferred stock, retire debt early, make investments and acquisitions, merge, engage in certain transactions with affiliates, create or permit to exist liens, transfer assets, enter into hedging transactions, and pay dividends on our common stock. The 2003 Credit Facility generally does not affect our ability to continue to monetize finance receivables under the agreements with GECC and others. We are in the process of replacing the 2003 Credit Facility with the 2006 Credit Facility, a new, unsecured senior credit facility that we expect will not contain many of the negative covenants found in the 2003 Credit Facility. We expect that the only negative covenants contained in the 2006 Credit Facility will be those that limit our ability to create or permit to exist liens, transfer assets and merge. The terms of the 2006 Credit Facility have not been finalized. Accordingly, the terms of the 2006 Credit Facility may be different than we expect or may not be entered into within the time frame we anticipate or at all.

Although the terms of the indentures governing our outstanding senior notes restrict our ability to incur additional debt to fund significant acquisitions and restricted payments, the indentures permit us and certain of our subsidiaries to incur debt in the ordinary course and in other circumstances. Although the notes offered hereby provide additional operational flexibility to us, we are required to comply with the covenants in our outstanding senior notes.

A failure to comply with the covenants contained in our 2003 Credit Facility, or the 2006 Credit Facility, if applicable, or our other existing indebtedness could result in an event of default under the 2003 Credit Facility (or the 2006 Credit Facility, if applicable) or the existing agreements, that, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations. In the event of any default under our 2003 Credit Facility (or the 2006 Credit Facility, if applicable) or our other indebtedness, the lenders thereunder:

- will not be required to lend any additional amounts to us;
- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable;
- require us to apply all of our available cash to repay these borrowings; or
- prevent us from making debt service payments on the notes,

any of which could result in an event of default under the notes.

If the indebtedness under our senior secured credit facility or our other indebtedness, including the notes, were to be accelerated, there can be no assurance that our assets would be sufficient to repay such indebtedness in full. See Certain Other Indebtedness and Preferred Stock and Description of the Notes.

The notes are unsecured, do not have the benefit of certain covenants and other provisions applicable to our previously issued senior notes and are effectively subordinated to our secured indebtedness.

If Xerox becomes insolvent or is liquidated, or if payment under any of our secured debt obligations is accelerated, the secured lenders would be entitled to exercise the remedies available to a secured lender under applicable law and will have a claim on those assets before the holders of our senior notes that are unsecured or the notes offered under this prospectus supplement. As a result, the notes are effectively subordinated to our secured indebtedness to the extent of the value of the assets securing that indebtedness or the amount of indebtedness secured by those assets. Therefore, the holders of the notes may recover ratably less than the lenders of our secured debt in the event of our bankruptcy or liquidation. At December 31, 2005, after giving effect to the issuance of notes offered by this prospectus supplement, we would have had $7.7 billion of debt on a consolidated basis, of which $3.5 billion would be secured debt. Approximately $2.9 billion principal amount of

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our Existing Senior Notes have the benefit of a right to require repayment upon a change in control. In addition, the indentures governing those senior notes contain a number of restrictive covenants that impose operating and financial restrictions on us, including restrictions on our ability to, among other things:

- incur or guarantee additional debt;
- pay dividends and make other restricted payments;
- engage in sales of assets and subsidiary stock;
- make certain loans, acquisitions, capital expenditures or investments; and
- enter into transactions with affiliates.

The notes will not have the benefit of all of the provisions in our other debt agreements. The breach of any of these provisions would give the holders of the previously issued notes the right to accelerate the maturity of their notes. The holders of the notes offered by this prospectus supplement would not have the right to accelerate the maturity of the notes due to the acceleration of our other debt.

Your right to receive payments on the notes could be adversely affected if any of our non-guarantor subsidiaries declares bankruptcy, liquidates or reorganizes.

The notes will initially be guaranteed by one of our subsidiaries. That subsidiary also currently guarantees our Existing Senior Notes on a senior basis. In the event of a bankruptcy, liquidation or reorganization of any of the non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to us or the guarantor. At December 31, 2005, our non-guarantor subsidiaries had approximately $6.5 billion of outstanding indebtedness and other liabilities, including trade payables but excluding intercompany liabilities. Our non-guarantor subsidiaries may incur substantial additional indebtedness. Upon effectiveness of the 2006 Credit Facility, we expect that our subsidiary guarantor for the notes offered hereby will no longer be required, and will cease, to guarantee the notes.

Federal and state statutes may allow courts to further subordinate or void the guarantee. Federal and state statutes allow courts, under specific circumstances, to void or subordinate guarantees and require note holders to return payments received from guarantors.

Under the federal bankruptcy law and comparable provisions of state fraudulent transfer laws, a guarantee could be voided, or claims in respect of a guarantee could be subordinated to all other debts of that guarantor if, among other things, the guarantor, at the time it incurred the indebtedness evidenced by its guarantee (1) issued the guarantee with the intent of hindering, delaying or defrauding any current or future creditor or contemplated insolvency with a design to favor one or more creditors to the total or partial exclusion of other creditors, or (2) received less than reasonably equivalent value or fair consideration for issuing its guarantee and:

was insolvent or rendered insolvent by reason of such incurrence;

was engaged in a business or transaction for which the guarantor s remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

In addition, any payment by that guarantor pursuant to its guarantee could be voided and required to be returned to the guarantor, or to a fund for the benefit of the creditors of the guarantor.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a guarantor would be considered insolvent if:

the sum of its debts, including contingent liabilities, were greater than the fair saleable value of all of its assets;

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the present fair saleable value of its assets were less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

The guarantee will contain a provision intended to limit the guarantor s liability to the maximum amount that it could incur without causing the incurrence of obligations under its guarantee to be a fraudulent transfer. This provision may not be effective to protect the guarantee from being voided under fraudulent transfer law, or may reduce or eliminate the guarantor s obligation to an amount that effectively makes the guarantee worthless.

We may not be able to purchase your notes upon a change of control.

Upon the occurrence of specified change of control events, we will be required to offer to purchase each holder s notes at a price equal to 101% of their principal amount plus accrued and unpaid interest. We may not have sufficient financial resources to purchase all of the notes that holders tender to us upon a change of control offer. The occurrence of a change of control could also constitute an event of default under any of our future debt agreements. See Description of the Notes Change of Control.

Similar change of control offer requirements are applicable to our Existing Senior Notes. Xerox may not have sufficient financial resources to purchase all of the notes that are tendered upon a change of control offer or to redeem such notes. The occurrence of a change of control would also constitute an event of default under our 2006 Credit Facility and could constitute an event of default under our other indebtedness. Our bank lenders may have the right to prohibit any such purchase or redemption, in which event we would seek to obtain waivers from the required lenders under our 2006 Credit Facility and our other indebtedness, but we may not be successful in obtaining such waivers. See Description of the Notes Change of Control.

An active trading market may not develop for the notes.

The notes are new securities for which there currently is no established market. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system. Although the underwriters have informed us that they currently intend to make a market in the notes, they are not obligated to do so and any market may be discontinued at any time without notice. Accordingly, we cannot assure you as to the development or liquidity of any market for any of the notes. See Underwriting.

Risks related to our business

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

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

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

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

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

The process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers changing needs and emerging technological trends. We must make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide desired returns. We also must ensure that all of our products comply with existing and newly enacted applicable regulatory requirements in the countries in which they are sold, particularly European Union environmental directives. If we fail to accurately anticipate and meet our customers needs through the development of new products or if our new products are not widely accepted or if our current or future products fail to meet applicable worldwide regulatory requirements, we could lose market share and customers to our competitors and damage our reputation and brand, each of which could materially adversely affect our results of operations and financial condition.

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

Our success depends on our ability to obtain adequate pricing for our products and services that in turn provides a reasonable return to our shareholders. Depending on competitive market factors, future prices we obtain for our products and services may decline from previous levels. In addition, pricing actions to offset the effect of currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition. If we are unable to obtain adequate pricing for our products and services, it could materially adversely affect our results of operations and financial condition.

Since 2000, we have engaged in a series of restructuring programs related to downsizing our employee base, exiting certain businesses, outsourcing some internal functions and engaging in other actions designed to reduce our cost structure. If we are unable to continue to maintain our cost base at or below the current level and maintain process and systems changes resulting from the restructuring actions, it could materially adversely affect our results of operations and financial condition.

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

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Our current credit ratings result in higher borrowing costs, which in turn may affect our ability to fund our customer financing activities at economically competitive levels.

The long-term viability and profitability of our customer financing activities is dependent, in part, on our ability to borrow and the cost of borrowing in the credit markets. This ability and cost, in turn, is dependent on our credit ratings. Our access to the public debt markets could be limited to the non-investment grade segment, which results in higher borrowing costs, until our credit ratings have been restored to investment grade. We are currently funding our customer financing activity through a combination of capital market offerings, third-party funding arrangements, including General Electric (GE), Merrill Lynch, and De Lage Landen Bank, cash generated from operations, cash on hand, other secured and unsecured borrowings. Our ability to continue to offer customer financing and be successful in the placement of equipment with customers is largely dependent on our ability to obtain funding at a reasonable cost. If we are unable to continue to offer customer financing, it could materially adversely affect our results of operations and financial condition.

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

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

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

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

Our operating results may be negatively impacted by 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 digital printing, color and multifunction systems. We expect that revenue growth can be further

enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, office and production services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct sales

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productivity and expand our indirect distribution channels in our developing markets operations and other geographic areas in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix of color pages, equipment utilization and color adoption. Equipment placements typically occur through leases with original terms of three to five years. There will be a lag between the increase in equipment placement and an increase in post sale revenues. The ability to grow our customers usage of our products may continue to be adversely impacted by the movement toward distributed printing and electronic substitutes and the impact of lower equipment placements in prior periods. If we are unable to return to and maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

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

We have various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law and the Employee Retirement Income Security Act (ERISA), as discussed in Note 15 to the Condensed Consolidated Financial Statements. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with legal counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of our legal matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Our operations are subject to environmental regulations in each of the jurisdictions in which we conduct our business. Some of our manufacturing operations use, and some of our products contain, substances that are regulated in various jurisdictions. The European Union Directive known as the Restriction on the Use of Hazardous Substances (RoHS), for example, requires the removal of lead, cadmium and certain other substances from product designs put on the market in the European Union beginning in July 2006. We do not expect the RoHS directive to have a material impact on our product lines. If we do not comply with applicable rules and regulations in connection with the use of such substances and the sale of products containing such substances, then we could be subject to liability and could be prevented from selling our products, which could have a material adverse effect on our results of operations and financial condition. Further, we could also face substantial costs and liabilities in connection with product take-back legislation. Beginning in 2005, we became subject to the European Union Directive on Waste Electrical and Electronic Equipment (WEEE) as enacted by individual European Union countries (WEEE Legislation), which makes producers of electrical goods, including computers and printers, responsible for collection, recycling, treatment and disposal of recovered products. We continue to evaluate the impact of specific registration and compliance activities required by WEEE Legislation. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable country WEEE Legislation, it could materially adversely affect our results of operations and financial condition.

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USE OF PROCEEDS

The net proceeds of this offering after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, are expected to be approximately $395.5 million. We intend to use the net proceeds to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured loan agreements, and for other general corporate purposes.

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CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2005, and as adjusted to give effect to this offering and the application of the net proceeds as described in Use of Proceeds . You should read the information in this table together with our audited consolidated financial statements and related notes thereto, incorporated by reference in this prospectus supplement and the accompanying prospectus.

(in millions)	As of December 31, 2005	
	Actual	Adjusted
Cash and cash equivalents (1)	$ 1,322	$ 1,718
Short-term investments	244	244
Total cash, cash equivalents and short-term investments	1,566	1,962
Debt maturing within one year (2)	1,139	1,139
Long-term debt (3)	6,139	6,139
Senior Notes due 2016		400
Total Debt	7,278	7,678
Minorities interests in equity of subsidiaries	90	90
Liabilities to subsidiary trusts issuing preferred securities (4)	724	724
Common shareholder s equity and preferred stock:		
Series C mandatory convertible preferred stock	889	889
Common stock, par value $1.00 per share, 1.05 billion shares authorized, 945,105,974 shares issued	945	945
Additional paid-in-capital	3,796	3,796
Treasury stock, at cost (13,916,900 shares)	(203)	(203)
Retained earnings	3,021	3,021
Accumulated other comprehensive loss	(1,240)	(1,240)
Total Common Shareholders Equity and Preferred Stock	7,208	7,208
Total Capitalization	**$ 15,300**	**$ 15,700**

(1) The net proceeds of this offering after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, are expected to be approximately $395.5 million. We intend to use the net proceeds to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured loan agreements, and for other general corporate purposes.

(2) As of December 31, 2005, $1.1 billion of the amount relates to debt secured by finance receivables.

(3) For additional information with respect to our long-term debt and other obligations, see Certain Other Indebtedness and Preferred Stock Long-Term Debt.

(4) For additional information with respect to our liabilities to subsidiary trusts issuing preferred securities, see Certain Other Indebtedness and Preferred Stock Liabilities to Subsidiary Trusts Issuing Preferred Securities. This amount includes $98 million relating to Xerox Capital LLC, which is classified as a component of Other current liabilities as of December 31, 2005, due to the redemption date of February 28, 2006. The Preferred shares relating to Xerox Capital LLC were redeemed on February 28, 2006 in accordance with their terms.

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DESCRIPTION OF THE NOTES

We will issue $400,000,000 aggregate principal amount of % senior notes due 2016 (the Notes) pursuant to a supplemental indenture to be dated as of March , 2006 (the Supplemental Indenture) to an indenture dated as of June 25, 2003, as supplemented to date (the Indenture), between Xerox and Wells Fargo Bank, National Association (as successor by merger with Wells Fargo Bank Minnesota, National Association), as Trustee (the Trustee). The following is a summary of the material provisions of the Indenture. It does not include all of the provisions of the Indenture. We urge you to read the Indenture because it, not this description, defines your rights. 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, as amended (the TIA). A copy of the Indenture may be obtained from the Underwriters or the Company. You can find definitions of certain capitalized terms used in this description under Certain Definitions. For purposes of this section, references to the Company , we , us and our include only Xerox Corporation and not subsidiaries.

The Notes will be senior unsecured obligations of the Company, ranking *pari passu* in right of payment with all other senior unsecured obligations of the Company. The Notes will be effectively subordinated to all secured debt of the Company and the Guarantors, structurally subordinated to the debt of the Company s Non Guarantor Subsidiaries and effectively subordinated to the other senior debt of the Company that has the benefit of certain provisions and covenants not applicable to the notes.

The Company will issue the Notes in fully registered form in denominations of $2,000 and integral multiples thereof. The Trustee will initially act as Paying Agent and Registrar for the Notes. The Notes may be presented for registration of transfer and exchange at the offices of the Registrar. The Company may change the Paying Agent and Registrar without notice to holders of the Notes (the Holders). It is expected that the Company will pay principal and interest (and premium, if any) on the Notes at the Trustee s corporate office by check mailed to the registered address of Holders.

Principal, Maturity and Interest

The Notes will mature on , 2016. $400 million in aggregate principal amount of the Notes will be issued in this offering. After the Issue Date, additional notes (Additional Notes) may be issued from time to time. The Notes and the Additional Notes of the same series that are actually issued will be treated as a single class for all purposes under the Indenture, including, without limitation, as to waivers, amendments, redemptions and offers to purchase. Unless the context otherwise requires, for all purposes of the Supplemental Indenture, the Indenture and this Description of the Notes, references to the Notes include any Additional Notes actually issued.

Interest on the Notes will accrue at the rate of % per annum and will be payable semiannually in cash on each and , commencing on , 2006, to the persons who are registered Holders at the close of business on the and 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.

Guarantees

The Notes will be guaranteed by Xerox International Joint Marketing Inc., one of our subsidiaries, that also guarantees our Existing Senior Notes. As of the date of this prospectus supplement the Existing Senior Notes are guaranteed only by Xerox International Joint Marketing, Inc. See Certain Definitions, Guarantor and the description of the Guarantor set forth below under Covenants Subsidiary Guarantee. The Guarante is an unsecured senior obligation of the Guarantor, is effectively subordinated in right of payment to all existing and

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future secured debt of the Guarantor, is equal in right of payment with all existing and future unsecured senior debt of the Guarantor, and is senior in right of payment to all existing and future subordinated debt of the Guarantor.

As of December 31, 2005, on a *pro forma* basis giving effect to this offering and the application of the net proceeds therefrom, the Company would have had total debt of approximately $3.9 billion, of which approximately $308 million was secured debt solely of the Company and the Guarantor. The Indenture permits us and the Guarantor to incur additional secured debt, subject to certain conditions.

Only one of our subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of the Non-Guarantor Subsidiaries, holders of their debt and their trade creditors will generally be entitled to payment of their claims from the assets of those Subsidiaries before any assets are made available for distribution to us.

Upon effectiveness of the 2006 Credit Facility, we expect that Xerox International Joint Marketing, Inc. will no longer be required, and will cease, to guarantee the Notes.

Optional Redemption

The Company may at any time and from time to time, at its option, redeem the Notes that are outstanding (in whole or in part) at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, on the Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a Note Redemption). The Company shall give not less than 30 nor more than 60 days notice to 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 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.

Change of Control

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 $2,000 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.

Within 30 days following the date upon which the Change of Control occurred, the Company must send, or cause the Trustee to send, by first class mail, a notice to each Holder, with a copy to the Trustee, which notice shall govern the terms of the Change of Control Offer. Such notice shall state, among other things, the purchase date, which must be no earlier than 30 days nor later than 45 days from the date such notice is mailed, other than as may be required by law (the Change of Control Payment Date). Holders electing to have a Note purchased pursuant to a Change of Control Offer will be required to surrender the Note, with the form entitled Option of Holder to Elect Purchase on the reverse of the Note completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third business day prior to the Change of Control Payment Date.

The Company will not be 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 set forth in the Indenture 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.

If a Change of Control Offer is made, there can be no assurance that the Company will have available funds sufficient to pay the Change of Control purchase price for all the Notes that might be delivered by Holders

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seeking to accept the Change of Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, there can be no assurance that the Company would be able to obtain such financing. In addition, there can be no assurance that the Company will be able to obtain the consents necessary to consummate a Change of Control Offer from the lenders under agreements governing outstanding Indebtedness which may in the future prohibit the offer.

Neither the Board of Directors of the Company nor the Trustee may waive the covenant relating to a Holder s right to redemption upon a Change of Control. Restrictions in the Indenture described herein on the ability of the Company and its Restricted Subsidiaries to grant Liens on its property and to merge, consolidate or sell all or substantially all of its assets may also make more difficult or discourage a takeover of the Company, whether favored or opposed by the management of the Company. There can be no assurance that the Company or the acquiring party will have sufficient financial resources to effect a Change of Control Offer. Such restrictions may, in certain circumstances, make more difficult or discourage any leveraged buyout of the Company or any of its Subsidiaries by the management of the Company. While such restrictions cover a wide variety of arrangements which have traditionally been used to effect highly leveraged transactions, the Indenture may not afford the Holders protection in all circumstances from the adverse aspects of a highly leveraged transaction, reorganization, restructuring, merger or similar transaction.

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 the Change of Control provisions of the Indenture, the Company shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations under the Change of Control provisions of the Indenture by virtue thereof.

The 2003 Credit Facility provides, and we expect that the 2006 Credit Facility will provide, that the occurrence of certain change of control events with respect to Xerox would constitute a default thereunder. In the event a Change of Control occurs at a time when we are prohibited from purchasing Notes, we may seek the consent of our lenders to the purchase of Notes or may attempt to refinance the borrowings that contain such prohibition. If we do not obtain such a consent or repay such borrowings, we will remain prohibited from purchasing Notes. In such case, our failure to offer to purchase Notes would constitute a Default under the Indenture, which would, in turn, constitute a default under the 2006 Credit Facility.

The provisions under the Indenture relative to our obligation to make an offer to repurchase the Notes as a result of a Change in Control may be waived or modified with the written consent of the holders of a majority in principal amount of the Notes.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Company is not required to make any mandatory redemption or sinking fund payments or any offers to purchase with respect to the Notes. We may at any time and from time to time purchase Notes in the open market or otherwise.

Covenants

Set forth below are summaries of certain covenants contained in the Indenture.

Limitation on Liens. 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 Indebtedness if upon creation of such Lien or arrangement and after giving effect thereto, the aggregate principal amount of Indebtedness secured by Liens would not exceed the greater of (i) $2.0 billion and (ii) 20% of the Consolidated Net Worth of the Company; and *provided*, *further*, that the foregoing restrictions or limitations 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

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(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.

In addition, if after January 17, 2002, 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, for so long as such Capital Markets Debt of the Company is secured by such Lien (and *provided* that any Lien created for the benefit of the Holders of the Notes pursuant to this sentence shall be automatically and unconditionally released and discharged upon the release and discharge of the Lien that resulted in the imposition of the Lien hereunder):

(1) in the case of a Lien securing Subordinated Indebtedness, the Notes shall be 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 shall be equally and ratably secured by a Lien on the same property as such Lien.

Merger, Consolidation and Sale of Assets. 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 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 and the Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction and the assumption contemplated by clause (1)(b)(y) above, no Default or Event of Default shall have occurred or be continuing; and

(3) 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 the Indenture and that all conditions precedent in the Indenture relating to such transaction have been satisfied.

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 the properties or assets of one or more Restricted Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all the properties and assets of the Company, shall be deemed to be the transfer of all or substantially all the properties and assets of the Company.

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The Indenture will provide that upon any consolidation, combination or merger or any transfer of all or substantially all the assets of the Company in accordance with the foregoing, in which the Company is not the continuing corporation, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture and the Notes with the same effect as if such surviving entity had been named as such.

Notwithstanding the foregoing, the Company need not comply with clause (2) of the first paragraph of this covenant 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.

Subsidiary Guarantees. If on or after January 17, 2002, any of the Existing Senior Notes of the Company are or become guaranteed by any Restricted Subsidiary of the Company, then, if such Restricted Subsidiary is not already a Guarantor, the Company shall cause such Restricted Subsidiary that is guaranteeing such Existing Senior Notes to execute and deliver to the Trustee a supplemental indenture in form reasonably satisfactory to the Trustee pursuant to which such Restricted Subsidiary shall fully and unconditionally guarantee all the Company s obligations under the Notes and the Indenture on the terms set forth in the Indenture.

Any Guarantee executed pursuant to the immediately preceding paragraph (including any guarantee of the notes issued as of the Issue Date) shall provide by its terms that such Guarantee shall be automatically and unconditionally released upon the release of the guarantee that resulted in such paragraph becoming applicable (other than by reason of payment under such guarantee) so long as such Restricted Subsidiary is not at such time guaranteeing any Existing Senior Notes of the Company and no Default or Event of Default is then continuing. In addition, any Guarantee executed pursuant of the immediately preceding paragraph 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 the provisions of the Notes 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 the 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 Existing Senior Notes of the Company.

Notwithstanding 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 Trustee a supplemental indenture in a form reasonably satisfactory to the Trustee in respect of such Guarantee.

Events of Default

The following events are defined in the Indenture as Events of Default with respect to a series of Notes:

(1) the failure to pay interest on Notes of such series 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 Notes of such series, when such principal becomes due and payable, at maturity, upon redemption or otherwise (including the failure to make a payment to purchase Notes tendered pursuant to a Change of Control Offer);

(3) a default in the observance or performance of any other covenant or agreement contained in the Indenture which default relates to the Notes and continues for a period of 90 days after the Company

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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 of such series (except in the case of a default with respect to the Merger, Consolidation and Sale of Assets covenant, which will constitute an Event of Default with such notice requirement but without such passage of time requirement);

(4) any Guarantee of any Guarantor ceases to be in full force and effect (other than in accordance with the terms of such Guarantee and Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Guarantee (other than by reason of release of a Guarantor from its Guarantee in accordance with the terms of the Indenture and such Guarantee); or

(5) certain events of bankruptcy affecting the Company or any of its Significant Subsidiaries.

If an Event of Default (other than an Event of Default specified in clause (5) 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 of the affected series under the Indenture may declare the principal of and accrued interest on all the Notes of such series under the 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 clause (5) above 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.

The Indenture will provide that, at any time after a declaration of acceleration with respect to a series of Notes as described in the preceding paragraph, the Holders of a majority in principal amount of Notes of such series under the 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.

The Holders of a majority in principal amount of the Notes of the affected series under the Indenture may waive any existing Default or Event of Default under such series, and its consequences, except a default in the payment of the principal of or interest on any Notes of such series.

Holders of the Notes may not enforce the Indenture or the Notes except as provided in the Indenture and under the TIA. Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee is under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the Holders, unless such Holders have offered to the Trustee reasonable indemnity. Subject to all provisions of the Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then outstanding Notes of any affected series 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.

Under the Indenture, the Company is required to provide an officers certificate to the Trustee promptly upon any such officer obtaining knowledge of any Default or Event of Default (*provided* that such officers shall provide such certification at least annually whether or not they know of any Default or Event of Default) that has occurred and, if applicable, describe such Default or Event of Default and the status thereof.

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Legal Defeasance and Covenant Defeasance

The Company may, at its option and at any time, elect to have its and the Guarantors obligations discharged with respect to any series of 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 such series of outstanding Notes, except for:

(1) the rights of Holders of such series to receive payments in respect of the principal of, premium, if any, and interest on such series of Notes when such payments are due from the trust fund referred to below;

(2) the Company s obligations with respect to such series of Notes concerning issuing temporary Notes, issuing Notes to replace mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments;

(3) the rights, powers, trust, duties and immunities of the Trustee and the Company s obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Company may, at its option and at any time, elect to have the obligations of the Company released with respect to certain covenants (other than, among others, the covenant to make payments in respect of the principal of, premium, if any, and interest on the Notes) that are described in the Indenture (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, certain events (not including nonpayment, bankruptcy, receivership, reorganization and insolvency events) described under Events of Default 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.

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 the applicable series 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 applicable Notes on the stated date for payment thereof or on the applicable 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 the 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 applicable 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 applicable 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;

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(5) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under the 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; and

(8) certain other customary conditions precedent are satisfied.

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.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to surviving rights of transfer or exchange of the applicable Notes, as expressly provided for in the Indenture) as to all outstanding Notes under the Indenture when:

(1) either:

(a) all the Notes theretofore authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore 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 Trustee for cancellation; or

(b) all Notes not theretofore delivered to the 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 Trustee cash or 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 theretofore delivered to the 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 Trustee to apply such funds to the payment thereof at maturity or redemption, as the case may be;

(2) the Company has paid all other sums payable under the 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 the Indenture relating to the satisfaction and discharge of the Indenture have been complied with.

Modification of the Indenture

From time to time, the Company, the Guarantors and the Trustee, without the consent of the Holders, may amend the Indenture for certain specified purposes, including curing ambiguities, defects or inconsistencies, complying with the covenant described under Covenants Merger, Consolidation and Sale of Assets, complying with any requirement of the Commission in connection with qualifying, or maintaining the qualification of, the Indenture under the TIA and making any change that does not adversely affect the rights of

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any Holder of the Notes in any material respect. Other modifications and amendments of the Indenture as it applies to a series of Notes may be made with the consent of the Holders of a majority in principal amount of the then outstanding Notes of such series, except that, without the consent of each Holder affected thereby, no amendment may:

(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 the 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 Event of Default;

(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 provision, 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 in the Indenture 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;

(7) release any Guarantor from its Guarantee except as provided in the Indenture or in such Guarantee; or

(8) modify or change any provision of the Indenture or the related definitions affecting the ranking of the Notes in a manner which adversely affects the Holders.

Governing Law

The Indenture will provide that it, the Notes and Guarantees will be governed by, and construed in accordance with, the laws 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 Trustee

The Indenture will provide that, except during the continuance of an Event of Default, the Trustee will perform only such duties as are specifically set forth in the Indenture. During the existence of an Event of Default, the Trustee will exercise such rights and powers vested in them by the Indenture, 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.

The Indenture and the provisions of the TIA contain certain limitations on the rights of the Trustee, should any Trustee become a creditor of the Company, to obtain payments of claims in certain cases or to realize on certain property received in respect of any such claim as security or otherwise. Subject to the TIA, the Trustee will be permitted to engage in other transactions; *provided* that if the Trustee acquire any conflicting interest as described in the TIA, they must eliminate such conflict or resign.

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Certain Definitions

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms, as well as any other terms used herein for which no definition is provided.

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.

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.

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.

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.

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For purposes of this Change of Control definition:

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;

a beneficial owner will be determined in accordance with Rule 13d-3 under the Exchange Act, as in effect on the date of the Indenture; and

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.

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 January 17, 2002 or issued thereafter, and includes, without limitation, all series and classes of such common stock.

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.

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.

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.

Exchange Act means the Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

Existing Senior Notes means the Company s 9 3/4 Senior Notes due 2009, 7 1/8% Senior Notes due 2010, 7 5/8% Senior Notes due 2013 and 6 7/8% Senior Notes due 2011 outstanding on the Issue Date.

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.

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.

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Guarantee means any guarantee of the Notes by a Guarantor.

Guarantor means (i) Xerox International Joint Marketing, Inc., and (ii) 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 the 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 the Indenture.

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 such Person or any Restricted Subsidiary of such Person with the amount of Indebtedness represented by such Disqualified Capital Stock or 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 Preferred Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Capital Stock or Preferred Stock as if such Disqualified Capital Stock or Preferred Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to the Indenture, and if such price is based upon, or measured by, the fair market value of such Disqualified Capital Stock or 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 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.

Issue Date means March , 2006, the date of original issuance of the Notes.

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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 %, over (b) the outstanding principal amount of such Note.

Non-Guarantor Subsidiary means any Subsidiary of the Company that is not a Guarantor.

Person means an individual, partnership, corporation, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

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.

Qualified Capital Stock means any Capital Stock that is not Disqualified Capital Stock.

Restricted Subsidiary of any Person means any Subsidiary of such Person which at the time of determination is not an Unrestricted Subsidiary.

Securities Act means the Securities Act of 1933, as amended, or any successor statute or statutes thereto.

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 Subsidiary 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.

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.

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 2016; *provided*, *however*, that if the period from the Specified Redemption Date to 2016, as the case may be, 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 2016 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.

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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 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 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.

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.

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CERTAIN OTHER INDEBTEDNESS AND PREFERRED STOCK

2006 Credit Facility

We have received a commitment letter from affiliates of Citigroup Global Markets Inc. and JPMorgan Chase Bank, N.A. pursuant to which they have committed to provide in the aggregate $400 million of an anticipated five-year $1.25 billion unsecured revolving credit facility (the 2006 Credit Facility) and to use commercially reasonable efforts to syndicate the balance of the facility. The commitment is subject to the satisfaction of certain conditions, including the receipt of commitments from other lenders for the balance of the facility (which condition has been satisfied), the execution and delivery of definitive documentation and the satisfaction of customary closing conditions. Accordingly, there can be no assurance that the transactions proposed by the commitment letter will be consummated. If the 2006 Credit Facility is consummated, it is expected that it will replace our existing $1.0 billion 2003 secured credit facility.

We anticipate that the obligations under the 2006 Credit Facility would not be guaranteed by any of our subsidiaries. If, in the future, any domestic subsidiary guarantees any senior debt for money borrowed by Xerox Corporation of more than $100 million, that subsidiary would also guarantee Xerox s borrowings under the 2006 Credit Facility. We also anticipate that Xerox would guarantee the obligations of any subsidiary borrowing under the 2006 Credit Facility.

We expect that the 2006 Credit Facility will contain such affirmative, negative and financial maintenance covenants and events of default as would be customary for an investment grade facility.

2003 Credit Facility

The 2003 Credit Facility consists of a term loan tranche totaling $300 million and a $700 million revolving credit facility that includes a $200 million letter of credit subfacility. Xerox is the only borrower of the term loan. The revolving facility is available, without sub-limit, to Xerox and certain foreign subsidiaries of Xerox, including Xerox Canada Capital Limited (XCCL), Xerox Capital (Europe) plc (XCE) and other qualified foreign subsidiaries (excluding Xerox, the Overseas Borrowers). The 2003 Credit Facility matures on September 30, 2008.

Subject to certain limits described in the following paragraph, the obligations under the 2003 Credit Facility are secured by liens on substantially all the assets of Xerox and each of our U.S. subsidiaries with a consolidated net worth from time to time of $100 million or more (excluding Xerox Credit Corporation (XCC) and certain other finance subsidiaries), and are guaranteed by such subsidiaries and XCC. Xerox guarantees the obligations of the Overseas Borrowers.

Under the terms of certain of our outstanding public bond indentures, the amount of obligations under the 2003 Credit Facility that can be (1) secured by assets (the Restricted Assets) of (a) Xerox and (b) our non-financing subsidiaries that have a consolidated net worth of at least $100 million, without (2) triggering a requirement to also secure those indentures, is limited to the excess of (x) 20% of our consolidated net worth (as defined in the public bond indentures) over (y) the outstanding amount of certain other debt that is secured by the Restricted Assets. Accordingly, the amount of 2003 Credit Facility debt secured by the Restricted Assets will vary from time to time with changes in our consolidated net worth. The amount of security provided under this formula accrues to the benefit of both the term loans and revolving loans under the 2003 Credit Facility, ratably. At December 31, 2005, the 2003 Credit Facility was fully secured.

Under the 2003 Credit Facility, the term loan and the revolving loan each bear interest at LIBOR plus a spread that varies between 1.75% and 3.0% depending on the then-current leverage ratio under the 2003 Credit Facility.

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The 2003 Credit Facility contains affirmative and negative covenants, as well as financial maintenance covenants. Certain of the more significant covenants under the 2003 Credit Facility are summarized below (this summary is not complete and is in all respects subject to the actual provisions of the 2003 Credit Facility):

(a) Limitations on the following apply at all times under the 2003 Credit Facility:

Minimum consolidated net worth of not less than $3.0 billion; for this purpose, consolidated net worth generally means the sum of the amounts included on our Statement of Common Shareholders Equity as Common shareholders equity, and in our balance sheet as Preferred stock, and, so long as the same is not treated as indebtedness, Company-obligated, mandatorily redeemable preferred securities of subsidiary trusts holding solely subordinated debentures of the Company, except that the currency translation adjustment effects and the effects of compliance with SFAS No. 133 occurring after January 1, 2003 are disregarded, and the preferred securities (whether or not convertible) issued by us or by our subsidiaries which are outstanding on the effective date of the 2003 Credit Facility, and any security that causes an increase in consolidated net worth under (and as defined in) our public bond indentures, will always be included, and any capital stock or similar equity interest issued after the effective date of the 2003 Credit Facility which matures or generally becomes mandatorily redeemable for cash or puttable at holders option prior to April 1, 2009 will always be excluded;

Maximum leverage ratio (a quarterly test that is calculated as total adjusted debt divided by EBITDA) ranging from 2.0 to 3.1; and

Creation and existence of liens, and certain fundamental changes to corporate structure and nature of business, including mergers.

(b) Limitations on the following will apply only until such time that Xerox s senior unsecured debt is rated at least BBB- by S&P and Baa3 by Moody s (the Ratings Condition), and thereafter do not apply:

Minimum EBITDA (a quarterly test that is based on rolling four quarters) ranging from $1.1 to $1.3 billion; for this purpose, EBITDA (earnings before interest, taxes, depreciation, amortization as well as certain non-recurring items, as defined) generally means EBITDA, excluding interest and financing income to the extent included in EBITDA as consolidated net income; and

Maximum capital expenditures (annual test) of $405 million during fiscal year 2003, and thereafter an amount per fiscal year equal to $330 million plus any unused amount carried over from any prior fiscal year; additional capital expenditures can be made utilizing certain amounts that are otherwise available to make restricted payments and investments; for this purpose, capital expenditures generally means the amounts included on our statement of cash flows as additions to land, buildings and equipment, plus any capital lease obligations incurred.

(c) Limitations on the following will not apply at any time that the Ratings Condition is satisfied, and will be reinstated at any time that the Ratings Condition is not satisfied:

Issuance of debt and preferred stock; asset transfers; hedging transactions other than in those in the ordinary course of business; certain types of restricted payments relating to our, or our subsidiaries , equity interests, including (subject to certain exceptions) payment of cash dividends on our common stock; certain transactions with affiliates, including intercompany loans and asset transfers and acquisitions.

(d) Limitations on investments shall apply only at such times that Xerox s senior unsecured debt is rated less than BB by S&P and Ba2 by Moody s.

The 2003 Credit Facility generally does not affect our ability to continue to monetize receivables under the agreements with GECC and others. Subject to certain exceptions, we cannot pay cash dividends on our common stock during the term of the 2003 Credit Facility, although we can pay cash dividends on our preferred stock provided there is then no event of default under the 2003 Credit Facility. In addition to other defaults customary for facilities of this type, defaults on other debt, or bankruptcy, of Xerox, or certain of our subsidiaries, and a change in control of Xerox, would constitute events of default under the 2003 Credit Facility.

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At December 31, 2005, we were in compliance with the 2003 Credit Facility. Failure to be in compliance with any material provision or covenant of the 2003 Credit Facility following its effectiveness could have a material adverse effect on our liquidity and operations.

It is expected that the 2003 Credit Facility will be terminated upon consummation of the 2006 Credit Facility.

Long-Term Debt

A summary of scheduled maturities and interest rates of our long-term debt, including our 2003 Credit Facility and convertible debt, as of December 31, 2005 was as follows:

	Weighted Average Interest Rates at December 31, 2005	Principal Amount Outstanding at December 31, 2005	Principal Amount Payable in 2006	Principal Amount Payable in 2007	Principal Amount Payable in 2008	Principal Amount Payable in 2009	Thereafter
Xerox Corporation	7.84%	$ 3,209	$	$	$ 27	$ 880	$ 2,302
Xerox Credit Corporation	4.10%	465		255			210
Secured borrowings	4.88%	1,921	871	678	222	82	68
Subtotal US Operations		5,595	871	933	249	962	2,580
International operations	5.86%	62	38	8	8	6	2
International secured borrowings due 2006-2010	5.03%	1,281	190	641	421	21	8
Subtotal international operations		1,343	228	649	429	27	10
2003 Credit Facility	6.22%	300			300		
Sub-Total		$ 7,238	$ 1,099	$ 1,582	$ 978	$ 989	$ 2,590
Less: Current maturities		(1,099)					
Total Long-term debt		$ 6,139					

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.

Liabilities to Subsidiary Trusts Issuing Preferred Securities

In 1997, Xerox Capital Trust I (Trust I) issued 650,000 of 8.0% preferred securities (the Preferred Securities) to investors for $644 million ($650 million liquidation value) and 20,103 shares of common securities to us for $20 million. With the proceeds from these securities, Trust I purchased $670 million principal amount of 8.0% Junior Subordinated Debentures due 2027 of the Company (the Debentures). The Debentures represent all of the assets of Trust I. On a consolidated basis, we received net proceeds of $637 million which was net of fees and discounts of $13 million. Interest expense, together with the amortization of debt issuance costs and discounts, amounted to $54 million, $54 million and $52 million in 2005, 2004 and 2003, respectively. We have guaranteed (the Trust Guarantee), on a subordinated basis, distributions and other payments due on the Preferred Securities. The Trust Guarantee and our obligations under the Debentures and in the indenture pursuant to which the debentures were issued and our obligations under the Amended and Restated Declaration of Trust governing the trust, taken together, provide a full and unconditional guarantee of amounts due on the Preferred Securities. The Preferred Securities accrue and pay cash distributions semiannually at a rate of 8% per year of the stated liquidation amount of one thousand dollars per Preferred Security. The Preferred Securities are

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mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by us of any Debentures. The redemption price in either such case will be one thousand dollars per share plus accrued and unpaid distributions to the date fixed for redemption.

In 1996, Xerox Capital LLC, issued 2 million deferred preferred shares to investors and all of its common shares to us. The total proceeds were loaned to us. On February 28, 2006, we redeemed these preferred shares pursuant to their terms.

Convertible Preferred Stock

On June 25, 2003, we issued 9,200,000 shares of Series C Mandatory Convertible Preferred Stock (the Series C Stock). The annual dividend rate is $6.25 per share of Series C Stock payable quarterly on the first business day of each January, April, July and October. The liquidation preference is $100.00 per share of Series C. Stock. The Series C Stock is non-voting except as required by applicable state law and under certain other limited circumstances. The Series C Stock ranks senior in right of payment to all of our Common Stock, par value $1.00 per share (the Common Stock) and Class B common stock, now outstanding or to be issued in the future, and *pari passu* with all cumulative preferred stock, now outstanding or to be issued in the future.

On July 1, 2006, the Series C Stock will automatically convert into shares of our Common Stock. The conversion rate for each share of Series C Stock will be not more than 9.7561 shares and not less than 8.1301 shares of our Common Stock, depending on the 20-day average market price of our Common Stock, which is the arithmetic average of the daily volume-weighted average price of our Common Stock on each of the 20 consecutive trading days ending on the third trading day immediately preceding the applicable conversion date. The conversion rate is subject to anti-dilution adjustments. At any time prior to July 1, 2006, the holders of Series C Stock may elect to convert their Series C Stock into Common Stock at the conversion rate of 8.1301 shares of Common Stock. This conversion rate is also subject to anti-dilution adjustments. We also have the right at any time prior to July 1, 2006 to elect to cause all, but not less than all, of the Series C Stock to be converted into Common Stock at the conversion rate of 8.1301 shares of Common Stock if the price per share of our Common Stock exceeds $18.45 for at least 20 trading days within a period of 30 consecutive trading days. This conversion rate is subject to anti-dilution adjustments.

Description of Outstanding 2002 Senior Notes

On January 17, 2002, we issued $600 million aggregate principal amount of Senior Notes due 2009 (the 2002 Dollar Notes) under an indenture (the Dollar Indenture), between Xerox and Wells Fargo Bank National Association (as successor by merger with Wells Fargo Bank Minnesota, National Association), as trustee. Interest on the 2002 Dollar Notes is payable semiannually at a rate of 9 3/4% per annum. On January 17, 2002, we issued 225 million aggregate principal amount of Senior Notes due 2009 (the 2002 Euro Notes and, together with the 2002 Dollar Notes, the 2002 Senior Notes) under an indenture (the 2002 Euro Indenture and, together with the 2002 Dollar Indenture, the 2002 Indentures), between Xerox and Wells Fargo Bank National Association (as successor by merger with Wells Fargo Bank Minnesota, National Association), as trustee. Interest on the 2002 Euro Notes is payable semiannually at a rate of 9 3/4% per annum. The 2002 Senior Notes will mature on January 15, 2009.

The 2002 Senior Notes are senior unsecured obligations of Xerox, ranking *pari passu* in right of payment with all other senior unsecured obligations of the Company. The 2002 Senior Notes are effectively subordinated to all secured debt of Xerox and structurally subordinated to the debt of non-guarantor subsidiaries.

The 2002 Senior Notes have been fully and unconditionally guaranteed on an unsecured senior basis by Xerox International Joint Marketing, Inc., a restricted subsidiary of the Company. If Xerox fails to make payments on the 2002 Senior Notes, the guarantor must make them instead. The 2002 Senior Notes are not entitled to the benefit of any mandatory sinking fund. If the 2006 Credit Facility is consummated, the guarantor will no longer be required, and will cease, to guarantee the 2002 Senior Notes.

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Xerox may, at any time and from time to time, at its option, redeem each series of the outstanding 2002 Senior Notes (in whole or in part) at a redemption price equal to 95.167% of the principal amount thereof, plus original issue discount on such 2002 Senior Notes accrued pursuant to Section 1272 of the Internal Revenue Code of 1986, as amended, to the applicable redemption date, plus accrued and unpaid interest, if any, on the 2002 Senior Notes to the applicable redemption date, plus the applicable Make-Whole Premium (as defined in the 2002 Indentures); *provided* that in the case of any such redemption in part, at least 50% of the original principal amount of the applicable series of 2002 Senior Notes remains outstanding after giving effect to such redemption. If Xerox undergoes a change in control, we will be required to offer to purchase all of the 2002 Senior Notes for the holders.

Description of Outstanding 2003 Senior Notes

On June 25, 2003, we issued $700 million aggregate amount of 7 1/8% Senior Notes due 2010 (the Seven-Year Notes) and $550 million aggregate principal amount of 7 5/8% Senior Notes due 2013 (the Ten-Year Notes and together with the Seven-Year, the 2003 Senior Notes) under an Indenture dated as of June 25, 2003, between Xerox and Wells Fargo Bank, National Association (as successor by merger to Wells Fargo Bank Minnesota, National Association), as Trustee as modified by a First Supplemental Indenture dated as of June 25, 2003 (as so amended, the 2003 Indenture). Interest on the Seven-Year Notes is payable semiannually at a rate of 7 1/8% and the Seven-Year Notes mature on June 15, 2010. Interest on the Ten-Year Notes is payable semiannually at a rate of 7 5/8% and the Ten-Year Notes mature on June 15, 2013.

The 2003 Senior Notes are senior unsecured obligations of Xerox, ranking *pari passu* in right of payment with all other senior unsecured obligations of the Company. The 2003 Senior Notes are effectively subordinated to all secured debt of Xerox and structurally subordinated to the debt of non-guarantor subsidiaries.

The 2003 Senior Notes have been fully and unconditionally guaranteed on an unsecured basis by Xerox International Joint Marketing, Inc., a restricted subsidiary of the Company. If Xerox fails to make any payment of the 2003 Senior Notes, the guarantor must make them instead. If the 2006 Credit Facility is consummated, the guarantor will no longer be required, and will cease, to guarantee the 2003 Senior Notes.

The 2003 Senior Notes are not entitled to the benefit of any mandatory sinking fund.

Xerox may, at any time and from time to time, at its option, redeem the outstanding Seven-Year Notes at a price of 100% of the principal amount plus accrued and unpaid interest, if any, on the Seven-Year Notes to the applicable redemption date, plus a Make-Whole Premium (as defined in the 2003 Indenture). Xerox may, at any time and from time to time prior to June 15, 2008, at its option, redeem the outstanding Ten-Year Notes at a price of 100% of the principal amount plus accrued and unpaid interest, if any, on the Ten-Year Notes to the applicable redemption date, plus a Make-Whole Premium (as defined in the 2003 Indenture). Xerox may, at any time and from time to time on or after June 15, 2008, at its option, redeem the outstanding Ten-Year Notes at a price ranging from 103.813% to 100.000% of the principal amount (depending on the date of redemption) plus accrued and unpaid interest, if any, on the Ten-Year Notes to the applicable redemption date, plus a Make-Whole Premium (as defined in the 2003 Indenture). If Xerox undergoes a change in control, we will be required to offer to purchase all of the 2003 Senior Notes from the holders.

Description of Outstanding 2004 Senior Notes

On August 10, 2004, we issued $500 million aggregate amount of 6 7/8% Senior Notes due 2011 and on September 23, 2004, we issued an additional $250 million aggregate principal amount of 6 7/8% Senior Notes due 2011 (the 2004 Senior Notes , and together with the 2002 Notes and the 2003 Notes, the HY Senior Notes) under the Indenture dated as of June 25, 2003, between Xerox and Wells Fargo Bank, National Association (as successor by merger to Wells Fargo Bank Minnesota, National Association), as Trustee as modified by a supplemental indenture dated as of August 10, 2004 (as amended, the 2004 Indenture and together with the 2002 Notes and the 2003 Notes, the HY Senior Indenture). Interest on the 2004 Senior Notes is payable semiannually at a rate of 6 7/8% and the 2004 Senior Notes mature on August 15, 2011.

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The 2004 Senior Notes are senior obligations of Xerox, ranking *pari passu* in right of payment with all other senior unsecured obligations of the Company. The 2004 Senior Notes are effectively subordinated to all secured debt of Xerox and structurally subordinated to the debt of non-guarantor subsidiaries.

The 2004 Senior Notes have been fully and unconditionally guaranteed on an unsecured basis by Xerox International Joint Marketing, Inc., a restricted subsidiary of the Company. If Xerox fails to make any payment of the 2004 Senior Notes, the guarantor must make them instead. If the 2006 Credit Facility is consummated, the guarantor will no longer be required, and will cease, to guarantee the 2004 Senior Notes.

The 2004 Senior Notes are not entitled to the benefit of any mandatory sinking fund.

Xerox may, at any time and from time to time, at its option, redeem the outstanding 2004 Senior Notes at a price of 100% of the principal amount plus accrued and unpaid interest, if any, to the applicable redemption date, plus a Make-Whole Premium (as defined in the 2004 Indenture). Xerox may also, at any time and from time to time before August 15, 2007 redeem up to 35% of the outstanding 2004 Senior Notes with money that we raise in one or more public equity offerings as long as: (i) we pay 106.875% of the face amount of the 2004 Senior Notes redeemed plus accrued and unpaid interest, (ii) we redeem the 2004 Senior Notes within 90 days of completing the equity offering and (iii) at least 65% of the aggregate principal amount of the 2004 Senior Notes remains outstanding following any such redemption. If Xerox undergoes a change in control, we will be required to offer to purchase all of the 2004 Senior Notes from the holders.

Provisions Applicable to HY Senior Notes

Set forth below are summaries of certain covenants contained in the Indentures that apply to the HY Senior Notes. For a complete description of these provisions, you should review the indentures applicable to those notes which are filed as exhibits to our annual report on Form 10-K for the year ended December 31, 2005. The Notes offered by this prospectus supplement do not have the benefit of these provisions. As a result, holders of previously issued senior notes would have the right to accelerate the maturities of those notes if any of these provisions are violated and holders of the notes offered by this prospectus supplement would have no such right. In addition to the provisions described below, previously issued senior notes have the benefit of the covenants applicable to the notes offered by this prospectus supplement which are described under Description of the Notes Covenants .

HY Senior Notes have the benefit of the following covenants contained in the indentures under which they were issued except during any period during which the HY Senior Notes have an investment grade rating:

Limitation on Incurrence of Additional Indebtedness.

Limitation on Restricted Payments.

Limitation on Asset Sales.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries.

Limitations on Transactions with Affiliates.

Requirement of Subsidiary Guarantees.

Description of Senior Secured Loan Agreement with GECC

In October 2002, Xerox Lease Funding LLC, a special purpose Delaware limited liability company that is our wholly-owned subsidiary (Funding SPE) entered into an Amended and Restated Loan Agreement (the Loan Agreement) with General Electric Capital Corporation (GECC) whereby GECC became our primary equipment financing provider in the U.S. through loans secured by new lease originations. The Loan Agreement has an initial term of eight years and, commencing at the end of 2010, will automatically renew for successive two-year periods unless either we or GECC has elected not to have the Loan Agreement renew at least one year before a renewal would otherwise occur.

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The Loan Agreement provides for secured loans of up to $5 billion outstanding at any one time. GECC makes loans under the Loan Agreement to Funding SPE. Funding SPE uses the loan proceeds to purchase our finance receivables. The maximum potential level of borrowing under the Loan Agreement is a function of the size of the portfolio of finance receivables generated by us that meet GECC s funding requirements and cannot exceed $5 billion in any event. All obligations under the Loan Agreement are secured by the receivables being financed by GECC, the contracts relating to the receivables being financed by GECC and other related security. GECC s obligation to make loans under the Loan Agreement is subject to the satisfaction of certain customary representations, warranties and covenants.

The interest rate on each loan is fixed and is calculated when the loan is made based on yield rates consistent with average rates for similar market-based transactions. Consistent with the loans already received from GECC, the amounts borrowed under the Loan Agreement are recorded as secured borrowings and the associated receivables are included in our balance sheet. As of December 31, 2005, $1.701 billion was outstanding under the Loan Agreement.

GECC s commitment to fund under the Loan Agreement is not contingent on us achieving or maintaining any particular credit rating. There are no credit rating defaults that could impair future funding under the Loan Agreement. The Loan Agreement contains various default provisions, including cross default provisions related to certain financial covenants contained in the 2003 Credit Facility and other significant debt facilities, which are discussed below, and which we expect to be contained in our 2006 Credit Facility. Most types of defaults would impair our ability to receive subsequent funding until the default is cured or waived but would not accelerate the repayment of our outstanding borrowings. However, certain types of defaults would result in an acceleration of outstanding borrowings. As of December 31, 2005, we were in compliance with all covenants under the Loan Agreement and expect to be in compliance for at least the next twelve months.

The following are events of default under the Loan Agreement:

the occurrence of a Termination Event (defined below);

a voluntary or involuntary bankruptcy of Xerox (remaining undismissed or unstayed for 60 days or more); or

Xerox becomes an Investment Company within the meaning of the Investment Company Act of 1940.

Upon the occurrence of an event of default described in (b) or (c) above, GECC can terminate its obligation to make any further loans and can accelerate the maturity of any or all then-outstanding loans. Upon the occurrence of a Termination Event, GECC can terminate its obligation to make any further loans, but is not entitled to accelerate the maturity of outstanding loans. The loans under the Loan Agreement are generally non-recourse to Xerox. Therefore, even if GECC were to accelerate the maturity of outstanding loans, its only recourse would be to proceed against the financed receivables held by Funding SPE who is the borrower under the Loan Agreement.

The term Termination Event includes, but is not limited to, the following events that would allow GECC to terminate the Loan Agreement:

any default under the 2003 Credit Facility or any facility in excess of $75 million which replaces or refinances the 2003 Credit Facility (including the 2006 Credit Facility), at any time that loans or advances are outstanding thereunder, where the default or event of default relates to or is determined by the net worth of Xerox, including without limitation, a default under Section 6.03 (Leverage Ratio), Section 6.04 (Consolidated Net Worth), Section 6.13 (Capital Expenditures) or Section 6.14 (Minimum Consolidated

EBITDA) of the 2003 Credit Facility (and defaults under financial covenants we expect to be contained in our 2006 Credit Facility);

any default or event of default under any indebtedness of Xerox (or any subsidiary of Xerox) for borrowed money (or any indebtedness for borrowed money guaranteed by Xerox or any subsidiary of

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Xerox) in excess of $75 million in the aggregate if such default or event of default gives rise to an acceleration of the maturity of such indebtedness;

voluntary or involuntary bankruptcy of Xerox (remaining undismissed or unstayed for 60 days or more);

a change of control of Xerox, including a sale of all or substantially all of Xerox s assets or the acquisition by a person or related group of persons of 30% or more of the voting stock of Xerox, if the person acquiring control is a competitor of GECC or does not have debt that is rated investment grade;

a material breach of payment obligations or certain other specified provisions by Xerox (or Funding SPE or the other special purpose Xerox subsidiary utilized in structuring the transaction) under the Loan Agreement or any related agreement;

an equipment service default where Xerox fails to provide specified levels of service with respect to the equipment related to the receivables financed by GECC;

an equipment supply default where Xerox fails to ship specified levels of supplies with respect to the equipment related to the receivables financed by GECC;

a change in operations of Xerox where Xerox ceases to offer lease or loan financing to non-consumer customers and, after that change, the aggregate outstanding balance under the Loan Agreement is less than $500 million;

a sales channel termination event where 50% or more of Xerox s aggregate sales to non-consumer customers are comprised of sales to dealers, distributors, wholesalers or other persons who are not non-consumer end-users of the equipment, Xerox and GECC fail to reach agreement within six months on how to amend the Loan Agreement to adjust for the consequences of the change in sales channels, and the aggregate outstanding balance under the Loan Agreement is less than $500 million; or

the joint venture established by us and GECC that services the receivables financed by GECC is dissolved.

Description of 2004 Secured Trade Receivables Facility with GECC

In June 2004 we completed a transaction with General Electric Capital Corporation (GECC) for a three-year $400 million revolving credit facility secured by U.S. accounts receivable (the Trade Facility). As of December 31, 2005, approximately $178 million was drawn, secured by $313 million of accounts receivable. This arrangement is being accounted for as a secured borrowing as both the accounts receivable and related borrowings are reflected in our condensed consolidated balance sheets.

Under the Trade Facility, GECC makes monthly revolving loans to Xerox Trade Receivables LLC, a special purpose Delaware limited liability company that is our wholly-owned subsidiary (Trade SPE). Trade SPE uses the loan proceeds to purchase our trade receivables. All obligations under the Trade Facility are secured by the receivables being financed by GECC, the contracts relating to such receivables and other related security. GECC s obligation to make loans under the Trade Facility is subject to the receivables satisfying certain criteria and the satisfaction of certain customary representations, warranties and covenants.

The interest rate on each loan is fixed and is calculated when the loan is made based on 30-day LIBOR rates.

GECC s commitment to fund under the Trade Facility is not contingent on us achieving or maintaining any particular credit rating. There are no credit rating defaults that could impair future funding under the Trade Facility. The Trade Facility contains various default provisions, but does not cross default provisions related to financial covenants of Xerox contained in other significant debt facilities. Most types of defaults would accelerate the repayment of our outstanding borrowings. The loans under Trade Facility are generally non-recourse to Xerox. Therefore, even if GECC were to accelerate the maturity of outstanding loans, its only

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recourse would be to proceed against the receivables held by Trade SPE as the borrower under the Trade Facility. As of December 31, 2005, we were in compliance with all covenants under the Trade Facility and expect to be in compliance for at least the next twelve months.

In addition to customary events of default, the following are some of the other events of default under the Trade Facility:

any default or event of default under any indebtedness of Xerox (or Trade SPE) for borrowed money (or any indebtedness for borrowed money guaranteed by Xerox or Trade SPE) in excess of $50 million in the aggregate if such default or event of default gives rise to an acceleration of the maturity of such indebtedness;

voluntary or involuntary bankruptcy of Xerox or Trade SPE (remaining undismissed or unstayed for 90 days or more);

a change of control of Xerox, (including a sale of all or substantially all of Xerox s assets or the acquisition by a person or related group of persons of 20% or more of the voting stock of Xerox), or of the joint venture established by us and GECC (XCS) that services the receivables financed by GECC under the Trade Facility and the Loan Agreement or of Trade SPE;

GECC ceases to be the manager of XCS or an event occurs that gives GECC the right to terminate the servicing responsibilities of XCS; and

a breach of payment obligations or certain other specified provisions by Trade SPE under the Trade Facility and related documents.

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CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES FOR

NON-UNITED STATES HOLDERS

The following is a general discussion of the anticipated material United States federal income tax consequences to a Non-U.S. Holder (as defined below) of the acquisition, ownership and disposition of the notes. Unless otherwise stated, this discussion is limited to the tax consequences to those Non-U.S. Holders who are the original beneficial owners of the notes and who hold such notes as capital assets. This discussion does not address specific tax consequences that may be relevant to particular persons (including, for example, pass-through entities (e.g., partnerships) or persons who hold the notes through pass-through entities, banks or financial institutions, broker-dealers, insurance companies, regulated investment companies, tax-exempt entities, common trust funds, controlled foreign corporations, dealers in securities or currencies, persons that have a functional currency other than the U.S. dollar and persons in special situations, such as those who hold notes as part of a straddle, hedge, conversion transaction, or other integrated investment). In addition, this discussion does not describe any tax consequences arising under United States federal gift and estate or other federal tax laws or under the tax laws of any state, local or foreign jurisdiction. This discussion is based upon the Internal Revenue Code of 1986, as amended (the Code), the Treasury Department regulations (the Treasury Regulations) promulgated thereunder, and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change, possibly with retroactive effect.

Prospective purchasers of the notes are urged to consult their tax advisors concerning the United States federal income tax consequences to them of acquiring, owning and disposing of the notes, as well as the application of state, local and foreign income and other tax laws.

For purposes of this discussion, a Non-U.S. Holder is a holder that is not a U.S. person or a partnership. A U.S. person means (i) a citizen or individual resident of the United States; (ii) a corporation (including an entity treated as a corporation for United States federal income tax purposes) or a partnership created or organized in or under the laws of the United States or any political subdivision thereof; (iii) an estate, the income of which is subject to United States federal income tax regardless of the source; or (iv) a trust, if a court within the United States is able to exercise primary supervision over the trust s administration and one or more U.S. persons have the authority to control all its substantial decisions, or if the trust was in existence on August 20, 1996, and has properly elected to continue to be treated as a U.S. person. If a partnership holds our notes, the United States federal income tax consequences of payments received by such partnership will in many cases be determined by reference to the status of a partner and the activities of the partnership.

Payments of Interest. Payments of principal and interest on the notes by us or any of our agents to a Non-U.S. Holder will not be subject to United States federal withholding tax, *provided* that:

(1) the Non-U.S. Holder does not actually or constructively own 10 percent or more of the total combined voting power of all classes of our stock entitled to vote;

(2) the Non-U.S. Holder is not a controlled foreign corporation that is related to us through stock ownership; and

(3) either (A) the beneficial owner of the notes certifies to us or our agent on IRS Form W-8BEN (or successor form), under penalties of perjury, that it is not a U.S. person and provides its name and address and the certificate is renewed periodically as required by the Treasury Regulations, or (B) the notes are held through certain foreign intermediaries and the beneficial owner of the notes satisfies certification requirements of applicable Treasury Regulations, and in either case, neither we nor our agent has actual knowledge or reason to know that the beneficial owner of the note is a U.S. person. Special certification rules apply to certain Non-U.S. Holders that are entities rather than individuals.

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If a Non-U.S. Holder cannot satisfy the requirements of the portfolio interest exemption described above (the Portfolio Interest Exemption), payments of interest made to such Non-U.S. Holder will be subject to a 30% withholding tax unless the beneficial owner of the note provides us or our agent, as the case may be, with a properly executed:

(1) IRS Form W-8BEN (or successor form) claiming an exemption from withholding or reduced rate of tax under the benefit of an applicable tax treaty (a Treaty Exemption) or

(2) IRS Form W-8ECI (or successor form) stating that interest paid on the note is not subject to withholding tax because it is effectively connected with the conduct of a U.S. trade or business of the beneficial owner,

each form to be renewed periodically as required by the Treasury Regulations.

If interest on the note is effectively connected with the conduct of a U.S. trade or business of the beneficial owner, the Non-U.S. Holder, although exempt from the withholding tax described above, will be subject to United States federal income tax on such interest on a net income basis in the same manner as if it were a U.S. holder. In addition, if such Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to adjustments. For this purpose, interest on a note will be included in such foreign corporation s earnings and profits.

Disposition of Notes. Generally, no withholding of United States federal income tax will be required with respect to any gain realized by a Non-U.S. Holder upon the sale, exchange or other disposition of a note.

A Non-U.S. Holder will not be subject to United States federal income tax on gain realized on the sale, exchange or other disposition of a note unless (a) the Non-U.S. Holder is an individual who is present in the United States for a period or periods aggregating 183 or more days in the taxable year of the disposition and certain other conditions are met, or (b) such gain is effectively connected with the Non-U.S. Holder s U.S. trade or business.

Information Reporting and Backup Withholding

Information reporting and backup withholding will not be required with respect to payments that we make to a Non-U.S. Holder if the Non-U.S. Holder has (i) furnished documentation establishing eligibility for the Portfolio Interest Exemption or a Treaty Exemption (*provided* that, in the case of a sale of a note by an individual, Form W-8BEN (or successor form) includes a certification that the individual has not been, and does not intend to be, present in the United States for 183 days or more days for the relevant period) or (ii) otherwise establishes an exemption, *provided* that neither we nor our agent has actual knowledge that the holder is a U.S. person or that the conditions of any exemption are not in fact satisfied. Certain additional rules may apply where the notes are held through a custodian, nominee, broker, foreign partnership or foreign intermediary.

In addition, information reporting and backup withholding will not apply to the proceeds of the sale of a note made within the United States or conducted through certain United States related financial intermediaries, if the payor receives the statement described above and does not have actual knowledge that the Non-U.S. Holder is a U.S. person, or the Non-U.S. Holder otherwise establishes an exemption.

IRS Circular 230 Disclosure

Any U.S. federal tax advice contained in this prospectus supplement is not intended or written to be used, and cannot be used, for the purpose of avoiding tax penalties under the Code. This advice was written in connection with the promotion and marketing of the notes. Prospective purchasers of the notes should seek advice based on their particular circumstances from an independent tax advisor.

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BOOK-ENTRY, DELIVERY AND FORM

We have obtained the information in this section concerning The Depository Trust Company (DTC), Clearstream Banking, S.A., Luxembourg (Clearstream, Luxembourg) and Euroclear Bank S.A./N.V., as operator of the Euroclear System (Euroclear) and their book-entry systems and procedures from sources that we believe to be reliable. We take no responsibility for an accurate portrayal of this information. In addition, the description of the clearing systems in this section reflects our understanding of the rules and procedures of DTC, Clearstream, Luxembourg and Euroclear as they are currently in effect. Those systems could change their rules and procedures at any time.

The notes will initially be represented by one or more fully registered global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto and registered in the name of Cede & Co. (DTC s nominee). You may hold your interests in the global notes in the United States through DTC, or in Europe through Clearstream, Luxembourg or Euroclear, either as a participant in such systems or indirectly through organizations which are participants in such systems. Clearstream, Luxembourg and Euroclear will hold interests in the global notes on behalf of their respective participating organizations or customers through customers securities accounts in Clearstream, Luxembourg s or Euroclear s names on the books of their respective depositaries, which in turn will hold those positions in customers securities accounts in the depositaries names on the books of DTC. Citibank, N.A. will act as depositary for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. will act as depositary for Euroclear.

So long as DTC or its nominee is the registered owner of the global securities representing the notes, DTC or such nominee will be considered the sole owner and holder of the notes for all purposes of the notes and the indenture. Except as provided below, owners of beneficial interests in the notes will not be entitled to have the notes registered in their names, will not receive or be entitled to receive physical delivery of the notes in definitive form and will not be considered the owners or holders of the notes under the indenture, including for purposes of receiving any reports delivered by us or the trustee pursuant to the indenture. Accordingly, each person owning a beneficial interest in a note must rely on the procedures of DTC or its nominee and, if such person is not a participant, on the procedures of the participant through which such person owns its interest, in order to exercise any rights of a holder of notes.

Unless and until we issue the notes in fully certificated, registered form under the limited circumstances described below under the heading Certificated Notes :

- you will not be entitled to receive a certificate representing your interest in the notes;
- all references in this prospectus or an accompanying prospectus supplement to actions by holders will refer to actions taken by DTC upon instructions from its direct participants; and
- all references in this prospectus or an accompanying prospectus supplement to payments and notices to holders will refer to payments and notices to DTC or Cede & Co., as the registered holder of the notes, for distribution to you in accordance with DTC procedures.

The Depository Trust Company

DTC will act as securities depositary for the notes. The notes will be issued as fully registered notes registered in the name of Cede & Co. DTC is:

a limited-purpose trust company organized under the New York Banking Law;

a banking organization under the New York Banking Law;

a member of the Federal Reserve System;

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- a clearing corporation under the New York Uniform Commercial Code; and

- a clearing agency registered under the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its direct participants deposit with DTC. DTC facilitates the settlement among direct participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in direct participants accounts, thereby eliminating the need for physical movement of securities certificates.

Direct participants of DTC include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants. Indirect participants of DTC, such as securities brokers and dealers, banks and trust companies, can also access the DTC system if they maintain a custodial relationship with a direct participant.

Purchases of notes under DTC s system must be made by or through direct participants, which will receive a credit for the notes on DTC s records. The ownership interest of each beneficial owner is in turn to be recorded on the records of direct participants and indirect participants. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct participants or indirect participants through which such beneficial owners entered into the transaction. Transfers of ownership interests in the notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in notes , except as provided below in Certificated Debt Securities.

To facilitate subsequent transfers, all notes deposited with DTC are registered in the name of DTC s nominee, Cede & Co. The deposit of notes with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes. DTC s records reflect only the identity of the direct participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Book-Entry Format

Under the book-entry format, the trustee will pay interest or principal payments to Cede & Co., as nominee of DTC. DTC will forward the payment to the direct participants, who will then forward the payment to the indirect participants (including Clearstream, Luxembourg or Euroclear) or to you as the beneficial owner. You may experience some delay in receiving your payments under this system. Neither we, the trustee under the indenture nor any paying agent has any direct responsibility or liability for the payment of principal or interest on the notes to owners of beneficial interests in the notes.

DTC is required to make book-entry transfers on behalf of its direct participants and is required to receive and transmit payments of principal, premium, if any, and interest on the notes. Any direct participant or indirect participant with which you have an account is similarly required to make book-entry transfers and to receive and transmit payments with respect to the notes on your behalf. We and the trustee under the indenture have no responsibility for any aspect of the actions of DTC, Clearstream, Luxembourg or Euroclear or any of their direct or indirect participants. In addition, we and the trustee under the indenture have no responsibility or liability for any aspect of the records kept by DTC, Clearstream, Luxembourg, Euroclear or any of their direct or indirect

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participants relating to or payments made on account of beneficial ownership interests in the notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. We also do not supervise these systems in any way.

The trustee will not recognize you as a holder under the indenture, and you can only exercise the rights of a holder indirectly through DTC and its direct participants. DTC has advised us that it will only take action regarding a note if one or more of the direct participants to whom the note is credited directs DTC to take such action and only in respect of the portion of the aggregate principal amount of the notes as to which that participant or participants has or have given that direction. DTC can only act on behalf of its direct participants. Your ability to pledge notes to non-direct participants, and to take other actions, may be limited because you will not possess a physical certificate that represents your notes.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the notes unless authorized by a direct participant in accordance with DTC s procedures. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns Cede & Co. s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date (identified in a listing attached to the omnibus proxy).

Clearstream, Luxembourg or Euroclear will credit payments to the cash accounts of Clearstream, Luxembourg customers or Euroclear participants in accordance with the relevant system s rules and procedures, to the extent received by its depositary. These payments will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder under the indenture on behalf of a Clearstream, Luxembourg customer or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depositary s ability to effect those actions on its behalf through DTC.

DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

Transfers Within and Among Book-Entry Systems

Transfers between DTC s direct participants will occur in accordance with DTC rules. Transfers between Clearstream, Luxembourg customers and Euroclear participants will occur in accordance with its applicable rules and operating procedures.

DTC will effect cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg customers or Euroclear participants, on the other hand, in accordance with DTC rules on behalf of the relevant European international clearing system by its depositary. However, cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, instruct its depositary to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream, Luxembourg customers and Euroclear participants may not deliver instructions directly to the depositaries.

Because of time-zone differences, credits of securities received in Clearstream, Luxembourg or Euroclear resulting from a transaction with a DTC direct participant will be made during the subsequent securities settlement processing, dated the business day following the DTC settlement date. Those credits or any transactions in those securities settled during that processing will be reported to the relevant Clearstream, Luxembourg customer or Euroclear participant on that business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of securities by or through a Clearstream, Luxembourg customer or a Euroclear

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participant to a DTC direct participant will be received with value on the DTC settlement date but will be avail-able in the relevant Clearstream, Luxembourg or Euroclear cash amount only as of the business day following settlement in DTC.

Although DTC, Clearstream, Luxembourg and Euroclear has agreed to the foregoing procedures in order to facilitate transfers of debt securities among their respective participants, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

Certificated Notes

Unless and until they are exchanged, in whole or in part, for notes in definitive form in accordance with the terms of the notes, the notes may not be transferred except (1) as a whole by DTC to a nominee of DTC or (2) by a nominee of DTC to DTC or another nominee of DTC or (3) by DTC or any such nominee to a successor of DTC or a nominee of such successor.

We will issue notes to you or your nominees, in fully certificated registered form, rather than to DTC or its nominees, only if:

- we advise the trustee in writing that DTC is no longer willing or able to discharge its responsibilities properly or that DTC is no longer a registered clearing agency under the Securities Exchange Act of 1934, and the trustee or we are unable to locate a qualified successor within 90 days;
- an event of default has occurred and is continuing under the indenture; or
- we, at our option, elect to terminate the book-entry system through DTC.

If any of the three above events occurs, DTC is required to notify all direct participants that notes in fully certificated registered form are available through DTC. DTC will then surrender the global note representing the notes along with instructions for re-registration. The trustee will re-issue the debt securities in fully certificated registered form and will recognize the registered holders of the certificated debt securities as holders under the indenture.

Unless and until we issue the notes in fully certificated, registered form, (1) you will not be entitled to receive a certificate representing your interest in the notes; (2) all references in this prospectus or an accompanying prospectus supplement to actions by holders will refer to actions taken by the depositary upon instructions from their direct participants; and (3) all references in this prospectus or an accompanying prospectus supplement to payments and notices to holders will refer to payments and notices to the depositary, as the registered holder of the notes, for distribution to you in accordance with its policies and procedures.

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UNDERWRITING

J. P. Morgan Securities Inc. and Goldman, Sachs & Co., are acting as representatives of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of notes set forth opposite the underwriter s name.

Underwriters	Principal Amount of Senior Notes
J.P. Morgan Securities Inc.	$
Goldman, Sachs & Co.	
Citigroup Global Markets Inc.	
Banc of America Securities LLC	
Bear, Stearns & Co. Inc.	
Deutsche Bank Securities Inc.	
Barclays Capital Inc.	
BNP Paribas Securities Corp.	
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Total	$ 400,000,000

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the notes if any of them are purchased.

The underwriters propose to offer the notes to the public at the public offering price set forth on the cover page of this prospectus supplement. The underwriters may offer the notes to selected dealers at the public offering price minus a concession of up to % of the principal amount. The underwriters may allow, and dealers may re-allow, a concession not to exceed % of the principal amount to other dealers. After the initial offerings, the underwriters may change the public offering prices and any other selling terms. The underwriters may offer and sell notes through certain of their affiliates.

The following table shows the underwriting discounts and commissions to be paid to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

	Paid by Us
Per note	1.00%

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the underwriters may be required to make in respect of those liabilities.

The notes are a new issue of securities, and there is currently no established trading market for the notes. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system. The underwriters have advised us that they intend to make a market in the notes, but they are not obligated to do so. The underwriters may discontinue any market making in the notes at any time in their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

We estimate that our total expenses of this offering will be approximately $500,000. Certain of the underwriters and their affiliates have performed various financial advisory, investment banking and commercial

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banking services from time to time for us and our affiliates. Certain of the underwriters or their affiliates are lenders and/or agents under our 2003 Credit Facility. In addition, each of the underwriters or their affiliates are expected to be lenders and/or agents under our 2006 Credit Facility. Additionally, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. are expected to be joint lead arrangers and book-runners for our 2006 Credit Facility, and an affiliate of Citigroup Global Markets Inc. is expected to be the administrative agent. They have received (or will receive) customary fees and commissions for these transactions. Anne M. Mulcahy, Chairman and Chief Executive Officer of Xerox Corporation, is a Director of Citigroup Inc., the parent company of Citigroup Global Markets Inc.

In connection with this offering, the underwriters may purchase and sell the notes in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of the notes in excess of the amount of notes to be purchased by the underwriters in the offering, which creates a syndicate short position. The underwriters must close out any short position by purchasing the notes in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Member State it has not made and will not make an offer of notes to the public in that Member State, except that it may, with effect from and including such date, make an offer of notes to the public in that Member State:

at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts; or

at any time in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an offer of notes to the public in relation to any notes in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in that Member State.

United Kingdom

Each underwriter has represented and agreed that it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services

and Markets Act 2000) in connection with the issue or sale of the notes in circumstances in which Section 21(1) of such Act does not apply to us and it has complied and will comply with all applicable provisions of such Act with respect to anything done by it in relation to any notes in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

The validity of the notes to be offered by Xerox will be passed upon for us by Cravath, Swaine & Moore LLP, New York, New York. Cahill Gordon & Reindel LLP