

XEROX CORP
Form 424B5
August 16, 2006
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Filed Pursuant to Rule 424(b)(5)
Registration No. 333-111623

Prospectus Supplement

To Prospectus Dated February 3, 2004

\$650,000,000

Xerox Corporation

\$500,000,000 6.75% Senior Notes due 2017

\$150,000,000 Floating Rate Senior Notes due 2009

We are offering \$500,000,000 aggregate principal amount of our 6.75% senior notes due 2017, or the fixed rate notes and \$150,000,000 aggregate principal amount of our floating rate senior notes due 2009, or the floating rate notes. The fixed rate notes and the floating rate notes are collectively referred to herein as the notes.

The fixed rate notes will mature on February 1, 2017. We will pay interest on the fixed rate notes on each February 1 and August 1, commencing February 1, 2007.

The floating rate notes will mature on December 18, 2009. The floating rate notes will bear interest at a rate per annum, reset quarterly, equal to three-month LIBOR (as defined) plus 0.75%. We will pay interest on the floating rate notes on each March 18, June 18, September 18 and December 18, commencing December 18, 2006.

We may redeem the fixed rate 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. The floating rate notes are not redeemable prior to maturity. If we undergo a change of control, we will be required to offer to purchase all of the notes from the holders.

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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. The notes will be structurally subordinated to the debt and all other obligations of our subsidiaries.

Investing in the notes involves a high degree of risk. See Risk Factors, beginning on page S-3 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.

	<u>Public Offering Price</u>	<u>Underwriting Proceeds</u>	<u>Proceeds, before expenses, to us</u>
Per fixed rate note	99.392%	1.000%	98.392%
Total for fixed rate notes	\$ 496,960,000	\$ 5,000,000	\$ 491,960,000
Per floating rate note	100.000%	0.500%	99.500%
Total for floating rate notes	\$ 150,000,000	\$ 750,000	\$ 149,250,000

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 August 18, 2006.

Joint Book-Running Managers

Goldman, Sachs & Co.

Bear, Stearns & Co. Inc.

Co-Lead Managers

Banc of America Securities LLC
Deutsche Bank Securities

Citigroup
JPMorgan

Co-Managers

Barclays Capital

BNP PARIBAS

Lehman Brothers

Merrill Lynch & Co.

The date of this prospectus supplement is August 15, 2006

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In making your investment decision, you should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any free writing prospectus. We have not, and the underwriters have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information appearing in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our business, financial condition, results of operations and prospects may have changed since those dates. Neither the delivery of this prospectus supplement and the accompanying prospectus nor any sale made hereunder shall under any circumstance imply that the information in this prospectus supplement is correct as of any date subsequent to the date on the cover of this prospectus supplement or that the information contained in the accompanying prospectus is correct as of any date

subsequent to the date on the cover of the accompanying prospectus.

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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 identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected, 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 and the accompanying prospectus and the Risk Factors section, 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 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006, as filed with the SEC.

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 our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2006 and June 30, 2006, as filed with the SEC and under similarly captioned sections in future filings that we make with the SEC under the Exchange Act.

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OFFERING 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.

Issuer	Xerox Corporation.
Notes Offered	<p>\$500,000,000 aggregate principal amount of Senior Notes due 2017.</p> <p>\$150,000,000 aggregate principal amount of Floating Rate Senior Notes due 2009.</p>
Maturity	<p>Fixed Rate Notes: February 1, 2017</p> <p>Floating Rate Notes: December 18, 2009</p>
Interest Rate	<p>Fixed Rate Notes: The fixed rate notes will bear interest from August 18, 2006 at the rate of 6.75% per annum, payable semi-annually.</p> <p>Floating Rate Notes: The floating rate notes will bear interest from August 18, 2006 at a rate per annum, reset quarterly, equal to three-month LIBOR (as defined) plus 0.75%, payable quarterly.</p>
Interest Payment Dates	<p>Fixed Rate Notes: February 1 and August 1 of each year, beginning on February 1, 2007.</p> <p>Floating Rate Notes: March 18, June 18, September 18 and December 18 of each year, commencing December 18, 2006.</p>
Ranking	<p>The notes are unsecured and will rank equally in right of payment with all of our other existing and future senior unsecured indebtedness.</p> <p>The notes will be effectively subordinated to all of the secured indebtedness of Xerox Corporation which, as of June 30, 2006, was approximately \$7.0 million. The notes will be structurally subordinated to all of the secured and unsecured indebtedness and other liabilities of our subsidiaries. As of June 30, 2006, our subsidiaries had approximately \$5.9 billion of outstanding indebtedness and other liabilities, including trade payables but excluding intercompany liabilities.</p>

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Optional Redemption

We may redeem some or all of the fixed rate notes offered hereby at any time at 100% of the principal amount plus a make-whole premium. See Description of the Notes Optional Redemption . The floating rate notes are not redeemable prior to maturity.

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Change of Control	<p>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.</p> <p>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:</p> <p style="padding-left: 40px;">we might not have enough funds at that time; or</p> <p style="padding-left: 40px;">the terms of our debt instruments may prevent us from paying.</p>
Certain Covenants	<p>The indentures governing the notes will contain covenants limiting our ability and our subsidiaries' ability to:</p> <p style="padding-left: 40px;">create certain liens; and</p> <p style="padding-left: 40px;">consolidate or merge with, or convey, transfer or lease substantially all our assets to, another person.</p> <p>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.</p>
Use of Proceeds	<p>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 or unsecured loan agreements, and for other general corporate purposes.</p>
Risk Factors	<p>See "Risk Factors" beginning on page S-3 of this prospectus supplement and on page 2 of the related prospectus for important information regarding us and an investment in the notes.</p>
Further Issuances	<p>We may create and issue further notes ranking equally with the fixed rate notes or the floating rate notes, as applicable (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 fixed rate notes or the floating rate notes, as applicable.</p>

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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 June 30, 2006, on a *pro forma* basis assuming the consummation of this offering, we would have had \$7.8 billion of debt, on a consolidated basis, of which \$2.6 billion would have been secured, and \$0.6 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

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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 June 30, 2006, after giving *pro forma* effect to this offering and the application of the net proceeds therefrom, we would have had approximately \$1.115 billion available for additional borrowing under our existing senior unsecured credit facility (the 2006 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.

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

The notes are structurally subordinated to indebtedness and other liabilities of Xerox's subsidiaries. For the six months ended June 30, 2006, before intercompany eliminations, Xerox's subsidiaries contributed \$4.3 billion to our total revenues and held \$12.5 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. In addition, the 2006 Credit Facility and the indentures governing our 9³/₄% Senior Notes due 2009, 7¹/₈% Senior Notes due 2010, 7⁵/₈% Senior Notes due 2013, 6⁷/₈% Senior Notes due 2011 and 6.40% Senior Notes due 2016 (collectively, the Existing Senior Notes) contain contingent future guarantee provisions whereby certain of our subsidiaries may become guarantors of our obligations under the 2006 Credit Facility and the Existing Senior Notes and the related indentures. The notes offered hereby will not have the benefit of the contingent future guarantee provisions in our 2006 Credit Facility and the indentures governing our Existing Senior Notes. As a result, if any such guarantee is executed, holders of the notes offered by this prospectus supplement would not receive the benefit of that guarantee and would be structurally subordinated to the lenders under our 2006 Credit Facility and the holders of our Existing Senior Notes, with respect to the assets of the subsidiaries providing a guarantee.

Our subsidiaries are separate and distinct legal entities and 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 improvement therein, funding from third parties, access to capital markets, securitizations and borrowings secured by our finance receivables portfolios. As of June 30, 2006, total cash, cash equivalents and short-term investments was \$1.2 billion, and our borrowing capacity under our 2006 Credit Facility was \$1.115 billion, reflecting \$135 million of outstanding borrowings and letters of credit that have been utilized. We also have funding available through various secured borrowing arrangements. We believe our liquidity (including operating and other cash flows that we expect to generate) will be sufficient to meet operating requirements as they occur and to satisfy all scheduled debt maturities for at least the next twelve months; however, 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 2006 Credit Facility contains affirmative and negative covenants including limitations on: (i) liens of Xerox and certain of our subsidiaries securing debt, (ii) certain fundamental changes to corporate structure, (iii) changes in nature of business and (iv) limitations on debt incurred by certain subsidiaries. The 2006 Credit Facility contains financial maintenance covenants, including maximum leverage (debt for borrowed money divided by consolidated EBITDA, as defined) and a minimum interest coverage ratio (consolidated EBITDA divided by consolidated interest expense, as defined). The indentures governing certain of our outstanding senior notes contain affirmative and negative covenants including limitations on: issuance of secured debt and preferred stock; investments and acquisitions; mergers; certain transactions with affiliates; creation of liens; asset transfers; hedging transactions; payment of dividends and certain other payments. They do not, however, contain any financial maintenance covenants, except the fixed charge coverage ratio applicable to certain types of payments. Our U.S.

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Loan Agreement with General Electric Capital Corporation (GECC) (effective through 2010) relating to our customer financing program (the Loan Agreement) provides for loans secured by eligible finance receivables up to \$5 billion outstanding at any time. As of June 30, 2006, \$1.9 billion was outstanding under the Loan Agreement, including similar loan agreements with GE in the U.K. and Canada. These agreements incorporate the financial maintenance covenants contained in the 2006 Credit Facility and contain other affirmative and negative covenants.

At June 30, 2006, we were in full compliance with the covenants and other provisions of the 2006 Credit Facility, the senior notes and the Loan Agreement and expect to remain in full compliance for at least the next twelve months. Any failure to be in compliance with any material provision or covenant of the 2006 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 2006 Credit Facility, would result in an event of termination under the Loan Agreement and in such case GECC would not be required to make further loans to us. If GECC were to make no further loans to us, and assuming a similar facility was not established and that we were unable to obtain replacement financing in the public debt markets, it could materially adversely affect our liquidity and our ability to fund our customers' purchases of our equipment and this could materially adversely affect our results of operations.

The indentures governing our Existing Senior Notes and certain of our financing agreements, including the 2006 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 all of these covenants.

The indentures governing certain of our Existing Senior Notes limit, and our 2006 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/or pay dividends on our common stock. The 2006 Credit Facility generally does not affect our ability to continue to monetize finance receivables under the agreements with GECC and others.

Although the terms of the indentures governing certain of 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 all of our outstanding senior notes.

A failure to comply with the covenants contained in our 2006 Credit Facility or our other existing indebtedness could result in an event of default under the 2006 Credit Facility 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 2006 Credit Facility or our other indebtedness, the lenders thereunder would not be required to lend any additional amounts to us and:

could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable;

could require us to apply all of our available cash to repay these borrowings; or

could prevent us from making debt service payments on the notes,

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

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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](#).

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The notes are unsecured, do not have the benefit of certain covenants and other provisions applicable to certain of 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 June 30, 2006, after giving effect to the issuance of notes offered by this prospectus supplement, we would have had \$7.8 billion of debt on a consolidated basis, of which \$2.6 billion would be secured debt. In addition, the indentures governing some of our 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 subsidiaries declares bankruptcy, liquidates or reorganizes.

In the event of a bankruptcy, liquidation or reorganization of any of our 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. At June 30, 2006, our subsidiaries had approximately \$5.9 billion of outstanding indebtedness and other liabilities, including trade payables but excluding intercompany liabilities. Our subsidiaries may incur substantial additional indebtedness.

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

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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.

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An active trading market may not develop for the notes.

The fixed rate notes and the floating rate notes are each new securities for which there currently is no established market. We do not intend to apply for either series of the notes to be listed on any securities exchange or to arrange for either series of 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.

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

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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.

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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.

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 uniformly 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, Merrill Lynch and De Lage Landen Bank, cash generated from operations, cash on hand and 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

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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.

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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 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 the Contingencies note to our 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.

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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 continue to conduct RoHS compliance activities with respect to our products. We do not expect the RoHS directive to have a material impact on our product lines. In addition, various other countries and jurisdictions have proposed and/or are expected to adopt restrictions similar to RoHS. 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 conduct WEEE compliance activities and continue to evaluate the impact of specific registration and compliance activities required by WEEE Legislation. Other jurisdictions throughout the United States and the world have also proposed, or may adopt, product take-back regulations. If we are unable to collect, recycle, treat and dispose of our products in a cost-effective manner and in accordance with applicable requirements, it could materially adversely affect our results of operations and financial condition. Other potentially relevant initiatives throughout the world include proposals for more extensive chemical registration requirements, various efforts to limit energy use in products and other environmentally related product programs. As these initiatives and programs become regulatory requirements and/or are adopted as public or private procurement requirements, we must comply or potentially face market access limitations that could have a material adverse affect on our operations and financial condition.

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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 \$641 million. We intend to use a portion of the net proceeds to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured and unsecured loan agreements, and for other general corporate purposes.

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DESCRIPTION OF THE NOTES

We will issue \$500,000,000 aggregate principal amount of 6.75% senior notes due 2017 (the Fixed Rate Notes) pursuant to a supplemental indenture to be dated as of August 18, 2006 (the Fixed Rate 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). We will also issue \$150,000,000 aggregate principal amount of floating rate senior notes due 2009 (the Floating Rate Notes and, together with the Fixed Rate Notes, the Notes) pursuant to a supplemental indenture to be dated as of August 18, 2006 (the Floating Rate Supplemental Indenture and, together with the Fixed Rate Supplemental Indenture, the Supplemental Indentures) to the Indenture. Although for convenience the Fixed Rate Notes and the Floating Rate Notes are referred to as the Notes , each will be issued as a separate series and will not together have any class voting or other rights. 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 its 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, structurally subordinated to the debt of the Company's 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 of \$1,000. 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

Fixed Rate Notes

The Fixed Rate Notes will mature on February 1, 2017. \$500,000,000 in aggregate principal amount of the Fixed Rate Notes will be issued in this offering. After the Issue Date, additional notes (Additional Fixed Rate Notes) may be issued from time to time. The Fixed Rate Notes and the Additional Fixed Rate 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 Fixed Rate Supplemental Indenture, the Indenture and this Description of the Notes, references to the Fixed Rate Notes include any Additional Fixed Rate Notes actually issued.

Interest on the Fixed Rate Notes will accrue at the rate of 6.75% per annum and will be payable semiannually in cash on each February 1 and August 1, commencing on February 1, 2007, to the persons who are registered Holders at the close of business on the January 15 and July 15 immediately preceding the applicable interest payment date. Interest on the Fixed Rate 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.

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Floating Rate Notes

The Floating Rate Notes will mature on December 18, 2009. \$150,000,000 in aggregate principal amount of the Floating Rate Notes will be issued in this offering. After the Issue Date, additional notes (Additional Floating Rate Notes) may be issued from time to time. The Floating Rate Notes and the Additional Floating Rate 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 Floating Rate Supplemental Indenture, the Indenture and this Description of the Notes, references to the Floating Rate Notes include any Additional Floating Rate Notes actually issued.

Interest on the Floating Rate Notes will accrue at a rate per annum, reset quarterly, equal to LIBOR plus 0.75%, as determined by the calculation agent (the Calculation Agent), which shall initially be the Trustee, and will be payable quarterly in cash on each March 18, June 18, September 18 and December 18, commencing on December 18, 2006, to the persons who are registered Holders at the close of business on the March 1, June 1, September 1 and December 1 immediately preceding the applicable interest payment date. Interest on the Floating Rate 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.

Determination Date, with respect to an Interest Period, will be the second London Banking Day preceding the first day of the Interest Period.

Interest Period means the period commencing on and including an interest payment date and ending on and including the day immediately preceding the next succeeding interest payment date, with the exception that the first Interest Period shall commence on and include the Issue Date and end on and include December 18, 2006.

LIBOR, with respect to an Interest Period, will be the rate (expressed as a percentage per annum) for deposits in United States dollars for a three-month period beginning on the second London Banking Day after the Determination Date that appears on Telerate Page 3750 as of 11:00 a.m., London time, on the Determination Date. If Telerate Page 3750 does not include such a rate or is unavailable on a Determination Date, the Calculation Agent will request the principal London office of each of four major banks in the London interbank market, as selected by the Calculation Agent, to provide such bank's offered quotation (expressed as a percentage per annum), as of approximately 11:00 a.m., London time, on such Determination Date, to prime banks in the London interbank market for deposits in a Representative Amount in U.S. dollars for a three-month period beginning on the second London Banking Day after the Determination Date. If at least two such offered quotations are so provided, LIBOR for the Interest Period will be the arithmetic mean of such quotations. If fewer than two such quotations are so provided, the Calculation Agent will request each of three major banks in New York City, as selected by the Calculation Agent, to provide such bank's rate (expressed as a percentage per annum), as of approximately 11:00 a.m., New York City time, on such Determination Date, for loans in a Representative Amount in United States dollars to leading European banks for a three-month period beginning on the second London Banking Day after the Determination Date. If at least two such rates are so provided, LIBOR for the Interest Period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then LIBOR for the Interest Period will be LIBOR in effect with respect to the immediately preceding Interest Period.

London Banking Day is any day in which dealings in U.S. dollars are transacted or, with respect to any future date, are expected to be transacted in the London interbank market.

Representative Amount means a principal amount of not less than U.S.\$1,000,000 for a single transaction in the relevant market at the relevant time.

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Telerte Page 3750 means the display designated as Page 3750 on the Moneyline Telerate service (or such other page as may replace Page 3750 on that service).

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The amount of interest for each day that the Floating Rate Notes are outstanding (the *Daily Interest Amount*) will be calculated by dividing the interest rate in effect for such day by 360 and multiplying the result by the principal amount of the Floating Rate Notes. The amount of interest to be paid on the Floating Rate Notes for each Interest Period will be calculated by adding the Daily Interest Amounts for each day in the Interest Period.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point being rounded upwards (e.g., 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)) and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

The interest rate on the Floating Rate Notes will in no event be higher than the maximum rate permitted by applicable law.

The Calculation Agent will, upon the request of any holder of Floating Rate Notes, provide the interest rate then in effect with respect to the Floating Rate Notes. All calculations made by the Calculation Agent in the absence of manifest error will be conclusive for all purposes and binding on Xerox and the holders of the Floating Rate Notes.

Optional Redemption

Floating Rate Notes

The Floating Rate Notes are not redeemable prior to maturity.

Fixed Rate Notes

The Company may at any time and from time to time, at its option, redeem the Fixed Rate 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 Fixed Rate Notes to the applicable redemption date, plus the applicable Make-Whole Premium (a *Fixed Rate 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 Fixed Rate Notes, selection of the Fixed Rate 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 Fixed Rate Notes are listed; or

(2) if the Fixed Rate 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