XEROX CORP
Form DEF 14A
April 11, 2008

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [x]
Filed by a Party other than the Registrant [_]

Check the appropriate box:
[_] Preliminary Proxy Statement
[_] Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
[x] Definitive Proxy Statement
[_] Definitive Additional Materials
[_] Soliciting Material Under Rule 14a-12

Xerox Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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[x] No fee required.
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2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

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3) Filing Party:

4) Date Filed:

Xerox Corporation
45 Glover Avenue
P.O. Box 4505
Norwalk, CT 06856-4505

April 11, 2008

Dear Shareholders:

You are cordially invited to attend the 2008 Annual Meeting of Shareholders of Xerox Corporation to be held on Thursday, May 22, 2008, at the Hyatt Regency Greenwich, 1800 East Putnam Avenue, Greenwich, Connecticut. Your Board of Directors and management look forward to greeting in person those shareholders able to attend.

At the Annual Meeting of Shareholders you will be asked to vote upon the election of ten directors, to ratify the selection of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm for 2008 and to approve an amendment to the Companys certificate of incorporation requiring majority voting in non-contested director elections. The Board of Directors unanimously recommends that you vote in favor of each of these proposals. There will also be one shareholder proposal submitted for shareholder vote. Your Board believes that adopting this shareholder proposal is not in the best interest of the Company and its shareholders, and unanimously recommends a vote against this proposal.

After 18 years of dedicated service, Ralph Larsen is retiring from the Board of Directors. We are deeply grateful for his contributions to the Company. The remaining members of the Board of Directors are standing for reelection. The proposed slate of directors includes eight independent directors and two employee directors.

It is important that your shares be represented and voted at the Annual Meeting of Shareholders, regardless of whether or not you plan to attend in person. Therefore, you are urged to vote your shares using one of the methods described in the following pages. Voting instructions are detailed in the accompanying voting instruction and proxy card.

For the Board of Directors,

Anne M. Mulcahy
Chairman and Chief Executive Officer

Notice of 2008 Annual Meeting of Shareholders

Date and Time:	Thursday, May 22, 2008, at 9:00 a.m.
Location:	Hyatt Regency Greenwich, 1800 East Putnam Avenue, Greenwich, Connecticut 06870
Purpose:	(1) Election of 10 directors;
	(2) Ratification of the selection of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm for 2008;

	(3) Vote on proposal to amend the Companys certificate of incorporation to require majority voting in non-contested director elections;
	(4) Vote on shareholder proposal relating to the reporting of compliance with the vendor code of conduct; and
	(5) Consider such other business as may properly come before the meeting.
Record Date:	March 24, 2008 You are eligible to vote if you were a shareholder of record on this date.
Proxy Voting:	(1) Telephone;
	(2) Internet; or
	(3) Proxy Card.
	Please review the accompanying proxy card for voting instructions.
Importance of Vote:	Whether or not you plan to attend, please submit a proxy as soon as possible to ensure that your shares are represented.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be Held on May 22, 2008.

The Proxy Statement and 2007 Annual Report are available at http://ww3.ics.adp.com/streetlink/xrx

By order of the Board of Directors,

Don H. Liu
Senior Vice President, General Counsel and Secretary

April 11, 2008

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PROXY STATEMENT

GENERAL

The Meeting

The Board of Directors of Xerox Corporation (Company) is requesting your proxy for the 2008 Annual Meeting of Shareholders to be held on May 22, 2008, beginning at 9:00 a.m., and any adjournments that follow. The meeting will be held at the Hyatt Regency Greenwich, 1800 East Putnam Avenue, Greenwich, Connecticut.

Shares Entitled to Vote

Holders of record of the Company's Common Stock, par value $1 per share (Common Stock), as of the close of business on March 24, 2008, are entitled to vote. On that date there were 899,072,236 shares of Common Stock outstanding. At the meeting each share of Common Stock is entitled to one vote on each proposal.

Proxy Voting and Quorum

If you attend the meeting, you may vote by ballot. If you do not attend the meeting, your shares can be voted only when represented by a properly submitted proxy.

Shareholders of record may vote their proxies by telephone, Internet or mail. By using your proxy to vote in one of these ways, you authorize the three directors, whose names are listed on the front of the proxy card accompanying this Proxy Statement, to represent you and vote your shares. Holders of a majority of the shares entitled to vote at the meeting must be present in person or represented by proxy to constitute a quorum.

You may revoke or change your proxy at any time before it is exercised, either in writing addressed to the Secretary of the Company, through the Internet or by telephone voting.

Choices in Voting

You have several choices in completing your voting:

- You may vote on each proposal, in which case your shares will be voted in accordance with your elections.
- In voting on directors, you can either vote for all the directors or withhold your vote on all or certain of the directors.
- You may indicate a preference to abstain from voting on proposals 2, 3 and 4, in which case no vote will be recorded.
- You may submit a proxy without indicating your voting preferences, in which case the proxies will vote your shares:
- for election of all of the directors nominated by the Board of Directors;
- for ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2008;
- for the approval of an amendment to the Company's certificate of incorporation requiring majority voting in non- contested director elections; and
- against the shareholder proposal regarding the reporting of compliance with the vendor code of conduct.

ESOP Voting Instruction

Beneficial owners of the shares of Common Stock held in their accounts in the Company's Employee Stock Ownership Plan (ESOP) can instruct State Street Bank and Trust Company, as ESOP Trustee (ESOP Trustee), by telephone, Internet or mail, how to vote. No matter which method is used, the instructions are confidential and will not be disclosed to the Company. By using the voting instruction in one of these ways, you instruct the ESOP Trustee to vote the shares allocated to your ESOP account. You also authorize the ESOP Trustee to vote a proportion of the shares of Common Stock held in the ESOP trust for which no instructions have been received.

Required Vote

A plurality of the votes cast is currently required for the election of directors. According to the law of the State of New York, the Company's state of incorporation, only votes cast "for" the election of directors will be counted in determining whether a nominee for director has been elected. However, in an uncontested election any nominee for director who receives a greater number of votes withheld for his or her election than votes for such election shall tender his or her

resignation promptly after such election. The independent directors shall then evaluate and determine, based on the relevant facts and circumstances, whether to accept or reject the resignation. Any director who so tenders a resignation shall not participate in the decision of the Board of Directors. Within 90 days following certification of the results of the election, the Board will promptly disclose its decision and the basis for that decision in a filing with the Securities and Exchange Commission (SEC).

In this Proxy Statement, the Company is seeking approval of shareholders to amend to its certificate of incorporation requiring a majority vote for the election of directors in non-contested elections. If shareholders approve the amendment to the certificate of incorporation, the Company will also amend its by-laws to conform its director resignation policy to the majority vote standard, so that an incumbent who did not receive the requisite affirmative majority of the votes cast for his or her reelection would be required to tender his or her resignation to the Board. For further information on the Company proposal, see page 44 of this Proxy Statement.

The affirmative vote of a *majority* of the votes cast is required to ratify the selection of PricewaterhouseCoopers LLP as the Companys independent registered public accounting firm for 2008, to approve the Company proposal to amend its certificate of incorporation to require majority voting in non-contested elections and to approve the shareholder proposal. Under the law of New York, only votes cast for or against the selection of PwC, the Company proposal and the shareholder proposal will be counted in determining whether the selection of PwC has been ratified or such Company or shareholder proposal has been approved. Abstentions, broker non-votes and votes withheld are not treated as votes cast at the meeting for such purposes.

PROPOSAL 1 ELECTION OF DIRECTORS

Shareholders annually elect directors to serve for one year and until their successors have been elected and shall have qualified. The ten persons whose biographies appear beginning on page 11 have been proposed by the Board of Directors to serve as directors based on the recommendation of the Corporate Governance Committee.

All ten nominees bring to us valuable experience from a variety of fields. The Board of Directors has determined that each of the nominees (other than Anne M. Mulcahy, Chairman and CEO of the Company, and Ursula M. Burns, President of the Company) are independent under the New York Stock Exchange Corporate Governance Rules and the Companys more stringent independence standards.

If for any reason, which the Board of Directors does not expect, a nominee is unable to serve, the proxies may use their discretion to vote for a substitute proposed by the Board of Directors.

The Board of Directors recommends a vote

FOR

the election of the ten (10) Directors nominated by the Board of Directors

Corporate Governance

Xerox is committed to the highest standards of business integrity and corporate governance. All of our directors, executives and employees must act ethically. In addition, our directors must act in accordance with our Code of Business Conduct and Ethics for Members of the Board of Directors; our principal executive officer, principal financial officer and principal accounting officer, among others, must act in accordance with our Finance Code of Conduct; and all of our executives and employees must act in accordance with our Employee Code of Conduct. Each of these codes of conduct, as well as our Corporate Governance Guidelines and the charters of our Corporate Governance, Audit, Compensation and Finance Committees can be found on our website at *www.xerox.com/corporategovernance*. They are also available to any shareholder who requests them in writing addressed to Xerox Corporation, 45 Glover Avenue, P.O. Box 4505, Norwalk, Connecticut 06856-4505, Attention: Corporate Secretary.

The Board and each of the Committees of the Board periodically review and reassess the adequacy of our overall corporate governance, Corporate Governance Guidelines and committee charters.

Under our Corporate Governance Guidelines, each regularly scheduled Board meeting must include an executive session of all directors including the CEO and a separate executive session attended only by the independent directors. The Chairmen of the Corporate Governance Committee and the Compensation Committee rotate responsibility to preside over the non-management executive sessions and are responsible for providing appropriate feedback to the CEO.

Director Independence

A director is not considered independent unless the Board determines that he or she has no material relationship with the Company. The Board has adopted categorical standards to assist its determination and the Corporate Governance Committee’s recommendation as to each director’s independence. Under these categorical standards, a director will be presumed not to have a material relationship with the Company if:

(1) he or she satisfies the bright-line independence and other applicable requirements under the listing standards of the New York Stock Exchange (NYSE) and all other applicable laws, rules and regulations regarding director independence, in each case from time to time in effect;

(2) he or she is not a current employee (and none of his or her “immediate family members,” as defined in Item 404(a) of Regulation S-K of the SEC, is employed as an “executive officer,” as defined by the NYSE Corporate Governance Rules) of a company that has made payments to, or received payments from, the Company or any of its consolidated subsidiaries for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of $1 million or one percent of such other company’s consolidated gross revenues; and

(3) in the event that he or she serves as an executive officer or director of a charitable organization, the Company and its consolidated subsidiaries have donated less than five percent of that organization’s charitable receipts (provided that if within the preceding three years the Company and its consolidated subsidiaries donated annual aggregate contributions in excess of $1 million or two percent of the annual consolidated gross revenue of the charitable organization, such contributions must be disclosed in the Company’s Proxy Statement).

Our Board has determined that all of the nominees for election as directors have satisfied the foregoing categorical standards and are independent under the NYSE Corporate Governance Rules, with the exception of Anne M. Mulcahy, our Chairman and Chief Executive Officer, and Ursula M. Burns, our President.

In addition, the Corporate Governance Committee reviews relationships involving members of the Board, their immediate family members and affiliates and transactions in which members of the Board, their immediate family members and their affiliates have a direct or indirect interest in which the Company is a participant to determine whether such relationship or transaction is material and could impair a director’s independence. In making independence determinations, the Board considers all relevant facts and circumstances from the point of view of both the director and the persons or organizations with which the director has relationships. See “Certain Relationships and Related Person Transactions.”

As a result of the aforementioned review, 80% of our nominees for election as directors are deemed to be independent.

Certain Relationships and Related Person Transactions

Related Person Transactions Policy

The Board has adopted a policy addressing the Company's procedures with respect to the review, approval and ratification of "related person transactions" that are required to be disclosed pursuant to Item 404(a) of Regulation S-K. The policy provides that any transaction, arrangement or relationship, or series of similar transactions, in which the Company will participate or has participated and a "related person" (as defined in Item 404(a) of Regulation S-K) has or will have a direct or indirect material interest, and which exceeds $120,000 in the aggregate, is subject to review by the Corporate Governance Committee (each such transaction, a "Related Person Transaction"). In its review of Related Person Transactions, the Corporate Governance Committee reviews the material facts and circumstances of the transaction and takes into account certain factors, where appropriate, based on the particular facts and circumstances, including (i) the nature of the "related person's" interest in the transaction; (ii) the significance of the transaction to the Company and to the "related person;" and (iii) whether the transaction is likely to impair the judgment of the "related person" to act in the best interest of the Company.

No member of the Corporate Governance Committee may participate in the review, approval or ratification of a transaction with respect to which he or she is a "related person," provided that such member can be counted for purposes of a quorum and provides such information with respect to the transaction as may be reasonably requested by other members of the committee or the Board.

Certain Employment Arrangements

We actively recruit qualified candidates for our employment needs. Relatives of our executive officers and other employees are eligible for hire. We currently have two employees who receive more than $120,000 in annual compensation and are related to our named executive officers. These individuals have entered into routine employment arrangements in the ordinary course of business and their compensation is commensurate with that of their peers. None of our named executive

officers have a material interest in these employment arrangements. One of those employees is Thomas J. Dolan, Senior Vice President, who has been with the Company for 37 years, is a corporate officer and is a sibling of Anne M. Mulcahy, Chairman and Chief Executive Officer. The Compensation Committee of the Board makes compensation decisions involving Mr. Dolan. As determined by the Compensation Committee, Mr. Dolan was paid $822,166 in base salary and bonus compensation for 2007 and was granted 49,900 performance shares during fiscal year 2007. The other employee, related to another named executive officer, is a non-executive employee and had annual compensation for 2007 that was less than $200,000.

Committee Functions, Membership and Meetings

Our Board of Directors has four standing committees: Audit, Corporate Governance, Compensation and Finance. Set forth below is a list of the committees of our Board, a summary of the responsibilities of each committee, the number of committee meetings held during 2007 and the members of each committee:

Audit Committee (12 meetings)

A copy of the charter of the Audit Committee is posted on the Company's website at *www.xerox.com/corporategovernance*.

The responsibilities of the Audit Committee are:

- oversee the integrity of the Company's financial statements;
- oversee Company's compliance with legal and regulatory requirements;
- assess independent auditors' qualifications and independence;
- assess performance of the Company's independent auditors and the internal audit function;

- review the Company's audited financial statements, including the Company's specific disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board their inclusion in the Company's Annual Report on Form 10-K; and
- review and approve the Company's code of business conduct and ethics.

The Audit Committee is also responsible for the preparation of the audit committee report that is included in this Proxy Statement on page 44.

Members: Glenn A. Britt; Richard J. Harrington; William Curt Hunter; and Robert A. McDonald.

Chairman: Mr. Harrington

The Board has determined that each of the members of the Audit Committee is independent under the Company's Corporate Governance Guidelines and under the applicable SEC and NYSE Corporate Governance Rules. In addition, the Board has determined that the following members of the Audit Committee are "audit committee financial experts," as defined in the applicable SEC rules, and are financially literate: Glenn A. Britt; Richard J. Harrington; William Curt Hunter; and Robert A. McDonald. The SEC has determined that the designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Audit Committee and the Board of Directors in the absence of such designation or identification.

Compensation Committee (8 meetings)

A copy of the charter of the Compensation Committee (Committee) is posted on the Company's website as described above.

The responsibilities of the Committee are:

- oversee development and administration of the Company's executive compensation plans;
- set the compensation of the Chief Executive Officer and other executive officers;
- review and approve the performance goals and objectives for the compensation of the Chief Executive Officer and other officers;
- oversee the evaluation of the Chief Executive Officer and other members of management;
- consult with the Chief Executive Officer and advise the Board about senior management succession planning; and
- review and approve employment, severance, change-in-control, termination and retirement arrangements for all officers.

The Committee is also responsible for reviewing and discussing the Compensation Discussion and Analysis (CD&A) with management, and has recommended to the Board its inclusion in the Company's Proxy Statement (beginning on page 16) and in the Company's Annual Report on Form 10-K. The CD&A discusses the material aspects of the Company's compensation objectives, policies, and practices. The Committee's report appears on page 29 of this Proxy Statement.

The Committee has not delegated its authority for officer compensation. The Committee has, however, delegated all of its authority under the Company's equity plan to the Chief Executive Officer so that she can grant equity awards to employees below the officer level.

Officer compensation decisions are made by the Committee after discussing recommendations with the Chief Executive Officer and the Vice President of Human Resources. The Chief Financial Officer signs-off on the financial results for the Committee. He may attend Committee meetings to discuss financial targets and results for the Annual Performance Incentive Plan and the Executive Long-Term Incentive Program as described in the CD&A. The Committee meets in executive session to review and approve compensation actions for the Chief Executive Officer.

The Committee has retained Frederic W. Cook & Co., Inc. as an independent consultant to the Committee. The consultant's responsibilities are discussed on page 17 of this Proxy Statement.

Members: Vernon E. Jordan, Jr.; Ralph S. Larsen; Robert A. McDonald; and N. J. Nicholas, Jr.

Chairman: Mr. Nicholas

Hilmar Kopper served on the Committee until May 2007. Mr. Kopper did not stand for reelection at the 2007 Annual Meeting. The Board has determined that all of the members of the Committee are independent under the Company's Corporate Governance Guidelines and the NYSE Corporate Governance Rules.

Compensation Committee Interlocks and Insider Participation

No member of the Committee was or is an officer or employee of the Company or any of its subsidiaries. In addition, during the last fiscal year, no officer of the Company had an "interlock" relationship, as that term is defined by the SEC, to report.

Corporate Governance Committee (5 meetings)

A copy of the charter of the Corporate Governance Committee is posted on the Company's website as described above.

The responsibilities of the Corporate Governance Committee are:

- identify and recommend to the Board individuals to serve as directors of the Company and on Board committees;
- advise the Board regarding Board composition, procedures and committees;
- develop, recommend to the Board and annually review the corporate governance principles applicable to the Company;
- administer the Company's Related Person Transactions Policy;
- evaluate and recommend director compensation to the Board; and
- oversee the annual Board and committee evaluation processes.

The Corporate Governance Committee recommends to the Board nominees for election as directors of the Company and considers the performance of incumbent directors in determining whether to recommend their nomination.

Members: William Curt Hunter; Vernon E. Jordan, Jr.; Ralph S. Larsen; and Ann N. Reese.

Chairman: Mr. Jordan

The Board has determined that all of the members of the Corporate Governance Committee are independent under the Company's Corporate Governance Guidelines and the NYSE Corporate Governance Rules.

Finance Committee (4 meetings)

A copy of the charter of the Finance Committee is posted on the Company's website as described above.

The responsibilities of the Finance Committee are:

- oversee the investment management of the Company's employee savings and retirement plans, and
- review the Company's asset mix, capital structure and strategies, financing strategies, insurance coverage and dividend policy.

Members: Glenn A. Britt; N. J. Nicholas, Jr.; Ann N. Reese; and Mary Agnes Wilderotter.

Chairman: Ms. Reese

The Board has determined that all of the members of the Finance Committee are independent under the Company's Corporate Governance Guidelines and the NYSE Corporate Governance Rules.

Attendance and Compensation of Directors

Attendance: 11 meetings of the Board of Directors and 29 meetings of the Board committees were held in 2007. All incumbent directors attended at least 75 percent of the total number of meetings of the Board and Board committees on which they served. The Company's policy generally is for all members of the Board of Directors to attend the Annual Meeting of Shareholders. All nominees who served as directors last year attended the 2007 Annual Meeting of Shareholders.

We believe that attendance at meetings is only one means by which directors may contribute to the effective management of the Company and that the contributions of all directors have been substantial and are highly valued.

Summary of Director Annual Compensation

Compensation for our directors was determined by the Corporate Governance Committee and approved by the Board of Directors. Directors receive a retainer payable semi-annually in advance for service on the Board of Directors, with additional retainers for serving on the Audit Committee or for serving as a committee chairman. All retainers are paid 50% in cash and 50% in the form of Deferred Stock Units (DSUs). For the cash portion of their compensation, directors have the option to receive cash on a current basis, defer receipt under the existing Deferred Compensation Plan for Directors, or receive additional DSUs in lieu of cash. DSUs are a bookkeeping entry that represents the right to receive one share of the Company's common stock at a future date, currently at the earlier of one year after termination of Board service or the date of death. DSUs include the right to receive dividend equivalents, which are credited in the form of additional DSUs, at the same time and in approximately the same amounts that an equivalent number of shares of common stock would be entitled to receive dividends. The DSUs are issued under the 2004 Equity Compensation Plan for Non-Employee Directors (2004 Director Plan), a plan that was approved by the Xerox shareholders at the 2004 Annual Meeting.

During fiscal year 2007, the annual retainer for all of our directors was $130,000; Audit Committee members received an additional $10,000; the chairman of the Audit Committee received an additional $30,000; the chairman of the Compensation Committee received an additional $20,000; and the chairmen of the Corporate Governance and the Finance Committees received an additional $15,000. Directors also receive reimbursement for out-of-pocket expenses incurred in connection with their service on the Board.

Each non-employee director is required to maintain a meaningful ownership requirement in the Company, equivalent to five times the annual cash fees that such director receives for service on the Board of Directors, other than committee related fees. Newly appointed directors have up to five years to reach this ownership threshold. Directors who are our employees receive no compensation for service as a director.

Individually, the compensation for each director during fiscal year 2007 was as follows:

Change in
Pension

Name of Director (1)	Fees earned or paid in cash ($) (2)	Stock Awards ($) (3)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Value and Nonqualified Deferred Compensation Earnings ($) (4)	All Other Compensation ($) (4)	Total ($)
Glenn A. Britt	0	140,000	—	—	—	—	140,000
Richard J. Harrington	80,000	80,000	—	—	—	—	160,000
William Curt Hunter	0	70,000	—	—	449	70,000	140,449
Vernon E. Jordan, Jr.	72,500	72,500	—	—	2,074	—	147,074
Hilmar Kopper	27,083	32,500	—	—	—	—	59,583
Ralph S. Larsen	0	140,000	—	—	—	—	140,000
Robert A. McDonald	70,000	70,000	—	—	—	—	140,000
N. J. Nicholas, Jr.	0	73,750	—	—	—	73,750	147,500
Ann N. Reese	0	137,500	—	—	—	—	137,500
Mary Agnes Wilderotter	65,000	65,000	—	—	—	—	130,000

(1) Mr. Kopper did not stand for reelection at the 2007 Annual Meeting. Mr. Larsen will not stand for reelection at the 2008 Annual Meeting.

(2) Cash compensation deferred under the Deferred Compensation Plan for Directors is reflected in the "All Other Compensation" column of this table. Cash compensation elected in the form of DSUs under the 2004 Director Plan is reflected in the "Stock Awards" column of this table.

(3) Compensation awarded in the form of DSUs or DSUs elected in lieu of cash compensation are reflected in this column. Each of Mr. Britt, Mr. Larsen, and Ms. Reese elected to take their 2007 cash compensation in the form of DSUs under the 2004 Director Plan.The data presented in this column reflect compensation expense recorded by the Company in 2007 based upon the grant date market price (average of the high and low stock price) of the DSUs, recorded over the requisite service period in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment."

The total number and value of all DSUs as of the end of 2007 (based on the year-end closing market price of our Common Stock of $16.215) held by each director is as follows: Mr. Britt, 30,485 ($494,314); Mr. Harrington, 20,189 ($327,365); Mr. Hunter, 23,308 ($377,939); Mr. Jordan, 19,248 ($312,106); Mr. Kopper, 15,806 ($256,294); Mr. Larsen, 33,760 ($547,418); Mr. McDonald, 11,222 ($181,965); Mr. Nicholas, 25,052 ($406,218); Ms. Reese 30,074 ($487,650); and Ms. Wilderotter, 7,539 ($122,245).

(4) Mr. Hunter and Mr. Nicholas deferred their cash compensation for 2007 ($70,000 for Mr. Hunter and $73,750 for Mr. Nicholas) under the Deferred Compensation Plan for Directors. Amounts deferred under the Deferred Compensation Plan for Directors are credited with interest at either the investment return on the Xerox Stock Fund in the Xerox Corporation Savings Plan or at the Prime Rate. For 2007, the above market interest rate credited on balances in the Deferred Compensation Plan for Directors that receive the Prime Rate is 0.440%. The interest credits are based on the Prime Rate in effect on the first business day of the month as published in the Wall Street Journal in the "Money Rates" table. This same rate will apply for the entire month. A small portion of the Prime Rate is considered above

market due to the relationship of this rate with the statutory rate at the time the Prime Rate interest credit was established. Amounts deemed invested in the prime rate fixed income return investment fund would have accrued interest at rates ranging from 7.50% to 8.25% per annum in fiscal year 2007.

For information on compensation for directors who are officers, see the executive compensation tables beginning on page 30.

Terms Used in Biographies

To help you consider the nominees, we provide summary biographical information. Certain terms used in the biographies may be unfamiliar to you, so we are defining them here.

Xerox securities owned means the Company's common stock, including restricted shares of common stock issued under the Restricted Stock Plan For Directors, which plan was terminated upon shareholder approval of the 2004 Directors Plan at the 2004 Annual Meeting, DSUs issued under the 2004 Directors Plan and common stock owned through the individual's ESOP account. None of the nominees owns any of the Company's other securities.

Immediate family means the spouse, the minor children and any relatives sharing the same home as the nominee.

Biographies

Unless otherwise noted, all Xerox securities held are owned beneficially by the nominee. This means he or she has or shares voting power and/or investment power with respect to the securities, even though another name (that of a broker, for example) appears in the Company's records. All ownership figures are as of February 29, 2008.

Glenn A. Britt

Age: 59 Director since: 2004

Xerox securities owned: 1,000 common shares and 35,525 DSUs

Options/Rights: none

Occupation: President and Chief Executive Officer, Time Warner Cable, Inc.

Education: AB, Dartmouth College; MBA, Amos Tuck School of Business Administration

Other Directorships: Time Warner Cable, Inc.; TIAA

Other Background: Joined Time Inc. in 1972. Elected Vice President of Time Inc. in 1986, Treasurer in 1986 and Vice President-Finance in 1988. Became Senior Vice President and Treasurer of Time Warner Inc. and then President and CEO of Time Warner Cable Ventures. Appointed President of Time Warner Cable in 1999 and CEO in 2001. Member of the Audit Committee and Finance Committee of Xerox.

Ursula M. Burns

Age: 49 Director since: 2007

Xerox securities owned: 227,871 common shares including ESOP account; an indirect interest in approximately 1,623 common shares through the Deferred Compensation Plan
for Executives; immediate family owns 3,458 common shares

Options/Rights: 1,047,907 common shares

Occupation: President, Xerox Corporation

Education: BS, Polytechnic Institute of New York; MS, Columbia University

Other Directorships: American Express Corporation; Boston Scientific Corporation

Other Background: Joined Xerox in 1980 and subsequently advanced through several engineering and management positions. Named Vice President and General Manager, Departmental Business Unit in 1997; Vice President, Worldwide Manufacturing in 1999; Senior Vice President, Corporate Strategic Services in 2000; Senior

Vice President, President, Document Systems and Solutions Group in 2001; and Senior Vice President, President, Business Group Operations in 2002. Elected President in April 2007.

Richard J. Harrington
Age: 61 Director since: 2004
Xerox securities owned: 856 common shares and 23,076 DSUs
Options/Rights: none
Occupation: President and Chief Executive Officer, The Thomson Corporation
Education: BA, University of Rhode Island
Other Directorships: The Thomson Corporation

Other Background: Joined Thomson in 1982 and held a number of leadership positions including President and CEO of Thomson Newspapers; President and CEO of Thomson Professional Publishing; President and CEO of Mitchell International and President of Thomson & Thomson. Employed as an auditor for Arthur Young & Co for six years prior to joining Thomson. Chairman of the Audit Committee of Xerox.

William Curt Hunter
Age: 60 Director since: 2004
Xerox securities owned: 28,330 DSUs and an indirect interest in approximately 6,918 common shares through the Deferred Compensation Plan for Directors
Options/Rights: none
Occupation: Dean, Tippie College of Business, University of Iowa
Education: BA, Hampton University; MBA, Northwestern University; PhD, Northwestern University
Other Directorships: Trustee of Nuveen Investments

Other Background: From 2003 to 2006, held position of Dean and Distinguished Professor of Finance at the University of Connecticut. During a 15-year career with the Federal Reserve System, held various official positions including Senior Vice President and Director of Research at the Federal Reserve Bank of Chicago and as Associate Economist on the Federal Reserve□s Federal Open Market Committee (1995-2003). From 1988-1995, he held appointments as research officer and senior financial economist, and then as vice president at the Federal Reserve Bank of Atlanta. Held faculty positions at the University of Georgia, Atlanta University, Emory University and Northwestern University. Member of the Audit Committee and the Corporate Governance Committee of Xerox.

Vernon E. Jordan, Jr.
Age: 72 Director since: 1974
Xerox securities owned: 40,019 common shares, 21,868 DSUs and an indirect interest in
approximately 6,687 common shares through the Deferred Compensation Plan for Directors
Options/Rights: 30,000 common shares
Occupation: Senior Managing Director, Lazard Freres & Co. LLC; Of Counsel, Akin, Gump, Strauss, Hauer & Feld, LLP
Education: BA, DePauw University; JD, Howard University Law School
Other Directorships: American Express Company; Asbury Automotive Group; Lazard, Ltd.

Other Background: Joined Lazard Freres & Co. LLC in January 2000. Became a partner in the law firm of Akin, Gump, Strauss, Hauer & Feld (Akin Gump) in 1982. Before joining Akin Gump, Mr. Jordan held the following positions: President and Chief Executive Officer of the National Urban League, Inc.; Executive Director of the United Negro College Fund, Inc.; Director of the Voter Education Project of the Southern Regional Council; Attorney-Consultant, U.S. Office of Economic Opportunity; Assistant to the Executive Director of the Southern Regional Council; Georgia Field Director of the National Association for the Advancement of Colored People; and attorney in private practice in Arkansas and Georgia. Chairman of the Corporate Governance Committee and member of the Compensation Committee of Xerox.

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Robert A. McDonald

Age: 54 Director since: 2005

Xerox securities owned: 13,732 DSUs

Options/Rights: None

Occupation: Chief Operating Officer, The Procter & Gamble Company

Education: U.S. Military Academy, BS; University of Utah, MBA

Other Directorships: None

Other Background: Joined Procter & Gamble in 1980. Named Vice President and General Manager - Philippines, Asia/ Pacific-South, Procter & Gamble Far East in 1994; Regional Vice President - Japan, Procter & Gamble Asia in 1996; President, Northeast Asia in 1999; President, Global Fabric & Home Care in 2001; Vice Chairman, Global Operations in 2004; and Chief Operating Officer in 2007. He is a non-voting member of the Board of Directors of The Procter & Gamble Company. Member of the Audit Committee and Compensation Committee of Xerox.

Anne M. Mulcahy

Age: 55 Director since: 2000

Xerox securities owned: 263,189 common shares including ESOP account; 672,513 common shares held indirectly in a GRAT; and an indirect interest in approximately 35,647 common shares through the Deferred Compensation Plan for Executives; immediate family owns 260 common shares in an ESOP account

Options/Rights: 5,148,790 common shares

Occupation: Chairman and Chief Executive Officer, Xerox Corporation

Education: BA, Marymount College

Other Directorships: Citigroup, Inc.; Target Corporation; The Washington Post Company

Other Background: Joined Xerox in 1976 as a sales representative and held various sales and senior management positions. Named Vice President for Human Resources in 1992; Chief Staff Officer in 1997; Senior Vice President in 1998; and Executive Vice President in 1999. Elected President and Chief Operating Officer in May 2000, Chief Executive Officer in August 2001 and assumed the additional role of Chairman on January 1, 2002.

N. J. Nicholas, Jr.

Age: 68 Director since: 1987

Xerox securities owned: 106,700 common shares, 27,775 DSUs and an indirect interest in approximately 65,182 common shares through the Deferred Compensation Plan for Directors; immediate family owns 1,400 shares

Options/Rights: 30,000 common shares

Occupation: Investor

Education: AB, Princeton University; MBA, Harvard University Graduate School of Business Administration
Other Directorships: Boston Scientific Corporation; Time Warner Cable, Inc.

Other Background: President of Time, Inc. from 1986 to 1990 and President and Co-Chief Executive Officer, Time-Warner Inc. from 1990 to 1992. Former member of the President's Advisory Committee on Trade Policy and Negotiations and the President's Commission on Environmental Quality. Chairman of the Board of Trustees of the Environmental Defense Fund. Chairman of the Compensation Committee and member of the Finance Committee of Xerox.

Ann N. Reese
Age: 55 Director since: 2003
Xerox securities owned: 6,654 common shares and 32,722 DSUs
Options/Rights: 5,000 common shares
Occupation: Executive Director, Center for Adoption Policy Studies
Education: BA, University of Pennsylvania; MBA, New York University Graduate School of Business
Other Directorships: Jones Apparel Group; Sears Holdings; Merrill Lynch & Co., Inc.

Other Background: Co-founded the Center for Adoption Policy Studies in 2001. Principal, Clayton, Dubilier & Rice, 1999 to 2000. Executive Vice President and Chief Financial Officer, ITT Corporation, 1995 to 1998; Treasurer, ITT Corporation, 1992 to 1995; Assistant Treasurer, ITT Corporation, 1987 to 1992. Chairman of the Finance Committee and member of the Corporate Governance Committee of Xerox.

Mary Agnes Wilderotter
Age: 53 Director since: 2006
Xerox securities owned: 9,862 DSUs
Options/Rights: None
Occupation: Chairman, Chief Executive Officer and President, Citizens Communications Company
Education: BA, College of the Holy Cross
Other Directorships: Citizens Communications Company; Tribune Company; Yahoo! Inc.

Other Background: Joined Citizens Communications in 2004 as President and Chief Executive Officer, named Chairman and Chief Executive Officer in 2006. Senior Vice President of Worldwide Public Sector, Microsoft, 2002-2004; President and Chief Executive Officer, Wink Communications, Inc., 1996-2002; Executive Vice President, National Operations, AT&T Wireless Services, Inc. and Chief Executive Officer of AT&T's Aviation Communications Division 1995-1996; and Senior Vice President, McCaw Cellular Communications Inc., 1990-1995. Member of the Finance Committee of Xerox.

Ownership of Company Securities

We are not aware of any person who, or group which, owns beneficially more than 5% of any class of the Company's equity securities as of December 31, 2007, except as set forth below(1).

Amount and Nature of

Title of Class	Name and Address of Beneficial Owner	Beneficial Ownership	Percent of Class
Common Stock	Dodge & Cox 555 California Street, 40th Floor San Francisco, CA 94104	88,489,253(2)	9.6%
Common Stock	Neuberger Berman Inc. 605 Third Avenue New York, NY 10158	75,463,314(3)	8.2%
Common Stock	State Street Bank and Trust Company, as Trustee under other plans and accounts State Street Financial Center One Lincoln Street Boston, MA 02111	68,699,345(4)	7.4%
Common Stock	BlackRock, Inc. 40 East 52nd Street New York, NY 10022	60,822,913(5)	6.6%
Common Stock	Barclays Global Investors, N.A. 45 Fremont Street San Francisco, CA 94105	53,482,851(6)	5.8%

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(1) The words "group" and "beneficial" are as defined in regulations issued by the SEC. Beneficial ownership under such definition means possession of sole voting power, shared voting power, sole dispositive power or shared dispositive power. The information provided in this table is based solely upon the information contained in the Form 13G filed by the named entity with the SEC. Dodge & Cox and BlackRock, Inc. are registered investment advisers under the Investment Advisers Act of 1940, as amended. Neuberger Berman Inc. and BlackRock, Inc. each have subsidiaries that are investment advisers under the Investment Advisers Act of 1940, as amended, with beneficial ownership of the shares. Barclays Global Investors, N.A. has affiliates that are investment advisers under the Investment Advisers Act of 1940, as amended, with beneficial ownership of the shares.

(2) Within the total shares reported, as to certain of the shares, Dodge & Cox has sole voting power for 83,758,153 shares, shared voting power for 204,500 shares, sole dispositive power for 88,489,253 shares and no shared dispositive power for any of the shares. These securities are beneficially owned by clients of Dodge & Cox, which clients may include investment companies registered under the Investment Company Act and/or employee benefit plans, pension funds, endowment funds or other institutional clients.

(3)

Neuberger Berman Inc. and its entities or affiliates have sole voting power for 58,454,189 shares and shared dispositive power for 75,463,314 shares, and have no sole dispositive power or shared voting power for any of the shares.

(4) Within the total shares reported, as to certain of the shares, State Street Bank and Trust Company has sole voting power for 36,230,875 shares, shared voting power for 32,468,470 shares, shared dispositive power for 68,699,345 shares and no sole dispositive power for any of the shares. State Street Bank and Trust Company holds 18,918,415 of the total reported shares as ESOP Trustee under the Xerox ESOP. Each ESOP participant may direct the ESOP Trustee as to the manner in which shares allocated to his or her ESOP account shall be voted. The ESOP Trust Agreement provides that the ESOP Trustee shall vote any shares allocated to participants’ ESOP accounts as to which it has not received voting instructions in the same proportions as shares in participants’ ESOP accounts as to which voting instructions are received. Shares which have not been allocated are voted in the same proportion. The power to dispose of shares is governed by the terms of the ESOP Plan and elections made by ESOP participants.

(5) BlackRock, Inc. and its subsidiary companies have shared voting power and shared dispositive power for 60,822,913 shares, and have no sole dispositive or sole voting power for any of the shares.

(6) Within the total shares reported, as to certain of the shares, Barclays Global Investors, N.A. and its entities or affiliates have sole voting power for 46,616,608 shares and sole dispositive power for 53,482,851 shares, and have no shared voting power or shared dispositive power for any of the shares. The shares reported are held by the company in trust accounts for the economic benefit of the beneficiaries of these accounts.

Shares of Common Stock of the Company owned beneficially by its directors and nominees for director, each of the current executive officers named in the Summary Compensation Table and all directors and current executive officers as a group, as of February 29, 2008, were as follows:

Name of Beneficial Owner	**Amount Beneficially Owned**	**Total Stock Interest**
Glenn A. Britt	1,000	36,525
Ursula M. Burns	679,836	1,280,859
James A. Firestone	833,925	1,196,525
Richard J. Harrington	856	23,932
William Curt Hunter	—	35,248
Vernon E. Jordan, Jr.	70,019	98,574
Ralph S. Larsen*	63,689	151,348
Jean-Noel Machon	360,580	484,480
Robert A. McDonald	—	13,372
Anne M. Mulcahy	5,153,152	6,120,399
N. J. Nicholas, Jr.	138,100	231,057
Ann N. Reese	11,654	44,376
Mary Agnes Wilderotter	—	9,862
Lawrence A. Zimmerman	870,483	1,127,483
All directors and executive officers as a group (24)	9,815,977	13,224,180

* Mr. Larsen will not stand for reelection at the 2008 Annual Meeting.

Percent Owned by Directors and Executive Officers: Less than 1% of the aggregate number of shares of common stock outstanding at February 29, 2008 is owned by any director or executive officer. The amount beneficially owned by all directors and executive officers as a group amounted to approximately 1%.

Amount Beneficially Owned: The numbers shown are the shares of common stock considered beneficially owned by the directors and executive officers in accordance with SEC rules. Shares of common stock which executive officers and directors had a right, within 60 days, to acquire upon the exercise of options or rights are included. Shares held in a GRAT or by family members, shares held in the Xerox Corporation Employee Stock Ownership Plan accounts and vested restricted shares, the receipt of which have been deferred under one or more equity compensation plans, are also included. All these are counted as outstanding for purposes of computing the percentage of Common Stock outstanding and beneficially owned.

Total Stock Interest: The numbers shown include the amount shown in the Amount Beneficially Owned column plus options held by directors and executive officers not exercisable within 60 days, deferred stock units, performance shares and restricted shares. The numbers also include the interests of executive officers and directors in the Xerox Stock Fund under the Xerox Corporation Savings Plan and the Deferred Compensation Plans.

COMPENSATION DISCUSSION AND ANALYSIS

Shareholder value is delivered through a world-class management team. Our executive compensation program plays an important role in attracting, retaining, and rewarding people with the ability, drive, and vision to manage our business and ensure our long-term success. Our executive compensation program is a significant component of our ability to create an advantage for Xerox in an increasingly competitive global market.

The named executive officers (CEO, CFO and three most highly compensated executive officers other than the CEO and CFO) in the 2008 Proxy Statement are:

Anne M. Mulcahy	Chairman and Chief Executive Officer
Ursula M. Burns	President
Lawrence A. Zimmerman	Executive Vice President and Chief Financial Officer
James A. Firestone	Executive Vice President; President, Xerox North America
Jean-Noel Machon	Senior Vice President; President, Developing Markets Operations

Our compensation objectives are to:

- attract first-class executive talent
- retain key leaders
- reward past performance
- motivate future performance
- align the long-term interests of our executive officers with those of our shareholders
- foster the identification and development of leadership potential in key talent

Our executive compensation program is designed to develop and motivate the collective and individual abilities of our management team. We consider business performance and the competitive marketplace in the design, delivery, and funding of our total compensation program. We use a variety of compensation elements to achieve these objectives, including base salary, short-term incentive opportunities, and long-term incentives. Each element of our executive compensation program provides a framework for governing our overall employee compensation program and affects all employees by setting general standards of performance and helping to create an environment of goals, expectations and rewards linked to performance.

OVERSIGHT OF THE EXECUTIVE COMPENSATION PROGRAM

The Committee administers the executive compensation program on behalf of the Board and our shareholders. The members of the Committee are Vernon E. Jordan, Jr., Ralph S. Larsen, Robert A. McDonald, and N.J. Nicholas, Jr., and Mr. Nicholas serves as the Committee chair. Mr. Larsen will not stand for reelection at the 2008 Annual Meeting. The Committee is composed entirely of independent members of the Board, consistent with the listing requirements of the NYSE.

The Committee's responsibilities are discussed on page 7 of this Proxy Statement, and a complete description of its responsibilities and functions is set forth in its charter, which can be found on the Company's website at *www.xerox.com/corporategovernance*. For additional information on the members of the Committee, see "Biographies."

The Committee has retained the services of an independent compensation consulting firm, Frederic W. Cook & Co., Inc., to assist with its responsibilities. This consultant works only for the Committee and has performed no work for the Company since being retained as an independent consultant to the Committee. As provided in its charter, the Committee has the authority to determine the scope of the consultant's services and may terminate the consultant's engagement at any time. The consultant reports to the Committee chair and is an independent resource if the Committee has any questions or wishes to discuss issues. During fiscal 2007, the consultant provided the following services:

- continuously updated the Committee on trends in executive compensation, including providing the Committee chair with proactive advice on emerging practices,
- reviewed the Company's compensation levels, performance, and incentive compensation design compared to an industry peer group made up of companies that were a part of the BusinessWeek Computers and Peripherals Industry Group and/or the S&P 500; and a 15 company peer group of organizations with which the Company is likely to compete for executive expertise, as well as companies of similar size and scope (see "Our Executive Compensation Principles" for additional information on this peer group),
- reviewed Committee materials with management before distribution to Committee members to advise management and the Committee of possible issues and suggested changes,
- attended Committee meetings as requested by the Committee chair, including meetings in executive session, and
- specifically advised the Committee on CEO compensation decisions.

OUR EXECUTIVE COMPENSATION PRINCIPLES

The following core principles reflect the compensation philosophy of the Company with respect to the named executive officers, as established and refined from time to time by the Committee:

1. Compensation should reinforce the Company's business objectives and values.

2. Compensation should be performance-related.

3. There should be flexibility in allocating the various compensation elements.

4. Compensation opportunities should be competitive.

5. Incentive compensation should balance short-term and long-term performance.

6. Named executive officers should have financial risk and reward tied to their business decisions.

These principles are intended to motivate the named executive officers to improve the Company's financial performance; to be personally accountable for the performance of the business units, divisions, or functions for which they are responsible; and to collectively make decisions about the Company's business that will deliver shareholder value. Here is how we put these principles into practice:

1. Compensation should reinforce the Company's business objectives and values.
Our executive compensation program includes the incentives necessary to reward the contributions and leadership that serve to increase profits, revenue, and operating cash flow; enhance confidence in our financial stewardship; create and maintain the high morale and commitment of our employees; and enhance our reputation as a responsible corporate citizen.

2. Compensation should be performance-related.
We consider both business performance and the competitive marketplace when we design, deliver and fund our compensation programs. We pay for performance by rewarding superior performers with premium compensation. We reward named executive officers when the Company achieves annual and long-term performance objectives. Likewise, performance below targeted levels results in less than target compensation. The Committee believes that a significant portion of a named executive officer's total compensation should be at risk and tied to how well the Company, the individual, and the individual's business unit, division, or function performs against financial objectives and non-financial objectives. Generally two-thirds or more of our named executive officers' pay is performance-based and, therefore, at risk and variable from year to year.

In 2007, base salary on average was less than 25% of the total annual target compensation for our named executive officers. Total target compensation includes base salary, target annual short-term cash incentives, and target annual long-term equity incentive awards.

The Committee also evaluates the Company's performance and total shareholder return in relation to the peer group (defined below) to ensure that the Company delivers total compensation commensurate with growth in shareholder value.

3. There should be flexibility in allocating the various compensation elements.
The Committee believes that the majority of our named executive officers' compensation should be at risk through short-term cash and long-term equity incentives. It does not target any specific mix of elements of compensation in cash versus equity, in short-term compensation versus long-term compensation, or in fixed pay versus variable pay, other than to reinforce the principle that the majority of pay should be at risk through short-term and long-term incentives.

4. Compensation opportunities should be competitive.
Our total compensation program must be flexible to attract, retain, and motivate talent to drive the business in a global market. To further this principle, the Committee reviews peer group compensation data from proxy statements annually to ensure our executive compensation program for named executive officers is competitive in the office equipment/technology industry and with the Company's direct competitors.

Peer Group
The Committee compares named executive officer pay to peer group proxy data. Our peer group is made up of companies with which we are likely to compete for executive talent. This group includes global companies in technology, office equipment, and other related industries. Our 2007 peer group was comprised of:

Accenture	Eastman Kodak	IBM
Automatic Data Processing	Electronic Data Systems	Lexmark International
Cisco Systems	EMC	Motorola
Computer Science Corp.	Hewlett-Packard	Pitney Bowes
Dell	IKON Office Solutions	Texas Instruments

Establishing Compensation Ranges

Compensation ranges for named executive officers are established based on the peer group data. The data is analyzed by Mercer Human Resources Consulting, which provides consulting services to the Company. The median of the peer group data is used as a competitive reference point and the compensation ranges are established at plus or minus 30% of the median. The median, therefore, is equivalent to the midpoint of the range. Ranges are set for each of these elements of compensation:

- base salary
- total cash compensation (base salary plus short-term incentives)
- long-term incentives
- total compensation (total cash plus long-term incentives)

5. Incentive compensation should balance short-term and long-term performance.

While the Committee seeks to structure a balance between achieving strong annual results and ensuring the Companys long-term viability and success, it does not target a specific mix of short-term and long-term incentives. Named executive officers are regularly provided incentive opportunities based on achievement of both short-term and long-term objectives. Participation in the Companys short-term and long-term incentive programs increases with positions at higher levels of responsibility such as those held by named executive officers who have the greatest influence over time on the Companys strategic direction and results.

6. Named executive officers should have financial risk and reward tied to their business decisions.

The Committee believes that named executive officers should have a financial interest in the Companys long-term results. Consequently, we require our named executive officers to be shareholders of the Company and provide them various ways to do so.

We require each named executive officer as a participant in the Executive Long-Term Incentive Program (E-LTIP) to build and maintain a meaningful level of stock ownership. (A description of the E-LTIP can be found in the section on Long-Term Incentives.) Awards under the E-LTIP are subject to a mandatory holding requirement. As determined by the Committee, named executive officers must retain at least 50% of the shares acquired through the vesting of awards, net of taxes and fees, until they achieve their required level of ownership.

Ownership Requirements for Named Executive Officers

Our named executive officers are required to own equity at least equal to the following amounts:

Anne M. Mulcahy	5 times base salary
Ursula M. Burns, Lawrence A. Zimmerman, and James A. Firestone	3 times base salary
Jean-Noel Machon	2 times base salary

PERFORMANCE OBJECTIVES

The Committee sets individual performance measures for the CEO. The CEO sets individual performance measures for the other named executive officers. Named executive officer objectives align with those of the CEO. The CEOs performance objectives include:

- financial performance (growing revenue and EPS and improving profitability and cash flow)
- leadership effectiveness (communicating and implementing the Companys strategic direction, implementing and executing strategic succession plans, setting the appropriate moral and ethical tone, strengthening the Companys leadership as a model corporate citizen, executing short-term and long-term business plans)

- improving the customer experience (driving significant improvements in products, services and processes, deployment of Lean Six Sigma initiatives)
- continuing to explore opportunities to extend market reach
- employee satisfaction (retaining key talent, creating a positive employee environment, and providing employee development opportunities)

The Committee expects a high level of collaborative and individual performance and contributions, consistent with our named executive officer level of responsibility. The Committee discusses and evaluates the quality of the overall performance of the CEO after considering the CEOs self assessment and Company performance. The CEO in turn uses a similar process when reviewing performance of the other named executive officers.

COMPONENTS OF THE EXECUTIVE COMPENSATION PROGRAM

The primary elements of our executive compensation program for our named executive officers are:

1. base salary
2. short-term incentives
3. long-term incentives
4. pension plans
5. 401(k) savings plan
6. perquisites and personal benefits
7. change-in-control agreement

Each year, we provide the Committee with a comparison of the compensation of the named executive officers with that of the named executive officers of the Companys peer group. The Committee reviews compensation against the midpoint of named executive officer compensation ranges as a competitive reference point. (These compensation ranges are established based on peer group data as described under Our Executive Compensation Principles.) Mrs. Mulcahy presents her evaluation of the management team to the Committee, including a review of contribution and performance over the past year, and recommends compensation actions. Following this presentation, the Committee makes its own assessments and formulates compensation amounts for each named executive officer for base salary, short-term and long-term incentives. For each named executive officer (and for each component of compensation), when determining pay, the Committee assesses past

contributions, expected future contributions, succession planning objectives, retention objectives and internal equity with respect to each named executive officers compensation compared to other officers within the Company. For long-term incentive compensation, the Committee also considers affordability. Once all components of compensation are established, the Committee balances this assessment against competitive pay practices and verifies that the total compensation is appropriate, competitive and consistent with the named executive officers total compensation range.

Mrs. Mulcahys compensation is based on a review of CEO peer group data and takes into account overall Company performance and her role leading Xerox. Mrs. Mulcahys compensation is higher than that of our other named executive officers but her compensation is competitive with the compensation of her CEO peer group and is determined under the same programs and policies as other Xerox named executive officers.

2007 Total Target Compensation

The 2007 total target compensation (base salary + target bonus + target long-term incentive award) in relation to the midpoint of the total compensation ranges for the named executive officers was as follows:

- Mrs. Mulcahy was 9.7% below the midpoint and within the CEO total compensation range.
- Ms. Burns was 21.8% above the midpoint and within the range.
- Mr. Zimmerman was 2.5% above the midpoint and within the range.
- Mr. Firestone was 1.7% above the midpoint and within the range.
- Mr. Machon was 26.1% below the midpoint and within the range. His total compensation includes other compensation and benefits associated with his international assignment.

For additional information, see the Summary Compensation Table on page 30.

The Committee also reviews named executive officer compensation under various termination scenarios similar to the information provided in the table on *Potential Payments upon Termination or Change in Control* (tally sheet). The Committee uses this information as a reference point to understand compensation, but it is not a material driver of compensation decisions. This assessment is completed with the input of the Committee’s consultant and includes a review of evolving market practices in the office equipment/technology industry and other industries, external regulatory and other developments, the market for executive talent, and the Committee’s and Company’s executive compensation philosophy.

1. <u>Base Salary</u>

Base salary is the fixed pay element of our compensation program. Every year, the Committee determines the base salary of the CEO, and reviews and approves the CEO’s recommendation for the base salaries of the other named executive officers.

The Committee also reviews named executive officer salaries when there is a specific change, such as a promotion or achievement of an extraordinary level of performance. Salary increases are determined based on a review of peer group proxy data to ensure that pay is competitive, that any increases are consistent with Company succession planning objectives, and that there is internal equity to differentiate pay among named executive officers. The Committee typically approves base salary increases each February, which are effective in April of that year.

2007 Base Salary Actions

In April 2007, Ursula M. Burns was promoted to Xerox President, and Lawrence A. Zimmerman and James A. Firestone were promoted to Executive Vice President. At the same time, the Committee approved base salary increases for these named executive officers, effective April 2007. Consistent with Ms. Burns’ added scope and responsibility as President and a review of market data and her salary relative to that of the CEO, the Committee increased the base salary for Ms. Burns to $850,000. The Committee also increased the base salaries for Mr. Zimmerman and Mr. Firestone to $700,000 to acknowledge their respective leadership roles accelerating Xerox’s growth strategy. Based on a review of market data and internal equity, the base salaries for Mrs. Mulcahy and Mr. Machon remained unchanged.

2. <u>Short-Term Incentives</u>

Every February, the Committee approves an annual incentive (also known as bonus) for the CEO and the other named executive officers. These bonus opportunities provide variable cash compensation based on the achievement of annual performance objectives. The Committee determines these awards according to the Company’s Annual Performance Incentive Plan (APIP).

The process begins after the close of the previous fiscal year (December 31) when the financial results of the Company have been made available to the Board of Directors. The Board then reviews and approves the Company’s annual operating plan for the new fiscal year. At that time, the Committee:

- assesses performance against goals and determines awards for the previous fiscal year
- sets the overall Company performance measures and payout ranges for the new fiscal year
- establishes a target, threshold, and maximum bonus opportunity for each named executive officer

Bonuses are paid at the beginning of each year for the previous fiscal years performance. Bonuses for named executive officers are based on both the CEOs and the Committees assessment of actual Company-wide performance against pre-established Company performance objectives.

Bonus Performance Measures
Working with the CEO, the Committee set the APIP bonus performance measures with an expectation of reasonable year-over-year improvement as follows:

Performance measures and weightings

- constant currency revenue growth (weighted at 30%), defined as revenue growth adjusted to exclude the impact of changes in the translation of foreign currencies into U.S. dollars
- earnings per share (weighted at 40%)
- core cash flow from operations (weighted at 30%), defined as operating cash flow adjusted for on-lease activities and changes in finance receivables

2008 APIP performance target ranges

- constant currency revenue growth of 3% - 3.5%
- earnings per share of $1.31 -$1.35
- core cash flow from operations of $1.9 billion - $1.95 billion

Our performance goals are expected to be difficult to obtain as all targets are set with the expectation that consistent improvements are necessary to achieve our goals. We operate in a very mature and competitive industry with constant pricing pressures that makes it challenging to continue increasing revenue growth. Our future profitability and cash flow are also subject to many risk factors, all of which are detailed in our 2007 Form 10-K Report (see Risk Factors section), and contribute to our position that incentive performance goals are challenging to obtain. Some of these challenges include:

- significant foreign and domestic competition
- ability to develop new technologies
- ability to obtain adequate pricing for our products and to improve our cost structure
- economic and political conditions, including fluctuating foreign currencies and shifting regulatory schemes
- ability to fund customer financing activities at economically competitive levels

Bonus Target and Opportunity
In February of each year, the Committee establishes for each named executive officer an annual bonus target expressed as a percentage of the named executive officers annual base salary. This bonus target takes into account various factors that management and the Committee deem relevant, including, but not limited to, scope of responsibility and comparables paid to named executive officers by the Companys peer group.

The annual bonus targets for the named executive officers are as follows (and unchanged from the previous year except as noted):

- Mrs. Mulcahy 150%
- Ms. Burns 125% (increased from 100% in April 2007 when promoted to President)
- Mr. Zimmerman and Mr. Firestone 100%
- Mr. Machon 70%

The Committee reduced the maximum bonus payout opportunity from three times target to two times target, starting with the 2007 performance year, consistent with actual bonus payout practices.

Determining Bonus Awards

Bonus payments for named executive officers are earned as a team working together to achieve overall Company results that drive shareholder value. Among named executive officers, the Committee expects both a high level of collaborative effort as well as individual performance and contributions, consistent with our named executive officer level of responsibility. Therefore, the Committee determines bonus payments based on overall quantitative financial performance.

Subject to the Committeevs review and approval, any material unusual charges or gains that occur during the plan year can be excluded from bonus calculations. Furthermore, the Committee retains the sole discretion to grant a lower bonus than the calculated incentive payout or no bonus at all, based on appropriate circumstances. The Committee does not use discretion to grant a higher bonus.

After the end of the fiscal year, the CEO reviews the Companyvs actual performance against each of the financial performance objectives established at the beginning of the year. Each performance measure (revenue, earnings per share and core cash flow from operations) is assessed and calculated independently. The results of each are added together to determine overall performance results. The payout opportunity varies based on performance as follows:

- below threshold performance no payout
- performance at threshold 50% of the annual bonus target
- performance at target 100% of the annual bonus target
- performance at maximum or higher 200% of the annual bonus target

2007 Performance

Performance results for 2007 against established measures were:

- constant currency revenue growth of 1% above threshold of the range and below target
- earnings per share of $1.19 exceeded the maximum of the range
- core cash flow from operations of $2.1 billion exceeded the maximum of the range

For 2007 bonus payments, the Committee accepted managements recommendation and exercised its discretion to ensure that named executive officer bonuses would be equal to the average of the bonus payment to the operating units. Considering the Companys overall 2007 financial results, the Committee approved incentive awards for 2007 for named executive officers that were 110% of the target.

The Committee believes that the fiscal 2007 incentive bonus payments are consistent with our strategy of rewarding named executive officers for the achievement of important, challenging business goals. These incentive payments are driven by achievement of business results against quantitative measures set in advance by the Committee. In view of the Companys 2007 results, the Committee believes that the annual incentive bonus calculations resulted in reasonable and appropriate performance-related bonus payments to the Companys named executive officers.

The annual bonuses paid to the named executive officers for fiscal year 2007 are shown in the *Summary Compensation Table*. Additional information about the bonus opportunities is shown in the *Grants of Plan-Based Awards* table.

3. <u>Long-Term Incentives</u>

We provide long-term incentives to reward named executive officers for sustained performance and as a retention incentive.

Executive Long-Term Incentive Program
Our Executive Long-Term Incentive Program (E-LTIP) awards are made according to the 2004 Performance Incentive Plan approved by our shareholders. E-LTIP awards made to named executive officers are primarily comprised of performance shares. On occasion, the Committee will grant restricted stock units as a means of retaining key officers such as named executive officers. Restricted stock units vest over a requisite service period, which typically ranges from three to five years. Stock options have not been granted since 2004.

Performance shares may be earned based on achieving annual performance targets and based on achieving three-year cumulative performance between threshold and maximum. The earn-out range for named executive officer performance shares is between 0% and 150% of the original award amount based on cumulative performance. If threshold performance is not achieved, none of the performance shares will vest. If three-year cumulative performance is achieved at maximum, named executive officers will receive an additional 50% of their original award amount. Performance shares that have been earned vest three years from the grant date and following Committee certification of the performance results for

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the applicable three-year period. Once vested, performance shares are paid out in the form of shares of the Company's common stock. Named executive officers who retire or are involuntarily terminated, other than for cause, before the end of the three-year period, will vest in a pro-rata portion of earned performance shares. Vesting will occur on the original vesting date. Performance shares are forfeited if the named executive officer voluntarily terminates employment before the shares vest. Performance shares fully vest upon death.

Although equity awards are generally granted on a regular cycle, the Committee occasionally grants off-cycle equity awards to named executive officers for special purposes, such as new hires, promotions, recognition, and retention.

Long-Term Incentive Performance Measures
Each February, the Committee determines the number of performance shares each named executive officer earned based on the annual and three-year cumulative performance cycle results. (See the *Outstanding Equity Awards* table for additional information on earned performance shares.) Following the review of the Company's operating results for the previous fiscal year, the Committee establishes performance metrics and goals for the new three-year performance share cycle:

E-LTIP performance measures and weightings

- earnings per share (weighted 60%)
- core cash flow from operations (weighted 40%)

The definitions of these performance measures are listed below:

<u>Earnings Per Share</u>
We define earnings per share as diluted earnings per share from continuing operations as reported in the Company's audited financial statements, as adjusted on an after-tax basis for the following discretely disclosed (in either Management's Discussion and Analysis or the footnotes to the financial statements) items (if equal to or greater than $50 million pre-tax on an individual basis, or in the aggregate per item):

- gains/(losses) from litigation, regulatory matters or any changes in enacted law (including tax law)
- gains/(losses) from asset sales or business divestitures
- restructuring and asset impairment charges
- gains/(losses) resulting from acts of war, terrorism or natural disasters
- the initial effect of changes in accounting principles that are included within Income from Continuing Operations

- impairment of goodwill and other intangibles
- gains/(losses) from the settlement of tax audits
- gains/(losses) on early extinguishment of debt
- non-restructuring related impairments of long-lived assets
- acquisition related expenses including, but not limited to, acquired in-process research and development and integration costs

Core Cash Flow from Operations
Core cash flow from operations is defined as net cash provided by (used for) operating activities as reported in the Company's audited financial statements, as adjusted for the following:

- exclusion of net changes in finance receivables and on-lease equipment
- cash flow impacts (inflows and outflows) resulting from the EPS adjustments identified above, with the exception of cash payments for restructurings
- cash payments for restructurings in excess of the amount reported as current restructuring reserves in the preceding year's Annual Report
- special discretionary pension funding in excess of $50 million to prior years shall be excluded

Any other items approved for adjustment of earnings per share or core cash flow from operations will be considered a modification of the award.

Determining E-LTIP Award Value
Long-term incentives are an element of compensation used to reward all named executive officers for sustained performance and as a retention tool to align with succession planning objectives. E-LTIP is awarded based on a review of market data, affordability, and historical and expected future contributions. Each year, the Committee approves a new annual grant of performance shares for named executive officers. These decisions are made in conjunction with other compensation decisions that the Committee makes for the current fiscal year.

When analyzing the value of our annual long-term incentive awards, we include the entire performance share award value. Special retention restricted stock unit awards are calculated over a three-year period and include only 1/3 of the award value each year. This approach is consistent with how we analyze peer group data.

2007 E-LTIP Actions
The Committee took the following actions related to executive long-term incentive programs in 2007:

- In February 2007, the Committee approved the long-term incentive award values for the named executive officers for the 2007 – 2009 performance cycle. The number of shares granted effective July 1, 2007, was based on the closing price of Xerox common stock on February 15, 2007, the date the Committee approved the award values. These performance shares are payable after fiscal 2009 if the Company achieves the target performance on either an annual basis or an overall basis for the three-year performance period.
- At the time of Ms. Burns' promotion to President and Mr. Firestone's promotion to Executive Vice President, retention restricted stock unit awards were granted to each (effective April 2007).
- At the time of Mr. Zimmerman's promotion to Executive Vice President, his July 1 performance share award (originally approved in February) was increased.

Additional information on the 2007 awards can be found in the *Grants of Plan-Based Awards* table.

2008 E-LTIP Performance Target Ranges

Our 2008 E-LTIP will follow the same basic principles as 2007. The only change is that we will determine the number of shares granted, based on approved values using the closing price on the grant date of July 1, 2008.

The 2008-2010 E-LTIP performance target ranges are as follows:

- earnings per share of $4.23 - $4.45
- core cash flow from operations of $5.85 - $6 billion

These goals are expected to be difficult to obtain for the same reasons as outlined above under the section entitled Short-Term Incentives. The 2008 E-LTIP awards are in a footnote to the *Outstanding Equity Awards* table.

4. Pension Plans

We provide pension benefits to the named executive officers, under the:

- Retirement Income Guarantee Plan (RIGP)
- Unfunded Retirement Income Guarantee Plan (Unfunded RIGP)
- Unfunded Supplemental Executive Retirement Plan (SERP)
- Xerox International Pension Plan

U.S. Qualified Pension Plan

Retirement Income Guarantee Plan

The named executive officers, other than Mr. Machon, participate in the Company's tax-qualified pension plan (RIGP) on the same terms as the rest of the Company's salaried employees. As of January 1, 2008, participants will vest in RIGP benefits at the earlier of three years of service or age 65. All named executive officers are vested. Early retirement benefits under RIGP are available for employees who leave Xerox at age 55 or older, and have at least 10 years of Xerox service. Benefits are reduced by 5% per year if retiring prior to age 65 (or age 62 with at least 30 years of Xerox service). RIGP is payable as a lump sum or an annuity as elected by the participant. RIGP benefits are subject to IRS limits on the compensation that can be reflected in a qualified plan.

U.S. Non-Qualified Pension Plans

Unfunded Retirement Income Guarantee Plan

Because the Internal Revenue Code limits the pension benefits (based on an annual compensation limit) that can be accrued under a tax-qualified pension plan, the Company has established and maintains a non-tax qualified pension plan (Unfunded RIGP) to compensate executives, including named executive officers other than Mr. Machon, in an equitable fashion for the reduction in their pension benefit resulting from this limitation. This executive retirement plan is purely a restoration plan to provide a comparable level of retirement benefits to those provided to other employees. Unfunded RIGP benefits are generally determined under the same terms as the RIGP benefit except that Unfunded RIGP is not payable as a lump sum.

Unfunded Supplemental Executive Retirement Plan

The SERP provides an added benefit that supersedes Unfunded RIGP and when combined with RIGP, delivers a benefit unreduced for early commencement, generally at age 60 (age 55 for Mrs. Mulcahy). At the end of 2007, there were 18 active employees in SERP. No pay limitations apply in determining the SERP benefit, and the accrual rate can vary. A total benefit is determined by the SERP formula and then the difference between this amount and the RIGP benefit is paid from SERP.

Mrs. Mulcahy is retirement eligible and would commence her SERP benefits upon retirement. Mr. Zimmerman is also retirement eligible and upon retirement would commence his SERP benefits. He has been credited with two years of benefit service for each year of actual Xerox service. His service was accelerated to mitigate the pension impact of joining Xerox later in his career.

The other named executive officers covered by SERP (Ms. Burns and Mr. Firestone) are eligible for benefits at age 60 with 10 years of service. For named executive officers who do not meet the requirements of SERP when they leave Xerox, all non-qualified benefits would come from Unfunded RIGP. Some SERP executives who do not otherwise meet the age 60 vesting requirement have received their accrued SERP benefits as provided under their separation packages.

SERP includes a mid-career hire benefit that applies to a small group of executives including Mr. Zimmerman. This benefit is equal to 150% of the SERP accrual and is designed to mitigate the loss in retirement benefits from a mid-career change in employment.

Xerox International Pension Plan

Mr. Machon is a French citizen, working in the United Kingdom. He is not covered by qualified and non-qualified plans in the U.S. and does not have local retirement plans (other than French social security and other mandatory French pension plans). The Xerox International Pension Plan provides benefits for Mr. Machon to supplement his French pension plans. The pay used to calculate the Xerox International Pension Plan benefit is base pay plus 2/3 of target bonus (not actual bonus) in force at his retirement date. The plan formula targets a total retirement income of 50% pay when combined with the French pension plans. If Mr. Machon leaves Xerox employment for any reason before age 55, he will receive the vested plan assets only.

For additional information on the actuarial present value of the accumulated pension benefits for the named executive officers, see the *Pension Benefits* table.

5. 401(k) Savings Plan

U.S. employees are eligible to participate in a 401(k) savings plan. U.S. named executive officers are eligible to participate in the same manner as all other employees covered by RIGP. They are eligible for a match of 50 cents on the dollar up to 6% of eligible pay saved on a before-tax basis, subject to IRS qualified plan compensation limits and highly compensated threshold limits. No benefits are provided to named executive officers in excess of these limits.

6. Perquisites and Personal Benefits

General Benefits

The Company maintains medical and dental insurance, accidental death insurance, and disability insurance programs for all of its employees, as well as customary vacation, leave of absence, and other similar policies. Named executive officers are eligible to participate in these programs on the same basis as the rest of the Company's salaried employees.

Life Insurance

The Company provides the Xerox Universal Life Plan to eligible U.S. employees, including the named executive officers. Participants receive Company-paid life insurance equal to their death benefit under a previous program, or three times their base salary, whichever is greater. Executives are the sole owners of their policies and are responsible for any taxes due from Company contributions. Xerox will continue to make premium payments for participants who were in the previous Company-paid life insurance program until they reach the later of age 65 or July 2013. Mrs. Mulcahy, Ms. Burns, and Mr. Firestone are among those participants who were in the previous program.

Perquisites

The Company periodically reviews the perquisites that named executive officers receive. These perquisites are relatively few in number, and the Committee believes that its policies regarding perquisites are conservative compared to other companies. The primary perquisites for named executive officers are:

- Financial planning and tax preparation: Solid financial planning by experts reduces the amount of time and attention that named executive officers devote to their finances and maximizes the value of their compensation. Based on a review of perquisites in 2007, the Committee eliminated tax preparation beginning with 2008 taxes.
- Health physicals: The Company believes it is in the best interest of executives and shareholders to encourage the executive team to have annual comprehensive health physicals.

- Personal use of Company aircraft: For reasons of security and personal safety, the Committee requires Mrs. Mulcahy to use the Company aircraft for all travel where feasible. Other executives are allowed personal use of the Company aircraft on a very limited basis. In 2007, the Committee eliminated tax reimbursements related to the use of aircraft for personal reasons. Although the Committee has authorized Mr. Zimmerman's personal air travel to and from his residences located outside Connecticut, Mr. Zimmerman used only commercial aircraft for such travel in 2007.

Other perquisites and personal benefits include:

- Mrs. Mulcahy is eligible for home security.
- Mr. Machon receives a car allowance, which is a customary benefit provided to all senior-level Xerox employees in Europe.
- As is the case for any employee on international assignment, Mr. Machon is also provided an international assignment allowance. This allowance does not duplicate compensation already being paid (i.e. car allowance).
- Mr. Machon received a loan over 16 years ago before he was an executive officer of the Company. Details of this loan are described in the *Summary Compensation Table*.

The total costs to the Company for providing perquisites and personal benefits to the named executive officers during fiscal 2007 are shown in the *Summary Compensation Table*.

7. Change-in-Control Severance Agreements and Plan Provisions

We have change-in-control severance agreements with each of the named executive officers. We consider these agreements to be in the best interest of our shareholders because they foster the continuous employment and dedication of key management personnel without potential distraction or personal concern if Xerox were to be acquired by another company (change in control). These agreements would enable the named executive officers to continue to perform in their roles when a potential change in control is impending, can fulfill their expectations for long-term incentive compensation arrangements, and are protected against the loss of their positions following a change in the ownership or control of the Company.

Change-in-control severance payments are not conditioned on non-compete, non-solicitation, or other negative covenants. These agreements provide specified severance benefits if, within two years following a change in control of the Company, employment is terminated either:

- involuntarily other than for cause, death, or disability, or
- voluntarily for good reason.

Voluntarily for good reason includes:

- the material diminution of authority, duties, or responsibilities (including being an executive officer of the Company before a change in control and ceasing to be an executive officer of the surviving company)
- a reduction in base salary or target bonus
- failure by the Company to increase annual base salary at intervals consistent with the Company's prior practice; failure to increase salary as has been increased for similarly situated executives
- material change in the geographic location where the executive is required to be based
- failure of the Company to continue any material compensation or benefit plan, vacation policy, or any material perquisites unless an alternative plan is provided, or failure to continue the executive's participation in these plans
- failure of the Company to obtain a satisfactory agreement from any successor to assume and agree to perform in a manner consistent with this agreement

These severance benefits include:

- A lump sum cash payment equal to 2.99 times the then-current annual base salary and short-term incentive award target for the CEO. For the other named executive officers, the lump sum cash payment is generally two times the executive officers then-current annual base salary and short-term incentive award target. The Committee views these amounts as reasonable and appropriate for the executive officers, including the CEO.
- Continuation of specified welfare benefits at active employee rates for a period of 36 months for Mrs. Mulcahy and 24 months for other executives.
- A tax reimbursement sufficient to compensate the named executive officer for the amount of any excise tax imposed by Section 4999 of the Internal Revenue Code, but no related tax gross-up.
- Payment of reasonable legal fees and expenses incurred when the named executive officer, in good faith, is involved in a dispute while seeking to enforce the benefits and rights provided by the severance agreement.

In addition to the benefits above, when the change in control occurs, regardless of whether a termination occurs, participating executives are immediately entitled to the following benefits:

- For equity awards prior to February 15, 2007, automatic vesting of all outstanding awards (including service-based restricted stock unit awards, and performance-based stock awards, assuming achievement of the target performance level).
- For equity awards made on or after February 15, 2007, accelerated vesting will occur following a change in control only upon an involuntary termination of employment (other than a termination for cause) or a voluntary termination for good reason.
- Immediate payment of the present value of non-qualified pension benefits, based on years of participation and average monthly compensation as of the date of the change in control, provided the change in control conforms with applicable tax regulations regarding deferred compensation. In the event of a change in control that does not conform with deferred compensation regulations, participants will vest in the plan benefits but will receive payment according to the normal payment provisions of the plans. Payment is made without regard to the plans requirements for age or years of service. The Committee views this payment as appropriate in order to protect the pension benefit that the named executive officer has earned at Xerox.

Each change-in-control severance agreement provides that the executive will remain an employee of the Company for nine months following a potential change in control, or, on the date which the named executive officer is first entitled to receive the benefits described above if earlier.

Generally, for purposes of the severance agreements, a change in control is deemed to have occurred, subject to specific exceptions, if:

- any person beneficially owns 20 percent or more of the combined voting power of our outstanding securities
- a majority of our Directors are replaced under specific circumstances
- there is a merger or consolidation involving the Company
- all or substantially all of the Companys assets are sold, or the Companys shareholders approve a plan of complete liquidation or dissolution

The Committee believes that it is in the best interests of the Company and its shareholders to offer such change-in-control arrangements to its named executive officers. The Company competes for executive talent in a highly competitive market in which companies offer similar benefits to senior employees. The Committee periodically reviews change-in-control severance payment amounts against benchmark data to ensure that amounts are consistent with market practices. In 2007, the Committee reviewed benchmark practices of other Fortune 350 companies.

In 2007, the Company terminated grantor trusts that had been established to pay amounts due under some deferred compensation plans and the change-in-control severance agreements described above.

All non-qualified options under the 1991 Long-Term Incentive Plan and the 1998 Employee Stock Option Plan are accompanied by option surrender rights. If there is a change in control, all rights that are in the money become payable in cash as soon as practical.

The amount of the estimated payments and benefits payable to the named executive officers assuming a change of control of the Company and a qualifying termination of employment as of the last day of fiscal 2007 are shown in the table showing *Potential Payments Upon Termination or Change in Control*.

NON-QUALIFIED DEFERRED COMPENSATION

The Deferred Compensation Plan for Executives was frozen in 2002. The amount in this plan for each participant represents balances from deferrals made before 2002. Details regarding the above-market interest credited in 2007 to non-qualified deferred compensation balances from compensation that was deferred prior to 2002 and for aggregate account balances as of fiscal year-end 2007 are provided in the *Summary Compensation Table* and the *Non-Qualified Deferred Compensation* table. The Committee views the amount of above-market interest as immaterial.

EMPLOYMENT AND SEPARATION AGREEMENTS

The Company does not generally enter into employment agreements with its named executive officers. As a result, these named executive officers serve at the will of the Board of Directors.

This policy enables the Company to remove a named executive officer before retirement whenever it is in the best interest of the Company, with full discretion to decide on a severance package for that individual (excluding vested benefits). When a named executive officer is removed from his or her position, the Committee exercises its business judgment in considering whether or not to approve an appropriate severance arrangement for the individual in light of all relevant circumstances, including but not limited to his or her term of employment, past accomplishments, and reasons for separation from the Company.

The Company's policy generally provides severance for management level salaried employees, including named executive officers, who are separated from the Company involuntarily only if the individual signs a release of claims against the Company, which includes a non-engagement in detrimental activity agreement. For separations due to a reduction in force, the amount of severance provided by the policy is equal to the greater of 26 weeks of base pay or the number of weeks of base pay identified in the severance schedule based on years of service. For involuntary separations other than a reduction in force, severance payments are generally equal to three months of base pay.

COMPENSATION RECOVERY POLICY

In addition to the compensation recovery provisions contained in our separation agreements noted above, which include a provision for rescission of the severance payments for engagement in detrimental activity against the Company, the following plans also provide for compensation recovery.

Under the 2004 Performance Incentive Plan, if the Committee or its authorized delegate deems an employee or former employee, including a named executive officer, to have engaged in detrimental activity against the Company, it will cancel any awards granted on or after January 1, 2006 to the employee or former employee. In addition, the Committee may rescind any payment or delivery of an equity or annual cash incentive award within six months before the detrimental activity. In the event of any rescission, the named executive officer will pay the

Company the amount of any gain realized or payment received in a manner the Committee or its delegate requires. If the Committee or its delegate determines that the employee or former employee engaged in detrimental activity, it will only result in a cancellation or rescission of an award if the determination is made before a change in control of the Company.

Under the Unfunded Retirement Income Guarantee Plan and the Unfunded Supplemental Executive Retirement Plan, if an employee or former employee, including a named executive officer, of the Company or a surviving beneficiary of a participant is deemed by the Plan Administrator, prior to a change in control of the Company, to have engaged in detrimental activity against the Company, they will not be eligible to receive benefits under these plans.

TAX IMPLICATIONS OF EXECUTIVE COMPENSATION

Section 162(m) of the Internal Revenue Code limits to $1 million per year the federal income tax deduction to public corporations for compensation paid for any fiscal year to the corporation's Chief Executive Officer and certain other named executive officers (excluding the CFO) included in the *Summary Compensation Table* in the Company's Proxy Statement. This limitation does not apply to qualifying "performance-based compensation."

The Company can deduct annual incentive bonuses paid to named executive officers who are subject to Section 162(m) as performance-based compensation. The Committee paid bonuses to the named executive officers for 2007 from a bonus pool established early in 2007 under the 2004 Performance Incentive Plan. The pool was funded by 2% of the Performance Profit achieved during the year. The purpose of the bonus pool was to ensure that bonuses paid to named executive officers and other executive officers were performance-based and provided under a shareholder approved plan, and therefore fully tax deductible. The Committee defined Performance Profit as income from continuing operations before income taxes, equity income, discontinued operations, extraordinary items, and cumulative effect of change in accounting principles, but excluding restructuring charges as identified in the audited financial statements.

It is the Company's goal to have compensation paid to its top officers qualify as tax deductible for federal tax purposes under Section 162(m) of the Internal Revenue Code. However, we believe it is appropriate to provide competitive compensation opportunities even though all compensation paid may not be fully tax deductible in any given year.

Some compensation paid to named executive officers in 2007 does not meet the requirements of Section 162(m), most notably the value of restricted stock unit awards that vested in 2007 and salary, to the extent that non-performance based compensation exceeds $1 million for a named executive officer. Some perquisite compensation, such as personal use of aircraft, may not be fully tax deductible. We expect vested E-LTIP performance share awards will be fully tax-deductible compensation.

ACCOUNTING IMPLICATIONS OF EXECUTIVE COMPENSATION

Base salaries and the short-term incentive bonuses are expensed over the period in which they are earned. As such, the 2007 short-term incentive bonus, which was earned during 2007, and paid in early 2008, is recorded during fiscal year 2007.

The long-term incentives used to reward named executive officers are primarily comprised of equity-based performance shares. These performance shares are recorded according to Statement of Financial Accounting Standards (FAS) No. 123(R), "Share-Based Payments," which states that the performance shares should be measured at fair value on the date of grant and expensed during the requisite service period for those performance shares that are expected to vest. During 2007, the fair value was calculated as the closing price of the Company's common stock on the date of grant. The requisite service period for these performance shares matches the vesting period and is three years from the date of grant.

At each reporting date, the Company evaluates the total number of performance shares that it expects to vest, including those awarded to named executive officers, taking into account estimated forfeitures and the probability of achieving or exceeding the stated performance targets associated with the grant. Compensation expense is recorded for those shares expected to vest over the vesting period. If the number of shares expected to vest changes, a cumulative adjustment is recorded at the time, taking into account the service period already elapsed.

Restricted stock units are measured at fair value (the closing trading price of the Company's common stock) on the date of grant and expensed over the requisite service period, which ranges from three to five years.

The classification of the expense associated with these performance shares and restricted stock units in the Statement of Income follows the same classification of the salary and short-term incentive bonus for the executives. The expense associated with these shares is not capitalized and is primarily classified within Selling, Administrative and General Expense.

Our qualified and non-qualified pension plans are accounted for according to FAS No. 87, "Employers' Accounting for Pensions" and FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." The interest credited on non-qualified deferred compensation balances is expensed as incurred. These costs are primarily classified as Selling, Administrative and General Expenses in our consolidated financial statements.

REPORT OF THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with the management of the Company. Based upon its review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's annual report on Form 10-K for the year ended December 31, 2007 and the Proxy Statement for the 2008 Annual Meeting of Shareholders.

N.J. Nicholas, Jr., Chairman
Vernon E. Jordan, Jr.
Ralph S. Larsen
Robert A. McDonald

Summary Compensation Table

The Summary Compensation Table below provides compensation information for the Chief Executive Officer, the Chief Financial Officer and the next three most highly compensated executive officers (collectively referred to as named executive officers) serving at the end of the fiscal year December 31, 2007, for services rendered in all capacities during the fiscal year ended December 31, 2007. The table includes the dollar value of base salary earned, stock and option awards, non-equity incentive plan compensation earned, change in pension value and non-qualified deferred compensation (NQDC) earnings and all other compensation, whether paid or deferred.

SUMMARY COMPENSATION TABLE

Name & Principle Position	Year	Salary ($) (A)	Bonus ($) (B)	Stock Awards ($) (C)	Option Awards ($) (D)	Non-Equity Incentive Plan Compensation ($) (E)	Change in Pension Value and NQDC Earnings ($) (F)	All Other Compensation ($) (G)	Total ($)
Anne M. Mulcahy	2007	1,320,000	—	7,818,270	—	2,178,000	1,890,119	253,061	13,459,450
Chief Executive Officer	2006	1,320,000	—	4,833,409	772,560	2,178,000	1,294,738	296,026	10,694,733
Lawrence A. Zimmerman	2007	675,000	—	2,224,556	—	770,000	660,855	122,068	4,452,479
Chief Financial Officer	2006	587,500	—	1,316,515	—	660,000	498,000	167,747	3,229,762

Ursula M. Burns	2007	797,500	—	3,489,647	58,450	1,168,750	438,864	25,780	5,978,991
President	2006	619,125	—	1,722,022	77,933	704,000	225,194	26,305	3,374,579
Jean-Noel Machon	2007	753,224	—	1,242,737	29,225	579,982	1,098,337	672,322	4,375,827
Senior Vice President	2006	685,559	—	825,000	38,967	531,754	817,503	629,773	3,528,556
James A. Firestone	2007	675,000	—	2,573,719	29,225	770,000	249,596	51,611	4,349,151
Executive Vice President	2006	581,250	—	1,454,586	38,967	660,000	180,000	30,988	2,945,791

Compensation reported in this table is in U.S. dollars and rounded to the nearest dollar. For Jean-Noel Machon, the compensation reported was paid in euros and British pounds (excluding stock awards) but has been converted to U.S. dollars for purposes of reporting amounts herein. The conversion from euros and British pounds to dollars for 2007 is based on the average quarterly exchange rate of 1.36799 dollars per euro and 2.0004 dollars per British pound.

(A) Anne M. Mulcahy and Jean-Noel Machon did not receive salary increases in 2007. For Mr. Machon, the difference in year over year salary is primarily due to the difference in the conversion rates between 2006 and 2007. Effective April 2008, the Compensation Committee set annualized base salaries for the following named executive officers as follows: Ursula M. Burns - $900,000; Lawrence A. Zimmerman – $714,000; James A. Firestone - $714,000; and Jean-Noel Machon - $758,964 (conversion rate of 1.35135 dollars per euro). The base salary for Anne M. Mulcahy remained unchanged.

(B) The Annual Performance Incentive Plan (APIP) awards appear as Non-Equity Incentive Plan compensation in column (E).

(C) The 2007 data presented in this column reflect compensation expense recorded by the Company for stock awards granted to the named executive officers during 2005, 2006 and 2007 under the Executive Long-Term Incentive Program (E-LTIP). Compensation expense is based upon the grant date market price (average of the high and low stock price for awards granted prior to 2007 and the closing price for awards granted during 2007) and is recorded over the requisite service period in accordance with Statement of Financial Accounting Standards (FAS) No. 123(R), "Share-Based Payment." For additional information, refer to note 17 of the Xerox Consolidated Financial Statements in the Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC. E-LTIP awards for 2008 are not reflected in this table. The 2008 E-LTIP awards are presented as a footnote to the Outstanding Equity Awards Table.

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(D) The data presented in this column reflect compensation expense recorded by the Company for stock option awards granted to the named executive officers in years prior to 2005. There have been no stock options granted by the Company since 2004. Compensation expense was computed on the grant date as determined by the modified Black- Scholes option pricing model and recognized over the requisite service period. The 2007 assumptions used in the model were as follows: risk-free interest rate of 3.45%; expected life of 7.2 years; expected price volatility of 63.02%; and no dividend yield. These assumptions were based on guidance under FAS No. 123, "Accounting for Stock Based Compensation." The stock option awards noted in this column for Ursula M. Burns, Jean-Noel Machon and James A. Firestone vested in October 2007.

(E) The 2007 Non-Equity Incentive Plan payments were approved by the Committee in February 2008 under APIP for 2007 performance. The performance metrics, as described in the *Short-Term Incentives* section of the □Compensation Discussion & Analysis□, were set by the Committee on February 15, 2007. Actual 2007 payments were made at 110% of target, based on 2007 performance results.

(F) The 2007 increase in pension value for each of the named executive officers is: Anne M. Mulcahy □ $1,881,540; Lawrence A. Zimmerman □ $660,855; Ursula M. Burns □ $437,540; Jean-Noel Machon □ $1,098,337; and James A. Firestone □ $249,596. The increase in pension value shown in this column is calculated by determining the increase in the present value of the benefits during 2007. The present value is computed using the FAS No. 87 assumptions in effect on December 31 and assuming the benefit commences at the earliest retirement date at which unreduced benefits are payable under the Unfunded Supplemental Executive Retirement Plan (current ages for Anne M. Mulcahy and Lawrence A. Zimmerman and age 60 for Ursula M. Burns and James A. Firestone). These assumptions include a discount rate of 5.9% as of December 31, 2006, and 6.4% as of December 31, 2007. Jean-Noel Machon□s benefit is calculated in the same manner except it is based on a September 30 measurement date. Jean-Noel Machon□s benefit reflects the minimum of the vested assets in the plan, assuming retirement at age 55, which is when unreduced retirement benefits are payable to him.

The 2007 above market interest credited to non-qualified deferred compensation balances from compensation that was deferred prior to 2002 for Anne M. Mulcahy and Ursula M. Burns is $8,579 and $1,324 respectively. For 2007, the above market interest rate credited on balances in the Deferred Compensation Plan for Executives that receive the Prime Rate is 0.440%. The Prime Rate is one of three rates that are credited under the Deferred Compensation Plan for Executives. The interest credits are based on the Prime Rate in effect on the first business day of the month as published in the Wall Street Journal in the □Money Rates□ table. This same rate will apply for the entire month. A small portion of the Prime Rate is considered above market due to the relationship of this rate with the statutory rate at the time the Prime Rate interest credit was established. Deferrals into this Plan have not been permitted since 2001.

(G) This column represents perquisites and personal benefits and other compensation not reportable elsewhere in this chart. Perquisites and personal benefits include compensation related to personal use of Company and commercial aircraft, financial planning/tax preparation, executive physicals, and other incidental benefits. Amounts for Jean-Noel Machon also include his car allowance and international assignment allowance. Amounts for Anne M. Mulcahy include reimbursement for home security. Other compensation reflected in this column includes tax related reimbursements, Company-paid premiums for the Xerox Universal Life Plan (XUL), and the Company match under the Company□s Savings Plan for which substantially all U.S. employees are eligible. For Jean-Noel Machon, this column also includes the benefit from an interest free demand loan that was extended to him more than 16 years ago, before he became an executive officer, under a Company program that has been discontinued. The chart below provides additional data on the amounts included under □All Other Compensation.□

Name	Year	Personal Use of Company Aircraft ($) (1)	Car Allowance ($) (2)	International Assignment Allowance ($) (3)	Life Insurance Premiums Paid by Registrant ($)	Tax Related Reimbursements ($) (4)	401(k) Company Match ($)	Miscellaneous ($) (5)	Total All Other Compensation ($)
Anne M. Mulcahy	2007	140,914	—	—	52,281	34,181	6,750	18,935	253,061
	2006	193,300	—	—	51,486	25,901	6,600	18,679	296,026
Lawrence A. Zimmerman	2007	—	—	—	14,534	23,396	6,750	77,388	122,068
	2006	77,505	—	—	11,591	23,845	6,600	48,206	167,747
Ursula M. Burns	2007	—	—	—	17,742	1,288	6,750	—	25,780
	2006	—	—	—	16,585	3,120	6,600	—	26,305
Jean-Noel Machon	2007	—	36,637	210,304	—	416,932	—	8,449	672,322
	2006	—	33,591	181,376	—	407,036	—	7,770	629,773
James A. Firestone	2007	—	—	—	24,046	1,371	6,750	19,444	51,611
	2006	—	—	—	23,107	1,281	6,600	—	30,988

(1) For reasons of security and personal safety, the Company requires Anne M. Mulcahy to use Company aircraft for all air travel. The compensation value of personal Company aircraft usage is calculated at aggregate incremental cost to the Company, which includes primarily the cost of fuel, trip-related service and maintenance, and travel expenses of the flight crew and other contract personnel. Compensation value includes costs associated with "deadhead" legs. On certain occasions, family members and non-business related passengers may accompany an executive on a business flight. In such situations, a de minimus amount of aggregate incremental cost is incurred by the Company.

(2) All management level employees in the United Kingdom have the option of either receiving a fully expensed company car or an equivalent cash allowance. Jean-Noel Machon elected to receive a cash allowance.

(3) The 2007 international assignment allowance includes the following standard expatriate allowances: housing allowance ($169,033) which is given to employees to cover the cost of housing in the host country; home country social security ($19,553) and host country social security ($21,718).

(4) The 2007 tax related reimbursements for Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns and James A. Firestone are related to tax gross-ups for personal use of Company and/or commercial aircraft for the first three quarters of 2007 and other incidental benefits. The Committee eliminated these tax reimbursements beginning in the fourth quarter of 2007. For Jean-Noel Machon, tax related reimbursements are part of his international assignment agreement. This agreement states that Jean-Noel Machon is responsible for paying taxes on salary, bonuses and other incentives, but only up to the level he was paying in his home country of France. The tax related reimbursement is for the difference between the United Kingdom tax rate (40%) and the France tax rate (22.6%).

(5)

Amounts in this column include tax preparation and financial planning, executive physicals, imputed interest on the demand loan for Jean-Noel Machon, home security for Anne M. Mulcahy and other incidental benefits. Amounts in this column also include $67,388 of reimbursements to Mr. Zimmerman in 2007 for commercial aircraft travel to and from his residences located outside of Connecticut. The Committee has authorized Lawrence A. Zimmerman’s reasonable personal air travel (e.g., by Company or commercial aircraft) to and from his residences located outside of Connecticut, inclusive of any applicable tax-related reimbursements. Mr. Zimmerman used only commercial aircraft for such travel. The loan to Jean-Noel Machon is considered a taxable benefit, and he is required to pay taxes on the imputed interest. The amount reported above includes the imputed interest on the loan based on an interest rate of 5% per annum as required by the United Kingdom per Her Majesty’s Revenue and Customs. As of the end of fiscal 2007, the outstanding balance on the loan was $145,984 based on the 2007 euro exchange rate previously reported in the paragraph above footnote A. The loan automatically renews each year and is payable on demand by the Company.

For further information on the components of the executive compensation program, see the “Compensation Discussion and Analysis.”

Grants of Plan-Based Awards in 2007

The following table provides additional detail for each of the named executive officers on potential amounts payable under the non-equity incentive plan (APIP) and the equity incentive plan (E-LTIP) as presented in the Summary Compensation Table. Threshold, target and maximum award opportunities are provided.

GRANTS OF PLAN-BASED AWARDS IN 2007

			Estimated Future Payout Under Non-Equity Incentive Awards (B)			Estimated Future Payout Under Equity Incentive Awards (C)				
Name	**Grant Date (A)**	**Date of Action (A)**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**Threshold (#)**	**Target (#)**	**Maximum (#)**	**Grant Date Fair Value of Equity Incentive Awards ($) (D)**	**All Other Stock Awards: Number of Shares or Stock Units (#) (E)**
Anne M. Mulcahy			297,000	1,980,000	3,960,000					
	7/1/07	2/15/07				48,760	487,600	731,400	9,010,848	
Lawrence A. Zimmerman			105,000	700,000	1,400,000					
	7/1/07	2/15/07				14,770	147,700	221,550	2,729,496	
Ursula M. Burns			159,375	1,062,500	2,125,000					
	7/1/07	2/15/07				13,860	138,600	207,900	2,561,328	
	4/2/07	4/2/07								290,000
Jean-Noel Machon			79,089	527,257	1,054,514					
	7/1/07	2/15/07				5,550	55,500	83,250	1,025,640	
James A. Firestone			105,000	700,000	1,400,000					
	7/1/07	2/15/07				11,090	110,900	166,350	2,049,432	
	4/2/07	4/2/07								115,000

(A) The Grant Date is the effective date of the E-LTIP stock awards. The Date of Action is the date the Compensation Committee approved the value of the E-LTIP awards.

(B) This column reflects the threshold (minimum), target and maximum payout opportunity under the APIP set by the Committee on February 15, 2007. The actual payout in February 2008, based on 2007 performance, is presented in the Summary Compensation Table in column (E). The APIP measures and weightings for 2007 were revenue (30%), earnings per share (40%) and core cash flow from operations (30%).

(C) The threshold (minimum), target and maximum payout opportunity under E-LTIP is presented in this column. The value of stock awards and the methodology for determining the number of stock awards was approved by the Committee on February 15, 2007. The number of stock awards at target was determined by dividing the approved value by the closing stock price on February 15, 2007 ($18.05) and rounding up to the nearest 100 shares.

(D) The grant date fair value reported in this column is based upon the target award and the grant date market price and is recorded over the requisite service period as required by FAS No. 123(R), Share-Based Payment. The market price was $18.48, based on the closing stock price on the grant date.

(E) This column includes restricted stock units granted to Ursula M. Burns and James A. Firestone on April 2, 2007.

Performance shares under the E-LTIP can be earned by achieving annual performance targets or three-year cumulative performance between threshold and maximum. The performance period is January 1, 2007 through December 31, 2009. Performance shares, that have been earned, vest on July 1, 2010. The performance measures are earnings per share (weighted at 60%) and core cash flow from operations (weighted at 40%). Threshold is based on the minimum number of performance shares earned if three-year cumulative performance is achieved at the threshold level for core cash flow from operations. If threshold performance is not achieved on any of the performance measures, no performance shares will be earned. Target reflects the number of performance shares earned if target performance is achieved on all performance measures. Maximum describes the greatest number of performance shares that can be earned if maximum or higher performance is achieved on all performance measures. The number of performance shares earned would be interpolated in the event that the Companys cumulative performance varied between threshold and maximum, as determined by the Committee.

Outstanding Equity Awards at 2007 Fiscal Year-End

The following table displays outstanding option awards and unvested stock awards held by each of the named executive officers at the end of fiscal year 2007. Included is the number of shares underlying exercisable options, the exercise price for all outstanding option awards and the market value for all unvested stock incentive awards.

OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END

Option Awards		Stock Awards			
Number of Securities Underlying		**Number of Shares or Units of Stock**	**Market Value of Shares or Units of**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units**

Name	Unexercised Options Exercisable (#) (A)	Option Exercise Price ($)	Option Expiration Date	That Have Not Vested (#) (B)	Stock That Have Not Vested ($) (B)	Rights That Have Not Vested (#) (C)	or Other Rights That Have Not Vested ($) (C)
Anne M. Mulcahy	49,044	46.8750	12/31/2008	344,067	5,570,445	881,633	14,273,638
	13,946	47.5000	12/31/2009				
	60,000	21.7812	12/31/2009				
	250,000	27.0000	12/31/2009				
	1,000,000	9.2500	8/28/2011				
	934,600	10.3650	12/31/2011				
	934,600	7.8850	12/31/2012				
	609,000	13.6850	12/31/2011				
Lawrence A. Zimmerman	121,500	8.9750	12/31/2011	99,167	1,605,514	251,933	4,078,795
	150,000	8.9750	12/31/2011				
	187,000	7.8850	12/31/2012				
	122,000	13.6850	12/31/2011				
Ursula M. Burns	15,282	46.8750	12/31/2008	417,534	6,759,875	287,766	4,658,932
	5,625	47.5000	12/31/2009				
	40,000	21.7812	12/31/2009				
	149,600	10.3650	12/31/2011				
	100,000	5.1400	12/31/2011				
	138,000	13.6850	12/31/2011				
Jean-Noel Machon	2,424	47.5000	12/31/2009	62,066	1,004,849	120,734	1,954,683
	1,212	26.6250	12/31/2009				
	20,000	21.7812	12/31/2009				
	93,500	10.3650	12/31/2011				
	50,000	5.1400	12/31/2011				
	61,000	13.6850	12/31/2011				
	16,000	15.2050	12/31/2011				
James A. Firestone	10,857	47.5000	12/31/2009	223,301	3,615,243	233,399	3,778,730
	50,000	21.7812	12/31/2009				
	121,500	10.3650	12/31/2011				
	50,000	5.1400	12/31/2011				
	187,000	7.8850	12/31/2012				
	122,000	13.6850	12/31/2011				

(A) All stock options are 100% vested and exercisable. There have been no stock options granted by the Company since 2004.

(B) The awards presented in these columns include earned, unvested performance share awards granted on January 1, 2005 and April 1, 2006 under E-LTIP. Also included are unvested restricted stock awards granted by the Company on April 2, 2007 to Ursula M. Burns and James A. Firestone. The value of these awards is based on the December 31, 2007 closing market price of $16.19.

The earned, unvested performance shares granted in 2005 vested 100% in February 2008. The earned, unvested performance shares granted in 2006 will vest in April 2009 following Committee certification of three-year cumulative performance results. These columns exclude additional shares under the 2005 award that were earned and vested in February 2008 based on achievement of three-year cumulative performance results above target as follows: Anne M. Mulcahy — 136,345; Lawrence A. Zimmerman — 43,625; Ursula M. Burns — 49,096; Jean-Noel Machon — 27,307; and James A. Firestone —43,625.

(C) The awards presented in these columns consist of unearned performance shares granted at target under the E-LTIP on January 1, 2005, April 1, 2006, and July 1, 2007 based on the terms of the plan and past experience in achieving performance goals above threshold. The performance period for the 2005 award is January 1, 2005 through December 31, 2007. The performance period for the 2006 award is January 1, 2006 through December 31, 2008. The performance period for the 2007 award is January 1, 2007 through December 31, 2009. The value of these awards is based on the December 31, 2007 closing market price of $16.19.

Based on 2007 business results and as certified by the Committee in February 2008, each named executive officer earned a third of his or her 2005, 2006 and 2007 grant. For purposes of this table, these shares are reported in column C as unearned shares as of December 31, 2007.

These columns exclude the grants of 2008 E-LTIP performance shares to be granted on July 1, 2008. The value of these grants is as follows: Anne M. Mulcahy — $9,200,000; Lawrence A. Zimmerman — $1,600,000; Ursula M. Burns — $4,000,000; Jean-Noel Machon — $1,000,000; and James A. Firestone — $2,000,000. The number of shares will be based on the closing market price of Xerox common stock on the grant date of July 1, 2008.

Option Exercises and Stock Vested in 2007

The Option Exercises and Stock Vested table shows amounts realized by the named executive officers on options that were exercised and stock awards that vested during 2007.

OPTION EXERCISES AND STOCK VESTED IN 2007

	Option Awards		**Stock Awards**	
Name	**Number of Shares Acquired on Exercise (#) (A)**	**Value Realized on Exercise ($) (B)**	**Number of Shares Acquired on Vesting (#) (C)**	**Value Realized on Vesting ($) (D)**
Anne M. Mulcahy (E)	257,577	3,147,977	244,000	4,150,440
Lawrence A. Zimmerman	—	—	24,667	419,586
Ursula M. Burns (F)	280,400	2,517,386	27,667	470,616
Jean-Noel Machon	149,600	1,374,104	15,334	260,831
James A. Firestone (G)	93,500	1,166,880	24,667	419,586

(A) This column reflects the total number of shares acquired at exercise.

(B) The aggregate dollar amount realized upon the exercise of options is based on the difference between the exercise price of the options and the market price upon exercise.

(C)

Shares shown in this column are stock awards that vested under the 2004 E-LTIP. All awards granted under the 2004 E-LTIP are subject to a mandatory holding period. Executives must retain 50% of net shares for the later of one year or until they achieve their required ownership level. For Anne M. Mulcahy and James A. Firestone, receipt of these shares has been deferred until one year after separation from the Company.

(D) The aggregate dollar amount realized upon vesting includes the value of shares used to pay taxes.

(E) On October 27, 2006, Anne M. Mulcahy entered into a pre-arranged sales plan in compliance with Rule 10b5-1 of the Securities and Exchange Act of 1934 (Rule 10b5-1 Plan) to sell in 2007 up to 257,577 shares of Xerox stock acquired through the exercise of stock options. Pursuant to the terms of her 2006 Rule 10b5-1 Plan, Anne M. Mulcahy exercised options and sold 113,800 shares of Xerox stock in 2007. Anne M. Mulcahy entered into a similar Rule 10b5-1 Plan on October 26, 2007 to sell in 2008 up to 1,000,000 shares of Xerox stock acquired through the exercise of stock options. The Company previously disclosed Anne M. Mulcahys 2006 and 2007 Rule 10b5-1 Plans in its SEC filings under the Securities and Exchange Act of 1934.

(F) On October 27, 2006, Ursula M. Burns entered into a Rule 10b5-1 Plan to sell in 2007 up to 280,400 shares of Xerox stock acquired through the exercise of stock options. Pursuant to the terms of her 2006 Rule 10b5-1 Plan, Ursula M. Burns exercised options and sold 280,400 shares of Xerox stock in 2007. Ursula M. Burns entered into a similar Rule 10b5-1 Plan on October 26, 2007 to sell in 2008 up to 249,600 shares of Xerox stock acquired through the exercise of stock options. The Company previously disclosed Ursula M. Burns 2006 and 2007 Rule 10b5-1 Plans in its SEC filings under the Securities and Exchange Act of 1934.

(G) On October 26, 2007, James A. Firestone entered into a Rule 10b5-1 Plan to sell in 2008 up to 302,563 shares of Xerox stock acquired through the exercise of stock options and the vesting of other stock awards. The Company previously disclosed James A. Firestones 2007 Rule 10b5-1 Plans in its SEC filings under the Securities and Exchange Act of 1934.

Pension Benefits for the 2007 Fiscal Year

The Pension Benefits table below reflects the actuarial present value for the named executive officers total accumulated benefit as of year end under the pension plans in which they participate. Jean-Noel Machons benefit is based on a September 30 measurement date and a conversion from euros to dollars at an exchange rate on December 31, 2007 of 1.47189 dollars per euro. See the *Pension Plans* section of the Compensation Discussion and Analysis for a description of the U.S. and International pension plans.

PENSION BENEFITS FOR THE 2007 FISCAL YEAR

Name	Plan Name (A)	Number of Years of Credited Service (B)	Present Value of Accumulated Benefit ($) (C)	Payments During Last Fiscal Year ($)
Anne M. Mulcahy	Retirement Income Guarantee Plan	30	789,193	
	Supplemental Executive			

	Retirement Plan	30	17,442,347	
Lawrence A. Zimmerman	Retirement Income Guarantee Plan	5.6	209,229	
	Supplemental Executive Retirement Plan	11.2	3,276,626	
Ursula M. Burns	Retirement Income Guarantee Plan	26.5	449,959	
	Supplemental Executive Retirement Plan	26.5	2,403,581	
Jean-Noel Machon	Xerox International Pension Plan	31.25	11,940,069	
James A. Firestone	Retirement Income Guarantee Plan	9.5	180,207	
	Supplemental Executive Retirement Plan	9.5	1,052,389	

(A) Pension benefits are provided to the named executive officers under the Retirement Income Guarantee Plan (RIGP), the Unfunded Retirement Income Guarantee Plan (Unfunded RIGP), the Unfunded Supplemental Executive Retirement Plan (SERP) and for Jean-Noel Machon, the Xerox International Pension Plan. For executive officers qualifying for SERP benefits, the Unfunded RIGP benefit is included in the SERP benefit. The Unfunded RIGP benefit would only come into play on a standalone basis should these executive officers leave Xerox before qualifying for the SERP.

(B) Lawrence A. Zimmerman is credited with 2 years of benefit service under the SERP formula for each year of actual Xerox service. His service was accelerated to mitigate the pension impact of joining Xerox later in his career. Anne M. Mulcahy also had been subject to an accelerated accrual but since she has 30 years of service, the accelerated accrual has no impact on her benefit.

(C) All calculations are based on actual pay.

The benefit formulas and assumptions used to calculate these estimates are as follows:

U.S. Pension Plans

The pay used to calculate the RIGP, Unfunded RIGP and SERP benefits is base pay plus actual bonus (bonus is considered for the calendar year in which it is paid). The present value of the accumulated benefit is the present value of the benefit payable at the earliest unreduced retirement age (current age for Anne M. Mulcahy and Lawrence A. Zimmerman as they are both eligible to retire with unreduced benefits, and age 60 for Ursula M. Burns and James A. Firestone) based on the following assumptions: all participants are assumed to elect a lump sum from RIGP; SERP benefits which are not available as lump sums are assumed to be paid as 50% Joint and Survivor annuities; pre-retirement FAS 87 discount rate of 6.40%; no pre-retirement mortality or turnover assumed; post retirement FAS 87 discount rate of 6.40% for SERP and 6.15% for RIGP (due to RIGP lump sum); post-retirement mortality is based on the 2008 Applicable Mortality table, as defined for lump sum calculations under section 417(e) of the Code, with five years of projection for future improvement in mortality (i.e. longer life expectancies than based on the Applicable Mortality table without adjustments).

RIGP benefits are determined as the greater of a Highest Average Pay formula benefit (1.4% of highest five-year average pay multiplied by benefit service of up to 30 years), a Cash Balance Retirement Account (CBRA) and a profit sharing account that was transferred to RIGP in 1990. Early retirement benefits under RIGP are available for employees who leave Xerox at age 55 with 10 years of service or later and the Highest Average Pay formula is reduced from age 65 (age 62 with 30 years of service) at 5% per year. The RIGP benefits are generally based on total pay, subject to IRS limits on the compensation that can be reflected in a qualified plan.

Unfunded RIGP benefits are generally determined under the same terms as the RIGP benefit except the pay used in the Highest Average Pay formula is not subject to IRS limits and in years in which pay was deferred under the Deferred Compensation Plan for Executives, this deferred compensation was included for the year it was deferred. Unfunded RIGP also provides for an Unfunded RIGP Cash Balance Retirement Account (CBRA). This Unfunded RIGP CBRA provides pay credits on pay in excess of the IRS limits for years 2003 and later and interest on these pay credits while the Highest Average Pay formula reflects all years of service. The purpose of Unfunded RIGP is to replace benefits that cannot be provided in RIGP due to IRS compensation limits.

SERP benefits are determined under a different formula than RIGP and with the same pay used for Unfunded RIGP. The accrual rate and age at which SERP is available can vary. SERP benefits reflect base pay plus bonus (not subject to any limits) and are determined under a formula that provides a benefit of 1-2/3% of five-year Highest Average Pay less 1-2/3% of Social Security multiplied by benefit service of up to 30 years. This basic formula is subject to the following adjustments: SERP participants (those who are not mid-career hires see explanation below) are entitled to a minimum benefit of 25% of Highest Average Pay less 25% of Social Security. A total benefit is determined by the SERP formula. The total benefit is offset by the RIGP benefit and the remaining benefit is paid from the SERP and referred to as the SERP benefit.

The SERP includes a mid-career hire benefit that applies to a small group of executives including Lawrence A. Zimmerman. The accrual for a mid-career hire is 150% of the regular SERP accrual for a maximum of 20 years. However, there is no minimum SERP benefit for mid-career hires. The mid-career hire retirement eligibility is age 60 with 5 years of service. Lawrence A. Zimmerman mid-career accrual and 2 for 1 benefit service credit accounts for $2,324,000 of the present value noted in the table above.

Anne M. Mulcahy and Lawrence A. Zimmerman are retirement eligible, as noted above, and upon retirement, would receive their SERP benefit as a 50% Joint and Survivor annuity subject to a 6 month delay to comply with section 409A of the Internal Revenue Code. The other named executives covered by the SERP are eligible to commence SERP benefits upon retirement (with a 6 month delay) on or after the attainment of age 60 with 10 years of service. SERP benefits that commence at these ages are not reduced for early commencement. The SERP was originally designed to permit executive officers to retire with unreduced benefits at age 60 (instead of the age 62 with 30 years of service or age 65 provisions in RIGP). The SERP, through the mid-career benefit, also provides a means to mitigate the loss in retirement benefits from a mid-career change in employment for an executive joining Xerox. These features of the SERP support the attraction and retention of our senior leaders.

International Pension Plan

Assumptions used for the Xerox International Pension Plan include a pre-retirement discount rate of 5.1% per annum; no pre-retirement mortality or turnover assumed. Retirement is assumed to be at the earliest age the individual is eligible for full benefits, that is age 55. The conversion terms at retirement for Jean-Noel Machon are fixed and therefore no post-retirement assumptions are required.

The pay used to calculate the Xerox International Pension Plan benefits for Jean-Noel Machon is base pay plus 2/3 of target bonus (not actual bonus) in force at his retirement date. The plan formula targets a total retirement income of 50% pay when combined with French social security and other mandatory French pension plans. Xerox is committed to providing the value of this income using a fixed conversion factor at age 55 of 21.7 (for converting between pension and lump sum), or the plan assets if greater. His French pension plans are taken into account in the calculations. If Mr. Machon leaves Xerox employment for any reason before age 55, he will receive the vested plan assets only which as of December 31, 2007 are $12,408,616.

Non-Qualified Deferred Compensation

The Non-Qualified Deferred Compensation table discloses named executive officer withdrawals and earnings and fiscal year end balances under the Xerox Corporation Deferred Compensation Plan for Executives.

NON-QUALIFIED DEFERRED COMPENSATION FOR THE 2007 FISCAL YEAR

	Executive Contributions	**Registrant Contributions**	**Aggregate Earnings in**	**Aggregate Withdrawals/**	**Aggregate Balance at**

Name	in Last FY ($) (A)	in Last FY ($) (A)	Last FY ($) (B)	Distributions ($)	Last FYE ($) (C)
Anne M. Mulcahy	—	—	135,710	—	2,622,001
Lawrence A. Zimmerman	—	—	—	—	—
Ursula M. Burns	—	—	24,458	—	325,337
Jean-Noel Machon	—	—	—	—	—
James A. Firestone	—	—	—	—	—

(A) The Non-Qualified Deferred Compensation Plan for Executives was frozen in 2002. Deferrals into the plan have not been permitted since 2001.

(B) A portion of the amount shown for 2007 under “Aggregate Earnings in the Last Fiscal Year” for Anne M. Mulcahy and Ursula M. Burns is also reported in the Summary Compensation Table as above market interest credited to non-qualified deferred compensation balances from compensation that was deferred prior to 2002 as follows: Anne M. Mulcahy — $8,579; Ursula M. Burns — $1,324.

(C) The aggregate balances include a very small amount of previously reported above market earnings in prior fiscal years. Interest is credited at the Prime Rate for a portion of the balances shown above. The portion not credited with the Prime Rate is credited with the Xerox Stock Fund return within the Savings Plan. The annualized effective rate for 2007 in the Prime Rate balances is 8.129%. The Xerox Stock Fund return closely matches the change in Xerox stock price over the year. Participants have the ability to transfer balances between the Xerox Stock Fund return and the Prime Rate return.

Previously, the plan allowed for the deferral of base salary (up to 50%) and bonus and performance units (up to 100%) as long as the compensation would have been payable in cash if not deferred. Participants were required to elect the percentage to be deferred, the investment applicable to the amount deferred and the method of payment. Payments to Anne M. Mulcahy and Ursula M. Burns, based on their elections, will commence in the year of retirement (or year following if retirement is after July 1) and will be paid annually for 10 years and 5 years respectively. Under this plan, there is also an opportunity for in-service hardship withdrawals if approved by the Chief Executive Officer (or by the Board of Directors in the case of a request by the Chief Executive Officer). In the event of a Change in Control, deferred compensation balances will be paid out in a lump sum.

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Potential Payments upon Termination or Change in Control

The Company has entered into certain agreements and maintains certain plans that will require the Company to provide compensation to named executive officers in the event of a termination of employment or a change in control. The amount of compensation payable to each named executive officer in each situation effective December 31, 2007 is listed in the table below. The equity awards presented in this table reflect grants not vested as of December 31, 2007 and are based on the December 31, 2007 closing market price of $16.19. For Jean-Noel Machon, the conversion to dollars is based on an exchange rate on December 31, 2007 of 1.47189 dollars per euro and 1.9964 dollars per British pound.

	Lump Sum Payment in Lieu of Salary Continuance ($)	Non-Equity Incentive Awards ($)	Equity Incentive Awards ($)	Qualified Pension Benefits ($)	Non-Qualified Pension Benefits ($)	Continuation of Medical/ Welfare Benefits ($)	Excise Tax ($)

Anne M. Mulcahy							
Voluntary Termination/ Retirement (A)	—	1,980,000	10,270,402	876,963	18,794,192	—	
Involuntary Termination not For Cause (B)	1,320,000	1,980,000	10,270,402	876,963	18,794,192	—	
Involuntary or Good Reason Termination after Change in Control (C)	9,867,000	—	19,844,083	876,963	19,894,499	222,470	
Death (D)	—	1,980,000	19,844,083	634,955	11,544,977	3,000,000	
Lawrence A. Zimmerman							
Voluntary Termination/ Retirement (A)	—	700,000	2,954,270	232,207	3,510,447	—	
Involuntary Termination not For Cause (B)	350,000	700,000	2,954,270	232,207	3,510,447	—	
Involuntary or Good Reason Termination after Change in Control (C)	2,800,000	—	5,684,309	232,207	3,785,753	32,156	648,57
Death (D)	—	700,000	5,684,309	154,892	3,430,536	2,100,000	
Ursula M. Burns							
Voluntary Termination/ Retirement (A)	—	—	—	407,595	1,810,953	—	
Involuntary Termination not For Cause (B)	662,019	1,062,500	3,701,568	407,595	1,810,953	—	
Involuntary or Good Reason Termination after Change in Control (C)	3,825,000	—	11,418,807	407,595	3,262,210	60,348	1,821,68
Death (D)	—	1,062,500	11,418,807	312,506	898,515	2,550,000	
Jean-Noel Machon							
Voluntary Termination/ Retirement (A)	688,867	—	—	—	12,408,616	—	
Involuntary Termination not For Cause (B)	3,974,026	567,302	1,749,330	—	12,408,616	—	
Involuntary or Good Reason Termination after Change in Control (C)	2,755,467	—	2,959,532	—	12,408,616	14,825	
Death (D)	3,695,803	—	2,959,532	—	12,408,616	—	
James A. Firestone							
Voluntary Termination/ Retirement (A)	—	—	—	177,852	666,895	—	
Involuntary Termination not For Cause (B)	350,000	700,000	3,113,742	177,852	666,895	—	
Involuntary or Good Reason Termination after Change in Control (C)	2,800,000	—	7,393,973	177,852	2,272,442	90,147	1,298,41
Death (D)	—	700,000	7,393,973	139,121	287,817	2,100,000	

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(A) Ursula M. Burns, Jean-Noel Machon, and James A. Firestone are not retirement eligible. Assuming voluntary termination on December 31, 2007, there would be no payments due Ursula M. Burns and James A. Firestone other than vested pension benefits and for Ms. Burns, her deferred compensation balance (see Non-Qualified Deferred Compensation table for balances as of December 31, 2007). Jean-Noel Machon would be entitled to his vested pension benefits and payment for six months of salary ($405,216) calculated using his December 31, 2007 base salary and six months pro-rated bonus ($283,651) calculated at target. Anne M. Mulcahy and Lawrence A. Zimmerman are retirement eligible. Assuming retirement on December 31, 2007, Anne M. Mulcahy and Lawrence A. Zimmerman would be entitled to a bonus (Non-Equity Incentive Award) for 2007 performance. The amount shown above reflects payout at target. In addition, Anne M. Mulcahy and Lawrence A. Zimmerman would be eligible to receive pro-rated performance shares based on the number of full months of service from date of grant on the original vesting date under the terms of the E-LTIP, and would receive vested pension benefits. Anne M. Mulcahy would also receive her deferred compensation balance as shown in the Non-Qualified Deferred Compensation table.

(B) Assuming involuntary termination under the terms of the Company's separation policy, Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns and James A. Firestone would be eligible for salary continuance payments based on their years of service in accordance with this policy as follows: Anne M. Mulcahy – 52 weeks; Lawrence A. Zimmerman – 26 weeks; Ursula M. Burns – 40.5 weeks; and James A. Firestone – 26 weeks. The amounts reported in the table above assume salary continuance is paid as a lump sum. In addition, Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns, Jean-Noel Machon and James A. Firestone would be entitled to a bonus payment (Non-Equity Incentive Award) for 2007 performance, shown at target. Jean-Noel Machon would also be eligible for payments in accordance with the collective redundancy program in France. These payments include 24 months of earnings calculated using the last 12 months of actual earnings and paid as a lump sum. This payment would include base salary ($1,620,863), bonus based on the previous year's bonus payment ($1,248,063), car allowance ($78,840) and housing allowance ($337,393). Mr. Machon would also be entitled to receive payment for a six month notice period based on his December 31, 2007 base salary ($405,216) and six months pro-rated bonus at target ($283,651). In addition, all of the named executive officers would be entitled to pro-rated performance shares based on the number of full months of service from the date of grant on the original vesting date per the terms of the E-LTIP, their deferred compensation balance, if any, and vested pension benefits.

(C) Assuming Involuntary or Good Reason Termination in the event of a change in control, per the terms of the change in control agreement and as noted in the section on *Change-in-Control Severance Agreements* in the "Compensation Discussion and Analysis", Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns, Jean-Noel Machon and James A. Firestone would be eligible for a lump sum payment in lieu of compensation continuance in the amount of 2.99 times annual compensation (base pay and bonus) for Anne M. Mulcahy and two times annual compensation for all other named executives, accelerated vesting of unvested performance shares at target and accelerated pension benefits under the non-qualified plans (value of benefit paid as a lump sum) consistent with the plan provisions for other employees, deferred compensation balance, if any, excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended, and continuation of certain welfare benefits for a period of 36 months for Anne M. Mulcahy and 24 months for all other named executives.

(D) Following death, the estates, or with respect to certain types of payments and elections made, the spouses for Anne M. Mulcahy, Lawrence A.

Zimmerman, Ursula M. Burns and James A. Firestone would be entitled to receive payment of 2007 bonus, accelerated vesting of performance shares at target and restricted stock units if any, deferred compensation balance, if any, a life insurance benefit, and vested qualified and non-qualified pension benefits. Subject to certain eligibility conditions, the pension death benefit is generally a 50% survivor annuity or if eligible to retire under the SERP, a 100% survivor annuity. Following death, Jean-Noel Machons estate would be entitled to receive 2.25 times his previous 12 months earnings which would include base salary ($1,823,470), bonus based on previous years bonus payment ($1,404,071), car allowance ($88,695) and housing allowance ($379,567). In addition, Mr. Machon would be entitled to accelerated vesting of his performance shares and restricted stock units, and his vested pension benefit.

Termination Following Disability

Assuming termination following disability on December 31, 2007, all named executive officers would be eligible for prorated performance shares based on the number of full months of service from the date of grant, their deferred compensation balance, if any, and vested pension benefits as shown for Voluntary Termination/Retirement. Jean-Noel Machon would be entitled to receive 4.5 times his previous 12 months earnings which would include base salary ($3,646,941), bonus based on previous years bonus payment ($2,808,142), car allowance ($177,390) and housing allowance ($759,134), for a total disability payment of $7,391,607.

Involuntary Termination for Cause

Assuming involuntary termination for cause due to engagement in detrimental activity against the Company, there would be no payments to Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns and James A. Firestone other than their deferred compensation balance, if any, and vested qualified pension benefits as shown for Voluntary Termination/Retirement. Jean-Noel Machon would be entitled to the same payments provided to him in the event of his involuntary termination not for cause except he would not receive prorated performance shares. All unvested shares and non-qualified pension benefits would be immediately cancelled upon termination for cause for all named executive officers. See *Compensation Recovery Policy* section of the Compensation Discussion & Analysis for additional information.

Non-Qualified Pension Benefit

In the event of a change in control, the non-qualified pension amounts shown in the table above for Anne M. Mulcahy, Lawrence A. Zimmerman, Ursula M. Burns and James A. Firestone represent the lump sum payments that would be paid for all non-qualified pension benefits. These amounts were calculated as specified in the Unfunded Supplemental Executive Retirement Plan based on the present value of future benefits using the minimum required interest rate and mortality for qualified plan lump sum payments. These benefits would not be paid as a lump sum without the occurrence of a change in control that conformed with deferred compensation tax regulations. The present value of the benefits payable upon an event other than a change in control represents the present value of the accumulated benefits for each participant. Since these amounts are not paid as lump sums, and for change in control purposes, this present value is already determined using the required section 280G assumptions, these assumptions have been used for this purpose as well to express these benefits as a present value. These present values are based on assumed termination of employment on December 31, 2007. Upon termination, the annual non-qualified benefits for recipients not yet age 55 would be payable at age 65 as a single life annuity.

Other Payments

Similar to other employees of the Company, only U.S. executives who are retirement eligible, based on age and actual years of service, would receive retiree health care benefits. Anne M. Mulcahy and Lawrence A. Zimmerman would be eligible for retiree health care benefits if they separated from Xerox on December 31, 2007. Also, like other employees, the named executive officers would be eligible for payment of all earned and accrued but unused vacation due as of the date of the separation (or last day worked prior to salary continuance) under the terms of the Companys vacation policy.

Equity Compensation Plan Information

The Equity Compensation Plan Information table provides information as of December 31, 2007, with respect to shares of Xerox common stock that may be issued under our existing equity compensation plans, including the Xerox Corporation 2004 Performance Incentive Plan (2004 Plan); the Xerox Corporation 2004 Equity Compensation Plan for Non-Employee Directors (2004 Directors Plan); the Xerox Corporation Long-Term Incentive Plan (1991 Plan); the Xerox Corporation 1996 Non-Employee Director Stock Option Plan (1996 Plan); the Xerox Corporation 1998 Employee Stock Option Plan (1998 Plan); the Xerox Mexicana, S.A. de C.V. Executive Rights Plan (Mexico Plan); and the Xerox Canada Inc. Executive Rights Plan (Canada Plan).

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	A Number of Securities to be Issued upon Exercise of Outstanding Options and Rights	B Weighted-Average Exercise Price of Outstanding Options and Rights ($)	C Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)
Equity Compensation Plans Approved by Shareholders(1)	50,948,335	19.6942	32,651,352(3)
Equity Compensation Plans Not Approved by Shareholders(2)	1,475,615	20.9224	0(3)
Total	52,423,950(4)	19.7288	32,651,352(5)

(1) Consists of the 2004 Plan, 2004 Directors Plan, 1991 Plan, 1996 Plan and 1998 Plan.

(2) Consists of the Mexico Plan and the Canada Plan.

(3) The 1998 Plan was discontinued as of May 21, 2003; and the 1991 Plan, 1996 Plan, Mexico Plan and Canada Plan were discontinued as of May 20, 2004. No further grants can be made under these plans. Any shares that are cancelled, forfeited, or lapse under the 2004 Plan, 1991 Plan, 1998 Plan, Mexico Plan and Canada Plan become available again for issuance under the 2004 Plan. Any shares that are cancelled, forfeited or lapse under the 2004 Directors Plan become available again for issuance under the 2004 Directors Plan.

(4) There are an additional 18,280,821 full-value shares of stock and units outstanding as of 2007 fiscal year end.

(5) Any full-value shares issued in connection with the 2004 Plan and the 2004 Directors Plan are counted against this limit at the rate of 1.667 shares for each one (1) share issued. As anticipated, if all remaining shares were issued as full-value shares, approximately 19,586,894 shares would be available for issuance as of fiscal year end.

Xerox Mexicana, S.A. de C.V. Executive Rights Plan

The Mexico Plan, which was discontinued in May 2004 following shareholder approval of the 2004 Plan, provided for the granting of stock rights for the purpose of advancing the interests of Xerox Corporation and shareholders by providing the General Director or Executive Director and other employees with a proprietary interest in the growth and performance of the Company and incentives for continued service.

Xerox Canada Inc. Executive Rights Plan

The Canada Plan, which was discontinued in May 2004 following shareholder approval of the 2004 Plan, provided for the granting of stock rights and other related vehicles for the purpose of advancing the interests of Xerox Corporation and shareholders by providing the President or a Vice President of Xerox Canada Inc. and other employees with a proprietary interest in the growth and performance of the Company and incentives for continued service.

Indemnification Actions

The Companys by-laws provide for indemnification of officers and directors to the full extent permitted by New York law. Consistent with these by-laws, in connection with Miller, et al. v. Allaire, et al; In re Xerox Corporation Securities Litigation; Carlson v. Xerox Corporation, et al.; In re Xerox Corp. ERISA Litigation; Florida State Board of Administration, et al. v. Xerox Corporation, et al., National Union Fire Insurance Company v. Xerox Corporation, et al.; and Miron v. Microsoft Corporation, et al.; the Company has advanced counsel fees and other reasonable fees and expenses, actually and necessarily incurred by the present and former directors and officers who are involved, and the Company has advanced, since the previous report to shareholders as to these fees and expenses, an aggregate of approximately $3,191,059. Each of the individuals is required, in accordance with the requirements of the Business Corporation Law of the State of New York (BCL), to execute an undertaking to repay such expenses if they are finally found not to be entitled to indemnification under the Companys by-laws and the BCL.

Directors and Officers Liability Insurance and Indemnity

On August 18, 2007, the Company renewed its policies for directors and officers liability insurance. The policies are issued by Federal Insurance Company, XL Specialty Insurance Company, St. Paul Mercury Insurance Company, Twin City Fire Insurance Company, U.S. Specialty Insurance Company, Arch Specialty Insurance Company and ACE American Insurance Company, Allied World Assurance Company and Axis Reinsurance Company. The policies expire August 18, 2008, and the total annual premium is $4,888,242.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the 1934 Act requires the Companys directors, executive officers, and persons who own more than ten percent of the common stock of the Company, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of common stock of the Company. Directors, officers and greater than ten percent shareholders are required by the regulations of the SEC to furnish the Company with copies of all Section 16(a) reports they file. Based solely on review of the copies of such reports furnished to the Company or written representations that no other reports were required to be filed with the SEC, the Company believes that all reports for the Companys directors and executive officers that were required to be filed under Section 16 of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2007 were timely filed except as follows: Ms. Burns, Mr. Firestone, Leslie Varon, and Don Liu were each late filing one Form 4 reporting one transaction; and Quincy Allen, Willem Appelo, Stephen Cronin and Russell Peacock were each late filing an initial report of beneficial ownership on Form 3.

PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers LLP (PwC), an independent registered public accounting firm, to act as independent auditors of the Company for 2008. Representatives of the firm are expected to be at the meeting to respond to appropriate questions and to make a statement, if they wish.

Principal Auditor Fees and Services

Aggregate fees for professional services rendered for the Company by PwC for the years ended December 31, 2007 and 2006, were ($ in millions):

	2007	**2006**
Audit Fees	$ 22.7	$ 23.7
Audit Related Fees	2.0	1.7
Tax Fees	1.3	1.4
All Other Fees		0.1
Total Fees	$ 26.0	$ 26.9

Audit fees for the years ended December 31, 2007 and 2006, were for professional services rendered for the audits of the consolidated financial statements of the Company in accordance with standards of the Public Company Accounting Oversight Board, statutory and subsidiary audits, assistance with review of documents filed with the SEC, consents, comfort letters, international filings and other services required to be performed by our independent auditors.

Audit Related fees for the years ended December 31, 2007 and 2006, were for assurance and related services associated with employee benefit plan audits, information systems control reviews, due diligence reviews, special reports pursuant to agreed upon procedures and other attest services.

Tax fees for the years ended December 31, 2007 and 2006, were primarily for services related to tax compliance.

All Other fees were primarily associated with attendance at accounting seminars, benchmarking services and research materials.

In accordance with the Audit Committee Charter, all of the foregoing audit and non-audit fees paid to, and the related service provided by, PwC were pre-approved by the Audit Committee.

Audit Committee Report

The responsibilities of the Audit Committee are discussed under Committee Functions, Membership and Meetings on page 7 and can also be found on our website at *www.xerox.com/corporategovernance*. Management is responsible for the Companys internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an audit of the Companys consolidated financial statements and the effectiveness of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to issue a report thereon. The Audit Committees responsibility is to monitor and oversee these processes.

Consistent with the foregoing, the Audit Committee has:

- Reviewed and discussed the audited consolidated financial statements of the Company for the year ended December 31, 2007, including the specific disclosure under Managements Discussion and Analysis of Financial Condition and Results of Operations, with the management of the Company and PwC including the Companys key accounting policies and use of estimates;
- Discussed with PwC the matters required to be discussed by SAS 61, SAS 89 and SAS 90; and
- Received the written disclosures and the letter from PwC required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has discussed with PwC that firms independence.

Based upon the foregoing review and discussions, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Companys 2007 Annual Report to Shareholders and in the Companys Annual Report on Form 10-K for the year ended December 31, 2007 for filing by the Company with the SEC.

Richard J. Harrington, Chairman
Glenn A. Britt
William Curt Hunter
Robert A. McDonald

The Board of Directors recommends a vote

FOR

the ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for the year 2008

PROPOSAL 3 — PROPOSAL TO AMEND THE COMPANY'S CERTIFICATE OF INCORPORATION TO REQUIRE MAJORITY VOTING FOR THE ELECTION OF DIRECTORS IN NON-CONTESTED ELECTIONS

The Board of Directors recommends that shareholders approve an amendment to the Company's certificate of incorporation requiring a majority vote for the election of directors in non-contested elections.

Background

Xerox is a New York Corporation. New York business corporation law provides that, unless otherwise specified in a Company's certificate of incorporation, a director is elected by a plurality of the votes cast. Xerox's certificate of incorporation does not specify the voting standard required in director elections, so Xerox directors are currently elected by a plurality vote; that is, a director nominee who receives the highest number of "for" votes cast is elected, whether or not such votes constitute a majority of all votes cast, including "withheld" votes.

In 2006, Xerox adopted as Xerox policy a form of majority voting for non-contested director elections, implementing this policy through an amendment to the Corporate Governance Guidelines. Under this policy, directors continue to be elected by a plurality vote, but the Corporate Governance Guidelines require that a director nominee who receives a greater number of "withheld" votes than "for" votes must immediately tender his or her resignation from the Board. The Board then would decide, based on the relevant facts and circumstances, whether to accept the resignation. The director tendering his or her resignation under this provision would not be permitted to participate in the Board's decision. The Board's explanation of its decision would be promptly disclosed in a Form 8-K Report filed with the Securities and Exchange Commission.

Majority Vote Amendment to the Company's Certificate of Incorporation

To further strengthen this majority voting approach, the Board has authorized, and recommends that shareholders approve, an amendment to Xerox's certificate of incorporation that would require that director nominees in a non-contested election must be elected by shareholders by a majority vote, which will further enhance the accountability of each director to Xerox's shareholders. Under this provision, each vote is specifically counted "for" or "against" the director's election. An affirmative majority of the total number of votes cast "for" or "against" a director nominee will be required for election of each director. Shareholders will also be entitled to abstain with respect to the election of a director. In accordance with New York law, abstentions will have no effect in determining whether the required affirmative majority vote has been obtained.

Under New York law, shareholders must approve an amendment to the Company's certificate of incorporation to change the voting standard in director elections. If the proposed amendment is approved, a new paragraph will be added to Article SEVENTH of Xerox's certificate of incorporation that reads as follows:

Unless the election is contested, each director shall be elected by the affirmative vote of a majority of the votes cast for or against the director at any meeting for the election of directors at which a quorum is present. In a contested election, directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. An election shall be considered contested if as of the record date there are more nominees for election than positions on the board of directors to be filled by election at the meeting.

If approved by shareholders, this amendment will become effective upon the filing with the New York Department of State of a certificate of amendment of Xeroxs certificate of incorporation. Xerox would make such a filing promptly after the Annual Meeting of Shareholders.

Upon approval of this proposal and the filing of the certificate of amendment, the Board will amend Xeroxs by-laws to incorporate the director resignation policy currently contained in the Corporate Governance Guidelines and conform this director resignation policy to the majority vote standard so that an incumbent director who did not receive the requisite affirmative majority of the votes cast for his or her reelection would be required to tender his or her resignation to the Board. Under New York law, an incumbent director who is not re-elected may remain in office until his or her successor is elected and qualified, continuing as a holdover director until his or her position is filled by a subsequent shareholder vote or his or her earlier resignation or removal by a shareholder vote. The Board will adopt the holdover director resignation policy to address the continuation in office of a director that would result from application of the holdover director provision. Under the holdover director resignation policy, the Board will decide whether to accept the resignation in a process similar to the one the board currently uses pursuant to the existing majority vote policy.

The Board of Directors recommends a vote

FOR

the proposal to amend the Companys certificate of incorporation to require majority voting for the election of directors in non-contested elections

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PROPOSAL 4 SHAREHOLDER PROPOSAL RELATING TO REPORTING OF COMPLIANCE WITH THE VENDOR CODE OF CONDUCT

Domini Social Investments, 536 Broadway, New York, NY 10012-3915 (Domini), As You Sow, 311 California Street, San Francisco, CA 94104, as representative of shareholder Thomas Van Dyck (Van Dyck), and New York City, Office of the Comptroller, 1 Centre Street, New York, NY 10007-2341, as representative of the shareholder New York City Employees Retirement System (NYCERS), who have advised the Company that Domini, Van Dyck and NYCERS are each the beneficial owner of the Companys Common Stock representing more than $2,000, have submitted the following proposal:

Whereas:

Reports of human rights violations in the overseas subsidiaries and suppliers of some U.S. - based corporations has increased public awareness of the problems of child labor, sweatshop conditions and the denial of basic labor rights.

Reports by the International Labor Organization, CAFOD, a Catholic relief agency, CEREAL (Centro de Reflexion y Accion Laboral), a Mexican religious organization, and F&C Asset Management, a leading UK-based money manager, highlighted serious labor problems in the global electronics supply chain. According to business school Professor S. Prakash Sethi, an expert in supply chain labor conditions, overtime abuse is just as bad in the high-tech industry as it is in the garment industry, and the hazardous-materials issue is even worse.

Human rights violations in the workplace can damage our companys reputation, lead to the loss of brand value, impact product quality or result in costly litigation. Our company is exposed to these risks through the external vendors that assemble and manufacture portions of our companys products around the world.

A number of our companys competitors have adopted codes of conduct for vendors, addressing such issues as child labor, forced labor and freedom of association. Xerox has announced that it has joined an industry coalition to address supply chain labor conditions, and has adopted its code of conduct. To date, Xerox has published minimal information on its efforts to monitor its supply chain and enforce the provisions of its code. Shareholders currently have no means to adequately assess these efforts, and to fully evaluate the risks to shareholder value imposed by labor conditions in Xeroxs manufacturing supply chain.

We believe that a credible code compliance program includes independent monitoring, a transparent verification process and regular public reporting of monitoring results. Without such a report, shareholders cannot be assured about the overall progress the company is making on compliance with its code. Several leading companies, including Gap, Nike, Hewlett Packard and Apple have published public reports detailing working conditions in supplier facilities, and company efforts to address code of conduct violations.

Specific quantitative goals for vendor compliance should be established. Rather than terminating contracts when code violations are found, our company should establish incentives to encourage its suppliers and vendors to improve working conditions.

Resolved:

Shareholders request the Board of Directors to prepare a report at reasonable expense, omitting proprietary information, on its code of conduct and compliance mechanisms for its vendors, subcontractors and buying agents in the countries where it sources. The report should be made available to shareholders by November 2008.

Supporting Statement

We recommend that report be prepared on an annual basis and disclose the number of facilities audited and frequency of audits, the audit pass/fail rate; primary reasons for facility audit failure, and a discussion of the most pervasive problems and progress made towards their resolution.

BOARD OF DIRECTORS RECOMMENDATION

The Companys Board of Directors does not believe that it is in the best interest of our shareholders to implement the proposal for the following reasons and recommends a vote against this proposal.

Xerox strongly supports the protection of basic human rights throughout our supply chain. To assure the protection of those human rights, we have taken extensive action, as discussed below, to adopt a code of conduct that is properly tailored both to the electronics industry and to Xeroxs business model. Once Electronic Industry Citizenship Coalition (EICC) industry wide standards become formalized and finalized, Xerox will develop a process to incorporate them into our code of conduct for

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suppliers. In the interim, we have implemented many initiatives to ensure that our objectives are being realized. We conduct numerous compliance assessments with our suppliers to ensure that they fulfill our quality, cost, delivery, human rights and ethical expectations. In 2006, we joined the EICC, which provides our industry with a common code of conduct to be reflected throughout our industrys overall supply chains. While prioritizing its focus on the electronics industry, the EICC code of conduct is based on recognized standards and principles, such as the International Labour Organizations (ILO) Declaration on Fundamental Principles and Rights at Work and the United Nations Universal Declaration of Human Rights. We have adopted the EICC code of conduct to set standards for our key vendors and have communicated it as such to these direct suppliers. Many of our largest suppliers are also members of EICC. In addition, our supply chain and business partner Fuji Xerox as well as many of our large suppliers are participants in the United Nations Global Compact. The UN Global Compact and EICC codes of conduct are both based on ILO standards and commit their members to compliance with highly ethical means of conducting business around the world. We are also updating our standard supplier contracts to require our vendors to comply with the EICC code of conduct.

As an EICC member, we have adopted the common audit standards and joint audit assessments for the overall supply chain. In addition, we currently have our own supply chain assessment methodologies and processes, as do several other EICC-member companies. The Xerox supplier assessment process includes on-site reviews by Xerox employees of our top 38 direct suppliers and self-assessments completed by about 1,500 vendors. Before our primary suppliers are permitted to do business with us, we make on-site visits. We then conduct on-site reviews every one to three years, depending on the scope of our relationship with these suppliers.

In the past two years, we have transferred the vast majority of our production purchasing operation to the Asia-Pacific area, and we now have Xerox Global Purchasing representatives in Hong Kong, China, Malaysia, Singapore, Korea, Japan and India. This allows for more direct interaction between Xerox and its suppliers. Our purchasing representatives conduct quarterly, and in some cases more frequent, on-site reviews to assess the quality, cost and delivery of the vendors products and to ensure that the business is run with the highest ethical standards in accordance with Xeroxs Human Rights policy statement (available at *www.xerox.com/citizenship*).

Our membership in the EICC will enable an enhanced process for monitoring supplier code of conduct compliance, which addresses the very same concerns raised in this shareholder proposal. Industry-wide standards on these compliance assessments are now being formalized by the EICC. The EICC assessment process will provide consistent metrics for ongoing code of conduct compliance reviews as well as comparisons with other companies in the industry, driving a more consistent review system throughout the electronics industry. As this assessment system is finalized and adapted by the EICC, we will review opportunities to disclose more results and related corrective action plans. Xerox believes its well defined and disciplined approach to supplier assessment continues to help ensure that we are doing business only with suppliers that comply with international standards of ethics and human rights.

Therefore, the Board believes the concerns raised by this proposal are already being effectively addressed and believes the interest of the Xerox shareholders would be better served by continuing to focus on our existing initiatives. Moreover, we use our annual Report on Global Citizenship to provide shareholders with information about our practices related to supplier relations, human rights, ethics, governance and many other topics. A copy of our 2007 Report on Global Citizenship is available at *www.xerox.com/citizenship*.

The Board of Directors recommends a vote

AGAINST

this proposal

OTHER MATTERS

Other Actions at Meeting

The Board of Directors does not intend to present any other matters at this meeting. The Board has not been informed that any other person intends to present any other matter for action at this meeting. If any other matters properly come before the meeting, the persons named in the accompanying proxy intend to vote the proxies in accordance with their best judgment.

Information About this Solicitation of Proxies

In addition to the solicitation of proxies by mail, certain of our employees may solicit proxies without extra remuneration. We also will request brokerage houses, nominees, custodians and fiduciaries to forward soliciting material to the beneficial owners of stock held of record and will reimburse such person for the cost of forwarding the material. We have engaged D.F. King & Co., Inc. to handle the distribution of soliciting material to, and the collection of proxies from, such entities. We will pay D.F. King & Co., Inc. a fee of $14,000 plus reimbursement of out-of-pocket expenses for this service. We will bear the cost of all proxy solicitation.

Confidential Voting

As a matter of policy, we keep confidential proxies, ballots and voting tabulations that identify individual shareholders. Such documents are available for examination only by the inspector of election and certain of our employees and our transfer agent who are associated with processing proxy cards and tabulating the vote. The vote of any shareholder is not disclosed except in a contested proxy solicitation or as may be necessary to meet legal requirements.

Communication With Non-Management Directors by Interested Parties

Under the Corporate Governance Guidelines, the Company provides a process for interested parties to send communications to the Board of Directors. The Corporate Governance Guidelines provide that interested parties desiring to communicate with the non-management Directors regarding the Company may directly contact the

Chairman of the Corporate Governance Committee, Mr. Vernon E. Jordan, Jr., Senior Managing Director, Lazard Freres & Co., LLC, 30 Rockefeller Center, New York, New York 10020.

Multiple Shareholders Having the Same Address

If you and other residents at your mailing address own shares of common stock through a broker, you may have received a notice from the broker notifying you that your household will be sent only one Annual Report and Proxy Statement. If you did not return the opt-out card attached to such notice you were deemed to have consented to such process. The broker or other holder of record will send at least one copy of the Annual Report and Proxy Statement to your address. You may revoke your consent at any time by calling (800) 542-1061. The revocation will be effective 48 hours after receiving your telephone notification. In any event, the Company will send a copy of the Annual Report and Proxy Statement to you if you address your written request to Xerox Corporation, Shareholder Services, P.O. Box 4505, Norwalk, CT 06856-4505 or call Shareholder Services at (203) 849-2315. If you are receiving multiple copies of annual reports and proxy statements at your address and would like to receive only one copy in your household, please contact us at this same address and telephone number.

Availability of Additional Information

Copies of the 2007 Annual Report of the Company have been distributed to shareholders (unless you have consented to electronic delivery). Additional copies and additional information, including the Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (Form 10-K) filed with the SEC are available without charge from Xerox Corporation, P.O. Box 4505, Norwalk, Connecticut 06856-4505, Attention: Corporate Secretary. The Annual Report, Proxy Statement and Form 10-K are also available on the Companys website at *www.xerox.com/corporategovernance* or *http://ww3.ics.adp.com/streetlink/xrx*. Shareholders can receive proxy statements, annual reports, and other shareholder materials via electronic delivery. Registered shareholders (if you have your stock in certificate form) can sign up for electronic delivery at *http://www.eTree.com/Xerox*. Beneficial shareholders (if you hold your shares through a broker or financial institution) can sign up for electronic delivery at *http://enroll.icsdelivery.com/xrx.*

REQUIREMENTS FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS

Shareholder Proposals for 2009 Meeting

We expect to hold our 2009 Annual Meeting of Shareholders during the second half of May and to issue our Proxy Statement for that meeting during the first half of April.

Under the SEC proxy rules, if a shareholder wants us to include a proposal in our Proxy Statement and form of proxy for the 2009 Annual Meeting of Shareholders, the proposal must be received by us at P.O. Box 4505, Norwalk, Connecticut 06856-4505, Attention: Corporate Secretary, no later than December 12, 2008.

Under our by-laws, any shareholder wishing to make a nomination for director or wishing to introduce any business, at the 2009 Annual Meeting of Shareholders must give the Company advance notice as described in the by-laws. To be timely, we must receive your notice for the 2009 Annual Meeting at our offices mentioned above no earlier than November 12, 2008 and no later than December 12, 2008. Nominations for director must be accompanied by written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected.

Corporate Governance Committee Director Nomination Process

The Corporate Governance Committee considers candidates for Board membership recommended by its members and other Board members, as well as by management, shareholders (see below) or others. There are no specific minimum qualifications that the Corporate Governance Committee believes must be met by candidates. The Corporate Governance Guidelines require that a substantial majority of the Board should consist of independent directors. Any management representation should be limited to top Company management. Nominees are to be selected on the basis of, among other things, broad perspective, integrity, independence of judgment, experience, expertise, diversity, ability to make independent analytical inquiries, understanding of the Companys business environment and willingness to devote adequate time and effort to Board responsibilities. Members should represent a predominance of business backgrounds and bring a variety of experiences and perspectives to the Board. The Corporate Governance Committee evaluates nominations by shareholders in the same manner as nominations received from any of the other sources described above.

Shareholders who wish to recommend individuals for consideration by the Corporate Governance Committee may do so by submitting a written recommendation to the Secretary of the Company, P.O. Box 4505, Norwalk, Connecticut 06856-4505. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment and board memberships (if any), for the Corporate Governance Committee to consider. The submission must be accompanied by a written consent by the nominee to stand for election if nominated by the Board and to serve if elected by the shareholders. Recommendations received by December 12, 2008, will be considered for nomination at the 2009 Annual Meeting of Shareholders. Recommendations received after December 12, 2008, will be considered for nomination at the 2010 Annual Meeting of Shareholders.

By order of the Board of Directors,

Don H. Liu
Senior Vice President, General Counsel and Secretary
April 11, 2008

002CS-61283

Electronic Voting Instructions

You can vote by Internet or telephone!
Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on May 22, 2008 (9:00 a.m., Central Time, May 20, 2008 for ESOP participants).

Vote by Internet

- Log on to the Internet and go to **www.investorvote.com/xrx**
- Follow the steps outlined on the secured website.

Vote by telephone

- Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.
- Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

X

Annual Meeting of Shareholders Proxy Card

6**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** 6

A **Election of Directors The Board of Directors recommends a vote FOR all of the nominees listed.**

1. Nominees:	For	Withhold		For	Withhold		For	Withhold
01 - Glenn A. Britt			02 - Ursula M. Burns			03 - Richard J. Harrington		
04 - William Curt Hunter			05 - Vernon E. Jordan, Jr.			06 - Robert A. McDonald		
07 - Anne M. Mulcahy			08 - N.J. Nicholas, Jr.			09 - Ann N. Reese		
10 - Mary Agnes Wilderotter								

B **Management Proposals The Board of Directors recommends a vote FOR Proposals 2 and 3.**

	For	Against	Abstain		For	Against	Abstain
2. Ratification of the selection of PricewaterhouseCoopers LLP as Companys independent registered public accounting firm for 2008.				3. Approve Amendment of Certificate of Incorporation Requiring Majority Voting for Election of Directors in Non-Contested Election.			

C Shareholder Proposal □ The Board of Directors recommends a vote AGAINST Proposal 4.

	For	Against	Abstain
4. Shareholder Proposal Relating to Reporting of Compliance with the Vendor Code of Conduct.			

Meeting Attendance
Mark box to the right if you plan to attend the Annual Meeting.

D Authorized Signatures □ This section must be completed for your vote to be counted. □ Date and Sign Below

Please sign below exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If signing in the name of a corporation or partnership, please sign full corporate or partnership name and indicate title of authorized signatory.

Date (mm/dd/yyyy) □ Please print date below.	Signature 1 □ Please keep signature within the box.	Signature 2 □ Please keep signature within the box.
/ /		

Receive Proxy Materials
Electronically

Your email address can now help save the environment. Vote online and register for electronic communications with the eTree ® program and we□ll have a tree planted on your behalf. Electronic delivery saves Xerox a significant portion of the costs associated with printing and mailing annual meeting materials, and Xerox encourages stockholders to take advantage of the 24/7 access, quick delivery and reduced mail volume they will gain by consenting to electronic delivery. If you consent to electronic delivery of meeting materials, you will receive an e-mail with links to all annual meeting materials and to the online proxy voting site for every annual meeting. To sign up for electronic delivery and have a tree planted on your behalf, please provide your email address while voting online, or register at www.eTree.com/xerox.

6**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** 6

Proxy □ Xerox Corporation

ANNUAL MEETING OF SHAREHOLDERS
9:00 A.M. THURSDAY, MAY 22, 2008
HYATT REGENCY GREENWICH
1800 PUTNAM AVENUE
GREENWICH, CONNECTICUT 06870

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS
FROM SHAREHOLDERS OF COMMON STOCK

The undersigned appoints ROBERT A. MCDONALD, ANNE M. MULCAHY and N.J. NICHOLAS, JR., and each of them (or if more than one are present, a majority of those present), as proxies for the undersigned, with full power of substitution, to represent the undersigned and to vote the shares of Common Stock of Xerox Corporation which the undersigned is entitled to vote at the above annual meeting and at all adjournments thereof, (a) in accordance with the following ballot, and (b) in accordance with their best judgment in connection with such other business as may come before the meeting.

SIGNED PROXIES RETURNED WITHOUT SPECIFIC VOTING DIRECTIONS WILL BE VOTED IN ACCORDANCE WITH THE BOARD OF DIRECTORS RECOMMENDATIONS.

NOTICE TO PARTICIPANTS IN THE EMPLOYEE STOCK OWNERSHIP PLAN

This card also constitutes voting instructions for participants in the Xerox Corporation Employee Stock Ownership Plan. A Participant who signs on the reverse side hereby instructs State Street Bank & Trust Company, Trustee, to vote all the shares of Common Stock of Xerox Corporation allocated to his or her Stock Account and a proportion of the shares of such Common Stock held in the ESOP Trust for which no instructions have been received in accordance with the following direction. ESOP participants must vote by 9:00 a.m., Central Time, Tuesday, May 20, 2008.

XEROX CORPORATION ANNUAL MEETING TO BE HELD ON 05/22/08 AT 09:00 A.M. EDT
FOR HOLDERS AS OF 03/24/08

* ISSUER CONFIRMATION COPY   INFO ONLY *

THIS FORM IS PROVIDED FOR INFORMATIONAL PURPOSES ONLY. PLEASE DO NOT USE IT FOR VOTING PURPOSES.

DIRECTORS Æ

DIRECTORS RECOMMEND: A VOTE FOR ELECTION OF THE FOLLOWING NOMINEES   0010100   1

1   01-GLENN A. BRITT, 02-URSULA M. BURNS, 03-RICHARD J. HARRINGTON, 04-WILLIAM CURT HUNTER, 05-VERNON E. JORDAN, JR., 06-ROBERT A. MCDONALD, 07-ANNE M. MULCAHY, 08-N.J. NICHOLAS, JR., 09-ANN N. REESE, 10-MARY AGNES WILDEROTTER

PROPOSAL(S)			DIRECTORS RECOMMEND	
2		RATIFICATION OF THE SELECTION OF PRICEWATERHOUSECOOPERS LLP AS COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008.	--->>> FOR --->>> 0010200	2
3		APPROVE AMENDMENT OF CERTIFICATE OF INCORPORATION REQUIRING MAJORITY VOTING FOR ELECTION OF DIRECTORS IN NON-CONTESTED ELECTION.	--->>> FOR --->>> 0010600	3
4	*	SHAREHOLDER PROPOSAL RELATING TO REPORTING OF COMPLIANCE WITH THE VENDOR CODE OF CONDUCT.	--->>> AGAINST--->>> 0069900	4

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "AGAINST" PROPOSAL 4.

NOTE SUCH OTHER BUSINESS AS MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.

FOLD AND DETACH HERE
ß
IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE SHAREHOLDER MEETING TO BE HELD ON 05/22/08 FOR XEROX CORPORATION
THE FOLLOWING MATERIAL IS AVAILABLE AT WWW.PROXYVOTE.COM
- ANNUAL REPORT - PROXY STATEMENT

DIRECTORS
(MARK "X" FOR ONLY ONE BOX)
FOR ALL NOMINEES

WITHHOLD ALL NOMINEES

WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE. WRITE NUMBER(S) OF NOMINEE(S) BELOW.

USE NUMBER
ONLY

FOR AGAINST ABSTAIN

PLEASE INDICATE YOUR PROPOSAL SELECTION BY FIRMLY PLACING AN "X" IN THE APPROPRIATE NUMBERED BOX WITH BLUE OR BLACK INK

DO NOT USE

SEE VOTING INSTRUCTION NO. __2__ ON REVERSE

DO NOT USE

A/C:

FOR AGAINST ABSTAIN

984121103

Æ

DO NOT USE

PLACE X HERE IF YOU PLAN TO ATTEND AND VOTE YOUR SHARES AT THE MEETING

DO NOT USE

FOR AGAINST ABSTAIN

DO NOT USE

DO NOT USE

FOR AGAINST ABSTAIN

51 MERCEDES WAY
EDGEWOOD NY 11717

DO NOT USE

DO NOT USE

DO NOT USE

FOR AGAINST ABSTAIN

DO NOT USE

DO NOT USE

DO NOT USE

XEROX CORPORATION
45 GLOVER AVENUE
P O BOX 4505
NORWALK, CT 06856-4505

ß
FOLD AND DETACH HERE

/ /

SIGNATURE(S) **DATE**

VOTING INSTRUCTIONS

TO OUR CLIENTS:

WE HAVE BEEN REQUESTED TO FORWARD TO YOU THE ENCLOSED PROXY MATERIAL RELATIVE TO SECURITIES HELD BY US IN YOUR ACCOUNT BUT NOT REGISTERED IN YOUR NAME. ONLY WE AS THE HOLDER OF RECORD CAN VOTE SUCH SECURITIES. WE SHALL BE PLEASED TO VOTE YOUR SECURITIES IN ACCORDANCE WITH YOUR WISHES, IF YOU WILL EXECUTE THE FORM AND RETURN IT TO US PROMPTLY IN THE ENCLOSED BUSINESS REPLY ENVELOPE. IT IS UNDERSTOOD THAT IF YOU SIGN WITHOUT OTHERWISE MARKING THE FORM YOUR SECURITIES WILL BE VOTED AS RECOMMENDED BY THE BOARD OF DIRECTORS ON ALL MATTERS TO BE CONSIDERED AT THE MEETING.

FOR THIS MEETING, THE EXTENT OF OUR AUTHORITY TO VOTE YOUR SECURITIES IN THE ABSENCE OF YOUR INSTRUCTIONS CAN BE DETERMINED BY REFERRING TO THE APPLICABLE VOTING

INSTRUCTION 2

IF YOUR SECURITIES ARE HELD BY A BROKER WHO IS A MEMBER OF THE NEW YORK STOCK EXCHANGE (NYSE), THE RULES OF THE NYSE WILL GUIDE THE VOTING PROCEDURES. WE WISH TO CALL YOUR ATTENTION TO THE FACT THAT FOR THIS MEETING UNDER THE RULES OF THE NYSE, WE CANNOT VOTE YOUR SECURITIES ON ONE OR MORE OF THE MATTERS TO BE ACTED UPON AT THE MEETING WITHOUT YOUR SPECIFIC INSTRUCTIONS. THESE RULES PROVIDE THAT IF INSTRUCTIONS ARE NOT RECEIVED FROM YOU PRIOR TO THE ISSUANCE OF THE FIRST VOTE, THE PROXY FOR ONE OR MORE OF THE MATTERS MAY BE GIVEN AT THE DISCRETION OF YOUR BROKER (ON THE TENTH DAY, IF THE MATERIAL WAS MAILED AT LEAST 15 DAYS PRIOR TO THE MEETING, ON THE FIFTEENTH DAY IF THE PROXY MATERIAL WAS MAILED 25 DAYS OR MORE PRIOR TO THE

INSTRUCTION NUMBER INDICATED ON THE FACE OF YOUR FORM.

FOR MARGIN ACCOUNTS, IN THE EVENT YOUR SECURITIES HAVE BEEN LOANED OVER RECORD DATE, THE NUMBER OF SHARES WE VOTE ON YOUR BEHALF HAS BEEN OR CAN BE ADJUSTED DOWNWARD.

INSTRUCTION 1

IF YOUR SECURITIES ARE HELD BY A BROKER WHO IS A MEMBER OF THE NEW YORK STOCK EXCHANGE (NYSE), THE RULES OF THE NYSE WILL GUIDE THE VOTING PROCEDURES. THESE RULES PROVIDE THAT IF INSTRUCTIONS ARE NOT RECEIVED FROM YOU PRIOR TO THE ISSUANCE OF THE FIRST VOTE, THE PROXY MAY BE GIVEN AT DISCRETION OF YOUR BROKER (ON THE TENTH DAY, IF THE MATERIAL WAS MAILED AT LEAST 15 DAYS PRIOR TO THE MEETING DATE: ON THE FIFTEENTH DAY IF THE PROXY MATERIAL WAS MAILED 25 DAYS OR MORE PRIOR TO THE MEETING DATE). IN ORDER FOR YOUR BROKER TO EXERCISE THIS DISCRETIONARY AUTHORITY, PROXY MATERIAL WOULD NEED TO HAVE BEEN MAILED AT LEAST 15 DAYS PRIOR TO THE MEETING DATE, AND THE MATTER(S) BEFORE THE MEETING MUST BE DEEMED "ROUTINE" IN NATURE ACCORDING TO NYSE GUIDELINES. IF THESE TWO REQUIREMENTS ARE MET, AND YOU HAVE NOT COMMUNICATED TO US PRIOR TO THE FIRST VOTE BEING ISSUED, WE MAY VOTE YOUR SECURITIES AT OUR DISCRETION ON THESE MATTER(S). WE WILL NEVERTHELESS FOLLOW YOUR INSTRUCTIONS, EVEN IF OUR DISCRETIONARY VOTE HAS ALREADY BEEN GIVEN, PROVIDED YOUR INSTRUCTIONS ARE MEETING DATE). IN ORDER FOR YOUR BROKER TO EXERCISE THIS DISCRETIONARY AUTHORITY FOR ONE OR MORE OF THE MATTERS, PROXY MATERIAL WOULD NEED TO HAVE BEEN MAILED AT LEAST 15 DAYS PRIOR TO THE MEETING DATE, AND THE MATTER(S) BEFORE THE MEETING MUST BE DEEMED "ROUTINE" IN NATURE ACCORDING TO NYSE GUIDELINES. IF THESE TWO REQUIREMENTS ARE MET, AND YOU HAVE NOT COMMUNICATED TO US PRIOR TO THE FIRST VOTE BEING ISSUED, WE MAY VOTE YOUR SECURITIES AT OUR DISCRETION ON ONE OR MORE OF THE MATTERS TO BE ACTED UPON AT THE MEETING. WE WILL NEVERTHELESS FOLLOW YOUR INSTRUCTIONS, EVEN IF OUR DISCRETIONARY VOTE HAS ALREADY BEEN GIVEN ON THOSE MATTERS, PROVIDED YOUR INSTRUCTIONS ARE RECEIVED PRIOR TO THE MEETING DATE.

IF YOUR SECURITIES ARE HELD IN THE NAME OF A BANK, WE REQUIRE YOUR INSTRUCTIONS ON ALL MATTERS TO BE VOTED ON AT THE MEETING.

INSTRUCTION 3

IN ORDER FOR YOUR SECURITIES TO BE REPRESENTED AT THE MEETING, IT WILL BE NECESSARY FOR US TO HAVE YOUR SPECIFIC VOTING INSTRUCTIONS. PLEASE DATE, SIGN AND RETURN YOUR VOTING INSTRUCTIONS TO US PROMPTLY IN THE RETURN ENVELOPE PROVIDED.

INSTRUCTION 4

RECEIVED PRIOR TO THE MEETING DATE.

IF YOUR SECURITIES ARE HELD BY A BANK, YOUR SHARES CANNOT BE VOTED WITHOUT YOUR SPECIFIC INSTRUCTIONS.

WE HAVE PREVIOUSLY SENT YOU PROXY SOLICITING MATERIAL PERTAINING TO THE MEETING OF SHAREHOLDERS OF THE COMPANY INDICATED.

ACCORDING TO OUR LATEST RECORDS, WE HAVE NOT AS OF YET RECEIVED YOUR VOTING INSTRUCTION ON THE MATTER(S) TO BE CONSIDERED AT THIS MEETING AND THE COMPANY HAS REQUESTED US TO COMMUNICATE WITH YOU IN AN ENDEAVOR TO HAVE YOUR SECURITIES VOTED.