

XEROX CORP
Form DEF 14A
April 10, 2006
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant

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))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

Xerox Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- | | |
|-----|---|
| (1) | Title of each class of securities to which transaction applies: |
| (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): |
| (4) | Proposed maximum aggregate value of transaction: |
| (5) | Total fee paid: |
- Fee paid previously with preliminary materials.
 Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
- | | |
|-----|---|
| (1) | Amount Previously Paid: |
| (2) | Form, Schedule or Registration Statement No.: |
| (3) | Filing Party: |
| (4) | Date Filed: |

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

Xerox Corporation
800 Long Ridge Road
P.O. Box 1600
Stamford, Connecticut 06904

April 10, 2006

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of Xerox Corporation to be held on Wednesday, May 24, 2006, at the Xerox Corporation Corporate Headquarters, 800 Long Ridge Road, Stamford, Connecticut. Your Board of Directors and Management look forward to greeting in person those shareholders able to attend.

At the Annual Meeting you will be asked to vote upon the election of eleven directors and to ratify the selection of PricewaterhouseCoopers LLP, as the Company's independent registered public accounting firm for 2006. The Board of Directors unanimously recommends that you vote in favor of each of these proposals.

The Company has been advised that two shareholder proposals are intended to be submitted for shareholder vote. Your Board believes that these shareholder proposals are not in the best interest of the Company and its shareholders, and unanimously recommends a vote against these proposals.

You will note that Mary Agnes Wilderotter, Chairman and Chief Executive Officer, Citizens Communications, has been added to the slate of directors proposed for election at the Annual Meeting. She will bring the benefit of a strong operational background and 25 years of business experience to our Board. In addition, Stephen Robert has chosen not to stand for reelection due to an increase in time required for his other responsibilities. We are grateful for his contributions to the Company. Considering these changes, the proposed slate of directors includes 10 independent directors and one employee director.

It is important that your shares be represented and voted at the Annual Meeting, 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 Annual Shareholders Meeting

Date and Time: Wednesday, May 24, 2006, at 10:00 a.m.
Location: Xerox Corporation Corporate Headquarters, 800 Long Ridge Road, Stamford, Connecticut
Purpose: (1) Election of 11 directors
(2) Ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for 2006
(3) Vote on shareholder proposal relating to director election by majority vote
(4) Vote on shareholder proposal relating to senior executive bonuses
(5) Consider such other business as may properly come before the meeting

Record Date: March 24, 2006 You are eligible to vote if you were a shareholder of record on this date.
Proxy Voting: (1) Telephone
(2) Internet
(3) Proxy Card

Importance of Vote: Please review the accompanying proxy card for voting instructions.
Whether or not you plan to attend, please submit a proxy as soon as possible to insure that your shares are represented.

By order of the Board of Directors,

J. Michael Farren

Secretary

April 10, 2006

TABLE OF CONTENTS

<u>GENERAL</u>	4
<u>The Meeting</u>	4
<u>Shares Entitled to Vote</u>	4
<u>Proxy Voting and Quorum</u>	4
<u>Choices in Voting</u>	4
<u>ESOP Voting Instruction</u>	4
<u>Required Vote</u>	4
<u>PROPOSAL 1 ELECTION OF DIRECTORS</u>	5
<u>Corporate Governance</u>	5
<u>Committee Functions, Membership and Meetings</u>	6
<u>Audit Committee</u>	6
<u>Compensation Committee</u>	7
<u>Corporate Governance Committee</u>	7
<u>Finance Committee</u>	7
<u>Attendance and Compensation of Directors</u>	8
<u>Summary of Director Annual Compensation</u>	8
<u>Terms Used in Biographies</u>	9
<u>Biographies</u>	10
<u>Ownership of Company Securities</u>	14
<u>Executive Compensation</u>	15
<u>Report of the Compensation Committee of the Board of Directors</u>	15
<u>Summary Compensation Table</u>	20
<u>Option Exercises/Year-End Values</u>	21
<u>Long-Term Incentive Plan Awards in January 2005</u>	22
<u>Equity Compensation Plan Information</u>	23
<u>Retirement Plans</u>	24
<u>Certain Transactions</u>	25
<u>Litigation</u>	26
<u>Indemnification Actions</u>	27
<u>Five-Year Performance Comparison</u>	28
<u>Directors and Officers Liability Insurance and Indemnity</u>	28

<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	29
<u>Board of Directors Recommendation</u>	29
<u>PROPOSAL 2 RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	29
<u>Principal Auditor Fees and Services</u>	29
<u>Audit Committee Report</u>	30
<u>Board of Directors Recommendation</u>	30
<u>PROPOSAL 3 SHAREHOLDER PROPOSAL RELATING TO ELECTION OF DIRECTORS BY MAJORITY VOTE</u>	30
<u>Board of Directors Recommendation</u>	31
<u>PROPOSAL 4 SHAREHOLDER PROPOSAL RELATING TO SENIOR EXECUTIVE BONUSES</u>	32
<u>Board of Directors Recommendation</u>	33
<u>OTHER MATTERS</u>	33
<u>Board of Directors Recommendation</u>	33
<u>Other Actions at Meeting</u>	33
<u>Information about this Solicitation of Proxies</u>	34
<u>Confidential Voting</u>	34
<u>Shareholder Communication with Members of the Board</u>	34
<u>Multiple Shareholders Having the Same Address</u>	34
<u>Availability of Additional Information</u>	34
<u>REQUIREMENTS FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS</u>	35
<u>Shareholder Proposals for 2007 Meeting</u>	35
<u>Corporate Governance Committee Director Nomination Process</u>	35
<u>EXHIBITS</u>	
<u>Exhibit I Xerox Corporate Governance Guidelines</u>	36
<u>Exhibit II Audit Committee Charter</u>	43
<u>Exhibit III Compensation Committee Charter</u>	48
<u>Exhibit IV Corporate Governance Committee Charter</u>	50

PROXY STATEMENT

GENERAL

The Meeting

The Board of Directors of Xerox Corporation is requesting your proxy for the Annual Meeting of Shareholders on May 24, 2006, beginning at 10:00 a.m., and any adjournments thereof. The meeting will be held at the Xerox Corporation Corporate Headquarters, 800 Long Ridge Road, Stamford, 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, 2006, are entitled to vote. On that date there were 918,430,232 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

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.

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

You may revoke or change your proxy at any time before it is exercised, either in writing 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 choices.
- 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 on any other proposal, 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 the directors nominated by the Board of Directors,
 - for ratification of the selection of PricewaterhouseCoopers LLP (PwC) as the Company's independent registered public accounting firm for 2006,
 - against the shareholder proposal relating to director election by majority vote and
 - against the shareholder proposal relating to senior executive bonuses.

ESOP Voting Instruction

Edgar Filing: XEROX CORP - Form DEF 14A

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 required for the election of directors. Pursuant 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 February, the Board of Directors adopted a policy that provides that in an uncontested election any nominee for director who receives a greater number of votes

4

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 of Directors will promptly disclose its decision and the basis for that decision in a filing with the Securities and Exchange Commission.

The affirmative vote of a *majority* of the votes cast is required to ratify the selection of PricewaterhouseCoopers LLP (PwC) as the Company's independent registered public accounting firm for 2006 and to approve the shareholder proposals. Under the law of New York, only votes cast for or against the selection of PwC and each shareholder proposal will be counted in determining whether the selection of PwC has been ratified or such 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 eleven persons whose biographies appear on pages 10 through 13 have been proposed by the Board of Directors based on a recommendation by the Corporate Governance Committee.

All eleven 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) to be independent under the New York Stock Exchange Corporate Governance Rules and under the Company's 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.

Corporate Governance

Xerox is committed to the highest standards of business integrity and corporate governance. All 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 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 <http://www.xerox.com/investor> and then clicking on Corporate Governance. They are also available to any shareholder who requests them by writing to Xerox Corporation, 800 Long Ridge Road, Stamford, Connecticut 06904, Attention: Corporate Secretary. Copies of our Corporate Governance Guidelines and the charters of our Audit, Compensation, and Corporate Governance Committees are also attached to this Proxy Statement as Exhibits I, II, III and IV.

The Board and each of the Committees of the Board periodically review and reassess the adequacy of our overall corporate governance, the Corporate Governance Guidelines and the Committee charters. 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 meets all 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 by the NYSE Corporate Governance Rules, 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 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. As a result, 91% of the proposed members of our Board are independent.

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

Set forth below is a list of the Committees of our Board, the number of meetings held and a summary of the responsibilities of each Committee and its membership.

Committee Functions, Membership and Meetings

Our Board of Directors has four standing committees: Audit, Corporate Governance, Compensation and Finance. Here is a description of each committee, the number of meetings held during 2005 and its membership:

Audit Committee (12 meetings)

Reference is made to a complete copy of the charter of the revised Audit Committee which is attached to this Proxy Statement as Exhibit II and posted on the Company's website as described above.

Responsibility:

- oversight of the integrity of the Company's financial statements,
- Company's compliance with legal and regulatory requirements,
- independent auditors' qualifications and independence,
- performance of the Company's independent auditors and the internal audit function, and
- Company's code of business conduct and ethics.

The Committee is also responsible for the preparation of the audit committee report to be included in the Company's annual proxy statement. The Audit Committee's report appears on page 30 of this Proxy Statement.

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

Chairman: Mr. Harrington

The Board of Directors has determined that all of the members of the Audit Committee are independent under the Company's Corporate Governance Guidelines and under the applicable SEC and NYSE Corporate Governance Rules. In addition, the Board of Directors has determined that the following members of the Audit Committee are audit committee financial experts, as defined in the applicable SEC rules,

Edgar Filing: XEROX CORP - Form DEF 14A

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 identification.

6

Compensation Committee (5 meetings)

Reference is made to a complete copy of the charter of the Compensation Committee which is attached to this Proxy Statement as Exhibit III and posted on the Company's website as described above.

Responsibility:

- recommend to the Board of Directors the remuneration arrangements for senior management of the Company including the adoption of compensation plans in which senior management is eligible to participate and the granting of benefits under any such plans,
- consult with the Chief Executive Officer and advise the Board with respect to senior management succession planning,
- review and approve performance goals and objectives with respect to the compensation of the Chief Executive Officer and all other officers consistent with approved compensation plans, and
- oversee the performance evaluation of the Chief Executive Officer and all other officers against approved goals and objectives.

The Committee is also responsible for the preparation of an annual report on executive compensation to be included in the Company's annual proxy statement. The Compensation Committee report appears on pages 15-19 of this Proxy Statement.

Members: Vernon E. Jordan, Jr., Hilmar Kopper, Ralph S. Larsen and N. J. Nicholas, Jr.

Chairman: Mr. Larsen

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

Corporate Governance Committee (4 meetings)

Reference is made to a complete copy of the charter of the Corporate Governance Committee which is attached to this Proxy Statement as Exhibit IV and posted on the Company's website as described above.

Responsibility:

- identify and recommend to the Board individuals to serve as directors of the Company and on committees of the Board,
- advise the Board regarding composition, procedures and committees,
- develop and recommend to the Board and annually review a set of corporate governance principles applicable to the Company,
- evaluate and recommend director compensation to the Board, and
- oversee the annual Board and Committee evaluation processes.

Edgar Filing: XEROX CORP - Form DEF 14A

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

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

Chairman: Mr. Jordan

The Board of Directors 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)

Reference is made to a complete copy of the charter of the Finance Committee which is posted on the Company's website as described above.

7

Responsibility:

- 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: Hilmar Kopper, N. J. Nicholas, Jr., Ann N. Reese and Stephen Robert, all non-employee directors.

Chairman: Mr. Nicholas

The Board of Directors 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: 6 meetings of the Board of Directors and 25 meetings of the Board committees were held in 2005. All incumbent directors attended at least 75 percent of the total number of meetings of the Board of Directors 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 for director, except one, attended the 2005 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 during fiscal year 2005 was determined by the Corporate Governance Committee, as consistent with a plan recommended to it by independent consultant Frederic W. Cook & Co., Inc., 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 either 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 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 2005, 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 who join the Board at a time other than at the annual meeting of shareholders receive pro-rated retainers in the form of both cash and DSUs, and directors who do not serve for a complete fiscal year receive a pro-rated portion of any retainer awarded in the form of DSUs and any cash retainers already awarded. 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.

Edgar Filing: XEROX CORP - Form DEF 14A

Individually, the compensation for each director during fiscal year 2005 was as follows:

Name of Director(1)	Total (\$)	Fees earned or paid in cash \$(2)	Stock Awards \$(3)	Option Awards (\$)	Non-Stock Incentive Plan Compensation (\$)	All Other Compensation \$(4)
Glenn A. Britt	135,000	0	135,000			
Richard J. Harrington	150,000	75,000	75,000			
William Curt Hunter	140,000	0	140,000			
Vernon E. Jordan, Jr.	145,000	72,500	72,500			
Hilmar Kopper	130,000	65,000	65,000			
Ralph S. Larsen	150,000	0	150,000			
Robert A. McDonald	70,000	35,000	35,000			
N. J. Nicholas, Jr.	155,000	0	77,500			77,500
John E. Pepper	73,333	40,000	33,333			
Ann N. Reese	130,000	0	130,000			
Stephen Robert	130,000	0	130,000			

(1) *Directors:* Mr. McDonald was elected at the 2005 Annual Meeting. Mr. Pepper did not stand for reelection at the 2005 Annual Meeting.

(2) *Cash:* 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) *DSUs:* 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. Hunter, Mr. Larsen, Ms. Reese and Mr. Robert, elected to take their 2005 cash compensation in the form of DSUs under the 2004 Director Plan.

The total number and value of all DSUs held by each director as of the end of 2005 (based on the year-end closing market price of our Common Stock of \$14.65) is as follows: Mr. Britt, 13,139 (\$192,486); Mr. Harrington, 10,276 (\$150,543); Mr. Hunter, 14,634 (\$214,388); Mr. Jordan, 10,265 (\$150,382); Mr. Kopper, 9,392 (\$137,593); Mr. Larsen, 15,680 (\$229,712); Mr. McDonald, 2,548 (\$37,328); Mr. Nicholas, 10,974 (\$160,769); Mr. Pepper, 8,001 (\$117,215); Ms. Reese 13,589 (\$199,079); and Mr. Robert, 13,589 (\$199,079).

(4) *Deferred Compensation:* Mr. Nicholas deferred his cash compensation for 2005 under the Deferred Compensation Plan for Directors. Amounts deferred under the Deferred Compensation Plan for Directors are assumed to be invested, without charge, in a stock fund established under the Xerox Corporation Savings Plan or a prime rate fixed income return investment fund. The value of each of these deferred accounts reflect all gains, losses and rates of return from such hypothetical investments. The value of each of these deferred accounts is generally determined on each business day. Amounts deemed invested in the prime rate fixed income return investment fund would have accrued interest at rates ranging from 5.25% to 7.00% per annum in fiscal year 2005.

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 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.

Edgar Filing: XEROX CORP - Form DEF 14A

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 March 15, 2006.

For information on compensation for officers, see the Executive Compensation section starting on page 15.

Glenn A. Britt

Age: 57 Director since: 2004

Xerox securities owned: 1,000 common shares and 17,692 DSUs

Options/Rights: none

Occupation: President and Chief Executive Officer, Time Warner Cable

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

Administration

Other Directorships: None

Other Background: Joined Time Inc. in 1972. Elected Vice President of Time Inc. in 1986, Treasurer in 1986 and Vice President-Finance of Time Inc. 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, Chairman and CEO in 2001, President and CEO in 2006. Member of the Audit and Corporate Governance Committees of Xerox.

Richard J. Harrington

Age: 59 Director since: 2004

Xerox securities owned: 856 common shares and 12,878 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 a Certified Public Accountant for Arthur Young & Co for six years prior to joining Thomson. Chairman of the Audit Committee of Xerox.

William Curt Hunter

Age: 58 Director since: 2004

Xerox securities owned: 16,911 DSUs and an indirect interest in approximately 3,716 common shares through the Deferred Compensation Plan for Directors

Options/Rights: none

Occupation: Dean and Distinguished Professor Finance, University of Connecticut School of Business

Education: BA, Hampton University; MBA, Northwestern University; PhD, Northwestern University

Other Directorships: Trustee of Nuveen Investments

Other Background: Joined the Federal Reserve Bank of Chicago in 1995 and most recently held the position of Senior Vice President and Director of Research. Member of the Bank's management committee, served as the Bank's chief economic advisor and oversaw the Statistical Reports and Consumer and Community Affairs units. Also served as Associate Economist on the Federal Open Market Committee, the Federal Reserve System's primary monetary policy

group. US Treasury advisor to the Bulgarian National Bank. Held faculty positions at University of Georgia, Atlanta University, Emory University, Chicago State University and Northwestern University. Member of the Audit and the Corporate Governance Committees of Xerox.

10

Vernon E. Jordan, Jr.

Age: 70 Director since: 1974

Xerox securities owned: 40,019 common shares, 12,623 DSUs and an indirect interest in approximately 6,685 common shares through the Deferred Compensation Plan for Directors

Options/Rights: 40,000 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; J.C. Penney Company, Inc.; and 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 in 1982, following ten years as President of the National Urban League, Inc. Member of the Bar of Arkansas, Georgia and the District of Columbia as well as the U.S. Supreme Court Bar. Member of the Council on Foreign Relations, The American Law Institute, the American Bar Association, the National Bar Association and the Bilderberg Meetings. Chairman of the Corporate Governance Committee and member of the Compensation Committee of Xerox.

Hilmar Kopper

Age: 71 Director since: 1991

Xerox securities owned: 37,452 common shares and 11,506 DSUs

Options/Rights: 35,050 common shares

Occupation: Former Chairman and Chief Executive Officer, Deutsche Bank AG

Education: High school diploma

Other Directorships: DaimlerChrysler AG; Unilever NV/PLC

Other Background: Apprenticeship with Rheinisch-Westfalischen Bank AG in Cologne, 1954. Management trainee at J. Henry Schroder Banking Corporation, New York. Foreign Department, Deutsche Bank's Central Office in Dusseldorf and Manager, Leverkusen branch, 1969. Appointed to the Board of Managing Directors of Deutsche Bank subsidiary European Asian Bank AG in Hamburg, 1972. Executive Vice President, Deutsche Bank AG, 1975; and Member of the Board of Managing Directors, Deutsche Bank AG, 1977. Spokesman of the Board of Managing Directors, December 1989 to May 1997. Member of the Compensation and Finance Committees of Xerox.

Ralph S. Larsen

Age: 67 Director since: 1990

Xerox securities owned: 33,689 common shares, 20,559 DSUs and an indirect interest in approximately 49,942 common shares through the Deferred Compensation Plan for Directors

Options/Rights: 40,000 common shares

Occupation: Former Chairman and Chief Executive Officer, Johnson & Johnson

Education: BBA, Hofstra University

Other Directorships: General Electric Company

Other Background: Joined Johnson & Johnson in 1962, named Vice President of Marketing, McNeil Consumer Products Company in 1980. President of Becton Dickinson's Consumer Products Division, 1981 to 1983. Returned to Johnson & Johnson as President of its Chicopee subsidiary in 1983. Named a company Group Chairman in 1986, and Chairman of the Board and Chief Executive Officer in 1989. Retired in 2002. Served two years in the U.S. Navy. Member of the Nominating and Corporate Governance and Management Development and Compensation Committees and the presiding director of General Electric. Chairman of the Compensation Committee and member of the Corporate Governance Committee of Xerox.

Robert A. McDonald

Age: 52 Director since: 2005

Xerox securities owned: 4,825 DSUs

Options/Rights: None

Occupation: Vice Chairman, Global Operations, The Procter & Gamble Company

Education: U.S. Military Academy, B.S., 1975; University of Utah, M.B.A., 1978

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; and Vice Chairman Global Operations in 2004. He is a non-voting member of the Board of Directors of The Procter & Gamble Company. Member of the Audit Committee.

Anne M. Mulcahy

Age: 53 Director since: 2000

Xerox securities owned: 597,951 common shares including ESOP account; 70,000 common shares held indirectly in a GRAT; and an indirect interest in approximately 35,635 shares through the Deferred Compensation Plan for Executives; immediate family owns 282 common shares in an ESOP account and an additional 3,770 shares

Options/Rights: 4,770,249 common shares

Occupation: Chairman and Chief Executive Officer, Xerox Corporation

Education: BA, Marymount College

Other Directorships: Citigroup, Inc.; Target Corporation

Other Background: Joined Xerox in 1976 as a sales representative and held various sales and senior management positions. Named Vice President for Human Resources in 1992; Senior Vice President in 1998; and Executive Vice

President in 1999. Elected President and Chief Operating Officer in May 2000, Chief Executive Officer in August 2001, and assumed the additional role of Chairman on January 1, 2002.

12

N. J. Nicholas, Jr.

Age: 66 Director since: 1987

Xerox securities owned: 106,700 common shares, 15,690 DSUs and an indirect interest in approximately 58,453 common shares through the Deferred Compensation Plan for Directors; immediate family owns 1,400 shares

Options/Rights: 40,000 common shares

Occupation: Investor

Education: BA, Princeton University; MBA, Harvard University Graduate School of Business Administration

Other Directorships: Boston Scientific Corporation; Time Warner Cable

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. Trustee Chairman of Environmental Defense. Chairman of the Finance Committee and member of the Compensation Committee of Xerox.

Ann N. Reese

Age: 53 Director since: 2003

Xerox securities owned: 6,654 common shares and 17,817 DSUs

Options/Rights: 5,000

Occupation: Executive Director, Center for Adoption Policy Studies

Education: BA, University of Pennsylvania; MBA, New York University Graduate School of Business

Other Directorships: CBS Corporation; 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, 1999-2000. Executive Vice President and Chief Financial Officer, ITT Corporation, 1995-1998; Treasurer, ITT Corporation, 1992-1995; Assistant Treasurer, ITT Corporation, 1987-1992. Member of the Finance and Governance Committees of Xerox.

Mary Agnes Wilderotter

Age: 51 Director since: 2006

Xerox securities owned: None

Options/Rights: None

Occupation: Chairman and Chief Executive Officer, Citizens Communications

Education: BA, College of the Holy Cross

Other Directorships: The McClatchy Co.

Other Background: Joined Citizens Communications in 2004 as President and Chief Executive Officer, named Chairman 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 and Chief Executive Officer Aviation Communication Division 1995-1996; Senior Vice President, McCaw

Cellular Communications Inc., 1990-1995.

13

Ownership of Company Securities

We do not know 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, 2005, except as set forth below(1).

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Common Stock	Dodge & Cox 555 California Street, 40th Floor San Francisco, CA 94104	123,035,083 (2)	12.8 %
Common Stock	State Street Bank and Trust Company, as Trustee under other plans and accounts 225 Franklin Street Boston, MA 02110	73,739,270 (3)	7.7 %
Common Stock	Brandes Investment Partners, L.P. 11988 El Camino Real, Suite 500 San Diego, CA 92130	55,001,395 (4)	5.7 %

(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. All of the firms named in the table, other than State Street Bank and Trust Company, are registered investment advisers under the Investment Advisers Act of 1940, as amended.

(2) Within the total reported, as to certain of the shares, Dodge & Cox has sole voting power for 115,518,083 shares, shared voting power for 1,222,500 shares, sole dispositive power for 123,035,083 shares and no shared dispositive power for any of the shares.

(3) Within this total as to certain of the shares, State Street Bank and Trust Company has sole voting power for 29,180,743 shares, shared voting power for 44,558,527 shares, shared dispositive power for 73,739,270 shares and no sole dispositive power for any of the shares. State Street Bank and Trust Company holds 24,740,828 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.

(4) Brandes Investment Partners, L.P. and its affiliate companies and partners own these shares in aggregate and have shared voting power for 45,052,313 shares and shared dispositive power for 55,001,395 shares, and have no sole voting or dispositive power for any of the shares.

Edgar Filing: XEROX CORP - Form DEF 14A

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 below and directors and all current executive officers as a group, as of March 15, 2006, were as follows:

Name of Beneficial Owner	Amount Beneficially Owned	Total Stock Interest
Glenn A. Britt	1,000	18,692
Ursula M. Burns	744,139	978,643
James A. Firestone	765,539	934,306
Richard J. Harrington	856	13,734
William Curt Hunter		20,627
Vernon E. Jordan, Jr.	80,019	99,327
Hilmar Kopper	72,502	84,008
Ralph S. Larsen	73,689	144,190
Michael C. Mac Donald	444,979	583,968
Robert A. McDonald		4,825
Anne M. Mulcahy	3,904,152	5,477,887
N. J. Nicholas, Jr.	148,100	222,243
Ann N. Reese	11,654	29,471
Stephen Robert	50,000	72,553
Mary Agnes Wilderotter		
Lawrence A. Zimmerman	756,744	875,511
All directors and executive officers as a group (27)	9,775,545	12,801,789

Percent Owned by Directors and Executive Officers: Less than 1% of the aggregate number of shares of Common Stock outstanding at March 15, 2006 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 has been deferred under one or more equity compensation plans (which plans have been superseded by the Xerox Corporation 2004 Performance Incentive Plan approved by the shareholders at the 2004 Annual Meeting) 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, incentive stock units, 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.

Executive Compensation

Report of the Compensation Committee of the Board of Directors

The Board of Directors created the Compensation Committee (the Committee) to fulfill the Board's responsibilities relating to compensation of the Company's officers. Specific Committee responsibilities include reviewing and approving performance goals of the Chief Executive Officer and all other officers, overseeing the performance evaluation of all officers, reviewing and approving executive compensation plans, setting the compensation for the Chief Executive Officer and all other officers, and consulting with the Chief Executive Officer and the Board on management succession. The Committee Charter can be found attached to this proxy

statement as Exhibit III, or by visiting our website at <http://www.xerox.com/investor> and then clicking on Corporate Governance, and is also available to any shareholder who requests it by writing to Xerox Corporation, 800 Long Ridge Road, Stamford, Connecticut 06904, Attention: Corporate Secretary.

The Committee is comprised of four independent directors.

Actions Taken by the Committee

The Company's executive compensation policies, plans and programs provide opportunities for competitive levels of compensation that align pay with the Company's annual and long-term performance objectives. They include incentives necessary to reward contributions and leadership to increase profitability, revenue and operating cash flow of the Company, enhancing confidence in the financial stewardship of the Company, creating and maintaining the high morale and commitment of the Company's employees and furthering the Company's values as a responsible corporate citizen. The Company seeks to be recognized as a leader in corporate social responsibility. These leadership goals are encompassed within our environmental, diversity, and ethics programs and are supported by the Company's corporate governance process and extensive community outreach. They also support the Company objectives of attracting, motivating and retaining high-performing executives and allowing for recognition of superior corporate and individual achievement.

Our pay policy is to target compensation levels for officers at the midpoint of a range determined from the median compensation levels paid by other companies for comparable positions.

In connection with our duties, the Committee met five times during 2005.

To meet compensation policy objectives, we reviewed Xerox executive officer compensation and compared it to relevant external data. The Committee reviewed the reported compensation data of firms that were part of the *Business Week* Computers and Peripherals Industry Group. The Committee also reviewed a broader group of organizations with which the Company is likely to compete for executive expertise as well as companies of similar size and scope. The latter group includes global companies in technology, office equipment and other related industries. During 2005, the Committee, following an extensive review, revised this grouping of companies. The new grouping is slightly larger in median total revenues and slightly better performing as measured by total shareholder return when compared to the former grouping. The revised grouping also has a greater representation of services companies. Taken as a whole, we believe the new grouping to be a more relevant group to compare performance and executive compensation.

The Committee sets base salaries based on competitive data and each executive's performance. In addition, a substantial portion of each executive officer's total compensation, generally two-thirds or more, is at risk and variable from year to year.

During 2005, the Company generated significant positive operating cash flow, increased sales of new equipment and services as measured on a constant currency basis, and continued its disciplined cost and expense management, which resulted in positive growth in earnings per share. During 2005, total shareholder return was -13.9% for the calendar year. This compares against total shareholder return of over 23% in 2004. Based on the 2005 performance, the Company ranked below the median in total shareholder return in 2005 and in the upper quartile over the past three years when compared to the latter group mentioned above.

Goals for the Company in 2005 focused on Financial and Leadership Effectiveness. Financial goals emphasized improved earnings per share, revenue generation and cash flow from operations. Leadership Effectiveness goals concentrated on effective development and communication of the Company's strategy and execution of short and long-term business plans. The principal pay programs for officers in 2005 and 2006 are briefly described below:

Base Salary Adjustments: After reviewing competitive data in early 2005, the Committee approved base salary adjustments for select officers. The approved adjustments averaged approximately 3% on an annualized basis. Certain officers received an additional adjustment to their base salary during 2005 as a result of new responsibilities and/or to address specific retention concerns.

Annual Performance Incentive Plan (APIP): Under APIP, executive officers of the Company are eligible to receive performance-related cash payments if Committee-established annual performance objectives are met. The Committee approved an annual incentive target and maximum opportunity for 2005, expressed as a percentage of base salary, for each participating officer.

The Committee also set overall threshold, target and maximum measures of performance for the 2005 APIP. The performance measures and weightings for 2005 were revenue (30%), earnings per share (40%) and cash flow from operations (30%). Additional goals for each officer addressed business-unit specific and/or individual performance goals and objectives, including new product launches and executing business growth plans. The weightings associated with these additional performance goals vary.

For 2005, the performance against the overall APIP goals was as follows: Revenue performance was below threshold, earnings per share growth above targeted levels and cash flow from operations exceeded maximum. Accordingly, the Committee approved APIP awards for 2005 to participating officers that on average were less than target, in light of the overall operational results delivered by the Company in 2005. Some individuals received higher or lower bonuses based on their individual and unit performance.

Payments to the named officers for 2005 were paid from a bonus pool established by the Committee early in 2005 under the terms of the Xerox Corporation 2004 Performance Incentive Plan (2004 Plan) approved by shareholders. The pool was funded by 2% of the performance profit achieved during the year. The Committee exercised its discretion in determining the amount of actual bonus paid to each named officer from the available pool. The purpose of the bonus pool was to ensure that bonuses paid to named officers are performance-based and thus fully tax-deductible expenses for the Company.

Long-Term Incentive Awards: As previously disclosed in last year's report, the Committee approved a new approach to long-term incentive awards for executives beginning in 2005. The new Executive Long-Term Incentive Program (E-LTIP) provides strong performance-based incentives that are in full alignment with the interests of all shareholders.

E-LTIP awards made to officers reflect their leadership role in the Company, their individual performance, and competitive award levels. The purpose of E-LTIP is to provide the necessary incentives to retain and reward executives for sustained performance improvements over the next three-year period.

E-LTIP awards made to officers are comprised entirely of performance shares that may be earned based on achieving annual performance targets or three-year cumulative performance between threshold and maximum as determined by the Committee. Performance shares that have been earned vest following Committee certification of the performance results for the applicable three-year period. Executives who retire or are involuntarily terminated prior to the end of the three-year performance period will vest in a portion of the performance shares earned on a pro rata basis.

Performance metrics for E-LTIP are Diluted Earnings Per Share (60%) and Net Cash provided by Operating Activities (40%). The Committee has established annual and cumulative targets for each award. Based on annual or cumulative performance versus targets, the number of performance shares earned by officers under E-LTIP may vary from 0% to 150% of the initial number of shares subject to the grant.

Each share granted provides for the cash payment of dividend equivalents at the same time and in the same amounts that the holder of record of a number of shares of Common Stock would be entitled to receive as dividends.

Each participant of E-LTIP must satisfy a meaningful ownership requirement. For Anne M. Mulcahy, the Chairman and CEO, the ownership requirement is five times her base salary. For Ursula M. Burns, Lawrence A. Zimmerman and James A. Firestone, the requirement is three times base salary. For other officers, the ownership requirement is two times base salary. Non-officer participants in E-LTIP have an ownership requirement equal to their base salary. All awards under E-LTIP are subject to a mandatory holding requirement. As determined by the Committee, executives must retain 50% of the net shares until they achieve their required level of ownership.

Grants for 2005 E-LTIP were made by the Committee effective January 1, 2005. Specific grants made to the named officers are shown in the Long-Term Incentive Plan Awards Table and related footnotes that accompany this report as per current SEC requirements. For the year 2005, Diluted Earnings Per Share and Net Cash provided by Operating Activities performance exceeded target. The Committee, therefore, determined that one-third of the performance shares awarded in 2005 under E-LTIP were earned by participants, including the named executive officers. The number of earned shares and their value (based on the year-end 2005 closing market price of \$14.65) is as follows: Anne M. Mulcahy 98,033 (\$1,436,183), Ursula M. Burns 35,300 (\$517,145), Lawrence A. Zimmerman 31,367 (\$459,527), James A. Firestone 31,367 (\$459,527) and Michael C. Mac Donald 21,567 (\$315,957). Pursuant to the terms of E-LTIP, earned shares do not vest until the end of the three-year period following the grant.

Grants for 2006 E-LTIP were made by the Committee effective April 1, 2006, as follows: Anne M. Mulcahy 444,000 (\$6,737,700), Ursula M. Burns 170,800 (\$2,591,890), Lawrence A. Zimmerman 109,300 (\$1,658,628), James A. Firestone 136,700 (\$2,074,423) and Michael C. Mac Donald 75,200 (\$1,141,160).

Effective in 2004, the Committee discontinued the granting of stock options because it believes the performance shares in E-LTIP provide for a more effective balance of the performance-based incentives needed to attract and retain executive talent at lower cost and with less dilution. Awards under E-LTIP are reflected as compensation expense in the Company's results of operations.

In order to effectively complete the transition to the new stock-based award programs, the Committee approved accelerating the vesting of approximately 3,616,000 unvested stock options previously granted in 2004 to all employees, including corporate officers. Approximately 2,883,000 of these unvested stock options had been granted to employees who are not corporate officers, and 733,000 to corporate officers including Anne M. Mulcahy (203,000), Ursula M. Burns (46,000), Lawrence A. Zimmerman (40,667), James A. Firestone (40,667) and Michael C. Mac Donald (30,667).

Executive Life Insurance: The Company provides the Xerox Universal Life Plan (XUL) to eligible employees, including the named officers. Under XUL, participants receive Company-paid life insurance equal to their death benefit under the prior program, or three times their base salary, whichever is greater. Executives are the sole owners of their XUL policies and are responsible for any taxes due from Company contributions.

Policy Regarding Tax Deductibility of Executive Compensation

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

Certain compensation paid to named officers in 2005 does not meet the requirements of Section 162(m), most notably the value of restricted stock awards that vested in 2005, to the extent that compensation exceeds \$1 million for a named officer. Certain perquisite compensation, such as personal use of company aircraft, also may not be fully tax deductible. It is expected that E-LTIP awards will be fully tax-deductible compensation.

Chief Executive Officer Compensation

In 2005, the Committee took the following actions with respect to the compensation paid to Mrs. Mulcahy, Chairman and Chief Executive Officer of the Company.

Base Salary: Mrs. Mulcahy's annualized base salary was maintained at the previously disclosed level of \$1,320,000.

2005 Bonus: Mrs. Mulcahy's annual target bonus remained at 100% of base salary. Mrs. Mulcahy was awarded an annual bonus of \$1,188,000, based on the Company's overall results as discussed above under APIP.

Long-Term Incentives: Effective on January 1, 2005, Mrs. Mulcahy received an award under the 2005 E-LTIP as described earlier. Her 2005 E-LTIP award consisted of a grant of 294,100 performance shares. The grant date fair market value of this grant was \$5,001,171. On the basis of Company performance in 2005 as discussed earlier in this report, 98,033 shares (\$1,436,183, based on the year-end 2005 closing market price of \$14.65) were earned. Earned shares do not vest until the end of the three-year period following the grant.

Effective on April 1, 2006, Mrs. Mulcahy received an award for 2006 under E-LTIP as described above. Her award consisted of 444,000 performance shares at a grant value of (\$6,737,700).

Performance shares may be earned based on annual or cumulative performance targets over a three-year period as determined by the Committee. Based on performance, shares actually received may range from 0% to 150%.

Mrs. Mulcahy's 2006 APIP incentive target increased to 150% (from 100%) following the Committee's review of competitive incentive target levels and total compensation levels.

The Committee made these awards to provide the incentives necessary to retain Mrs. Mulcahy and to reward her for her outstanding contributions and leadership in significantly increasing the profitability and operating cash flow of the Company, enhancing confidence in the financial stewardship of the Company, and creating and maintaining the high morale, commitment of the Company's employees and furthering the Company's values as a responsible corporate citizen.

The accompanying charts and tables present detailed information on Mrs. Mulcahy's compensation as well as that of other highly compensated executive officers.

The Committee and the Board believe that the quality of Xerox's leadership and the caliber and motivation of its management make a significant contribution to our performance and ability to create sustaining value for our shareholders. The Committee believes our executive compensation programs are an important component of our ability to create competitive advantage for Xerox in light of global competition.

Ralph S. Larsen, Chairman
Vernon E. Jordan, Jr.
Hilmar Kopper
N.J. Nicholas, Jr.

Summary Compensation Table

The Summary Compensation Table below provides compensation information for the Chief Executive Officer and the four most highly compensated key executive officers (named officers) serving at the end of the fiscal year ended December 31, 2005, for services rendered in all capacities during the fiscal years ended December 31, 2005, 2004, and 2003. The table includes the dollar value of base salary, bonus earned, restricted stock awards, option awards (shown in number of shares) and certain other compensation, whether paid or deferred.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation Awards		Payouts LTIP Payouts (\$)(E)	All Other Compensation (\$)(F)
		Salary (\$)(A)	Cash Bonus (\$)	Other Annual Compensation (\$)(B)	Restricted Stock (\$)(C)	Underlying Options/SARs (#)(D)		
Anne M. Mulcahy	2005	1,320,000	1,188,000	197,825				57,181
Chief Executive Officer	2004	1,320,000	1,584,000	166,995	5,050,800	609,000		56,464
	2003	1,091,667	1,750,000	332,790	2,012,500	934,600		27,253
Ursula M. Burns Senior Vice President	2005	548,625	350,595	13,051				22,404
	2004	525,000	441,000	20,897	1,145,400	138,000		21,958
Lawrence A. Zimmerman Senior Vice President	2003	500,000	485,100	42,329	644,000	280,400		12,653
	2005	543,750	346,500	65,034				16,170
James A. Firestone Senior Vice President	2004	525,000	441,000	52,063	1,021,200	122,000		14,691
	2003	500,000	485,100	52,747	402,500	187,000		9,294
Michael C. Mac Donald Senior Vice President	2005	518,750	330,750	0				28,722
	2004	476,000	420,000	25,405	1,021,200	122,000		28,298
James A. Firestone Senior Vice President	2003	450,000	432,400	32,667	402,500	187,000		15,391
	2005	490,800	342,619	13,242				29,504
Michael C. Mac Donald Senior Vice President	2004	462,225	553,200	51,039	772,140	92,000		29,038
	2003	440,000	571,600	53,751	322,000	149,600		15,732

(A) Effective April 1, 2006, the Committee set annualized base salaries of the named officers as follows: Ursula M. Burns \$640,000, Lawrence A. Zimmerman \$600,000, James A. Firestone \$600,000, Michael C. Mac Donald \$509,300. Anne M. Mulcahy's salary remained unchanged at \$1,320,000.

(B) Amounts in this column represent perquisites and personal benefits including personal use of Company aircraft, financial planning/tax preparation, tax related reimbursements, above market interest credited to nonqualified deferred compensation balances from compensation that was deferred prior to 2002, prizes, and executive physicals. Amounts for Anne M. Mulcahy include reimbursement for home security. Amounts for 2003 include the discontinued executive expense allowance. For reasons of security and personal safety, the Company requires Anne M. Mulcahy to use Company aircraft for all air travel. The Committee has authorized Lawrence A. Zimmerman to utilize commercial and Company aircraft in an aggregate cost to the Company not to exceed \$250,000 per year, inclusive of any applicable tax-related reimbursements, which he intends to use primarily for travel to and from his residences located outside Connecticut. 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 excludes 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 minimis amount of incremental cost is incurred by the Company. Amounts representing any perquisites and personal benefits that are the greater of \$25,000 or 10% of the totals shown above and all above market interest and tax-related reimbursements are as follows.

Name	Year	Personal Use of Aircraft (\$)	Above Market Interest (\$)	Tax Related Reimbursements (\$)
Anne M. Mulcahy	2005	147,500	5,594	24,955
	2004	92,100	3,795	26,405
	2003	118,400	3,501	166,563
Ursula M. Burns	2005		863	1,523
	2004		586	1,579
	2003		540	
Lawrence A. Zimmerman	2005	45,200		
	2004	51,500		563
	2003	27,000		5,717
James A. Firestone	2005			
	2004			
	2003			
Michael C. Mac Donald	2005		505	1,222
	2004		342	1,337
	2003		316	9,622

(C) There were no restricted stock awards granted by the Company to named officers in 2005. The number of restricted shares and units held by the named officers and their value (based on the year-end 2005 closing market price of \$14.65) was as follows: Anne M. Mulcahy 244,000 (\$3,574,600), Ursula M. Burns 55,334 (\$810,643), Lawrence A. Zimmerman 49,334 (\$722,743), James A. Firestone 49,334 (\$722,743) and Michael C. Mac Donald 36,667 (\$537,172).

As discussed in the Report of the Compensation Committee of the Board of Directors, E-LTIP grants for 2005 and 2006 were comprised entirely of performance shares. All awards granted under E-LTIP are subject to a mandatory holding period. As determined by the Committee, executives must retain 50% of net shares for all awards granted under E-LTIP until they achieve their required ownership level. Each share provides for the cash payment of dividend equivalents at the same time and in the same amounts that the holder of a number of shares of Common Stock would be entitled to receive as dividends. Performance shares earned under E-LTIP vest following Committee certification of three-year cumulative performance results (see Report of the Compensation Committee of the Board of Directors).

This column excludes the grants of E-LTIP performance shares made effective on January 1, 2005, (based on the fair market value of \$17.005 on the grant effective date) as follows: Anne M. Mulcahy 294,100 (\$5,001,171), Ursula M. Burns 105,900 (\$1,800,830), Lawrence A. Zimmerman 94,100 (\$1,600,171), James A. Firestone 94,100 (\$1,600,171) and Michael C. Mac Donald 64,700 (\$1,100,224). This also excludes the grants of E-LTIP performance shares made effective on April 1, 2006 (based on the fair market value of \$15.175 on the grant effective date) as follows: Anne M. Mulcahy 444,000 (\$6,737,700), Ursula M. Burns 170,800 (\$2,591,890), Lawrence A. Zimmerman 109,300 (\$1,658,628), James A. Firestone 136,700 (\$2,074,423) and Michael C. Mac Donald 75,200 (\$1,141,160).

(D) As discussed in the Report of the Compensation Committee of the Board of Directors, there have been no stock options granted by the Company since 2004.

(E) Based on 2005 business results and as determined by the Committee, each named officer earned one third of his or her 2005 E-LTIP grant. The number of shares and their value (based on the year-end 2005 closing market price of \$14.65) were as follows: Anne M. Mulcahy 98,033, (\$1,436,183), Ursula M. Burns 35,300 (\$517,145), Lawrence A. Zimmerman 31,367 (\$459,527), James A. Firestone 31,367 (\$459,527), and Michael C. Mac Donald 21,567 (\$315,957). Under current SEC rules, the value of these performance shares will be reported in this column after their vesting and pay out in 2008.

(F) The amount shown in this column for 2005 consists of the Company match under the Company's Savings Plans, for which substantially all U.S. employees are eligible, and Company-paid premiums for the Xerox Universal Life Plan as discussed in the Report of the Compensation Committee of the Board of Directors. These premium amounts for 2005 are: Anne M. Mulcahy \$50,881, Ursula M. Burns \$16,104, Lawrence A. Zimmerman \$9,870, James A. Firestone \$22,422 and Michael C. Mac Donald \$23,204.

Option Exercises/Year-End Values

Edgar Filing: XEROX CORP - Form DEF 14A

The following table sets forth for each of the named officers the number of shares underlying options and SARs exercised during the fiscal year ended December 31, 2005, the value realized on exercise, the number of options/SARs unexercised at year-end and the value of unexercised in-the-money options/SARs at year-end.

21

AGGREGATE OPTION/SAR EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION/SAR VALUE

Name	Shares Underlying Options/SARs Exercised(#)	Value Realized(\$)	Number of Shares Underlying Unexercised Options/SARs at FY-End(#)		Value of Unexercised In-the-Money Options/SARs at FY-End(\$)(A)(B)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Anne M. Mulcahy(C)	300,000	\$ 2,979,795	2,972,638	1,514,534	\$ 14,933,106	\$ 7,726,141
Ursula M. Burns(D)	0	\$ 0	639,670	239,467	\$ 3,484,130	\$ 1,631,286
Lawrence A. Zimmerman	0	\$ 0	477,499	103,001	\$ 2,469,777	\$ 462,478
James A. Firestone	0	\$ 0	481,857	153,000	\$ 2,374,451	\$ 938,721
Michael C. Mac Donald	33,500	\$ 354,430	309,198	130,534	\$ 1,128,546	\$ 839,502

(A) All awards granted under the 2004 E-LTIP are subject to a mandatory holding period. As determined by the Committee, executives must retain 50% of net shares for the later of one year, or until they achieve their required ownership level.

(B) The value of unexercised options/SARs is based on the difference between the exercise price and the fair market value on December 31, 2005, of \$14.665. Options/SARs may be accelerated as a result of a change in control as described under Option Surrender Rights .

(C) Under Securities Exchange Commission Rule 10b5-1, on November 5, 2004, Anne M. Mulcahy entered into a pre-arranged plan to sell a portion of her Xerox holdings in 2005. Pursuant to the terms of the plan, Anne M. Mulcahy exercised options and sold 300,000 shares of Xerox stock in 2005. Anne M. Mulcahy entered into a similar pre-arranged Rule 10b5-1 plan on October 27, 2005, to exercise options and sell up to 475,000 shares of Xerox stock in 2006. Both of these plans were previously disclosed by the Company in SEC filings.

(D) On February 8, 2005, Ursula M. Burns entered into a pre-arranged Rule 10b5-1 plan to sell up to 70,000 shares of Xerox stock in 2005. Pursuant to the terms of the plan, Ursula M. Burns sold 70,000 shares of Xerox stock in 2005. Ursula M. Burns entered into a similar pre-arranged Rule 10b5-1 plan on October 27, 2005, to sell up to 201,481 shares of Xerox stock in 2006. Both of these plans were previously disclosed by the Company in SEC filings.

Long-Term Incentive Plan Awards in January 2005

The following table provides information for each of the named officers on the number of performance shares granted, the performance period and the estimated number of shares that could vest if certain performance measures are achieved under the 2005 E-LTIP. As described in the

Report of the Compensation Committee of the Board of Directors, performance shares can be earned based on achieving annual performance targets or three-year cumulative performance between threshold and maximum. The performance measurements for these grants are Diluted Earnings Per Share (weighted at 60%) and Net Cash provided by Operating Activities (weighted at 40%). Performance shares that have been earned vest in early 2008.

Name	Number of Shares, Units or Other Rights(A)	Performance Period (or Other Period Until Maturation or Payout)		Estimated Future Payouts under Non-Stock Price-Based Plan(B)		Maximum (#)
		1/1/05	12/31/07	Threshold (#)	Target (#)	
Anne M. Mulcahy	294,100	1/1/05	12/31/07	29,410	294,100	441,150
Ursula M. Burns	105,900	1/1/05	12/31/07	10,590	105,900	158,850
Lawrence A. Zimmerman	94,100	1/1/05	12/31/07	9,410	94,100	141,150
James A. Firestone	94,100	1/1/05	12/31/07	9,410	94,100	141,150
Michael C. Mac Donald	64,700	1/1/05	12/31/07	6,470	64,700	97,050

(A) Based on 2005 business results and as determined by the Committee, each named officer earned one third of his or her 2005 E-LTIP grant. The number of shares and their value (based on the year-end 2005 closing market price of \$14.65) were as follows: Anne M. Mulcahy 98,033, (\$1,436,183), Ursula M. Burns 35,300 (\$517,145), Lawrence A. Zimmerman 31,367 (\$459,527), James A. Firestone 31,367 (\$459,527), and Michael C. Mac Donald 21,567 (\$315,957).

(B) Threshold is based on the number of performance shares earned if three-year cumulative performance is achieved at the minimum level for Net Cash provided by Operating Activities. 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 maximum number of performance shares earned if maximum or greater performance is achieved on all performance measures. The number of performance shares earned will be interpolated in the event that the Company's cumulative performance varies between threshold and maximum as determined by the Committee.

The table above represents the number of E-LTIP performance shares granted as of January 1, 2005. It excludes the grants of E-LTIP performance shares made effective on April 1, 2006 (based on the fair market value of \$15.175 on the grant effective date) as follows: Anne M. Mulcahy 444,000 (\$6,737,700), Ursula M. Burns 170,800 (\$2,591,890), Lawrence A. Zimmerman 109,300 (\$1,658,628), James A. Firestone 136,700 (\$2,074,423) and Michael C. Mac Donald 75,200 (\$1,141,160). Each share provides for the cash payment of dividend equivalents at the same time and in the same amounts that the holder of a number of shares of Common Stock would be entitled to receive as dividends. Any performance shares that are earned vest following Committee certification of three-year cumulative performance results. As determined by the Committee, executives must retain 50% of net shares for all awards granted under E-LTIP until they achieve their required ownership level (see Report of the Compensation Committee of the Board of Directors).

Equity Compensation Plan Information

The Equity Compensation Plan Information table provides information as of December 31, 2005, 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 (the 2004 Plan); the Xerox Corporation 2004 Equity Compensation Plan for Non-Employee Directors (the 2004 Directors Plan); the Xerox Corporation Long-Term Incentive Plan (the 1991 Plan); the Xerox Corporation 1996 Non-Employee Director Stock Option Plan (the 1996 Plan); the Xerox Corporation 1998 Employee Stock Option Plan (the 1998 Plan); the Xerox Mexicana, S.A. de C.V. Executive Rights Plan (the Mexico Plan); and the Xerox Canada Inc. Executive Rights Plan (the 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)	74,279,297	\$ 19.4241	49,360,780 (3)
Equity Compensation Plans Not Approved by Shareholders(2)	2,027,879	\$ 18.6572	0 (3)
Total	76,307,176 (4)	\$ 19.4037	49,360,780 (5)

(1) Consists of the 2004 Plan, the 2004 Directors Plan, the 1991 Plan, the 1996 Plan and the 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, the 1996 Plan, the Mexico Plan and the Canada Plan were discontinued as of May 20, 2004. No further grants can be made under these plans. However, any shares that are cancelled, forfeited, or lapse under the 2004 Plan, the 1991 Plan, the 1998 Plan, the Mexico Plan and the Canada Plan shall become available again for issuance under the 2004 Plan. Any shares that are cancelled, forfeited, or lapse under the 2004 Directors Plan shall become available again for issuance under the 2004 Directors Plan.

(4) There is an additional 7,542,329 full-value shares of stock and units outstanding as of 2005 fiscal year end and approximately 6,578,000 full-value shares and units granted to participants in January through April 1, 2006.

(5) Any full-value shares issued in connection with the 2004 Plan and the 2004 Directors Plan shall be counted against this limit as 1.667 shares for each one (1) share issued. As anticipated, if all remaining shares were issued as full-value shares, approximately 29,610,546 shares would be available for issuance as of fiscal year end.

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

The Mexico 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. This plan was discontinued in May 2004, following shareholder approval of the 2004 Plan.

Xerox Canada Inc. Executive Rights Plan

The Canada 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. This plan was discontinued in May 2004, following shareholder approval of the 2004 Plan.

Retirement Plans

Retirement benefits are provided to the executive officers of the Company including the named officers primarily under unfunded executive supplemental retirement plans and, due to Internal Revenue Code limitations, to a much lesser extent under the Company's Retirement Income Guarantee Plan. The table below shows the approximate total annual retirement benefit that would accrue for the number of years of credited service at the respective average annual compensation levels. The earliest retirement age for benefit commencement generally is age 60. In the event of a change in control (as defined in the plans) there is no age requirement for eligibility. The benefit accrues generally at the rate of 1 $\frac{2}{3}$ % per year of credited service, but an accelerated benefit may apply for certain executives. No additional benefits are payable for participation in excess of 30 years for those accruing benefits at the rate of 1 $\frac{2}{3}$ % per year. The maximum benefit is 50% of the highest five-year average annual compensation reduced by 50% of the primary Social Security benefit. The benefits shown are payable on the basis of a straight life annuity and a 50% survivor annuity for a surviving spouse.

Accelerated accruals apply to Lawrence A. Zimmerman. The service reported in the table below reflects these accelerated accruals (i.e., using the service and pay reported in the pension table will yield the appropriate benefit amount). Anne M. Mulcahy, who had been accruing benefits on an accelerated basis, will have 30 years of service in 2006 and as a result will have accrued the full plan benefit without any acceleration. She will be eligible for this benefit if she retires at age 55 or later. Lawrence A. Zimmerman is currently vested.

Average annual compensation for five highest years	Annual age 65 benefits for years of credited service indicated			
	15 years	20 years	25 years	30 years
400,000	94,000	125,000	156,000	188,000
600,000	144,000	192,000	240,000	288,000
800,000	194,000	258,000	323,000	388,000
1,000,000	244,000	325,000	406,000	488,000
1,200,000	294,000	392,000	490,000	588,000
1,400,000	344,000	458,000	573,000	688,000
1,600,000	394,000	525,000	656,000	788,000
1,800,000	444,000	592,000	740,000	888,000
2,000,000	494,000	658,000	823,000	988,000
2,200,000	544,000	725,000	906,000	1,088,000
2,400,000	594,000	792,000	990,000	1,188,000
2,600,000	644,000	858,000	1,073,000	1,288,000
2,800,000	694,000	925,000	1,156,000	1,388,000
3,000,000	744,000	992,000	1,240,000	1,488,000

As of December 31, 2005, the following individuals have five-year highest average compensation and years of credited service for purposes of the plans as follows:

Name	Five-Year Highest Average Compensation(A)	Years of Credited Service	Projected Age 65 Years of Credited Service
Anne M. Mulcahy	\$ 2,363,133	30	30
Lawrence A. Zimmerman	\$ 997,867	11	17
Ursula M. Burns	\$ 853,340	25	30
James A. Firestone	\$ 808,775	8	21
Michael C. Mac Donald	\$ 789,170	29	30

(A) Compensation under the plans includes the amounts shown in the salary and bonus columns under the Summary Compensation Table.

Certain Transactions

Change-In-Control Severance Agreements

The Company has severance agreements with 32 executives (including each of the named officers), that provide severance benefits in the event of termination of employment under certain circumstances, including termination by the Company for reasons other than for cause or disability, or by the executives for good reason (each as defined in the agreements), following a change in control of the Company (as defined in the agreement). The agreements provide for the following:

- Lump-sum severance payment equal to 2.99 times total annual cash compensation (base pay plus bonus) for Anne M. Mulcahy and generally two times total cash compensation for other executives
- Continuation of certain welfare benefits following termination of employment for a period of 36 months for Anne M. Mulcahy and 24 months for other executives
- Gross-up payment if the total payments are subject to excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended
- Automatic annual renewal of the agreement unless the Company gives notice that it does not wish to extend it
- Continuation of the agreement for two years after a change in control of the Company.

Each agreement also provides that in the event of a potential change in control, subject to certain exceptions, the executive will remain in the employ of the Company for nine months following the occurrence of any such potential change in control or, if earlier to occur, the date on which the executive is entitled to certain of the benefits described above upon a change in control.

Generally, for purposes of the severance agreements, a change in control is deemed to have occurred, subject to certain exceptions, if: (1) any person beneficially owns 20 percent or more of the combined voting power of our securities, (2) a majority of our Directors are replaced under certain circumstances, (3) there is a merger or consolidation involving the Company, or (4) there occurs the sale of all or substantially all of the Company's assets or the Company's shareholders approve a plan of complete liquidation or dissolution.

Grantor Trusts

The Company has established grantor trusts with a bank for the purpose of paying amounts due under certain of the deferred compensation plans and the severance agreements described above, and the unfunded retirement plans described above. The trusts are presently unfunded, but the Company would be required to fund the trusts on the occurrence of a change in control or a potential change in control (each as defined in the grantor trusts).

Option Surrender Rights

All non-qualified options under the 1991 Plan and the 1998 Plan are accompanied by option surrender rights. If there is a change in control, as defined in the plans, all such rights that are in the money become payable in cash, unless otherwise determined by the Committee, based on a change-in-control price as defined in the plans. The 1991 Plan also provides that on the occurrence of such an event, all restricted stock and incentive stock rights become payable in cash, unless otherwise determined by the Committee. In the case of rights payable in shares, the amount of cash is based on such change-in-control price, and in the case of rights payable in cash, the cash value of such rights. Rights payable in cash that have not been valued at the time of such an event are payable at the maximum value as determined by the Compensation Committee at the time of the award. In the event of accelerated payment, such rights and any related non-qualified stock options will be cancelled.

Related 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 four employees who receive more than \$60,000 in annual compensation who are related to our named executive officers. These are routine employment arrangements entered into in the ordinary course of business and the compensation of each such family member is commensurate with that of their peers. None of our named executive officers have a material interest in any of these employment arrangements. None of these family members is a corporate officer, except Thomas J. Dolan, Senior Vice President, who has been with the Company for 35 years 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 \$719,354 in base salary and bonus compensation for 2005 and was granted 53,000 performance shares during fiscal year 2005. The annual compensation for 2005 for each of the remaining three employees ranged from approximately \$75,000 to less than \$180,000.

Litigation

Miller, et al. v. Allaire, et al.: Following the voluntary dismissal without prejudice of *In re Xerox Derivative Actions* in the Supreme Court of the State of New York, County of New York, the plaintiffs purportedly brought a substantially similar putative shareholder derivative action in Connecticut Superior Court, Judicial District of Stamford-Norwalk at Stamford in the name of and for the benefit of the Company, which is named as a nominal defendant, and its public shareholders against several current and former members of the Board of Directors including William F. Buehler, B.R. Inman, Antonia Ax:son Johnson, Vernon E. Jordan, Jr., Yotaro Kobayashi, Hilmar Kopper, Ralph Larsen, George J. Mitchell, N.J. Nicholas, Jr., John E. Pepper, Patricia Russo, Martha Seger, Thomas C. Theobald, Paul Allaire, G. Richard Thoman, Anne Mulcahy and Barry Romeril, and KPMG LLP. This action is based on substantially the same allegations and seeks substantially the same relief as the discontinued action. The complaint alleges that each of the director defendants breached their fiduciary duties to the Company and its shareholders by, among other things, ignoring indications of a lack of oversight at the Company and the existence of flawed business and accounting practices within the Company's Mexican and other operations; failing to have in place sufficient controls and procedures to monitor the Company's accounting practices; knowingly and recklessly disseminating and permitting to be disseminated, misleading information to shareholders and the investing public; and permitting the Company to engage in improper accounting practices. The plaintiffs further alleged that each of the director defendants breached his/her duties of due care and diligence in the management and administration of the Company's affairs and grossly mismanaged or aided and abetted the gross mismanagement of the Company and its assets. The complaint also asserts claims of negligence, negligent misrepresentation, breach of contract and breach of fiduciary duty against KPMG. Additionally, plaintiffs claimed that KPMG is liable to Xerox for contribution, based on KPMG's share of the responsibility for any injuries or damages for which Xerox is held liable to plaintiffs in related pending securities class action litigation. On behalf of the Company, the plaintiffs seek a judgment declaring that the director defendants violated and/or aided and abetted the breach of their fiduciary duties to the Company and its shareholders; awarding the Company

unspecified compensatory damages against the director defendants, individually and severally, together with pre-judgment and post-judgment interest at the maximum rate allowable by law; awarding the Company punitive damages against the director defendants; awarding the Company compensatory damages against KPMG; and awarding plaintiffs the costs and disbursements of this action, including reasonable attorneys' and experts' fees. Plaintiffs also demand injunctive relief from the indemnification of six former officers for disgorgements imposed pursuant to their respective settlements with the SEC and related legal fees. On November 23, 2005, defendants filed a motion to dismiss and a separate motion for partial summary judgment. Those motions were argued before the court on March 13, 2006. The court has not yet issued a ruling. The individual defendants deny any wrongdoing.

Indemnification Actions

The Company's 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 the derivative actions mentioned above as well as *In re Xerox Corporation Securities Litigation*; *Carlson v. Xerox Corporation, et al.*; *Florida State Board of Administration, et al. v. Xerox Corporation, et al.*; *In re Xerox Corp. ERISA Litigation*; *National Union Fire Insurance Company v. Xerox Corporation, et al.*, *Miron v. Microsoft Corporation, et al.*, and the India matter described in Note 16 Contingencies in the 2005 Annual Report to Shareholders accompanying this Proxy Statement, 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 \$813,799. 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 Company's By-Laws and the BCL.

Five-Year Performance Comparison

The graph below provides a comparison of Xerox cumulative total shareholder return with the Standard & Poor's 500 Composite Stock Index and the Business Week Computers and Peripherals Industry Group, excluding Xerox (Peer Group).

TOTAL SHAREHOLDER RETURNS**Years Ending**

Company Name/Index	Base	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05
	Period					
	Dec 00					
XEROX CORP	100	227.16	175.49	300.85	370.83	319.38
S&P 500 INDEX	100	88.11	68.64	88.33	97.94	102.75
PEER GROUP	100	88.33	54.95	73.32	83.26	82.11

The Peer Group consists of the following companies as of December 31, 2005: Apple Computer, Dell Computer, Diebold, EMC, Hewlett-Packard, International Business Machines, Lexmark International, Maxtor, NCR, Network Appliance, Sandisk, Seagate Technology, Storage Technology, Sun Microsystems and Western Digital.

This graph assumes the investment of \$100 on December 31, 1999 in Xerox Common Stock, the S&P 500 Index and the Peer Group Common Stock, and reinvestment of quarterly dividends at the monthly closing stock prices. The returns of each company have been weighted annually for their respective stock market capitalizations in computing the S&P 500 and Peer Group indices.

Directors and Officers Liability Insurance and Indemnity

On August 18, 2005, 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, Axis Reinsurance Company and Allied World Assurance Company. The policies expire August 18, 2006 and the total annual premium is \$5,287,360.

Section 16(a) Beneficial Ownership Reporting Compliance

The Company believes that all reports for the Company's directors and executive officers that were required to be filed under Section 16 of the Securities Exchange Act of 1934 were timely filed.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE **FOR** THE ELECTION OF THE ELEVEN (11) DIRECTORS NOMINATED BY THE BOARD OF DIRECTORS.

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 2006. 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, 2005 and 2004, were (\$ in millions):

	2005	2004
Audit Fees	\$ 24.5	\$ 36.3
Audit Related Fees	1.3	1.8
Tax Fees	1.3	2.7
All Other Fees	0.0	0.0
Total Fees	\$ 27.1	\$ 40.8

Audit fees for the years ended December 31, 2005 and 2004, were for professional services rendered for the audits of the consolidated financial statements of the Company, 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. The 2004 fees included amounts related to the initial audit of internal control over financial reporting, as mandated by the Sarbanes-Oxley Act of 2002.

Audit Related fees for the years ended December 31, 2005 and 2004, 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, 2005 and 2004, were primarily for services related to tax compliance.

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 6, and the Audit Committee charter is attached as Exhibit II to this Proxy Statement and can also be found on our website at <http://www.xerox.com/investor> and then clicking on Corporate Governance. Management is responsible for the Company's internal controls and the financial reporting process. The independent registered public accounting firm is responsible for performing an audit of the Company's consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting 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 Committee's 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, 2005 with the management of the Company and PwC including the Company's 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 Standards Board Standard No. 1, Independence Discussions with Audit Committees), and has discussed with PwC that firm's 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 Company's Annual Report on Form 10-K for the year ended December 31, 2005 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 LLC AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR 2006.

PROPOSAL 3 SHAREHOLDER PROPOSAL RELATING TO DIRECTOR ELECTION BY MAJORITY VOTE

The United Brotherhood of Carpenters Pension Fund, 101 Constitution Avenue, N.W., Washington, D.C. 20001, which has advised the Company that it is the beneficial owner of approximately 13,000 shares of the Company's Common Stock, has submitted the following proposal:

Resolved: That the shareholders of Xerox Corporation ("Company") hereby request that the Board of Directors initiate the appropriate process to amend the Company's certificate of incorporation to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

Supporting Statement: Our Company is incorporated in New York. Among other issues, New York corporate law addresses the issue of the level of voting support necessary for a specific action, such as the election of corporate directors. New York law provides that unless a company's certificate of incorporation provides otherwise, a plurality of all the votes cast at a meeting at which a quorum is present is sufficient to elect a director. (New York State Consolidated Laws, Chapter 4, Article 6, Section 614(a) Vote of shareholders.)

Our Company presently uses the plurality vote standard to elect directors. This proposal requests that the Board initiate a change in the Company's director election vote standard to provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or re-elected to the Board.

We believe that a majority vote standard in director elections would give shareholders a meaningful role in the director election process. Under the Company's current standard, a nominee in a director election can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from that nominee. The majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.

The majority vote proposal received high levels of support last year, winning majority support at Advanced Micro Devices, Freeport McMoRan, Marathon Oil, Marsh & McLennan, Office Depot, Raytheon, and others. Leading proxy advisory firms recommended voting in favor of the proposal.

Some companies have adopted board governance policies requiring director nominees that fail to receive majority support from shareholders to tender their resignations to the board. We believe that these policies are inadequate for they are based on continued use of the plurality standard and would allow director nominees to be elected despite only minimal shareholder support. We contend that changing the legal standard to a majority votes is a superior solution that merits shareholder support.

Our proposal is not intended to limit the judgment of the Board in crafting the requested governance change. For instance, the Board should address the status of incumbent director nominees who fail to receive a majority vote under a majority vote standard and whether a plurality vote standard may be appropriate in director elections when the number of director nominees exceeds the available board seats.

We urge your support for this important director election reform.

BOARD OF DIRECTORS RECOMMENDATION

The Company's Board of Directors is committed to strong corporate governance policies and has considered the proposal and the issues associated with majority election of directors. At this time, the Board does not believe that it is in the best interest of our shareholders to amend our Restated Certificate of Incorporation to provide for the election of directors by a majority of the votes cast for the following reasons and recommends a vote against this proposal.

We have adopted a policy to consider withheld votes in director elections. The Board supports the view that shareholders' votes should be given significant weight, and consequently recently revised our Corporate Governance Guidelines. The Corporate Governance Guidelines provide that in an uncontested director 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 (other than the director tendering a resignation) shall then evaluate and determine, based on the relevant facts and circumstances, whether to accept or reject the resignation. The Board will disclose its decision and the basis for that decision in a public filing with the SEC within 90 days after the election results are certified. The revised Corporate Governance Guidelines are attached to this proxy statement and are also available on our website at www.xerox.com/investor. The Board believes that at this time, such director election policy is the most appropriate way to address the primary concerns raised by this proposal.

The proposal, if adopted, may produce uncertain outcomes. The proposal fails to address the significant issues associated with changing the method of electing directors from a plurality to a majority voting standard, because it only addresses the requirement for being elected to the board. It is not limited to an uncontested election, and in a contested election where there are more nominees than open director positions, it is possible that no director nominee would receive a majority of the votes cast. It does not remove an existing director up for re-election who fails to receive a majority of votes. Under New York law, a director will hold over and remain on the board until

his or her successor is elected and qualified, which means that director could remain until the next annual meeting even if he or she was not even nominated for election at the previous meeting. Additionally, adopting the proposal would potentially put the Company in a situation where no directors receive a majority of votes cast, or where the Company failed to have directors that qualify under the New York Stock Exchange independence and financial literacy requirements.

Laws and practices surrounding majority voting are currently unsettled. The issues raised by the proposal are still evolving, and therefore the Board believes that it would be premature to modify the Company's Restated Certificate of Incorporation to change the director election process at this time. The issue of majority voting, and issues related to director election process, are currently being actively discussed and considered by the Securities and Exchange Commission, the NYSE, and organizations, including the American Bar Association, and academic experts. The Board believes that any drastic action, such as amendment of the Company's Restated Certificate of Incorporation as suggested by the proposal, while these issues are still in active discussion is premature and not in the best interest of the Company or the shareholders. Instead, the Board believes that the recently-adopted director election policy is at this time the most appropriate corporate governance measure for the Company and our shareholders. The Board will continue to monitor the developments on the issue of majority voting, and issues related to the director election process.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THIS PROPOSAL.

PROPOSAL 4 SHAREHOLDER PROPOSAL RELATING TO SENIOR EXECUTIVE BONUSES

The Association of Retired Xerox Employees, Inc., Webster, NY 14580, Gwendolyn Combs, Penfield, NY 14564, S. David Coriale, Webster, NY 14580, and David Ferren, Penfield, NY 14526, who have advised the Company that they are each the beneficial owner of shares of the Company's Common Stock representing more than \$2,000 in market value, have submitted the following proposal:

Resolved: The shareholders of Xerox Inc. (the Company) hereby request that the Compensation Committee of the Company's Board of Directors shall adopt a policy of providing a substantial majority of the future award grants under the 2004 Performance Incentive Plan to the Executive Officers of the Company that are performance-based on the growth in top line revenues.

Supporting Statement: We believe that the 2004 Performance Incentive Program needs to better align the interests of the Executive Officers of the Company more substantially to growing the revenues of the company as the means to provide long term and sustainable profits for the shareholders. Performance based bonus compensation ties compensation more closely to company performance rather than stock market performance. Performance based bonuses encourage the executive officers to set and meet ambitious but realistic performance targets. We believe that Xerox's current use of bonus award incentives to compensate its executive officers has the potential to reward mediocre company performance, and we urge the Committee to use performance based incentive awards.

The Xerox Board and Senior Executives Officers are to be applauded for their performance in recent years as they have substantially ended the serious performance and financial crises that had taken the Company to the verge of failing. We further supported the use of various incentives that had been used to retain the key members of the management team during the crisis period, but the need for this retention tool has essentially ended. While the profits have been stabilized, it has been at the expense of downsizing and asset sell off and the performance of the Company has not shown the growth in top line revenues that would inspire shareholders to have confidence in the long term prospects for the Company.

We believe that it is unfair to continue to provide substantial bonuses to the executive officers while benefits costs for the recent retirees, many of who provided 30 or more years of loyal service and who helped make the Company successful, are being severely constrained. Unequal treatment is clearly inconsistent with the long stated Xerox

values. Shareholders, including Xerox retiree shareholders, have seen the value of their shares stay well below levels in the years prior to the crisis and have also felt financial impacts of this critical period.

A similar proposal was made to the shareholders of Sun Microsystems this year and garnered nearly 43% shareholder support.

Please **VOTE FOR** the proposal.

BOARD OF DIRECTORS RECOMMENDATION

The Company's 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:

We already use performance-based measures to determine executive bonuses. The Board favors performance-based compensation for the Company's senior executive officers. The report of the Compensation Committee contained in this proxy statement describes the several annual performance objectives and measurements that the Committee uses to determine whether the executive officers of the Company will receive performance-related cash and equity awards for 2006 under the shareholder-approved 2004 Performance Incentive Plan. The Company provided similar information in last year's proxy statement, and comparable disclosure in previous years relating to plans prior to the 2004 Performance Incentive Plan. The measures of performance set out by the Compensation Committee for 2006 and discussed in the Company's proxy statement include, among others, total revenue, operational earnings per share and core cash flow from operations.

Using revenue as the primary measure of corporate performance is misguided. The Board believes that the proposal's focus on revenue as the main measure of performance is misguided and potentially harmful to the interests of shareholders. The current process uses a balanced scorecard approach, in which the Compensation Committee identifies and weights a variety of performance elements each year. Through this process the Company keeps the interests of the shareholders and the senior executives aligned, and the flexibility and discretion of this approach accommodates changes in the strategic goals of the Company and the competitive market. The Company also has the ability to reward if it sees fit other worthwhile corporate goals such as leadership and social responsibility. If the proposal were to be implemented, however, and senior executives were rewarded primarily for revenue growth, the interests of shareholders could be in conflict with the goals of the Company. For example, revenue could be increased at the expense of profitability or long-term share value. Additionally, the current balanced scorecard approach allows the Compensation Committee's compensation policy to evolve in response to future developments and goals of the Company.

The balanced approach better aligns shareholder and management interests. The existing process for senior executive award grants under the 2004 Performance Incentive Plan provides the flexibility for the Compensation Committee to properly align the interests of both shareholders and the Company's senior executives, and is the best means of attaining the proposal's goal of long-term and sustainable profits for shareholders. The proposal would constrain the Board's and the Committee's discretion as to the most appropriate means to create long-term shareholder value.

For the foregoing reasons, the Board believes that the proposal is not in the best interest of the Company and its shareholders.

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 \$12,000 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.

Shareholder Communication With Members of the Board

Under the Corporate Governance Guidelines, the Company provides a process for investors to send communications to the Board of Directors. The Corporate Governance Guidelines provide that investors 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 1600, Stamford, CT 06904 or call Shareholder Services at (203) 968-4002. 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 the foregoing address and telephone number.

Availability of Additional Information

Copies of the 2005 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, 2005 (Form 10-K) filed with the SEC and the consolidated statistical data contained in the EEO-1 annual report to the U.S. Equal Employment Opportunity Commission, are available without charge from Xerox Corporation, P.O. Box 1600, Stamford, Connecticut 06904, Attention: Corporate Secretary. The Annual Report, Proxy Statement and Form 10-K are also available on the Company's website at <http://www.xerox.com/investor>.

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

Shareholder Proposals for 2007 Meeting

We expect to hold our 2007 Annual Meeting 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 2007 Annual Meeting of Shareholders, the proposal must be received by us at P.O. Box 1600, Stamford, Connecticut 06904, Attention: Corporate Secretary no later than December 11, 2006.

Under our By-Laws any shareholder wishing to make a nomination for director, or wishing to introduce any business, at the 2007 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 2007 Annual Meeting at our offices mentioned above no earlier than November 11, 2006 and no later than December 11, 2006. 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 and shareholders (see below). There are no specific minimum qualifications that the 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 Company's 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 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 Committee may do so by submitting a written recommendation to the Secretary of the Company, P.O. Box 1600, Stamford, Connecticut 06904. Submissions must include sufficient biographical information concerning the recommended individual, including age, employment and board memberships (if any), for the Committee to consider. The submission must be accompanied by a written consent by the nominee to stand for election if nominated by the Board of Directors and to serve if elected by the shareholders. Recommendations received by December 31, 2006, will be considered for nomination at the 2007 Annual Meeting of Shareholders. Recommendations received after December 31, 2006, will be considered for nomination at the 2008 Annual Meeting of Shareholders.

By order of the Board of Directors,

J. Michael Farren
Secretary
April 10, 2006

Exhibit I

Xerox Corporate Governance Guidelines (Amended 2/16/2006)

The following Corporate Governance Guidelines have been adopted by the Board of Directors of Xerox Corporation to assist the Board in the exercise of its responsibilities. These Corporate Governance Guidelines reflect the Board's commitment to monitor the effectiveness of policy and decision making both at the Board and management level, with a view to enhancing long-term shareholder value. These Corporate Governance Guidelines shall be reviewed by the Board, through the Corporate Governance Committee, on an annual basis and are subject to modification from time to time by the Board acting by a majority of the independent directors as determined under these Guidelines. Waivers of these Corporate Governance Guidelines may be made by the Board or the Corporate Governance Committee only.

THE BOARD

The Board's Goals

The Xerox Board of Directors represents the owners' interest in the operation of a successful business, including optimizing long-term financial returns. The Board is responsible for determining that the Company is managed in such a way to ensure this result, which will also assure the company's vitality for its customers, employees and the other individuals and organizations that depend on it. This is an active, not a passive, responsibility. The Board has the responsibility to ensure that in good times, as well as difficult ones, management is capably executing its responsibilities.

The Board's responsibility is to regularly monitor the effectiveness of management policies and decisions including the creation and execution of its strategies. The Board is also responsible for monitoring the establishment and enforcement of procedures designed to ensure that the Company's management and employees operate in a legal and ethically responsible manner. When it is appropriate or necessary, it is the Board's responsibility to remove the Chief Executive Officer and to select his or her successor.

To achieve the above goals, the Board will monitor the performance of the Company (in relation to its goals, strategy and competitors) and the performance of the Chief Executive Officer and offer advice and feedback.

Role of Directors

The business of the Company is managed under the direction of the Board. Normally it is management's job to formalize, propose and implement strategic choices, and the Board's role to approve strategic direction and evaluate strategic results. However, as a practical matter, the Board and management will be better able to carry out their respective responsibilities if there is an ongoing dialogue among the Chief Executive Officer, other members of top management and Board members. To facilitate such discussions, the Board conducts an annual review of the Company's long-term strategic plans and principal issues. Periodically during the year, the Board receives strategy updates from members of senior management of the Company.

Directors are expected to spend the time and effort necessary to properly discharge their responsibilities. Accordingly, a Director is expected to regularly attend meetings of the Board and committees on which he or she sits, and to review prior to meetings material distributed in advance for such meetings. A Director who is unable to attend a Board or Committee meeting (which, it is understood will occur on occasion) is expected to notify the Secretary of the Company who will advise the Chairman of the Board and/or the Chairman of the relevant Committee. All Directors are expected to attend the Company's Annual Meeting of Shareholders.

Selection of the Chairman of the Board

The Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer. The Board shall be free to choose its Chairman in any way that it deems best for the Company at any given point in time.

Size of the Board

In recent years the Board has had 8 - 12 Directors and it is the sense of the Board that this size is about right. This range permits diversity of experience without hindering effective discussion or diminishing individual accountability.

Independence of the Board

The Board is comprised of a substantial majority of Directors who qualify as independent Directors. The Board will make a determination as to each Director's independence broadly considering all relevant facts and circumstances. However, the Board has adopted categorical standards to assist it in making the independence determination. Under these categorical standards, a Director shall be presumed not to have a material relationship with the Company or any of its consolidated subsidiaries, and thus be presumed to be independent, if:

1. He or she meets all 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 by the NYSE Corporate Governance Rules, 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 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 2% of the annual consolidated gross revenue of the charitable organization, such contributions must be disclosed in the Company's proxy statement).

The Corporate Governance Committee as well as the Board annually review the relationships that each Director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) to insure compliance with NYSE listing standards and requirements otherwise imposed by law or regulation and the foregoing categorical standards. Following this review, only those Directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) will be considered independent Directors under such standards, law or regulation and such categorical standards.

Board Membership Criteria

The ultimate responsibility for the selection of new Directors resides with the Board. The identification, screening and recommendation process has been delegated to the Corporate Governance Committee, which reviews candidates for election as Directors and annually recommends a slate of Directors for approval by the Board and election by the shareholders.

The Board requires that a substantial majority of the Board should consist of independent Directors. Any management representation should be limited to top Xerox management. Nominees for Director are 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 Company's 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.

Director Election

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 tenders a resignation pursuant to this provision shall not participate in the Board's decision. 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 SEC.

Other Company Directorships

The Company does not have a policy limiting the number of other company boards of directors upon which a Director may sit. However, the Corporate Governance Committee shall consider the number of other company boards and other boards (or comparable governing bodies) on which a prospective nominee is a member. It is the sense of the Board that prospective Directors should simultaneously serve on no more than 2 - 4 other public company Boards, depending on their personal circumstances.

Directors are expected to advise the Chairman of the Board and the Chairman of the Corporate Governance Committee in advance of accepting any other company directorship or any assignment to the audit committee or compensation committee of the Board of Directors of any other company.

Directors Who Change Their Present Job Responsibility

Any Director whose affiliation or position of principal employment changes substantially after election to the Board will be expected to submit a resignation as a Director for consideration by the Corporate Governance Committee and the Board. The Corporate Governance Committee will review with the Board the effects of this change upon the interests of the Company and recommend to the Board whether to accept the resignation. Directors who are also Xerox employees are expected to offer their resignation from the Board at the same time they leave active employment with the Company, which shall be subject to acceptance by the Board.

Retirement Age

It is the general policy of the Board that Directors will not stand for re-election after reaching age 70. However, the Board may determine to waive this policy in individual cases.

Term Limits

The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

As an alternative to term limits, the Corporate Governance Committee, in conjunction with the Chairman of the Board, will formally annually review each Director's continuation on the Board.

Board Compensation

A Director who is also an officer of the Company shall not receive additional compensation for such service as a Director.

The Company believes that compensation for non-employee Directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of Director compensation in Company stock or similar compensation. The Corporate Governance Committee will periodically review the level and form of the Company's Director compensation, including how such compensation compares to

Director compensation of companies of comparable size, industry and complexity. Changes to Director compensation will be proposed to the full Board for consideration.

No member of the Audit Committee may receive, directly or indirectly, any compensation from the Company other than (a) fees paid to directors for service on the Board, (b) additional fees paid to directors for service on a committee of the Board (including the Audit Committee) and/or for serving as the chairperson of such a committee and (c) a pension or other deferred compensation for prior service that is not contingent on future services on the Board.

Director Share Ownership Requirement

All non-employee Directors are expected to maintain a meaningful equity ownership requirement in the Company. Each non-employee Director must establish and maintain an equity ownership interest in the Company equivalent to five times the annual cash fees that such Director receives for service on the Board (excluding committee fees). A newly appointed Director has up to five years to attain this ownership threshold.

Board Access to Management, other Employees and Advisors

Board members have complete access to the Company's senior management and other employees. Board members have the authority to obtain advice and assistance from outside legal, accounting or other advisors of their own choosing, at the expense of the Company.

Board Interaction with Investors, Analysts, Press and Customers

The Board believes that management generally should speak for the Company. Any 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.

Board Orientation and Continuing Education

The Company has an orientation process for new Directors to familiarize them with the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflicts policies, code of business conduct and business ethics and corporate governance guidelines. This process includes review of background materials, meetings with senior management and visits to Company facilities. Each Director is expected to participate in continuing educational programs in order to maintain the necessary level of expertise to perform his or her responsibilities as a Director.

Self-Evaluation by the Board

The Corporate Governance Committee will sponsor an annual self-assessment of the Board's performance as well as the performance of each committee of the Board, the results of which will be discussed with the full Board and each committee. The assessment will include a review of any areas in which the Board or management believes the Board can make a better contribution to the Company. The Corporate Governance Committee will also utilize the results of this self-evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board and making recommendations to the Board with respect to assignments of Board members to various committees.

BOARD MEETINGS

Frequency of Meetings

There are 6 regularly scheduled meetings of the Board each year with at least one regularly scheduled meeting of the Board held each quarter.

Selection of Agenda Items for Board Meetings

The Chairman of the Board annually prepares a Board of Directors Master Agenda. This Master Agenda sets forth a general agenda of items to be considered by the Board at each of its regular meetings during the year. Thereafter, the Chairman of the Board may adjust the agenda to include special items not contemplated during the initial preparation of the annual Master Agenda. Board members are invited to suggest inclusion of items on the agenda and are free to raise, at any Board meeting, subjects that are not specifically on the agenda.

Executive Sessions of Outside Directors

Each regularly scheduled Board meeting includes an executive session of all Directors and the CEO and, a separate executive session of just the Directors who are independent as determined under these Guidelines. The Chairmen of the Governance Committee and the Compensation Committee will rotate responsibility to preside over non-management executive sessions and will be responsible for providing appropriate feedback to the CEO.

Attendance of Senior Management Personnel at Board Meetings

The Board expects the regular attendance at each of its meetings of non-Board members who are in the most senior management positions of the Company. In addition, the General Counsel and Corporate Secretary regularly attend Board meetings. Should the Chief Executive Officer want to add additional people as attendees on a regular basis, it is expected that this suggestion would be made to the Board for its concurrence.

Board Materials Distributed in Advance

Information and materials that are important to the Board's understanding of the agenda items and other topics to be considered at a Board meeting are distributed sufficiently in advance of the meeting to permit prior review by the Directors. The Directors are expected to review such material prior to the meeting. In the event of a pressing need for the Board to meet on short notice or on occasions where the subject matter is too sensitive to be put on paper, certain proposals will be discussed at the meeting.

COMMITTEE MATTERS

Number and Names of Board Committees

The Company has 4 standing committees: Audit, Compensation, Corporate Governance and Finance. The purpose and responsibilities for each of these committees is outlined in committee charters adopted by the Board. The Board may, from time to time, form a new committee or disband a current committee depending on circumstances. In addition, the Board may determine to form ad hoc committees from time to time, and determine the composition and areas of competence of such committees.

Independence of Board Committees

Each of the Audit, Compensation, Corporate Governance and Finance Committees are composed entirely of independent Directors satisfying applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee.

Assignment and Rotation of Committee Members

The Corporate Governance Committee is responsible, after consultation with the Chairman of the Board, for making recommendations to the Board with respect to the assignment of Board members to various committees. After reviewing the Corporate Governance Committee's recommendations, the Board is responsible for appointing the Chairman and members to the committees on an annual basis.

The Corporate Governance Committee annually reviews the Committee assignments and considers the rotation of the Chairman and members with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various Directors.

Committee Meetings

The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. The schedule for each committee will be furnished to all Directors.

LEADERSHIP DEVELOPMENT

Selection of the Chief Executive Officer

The Board is responsible for identifying potential candidates for, and selecting, the Company's Chief Executive Officer. In identifying potential candidates for and selecting the Company's Chief Executive Officer, the Board considers, among other things, a candidate's experience, understanding of the Company's business environment, leadership qualities, knowledge, skills, expertise, integrity, and reputation in the business community.

Evaluation of Chief Executive Officer

The Compensation Committee is responsible for overseeing the evaluation process for the Chief Executive Officer.

The process is intended to formally assess the Chief Executive Officer's past performance as well as to help the Board determine future developmental needs for the Chief Executive Officer. Consequently, there are two types of measures: 1) Financial Performance Measures (such as cash, profit and revenue) which track accountability for past performance, and 2) Leadership Effectiveness Measures (such as employee morale, strategic leadership, and enterprise guardianship) which single out the key objectives that will assure the future success of the company.

The following steps are utilized to carry out this review:

- The Compensation Committee reviews performance measures and targets and submits these for Board approval on or before the start of the first meeting of the fiscal year.
- The Chief Executive Officer provides a self-evaluation to the Board within one-month of the end of the fiscal year.
- The non-management Directors will provide their individual assessments of the Chief Executive Officer's performance. These assessments should include the Director's appraisal of the Financial Performance Measures and the Leadership Performance Measures approved by the Board as well as any other aspect of the Chief Executive Officer's performance that the non-management Director deems relevant. In addition, non-management Directors should identify any future developmental needs they deem necessary for the Chief Executive Officer.
- The Compensation Committee synthesizes this information and recommends annual incentive compensation of the Chief Executive Officer based on the evaluation. The Board will do this in executive session.
- After agreement by the non-management Directors to the evaluation, the chairs of the Compensation Committee and the Corporate Governance Committee will meet with the Chief Executive Officer to discuss the Board's assessment of performance and developmental needs for the Chief Executive Officer. The Chief Executive Officer may then take the opportunity to discuss his or her reaction to the evaluation.

Succession Planning

The Board shall plan for the succession to the position of the Chief Executive Officer. To assist the Board, the Chief Executive Officer shall conduct an annual succession planning session with the Board at which an assessment of senior managers will be conducted including their potential to succeed the Chief Executive Officer and other senior management positions.

Management Development

The Board shall determine that a satisfactory system is in effect for education, development, and orderly succession of senior and mid-level managers throughout the Company.

POLICIES AND GUIDELINES

Copies of the current version of these Corporate Governance Guidelines, the Company's Code of Business Conduct and Ethics for Members of the Board of Directors, the Company's Ethics Policy and Finance Code of Conduct for employees and officers and the charter of each key committee of the Board shall be posted on the Company's website.

Exhibit II

Audit Committee Charter (Amended 2/17/2005)

Purpose

The purpose of the Audit Committee (the *Committee*) of the Board of Directors (the *Board*) of Xerox Corporation (the *Company*) shall be to assist in Board oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent auditors' qualifications and independence, (4) the performance of the Company's independent auditors (the *Auditors*) and internal audit function (5) the Company's code of business conduct and ethics; and to prepare the audit committee report that the rules of the Securities and Exchange Commission (the *SEC*) require to be included in the Company's annual proxy statement. References herein to any term or provision of any law, rule or regulation shall include all amendments, restatements, supplements or modifications thereof, and all successor, replacement or redesignated terms or provisions thereto.

Duties and Responsibilities of the Committee

The Committee's function is one of oversight. The Company's management is responsible for preparing the Company's financial statements and, along with the internal auditors, for developing and maintaining systems of internal accounting and financial controls, while the Auditors will assist the Committee and the Board in fulfilling their responsibilities for their review of these financial statements and internal controls. The Committee expects the Auditors to call to their attention any accounting, auditing, internal accounting control, regulatory or other related matters that they believe warrant consideration or action. The Committee recognizes that the financial management and the internal and outside auditors have more knowledge and information about the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee does not provide any expert or special assurance as to the Company's financial statements or internal controls or any professional certification as to the Auditors' work.

The Committee shall undertake the following activities in carrying out its oversight responsibilities:

Internal and External Audit Responsibilities

1. The Committee shall have the sole authority to directly appoint, retain, compensate, evaluate and, where appropriate, replace the Auditors (subject, if appropriate, to ratification by a vote of the shareholders of the Company). The Auditors shall report directly to the Committee. The Committee must be directly responsible for oversight of the independent auditors, including resolution of disagreements between management and the Auditors.
2. Review and pre-approve all the audit services to be performed, including the Auditors' engagement letter for the annual audit of the Company in accordance with U.S. generally accepted auditing standards and the proposed fees in connection with such audit. Any additional services that management chooses to hire the independent auditors to perform must be approved individually by the Committee, prior to the independent auditors engagement. The authority for such pre-approval may be delegated to one or more members of the Committee; the decisions of any member to whom pre-approval authority is delegated shall be presented to the full Committee at the next Committee meeting. Additionally, the Committee can establish pre-approval policies and procedures with respect to the engagement of the Company's independent accountant's for non-audit services. Such policies and procedures would allow management to engage the Company's independent accountant's for non-audit services, provided the pre-approval policies and procedure are detailed as to the particular service and the Committee is informed of each service and such policies and procedures do not include delegation of the Committee's responsibilities under the Securities Exchange Act of 1934 to management. Engagement letters with respect to the services to be performed, whether audit or non-audit, approved in accordance with the foregoing may be signed on behalf of the Committee by its Chairman and on behalf of the Company by the Chief Financial Officer, Controller or Chief Accounting Officer of the Company.
3. Examine and make recommendations, if any, with respect to the audit scope, plans for (including staffing and budgeting), and the results of, the annual audit conducted by the Auditors and the internal auditors.

4. Receive and review periodic written reports from the Auditors regarding the Auditors independence and discuss such reports with the Auditor. Annually, obtain and review a report by the Auditors describing their internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to any independent audit carried out by the firm. Such report shall also detail steps taken to resolve any issues raised in the above reviews, inquiries or investigations and all relationships between the independent auditor and the Company, including the matters covered by Independence Standards Board Standard Number 1. The Committee shall review and discuss with the Auditors any relationships or services that may impact the objectivity and independence of the Auditors and take appropriate action in response to the Auditors report to satisfy itself of the Auditors independence. This review shall include an evaluation of the lead partner of the Auditors. The Committee shall insure that the lead audit partner is rotated at least every five years to the extent required by the Securities Exchange Act of 1934, as amended by the Sarbanes Oxley Act of 2002 (the Act), and shall consider whether there should be regular rotation of the Auditors. The Committee shall present its findings from this report to the Board.
5. The Committee shall establish clear policies with respect to the hiring of employees or former employees of the Auditors.
6. The Committee shall ensure that none of the individuals serving in the positions of chief executive officer, chief financial officer, corporate controller, chief accounting officer, or any person serving in an equivalent position participated in any capacity in the audit of the Company as an employee of the Auditors during the 1-year period preceding the date of initiation of any audit being performed by the Auditors.
7. Review with the Auditors the matters required to be discussed by Statement on Auditing Standards No. 61 relating to communications with audit committees (SAS 61), all alternative accounting treatments of financial information discussed with management (including the ramifications of using such alternative disclosures and treatments and the Auditors preferences) and all material written communications with management.
8. Review the activities, organization, resources and qualifications of the Director of Worldwide Audit and of the internal audit organization.
9. At least annually, review the progress made with respect to executing the approved internal audit plan as well as any modifications made to the plan during the year.
10. Review with the Auditors and the internal auditors any audit problems or difficulties and disagreements with management encountered in the course of the audit, management s response thereto and the related effects on audit scope and procedures. The Committee is responsible for resolving any disagreements between management and the Auditors or internal auditors regarding financial reporting.
11. Examine and review with the Auditors, the internal auditors and the Company s chief financial and accounting officers the comments and recommendations contained in the Auditors , and the internal auditors , summary audit management reports, as presented to the Committee, and management s response to those reports, and advise the Board with respect thereto.

System of Internal Controls

12. At least quarterly, the Committee shall meet with management, the internal auditors and the Auditors in separate executive sessions.

13. Review with the management, the Auditors and the internal auditors the quality and adequacy of internal controls that could significantly affect the Company's financial statements.

44

14. Discuss with management and the Auditors the Company's major financial risk exposures, the Company's policies with respect to risk assessment and risk management and the steps management has taken to monitor and control these exposures.

15. Review and make recommendations to the Board concerning the Company's policies with regard to affiliate/related party transactions.

Financial Reporting Process and Financial Statements

16. Discuss with management and the Auditors the quality and adequacy of the Company's disclosure controls and procedures, and review disclosures made by the Company's principal executive officer and principal financial officer in the Company's periodic reports filed with the SEC regarding compliance with their certification obligations.

17. Prior to each quarterly earnings release, the Committee shall discuss with management and the Auditors the earnings press release, as well as financial information and earnings guidance to be provided to investors, analysts or rating agencies. Discuss with management the Company's policies with respect to the types of information and type of presentation to be used in earnings releases and in providing financial information and earnings guidance to the public.

18. Meet to review and discuss with management and the Auditors the Company's quarterly financial statements, including reviewing the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, prior to filing on Forms 10-Q.

19. Meet to review and discuss with management and the Auditors the annual audited financial statements, including reviewing the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, any changes in accounting policies and practices, financial reporting practices and significant reporting issues, critical accounting policies and significant estimates and judgments made in connection with the preparation of such audited financial statements, prior to filing on Forms 10-K.

20. Review with management and the Auditors the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements.

21. Review with, and make a recommendation to, the Board with respect to the inclusion of the audited financial statements, including the Company's specific disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations, in the Company's Annual Report to Shareholders and in the Company's Form 10-K to be filed with the SEC.

22. Prepare the report from the Audit Committee required by the rules of the SEC to be included in the Company's annual proxy statement.

Compliance with Laws and Regulations

23. Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or government agencies.

Compliance with the Company's Codes of Conduct

24. Ensure that the Company's Ethics Policy and Finance Code of Conduct (the ethics codes) are in writing and have annually been distributed to applicable Company employees, Directors and other individuals covered by its contents.
25. Review at least annually with the Company's Ethics Compliance Officer the process for monitoring compliance with the ethics codes and obtain regular updates from management regarding compliance. Establish procedures for reviewing, granting and, to the extent required by law, regulation or NYSE listing standards, promptly disclosing any waivers of the ethics codes for directors and executive officers.

45

26. Establish and maintain a procedure for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters. Additionally, establish and maintain procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Reporting and other Responsibilities

27. Annually review and reassess the adequacy of the Committee's purpose and responsibilities as herein set forth and recommend any proposed changes to the Board for approval.

28. The Committee has the authority, without having to seek Board approval, and appropriate funding to obtain advice and assistance, as appropriate, from outside legal, accounting and other advisers, as it determines necessary to carry out its duties. The Committee may also conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities.

29. The Committee shall review at least quarterly with the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Auditors, or the performance of the internal audit function.

30. The Committee shall perform, at least annually, an evaluation of its own performance, and submit that evaluation, including any recommended changes to the Committee's membership, charter or procedures, to the Board for review and discussion.

31. The Chairman of the Committee shall report to the Board at each meeting of the Board the deliberations, actions and recommendations of the Committee since the last Board meeting and such other matters as the Board shall from time to time specify.

Composition and Qualifications

The Committee shall be comprised of three or more directors, the exact number to be determined from time to time by resolution of the Board. Each member of the Committee shall (1) be independent as required by NYSE Corporate Governance Rules and any other legal requirements as shall from time to time be in effect, including, without limitation Rule 10A-3(b)(i) under the Act, subject to the exemptions provided in Rule 10A-3(c), and (2) have such financial/accounting literacy or expertise as required by NYSE listing standards and/or rules adopted by the SEC pursuant to the Act. The Board of Directors shall, in the exercise of business judgment, determine the independence and financial literacy, financial expertise, or accounting and related financial management expertise of directors for this purpose. At least one member of the Committee must have accounting or related financial management expertise, as the Board interprets such qualification in its business judgment. A person who satisfies the definition of audit committee financial expert set out in Item 401(h) of Regulation S-K shall be presumed to have such accounting and related financial management expertise.

No Director may serve as a member of the Committee if such Director serves on the audit committee of more than two other public companies, unless the Board determines that such simultaneous service would not impair the ability of such Director to effectively serve on the Committee. Any such determination shall be disclosed in the Company's annual proxy statement.

No affiliated person of the Company (including its consolidated subsidiaries) shall serve on the Committee in accordance with such definitions and rules as shall from time to time be adopted by SEC pursuant to the Act.

No member of the Committee may receive, nor any of his or her immediate family member (as defined in the NYSE Corporate Governance Rules) may receive, directly or indirectly, any amount in direct compensation from the Company (including its consolidated subsidiaries) other than (a) fees paid to directors for service on the Board, (b) additional fees paid to directors for service on a committee of the Board (including the Committee) and/or for serving as the chairperson of such a committee and (c) a pension or other deferred compensation for prior service that is not contingent in any way on future service.

The Chairman of the Committee shall be designated by a majority vote of the entire Board.

Members of the Committee shall be designated annually by a majority vote of the entire Board (after considering any recommendations of the Corporate Governance Committee) at the organizational meeting of the Board held in connection with the annual meeting of shareholders.

Vacancies on the Committee shall be filled by a majority vote of the entire Board. By a majority vote of the entire Board, a member of the Committee may be removed.

Structure and Operation

1. Two members of the Committee shall constitute a quorum. When more than two members are present, the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee.
2. The Secretary of the Company, or in the absence of the Secretary such person as may be designated by the Chairman of the Committee, shall act as secretary and keep the minutes of all meetings of the Committee.
3. The Committee shall meet in person or telephonically at least seven times a year at such times and places determined by the Chairman of the Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its Chairman.
4. The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.
5. The Committee may form and delegate authority to subcommittees when appropriate.

Except as expressly provided in this Charter, the By-laws of the Company, or the Company's Corporate Governance Guidelines, or as required by law, regulation or NYSE listing standards, the Committee shall establish its own rules of procedure.

Exhibit III

**Compensation Committee Charter
(Amended 2/16/2006)**

Purpose

The purpose of the Compensation Committee (the *Committee*) of the Board of Directors (the *Board*) of Xerox Corporation (the *Company*) is to discharge the responsibilities of the Board relating to compensation of the Company's officers, to oversee the evaluation of the Chief Executive Officer and other members of management, to oversee the administration of the Company's executive compensation plans and to produce an annual report on executive compensation for inclusion in the Company's proxy statement, in accordance with applicable rules and regulations of the Securities and Exchange Commission (*SEC*); to consult with the Chief Executive Officer and advise the Board with respect to senior management succession planning; and shall have such other powers and perform such other duties as the Board may from time to time delegate to it in accordance with Article III of the By-Laws of the Company, as the same shall from time to time be amended.

Duties and Responsibilities

1. Review and make recommendations to the Board with respect to executive compensation and executive retirement plans. Executive compensation plans include cash and/or equity payments earned in the short term and/or long term.
2. Annually, review and approve performance goals and objectives with respect to the compensation of the Chief Executive Officer and all other officers consistent with approved compensation plans.
3. Annually, oversee the performance evaluation of the Chief Executive Officer and all other officers against approved goals and objectives.
4. Based on the evaluation, set the compensation of the Chief Executive Officer and all other officers (including annual base salary level, annual incentive level, long-term incentive level and any special or supplemental benefits).
5. Review and approve employment, severance, change-in-control, termination and retirement arrangements for all officers.
6. Consult with the Chief Executive Officer and advise the Board with respect to senior management succession planning.
7. Sole authority to retain and terminate the consulting firms engaged to assist the Committee in the evaluation of the compensation of the Chief Executive Officer and senior management. The Committee may also conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary.
8. Administer and interpret executive compensation plans to the extent required by the terms of such plans.
9. In consultation with senior management of the Company, oversee regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve tax deductibility and, as and when required, establishing performance goals and certifying that performance goals have been attained for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.
10. Prepare the executive compensation report from the compensation committee required by the rules of the SEC to be included in the Company's annual proxy statement.

11. The Committee shall annually conduct an evaluation of its own performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes.

48

Composition and Qualifications

The Committee shall be comprised of three or more directors, the exact number to be determined from time to time by resolution of the Board. Each member of the Committee shall be independent as required by NYSE listing standards and any other legal requirements as shall from time to time be in effect. The Board of Directors shall, in the exercise of business judgment, determine the independence of directors for this purpose.

Members of the Committee shall also qualify as non-employee directors within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and outside directors within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Chairman of the Committee shall be designated by a majority vote of the entire Board.

Members of the Committee shall be designated annually by a majority of vote of the entire Board (after considering any recommendations of the Corporate Governance Committee) at the organizational meeting of the Board of Directors held in connection with the annual meeting of shareholders.

Vacancies on the Committee shall be filled by a majority vote of the entire Board. By a majority vote of the entire Board, a member of the Committee may be removed.

In selecting the members of the Committee from time to time, the Board shall consider the following qualifications for membership: prior service on the Committee or a compensation committee of another public company or service with a public company which involved executive compensation matters.

The Chairman of the Committee is responsible for the orientation of new members regarding compensation matters.

The Committee shall be fully independent, accountable, and vigorous in taking primary responsibility for all aspects of executive compensation including employment, retention, and severance agreements.

Structure and Operation

1. Two members of the Committee shall constitute a quorum. When more than two members are present, the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee.
2. The Committee may form and delegate authority to subcommittees when appropriate.
3. Such person as may be designated by the Chairman of the Committee shall act as secretary and keep the minutes of all meetings of the Committee.
4. The Committee shall meet in person or telephonically, at least three times a year at such times and places determined by the Chairman of the Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its Chairman.
5. The Committee shall meet in executive session without the presence of any members of management as often as it deems appropriate.
6. The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.
7. The Chairman of the Committee shall report to the Board at each meeting of the Board the deliberations,

actions and recommendations of the Committee since the last Board meeting

Except as expressly provided in this Charter, the By-laws of the Company or the Company's Corporate Governance Guidelines, or as required by law, regulations or NYSE listing standards, the Committee shall establish its own rules of procedure.

49

Exhibit IV

**Corporate Governance Committee Charter
(Amended 02/16/2006)**

Purpose

The purpose of the Corporate Governance Committee (the *Committee*) of the Board of Directors (the *Board*) of Xerox Corporation (the *Company*) is to identify individuals qualified to become Board members; to recommend to the Board individuals to serve as directors of the Company and on committees of the Board; to advise the Board with respect to Board composition, procedures and committees; to develop, recommend to the Board and annually review a set of corporate governance principles applicable to the Company; to evaluate and make recommendations to the Board with respect to the compensation of Directors; to oversee the evaluation of the Board; and to have such other powers and perform such other duties as the Board may from time to time delegate to it in accordance with Article III of the By-Laws of the Company, as the same shall from time to time be amended.

Duties and Responsibilities

A. Board Candidates and Nominees

The Committee shall have the following duties and responsibilities with respect to Board candidates and nominees:

- (a) To develop and recommend to the Board director qualification criteria and establish procedures for evaluating the suitability of potential director nominees. Such criteria shall include the possession of such knowledge, experience, skills, expertise and diversity so as to enhance the Board's ability to manage and direct the affairs and business of the Company, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties and/or to satisfy any independence requirements imposed by law, regulation or NYSE listing standards. The Committee shall also consider the number of other public company boards on which director candidates and nominees sit in determining eligibility for election.
- (b) To actively identify and attract candidates for director and to review potential nominees proposed by management, shareholders or others.
- (c) To recommend to the Board the director nominees for election by the shareholders or for appointment by the Board, as the case may be, pursuant to the By-Laws of the Company, which recommendations shall be consistent with the Board's criteria for selecting new directors.
- (d) To review the suitability for continued service as a director of each Board member when his or her term expires and when he or she has a significant change in status, including but not limited to an employment change, and to recommend whether or not the director should be re-nominated.
- (e) To review and make recommendations to the Board with regard to length of Board service, director compensation and a retirement policy for members of the Board.
- (f) To review and oversee any orientation programs for newly elected members of the Board and continuing director education programs and to assist the Board in the implementation of such programs.

B. Board Composition and Procedures

The Committee shall have the following duties and responsibilities with respect to the composition and procedures of the Board as a whole:

- (a) To review annually with the Board the composition of the Board as a whole and to recommend, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and

diversity required for the Board as a whole and contains at least the minimum number of independent directors required by NYSE listing standards.

- (b) To review periodically the size of the Board and to recommend to the Board any appropriate changes.
- (c) To make recommendations on the frequency, content and structure of Board meetings.

50

(d) To make recommendations concerning any other aspect of the procedures of the Board that the Committee considers warranted, including but not limited to procedures with respect to the waiver by the Board of any Company rule, guideline, procedure or corporate governance principle.

C. Board Committees

The following shall be the duties and responsibilities of the Committee with respect to the committee structure of the Board:

(a) To make recommendations to the Board regarding the size and composition of each standing committee of the Board, including the identification of individuals qualified to serve as members of a committee, including the Committee, and to recommend individual directors to fill any vacancy that might occur on a committee, including the Committee.

(b) To monitor the functioning of the committees of the Board and to make recommendations for any changes, including the creation and elimination of committees.

(c) To review annually committee assignments and the policy with respect to the rotation of members of the committees and/or chairpersons, and to report any recommendations to the Board.

(d) To recommend that the Board establish such special committees as may be desirable or necessary from time to time in order to address ethical, legal or other matters that may arise. The Committee's power to make such a recommendation under this Charter shall be without prejudice to the right of any other committee of the Board, or any individual director, to make such a recommendation at any time.

D. Corporate Governance

The following shall be the duties and responsibilities of the Committee with respect to corporate governance:

(a) To develop and review periodically, and at least annually, the Corporate Governance Guidelines adopted by the Board to assure that they are appropriate for the Company and comply with the requirements of the NYSE, and to recommend any desirable changes to the Board.

(b) To consider any other corporate governance issues that arise from time to time, and to develop appropriate recommendations for the Board.

(c) To review significant shareholder relations issues, corporate political contributions and the Company's charitable contributions.

E. Evaluation of the Board

The Committee shall be responsible for overseeing the evaluation of the Board as a whole and its committees. The Committee shall establish procedures to allow it to exercise this oversight function.

F. Investigations and Studies; Outside Advisers

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibilities, and may retain, at the Company's expense, such independent counsel or other advisers as it deems necessary. The Committee shall have the sole authority to retain or terminate any firm to be used to identify director candidates and evaluate director compensation, including sole authority to approve a search firm's fees and other retention terms, such fees to be borne by the Company.

G. Performance Evaluation

The Committee shall annually conduct an evaluation of its own performance and, in light of this, consider changes in its membership, charter or procedures. The Committee shall report to the Board the results of its evaluation, including recommended charter, membership and other changes.

51

Composition and Qualifications

The Committee shall be comprised of three or more directors, the exact number to be determined from time to time by resolution of the Board.

Each member of the Committee shall be independent as required by NYSE listing standards and any other legal requirements as shall from time to time be in effect. The Board of Directors shall, in the exercise of business judgment, determine the independence of directors for this purpose.

The Chairman of the Committee shall be designated by a majority vote of the entire Board.

Members of the Committee shall be designated annually by a majority vote of the entire Board (after considering any recommendations of the Committee) at the organizational meeting of the Board of Directors held in connection with the annual meeting of shareholders.

Vacancies on the Committee shall be filled by majority vote of the entire Board. By a majority vote of the entire Board, a member of the Committee may be removed.

Structure and Operation

1. Two members of the Committee shall constitute a quorum. When more than two members are present, the act of a majority of the members present at a meeting at which a quorum is present shall be the act of the Committee, and when only two members are present, the unanimous vote of the two members shall constitute the act of the Committee.
2. The Committee may form and delegate authority to subcommittees when appropriate.
3. The Secretary of the Company, or in the absence of the Secretary such person as may be designated by the Chairman of the Committee, shall act as secretary and keep the minutes of all meetings of the Committee.
4. The Committee shall meet in person or telephonically at least three times a year at such times and places determined by the Chairman of the Committee, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its Chairman.
5. The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.
6. The Chairman of the Committee shall report to the Board at each meeting of the Board the deliberations, actions and recommendations of the Committee since the last Board meeting.
7. Except as expressly provided in this Charter, the By-laws of the Company or the Company's Corporate Governance Guidelines, or as required by law, regulation or NYSE listing standards, the Committee shall establish its own rules of procedure.



MR A SAMPLE
 DESIGNATION (IF ANY)
 ADD 1
 ADD 2
 ADD 3
 ADD 4
 ADD 5
 ADD 6

00000000.000 ext
 00000000.000 ext
 00000000.000 ext
 00000000.000 ext
 00000000.000 ext
 00000000.000 ext
 00000000.000 ext

C 1234567890

J N T

Mark this box with an X if you have made changes to your name or address details above.

Annual Meeting Proxy Card

C0123456789

12345

It s a win-win solution! Reduce paper flow to your home and help the environment, too. If you have access to the Internet, we encourage you to consider receiving Xerox s future Annual Reports and Proxy Statements in electronic format rather than in printed form. In electing to do so, you conserve natural resources and save your company money! To sign up for electronic delivery service, go to our transfer agent s website at <http://www.econsent.com/xrx> at any time and follow instructions. If you vote by Internet, you can also sign up for electronic delivery service at the same time. **Act Now!**

PLEASE REFER TO THE REVERSE SIDE FOR TELEPHONE AND INTERNET VOTING INSTRUCTIONS.
 Unless marked otherwise, this voting instruction and proxy card will be voted FOR Proposals 1 and 2.

A Election of Directors

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

1. Election of directors. For Withhold		For	Withhold	For	Withhold	For	Withhold
01 - Glenn A. Britt	<input type="radio"/> <input type="radio"/>	02 - Richard J. Harrington	<input type="radio"/> <input type="radio"/>	03 - William Curt Hunter	<input type="radio"/> <input type="radio"/>	04 - Vernon E. Jordan, Jr.	<input type="radio"/> <input type="radio"/>
05 - Hilmar Kopper	<input type="radio"/> <input type="radio"/>	06 - Ralph S. Larsen	<input type="radio"/> <input type="radio"/>	07 - Robert A. McDonald	<input type="radio"/> <input type="radio"/>	08 - Anne M. Mulcahy	<input type="radio"/> <input type="radio"/>
09 - N.J. Nicholas, Jr.	<input type="radio"/> <input type="radio"/>	10 - Ann N. Reese	<input type="radio"/> <input type="radio"/>	11 - Mary Agnes Wilderotter	<input type="radio"/> <input type="radio"/>		

B Management Proposal

C Shareholder Proposals

Edgar Filing: XEROX CORP - Form DEF 14A

The Board of Directors recommends a vote **FOR** the following proposal.

The Board of Directors recommends a vote **AGAINST** the following proposals.

	For	Against	Abstain
2. Ratification of the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for 2006.	0	0	0

	For	Against	Abstain
3. Shareholder Proposal Relating to Election of Directors by Majority Vote.	0	0	0
4. Shareholder Proposal Relating to Senior Executive Bonuses.	0	0	0

MARK BOX AT RIGHT IF YOU PLAN TO ATTEND THE ANNUAL MEETING. A TICKET WILL BE SENT TO YOU.

D Authorized Signatures - Sign Here - This section must be completed for your instructions to be executed.
 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.

Signature 1 - Please keep signature within the box Signature 2 - Please keep signature within the box Date (mm/dd/yyyy)
 / /

0084491

1UPX

COY

Proxy - Xerox Corporation

**ANNUAL MEETING OF SHAREHOLDERS
10:00 A.M. WEDNESDAY, MAY 24, 2006
XEROX CORPORATION CORPORATE HEADQUARTERS
800 LONG RIDGE ROAD
STAMFORD, CONNECTICUT**

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

The undersigned appoints GLENN A. BRITT, RALPH S. LARSEN AND ANNE M. MULCAHY, 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.

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 below 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.

ELECTION TO OBTAIN PROXY MATERIALS ELECTRONICALLY INSTEAD OF BY MAIL

Xerox Corporation shareholders may elect to receive the Company's future annual reports and proxy statements and to vote their shares through the Internet instead of receiving copies through the mail. Xerox is offering this service to provide added convenience to its shareholders and to reduce annual report printing and mailing costs.

To take advantage of this option, shareholders must subscribe to one of the various commercial services that offer access to the Internet World Wide Web. Costs normally associated with electronic access, such as usage and telephone charges, will be borne by the shareholder.

To elect this option, go to website <http://www.econsent.com/xrx>. Shareholders who elect this option will be notified each year by e-mail how to access the proxy materials and how to vote their shares on the Internet.

If you consent to receive the Company's future proxy materials electronically, your consent will remain in effect unless it is withdrawn by revoking your consent at www.econsent.com/xrx. Also, if while this consent is in effect you decide you would like to receive a hard copy of the proxy materials, you may call, write or e-mail our Transfer Agent, at: 1-800-828-6396; P.O. Box 43010, Providence, RI 02940-3010; <http://www.computershare.com/equiserve>.

**YOU MAY ACCESS THE XEROX CORPORATION ANNUAL REPORT AND PROXY STATEMENT AT:
<http://www.xerox.com/investor>**

Telephone and Internet Voting Instructions

You can vote by telephone OR Internet! 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.

**To vote using the Telephone (within U.S.
and Canada)**

Call toll free 1-800-652-VOTE (8683) in the United States or Canada any time on a touch tone telephone. There is **NO CHARGE** to you for the

To vote using the Internet

Go to the following web site:
WWW.COMPUTERSHARE.COM/EXPRESSVOTE

Edgar Filing: XEROX CORP - Form DEF 14A

call.

Follow the simple instructions provided by the recorded message

Enter the information requested on your computer screen and follow simple instructions.

VALIDATION DETAILS ARE LOCATED ON THE FRONT OF THIS FORM IN THE COLORED BAR.

If you vote by telephone or the Internet, please DO NOT mail back this proxy card.

Proxies submitted by telephone or the Internet must be received by 1:00 a.m., Central Time, on May 24, 2006.

THANK YOU FOR VOTING
