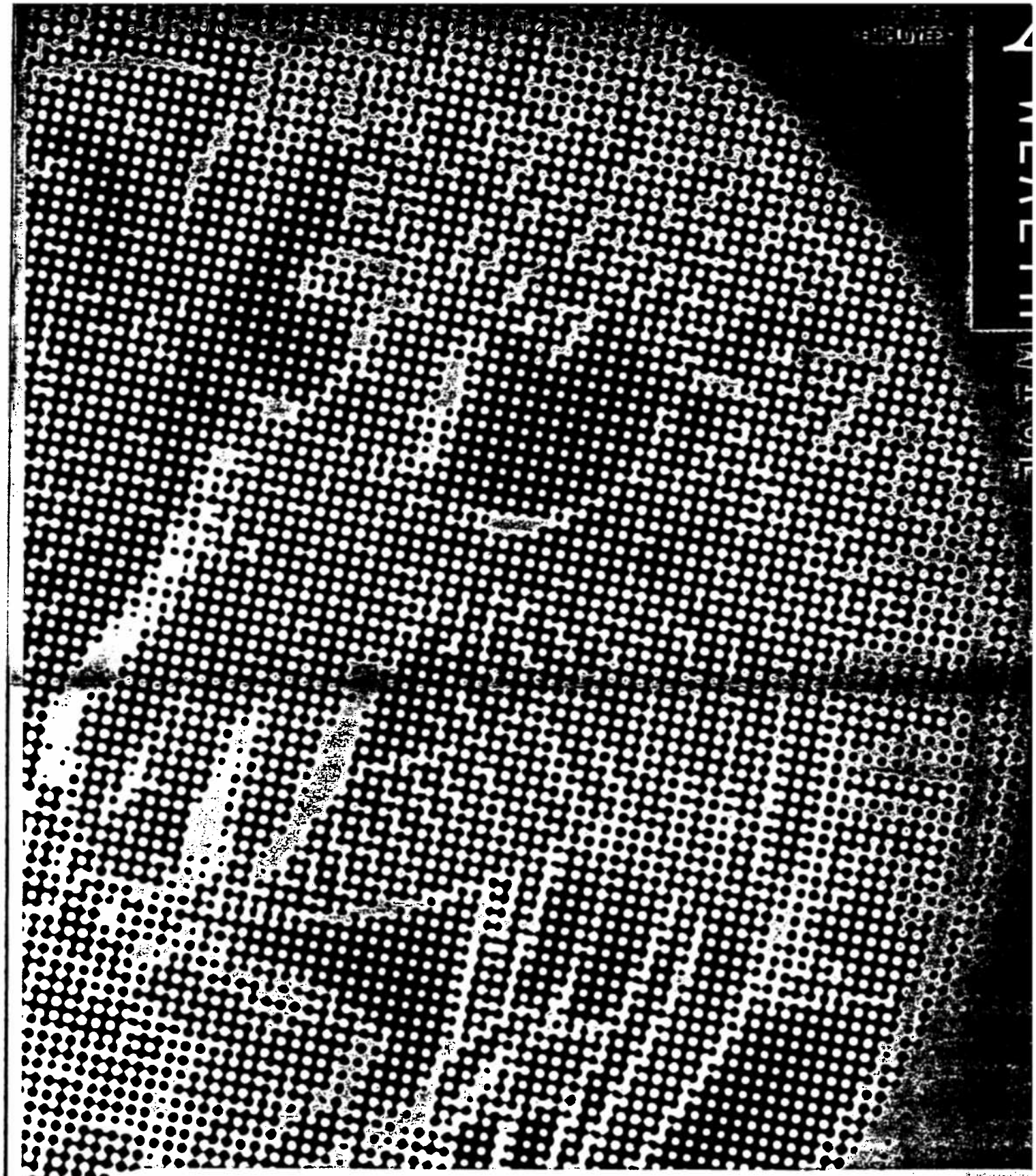
# Exhibit A


YOUR GUIDE TO A FINANCIALLY SECURE FUTU
YOU&XEROX

This benefits handbook is intended as a summary reference to the retirement, profit sharing, and savings plans that constitute the retirement and savings portion of Xerox's comprehensive benefits program for exempt and non-exempt salaried employees (employees who are not covered by a collective bargaining agreement).* It supersedes the portions of all previous handbooks relating to these plans, which were published under the titles *You and Xerox* (published in 1984), *You and Xerox: 1986, You and Xerox, 1987-88, You and Xerox* (published in 1990), and *You and Xerox: Benefits for Salaried Employees* (published in 1993), and any supplements published up to this date.

Key features of each plan, including eligibility requirements, are summarized in this book. However, it cannot cover all the details. Those details can be found in the official plan documents that legally govern all aspects of the plans. In the event of a discrepancy between the plan documents and the summaries in this book, the plan documents are controlling. If you have any questions, or if you need any additional information about your Xerox benefits, call the Xerox Benefits Center (1-888-979-9961).

The plans summarized and described in this book, prepared in September 1998, are subject to change. This handbook does not create a contract between Xerox and any employee. In order to meet its needs under changing conditions, the Company, at its discretion, may at any time terminate or change any of these plans or the statements made in this handbook.

Specifically designated portions of this document constitute part of a prospectus covering securities that have been registered under the Securities Act of 1933. These specifically designated portions are this page, and the sections of *You and Xerox: WealthWise* entitled "Making the Plans Work For You," "401(k) Savings Plan," "Profit Sharing," the two sections on "Accessing Your Funds," "Distribution Options," and "Administrative Information."

The Profit Sharing and Savings Plan is subject to the provisions of the Employee Retirement Income Security Act (ERISA) dealing with reporting and disclosure, participation and vesting, and fiduciary responsibility. It is not subject to the funding or plan termination insurance provisions of ERISA because they do not apply to profit sharing plans. These provisions do apply to the Retirement Income Guarantee Plan (RIGP).

In addition, the Profit Sharing and Savings Plan is intended to constitute a plan under Section 404(c) of ERISA, and Title 29 of the Code of Federal Regulations Section 2550.404c-1, and fiduciaries of the plan may be relieved of liability for any losses that are the direct and necessary result of investment instructions given by participants or beneficiaries.

Independent contractors, including (without limitation) leased employees, supplemental contract workers, consultants, agents, or anyone classified as such by the Company, or any other third-party personnel who perform services for the Company, are neither eligible for nor covered by the plans summarized herein (unless qualifying as an eligible dependent of an employee).

# Total Pay

## and Your Financial Security Benefits

The plans summarized in this book are based on our Total Pay concept at Xerox. *Total Pay* is all the value you receive from Xerox in return for your contribution to the business. Generally, this includes your base salary, payouts from results-based pay programs, profit sharing, and your benefits.

The idea behind *Total Pay* is simple: We want the combined total value you receive from all these elements to be competitive in the marketplace. And we want you to have as much flexibility as possible in deciding how you receive and use this total value.

*Total Pay* links two of our most important business strategies—diversity and empowerment.

The strength of our diversity means that each of us has very different needs and priorities. To reflect this, we include many different options and ways to receive value in our *Total Pay* programs.

Our empowerment strategy for business success is to give you the tools and support you need, the freedom to act, and accountability for results. Our *Total Pay* programs give you valuable resources to work with, the critical decision-making role, and accountability for making the plans work for you.

Your financial security benefits illustrate this well. You have several plans to work with to build your financial strategy. They have the flexibility to be customized for your individual needs through the decisions you make. For example: In the 401(k) savings plan you can choose from before- and after-tax savings, you have a wide range of ways to invest your money, and you have several options for accessing it. You can take half your profit sharing contribution as "pay" by taking it in cash, or as a "benefit" by deferring it in the 401(k) savings plan.

The You and Xerox relationship is designed to support the Company's business goals and your personal goals. Our *Total Pay* approach helps Xerox hire and keep great talent and helps meet your individual needs so you can be focused and productive at work. It gives you the tools and financial support to manage your personal needs and reach your personal goals.

# Table of contents


## INTRODUCTION

Your retirement income 2
How to use this book 3

## MAKING THE PLANS WORK FOR YOU

Why should I save now? 4
Time: the wealth builder 4
It pays to start early 5
Dollar-cost averaging 5
What are my investment choices? 6
Tier I: Broad Strategy Funds 6
Tier II: Focused Strategy Funds 6
Tier III: Marketplace Window 7
How do I decide among these choices? 7
Determine your personal tolerance for risk 8
Risk quiz 9
Sample investment allocations 10
What's the difference between stocks and bonds? 12
Stocks 12
Bonds 13
How much do I need to know about risk? 14
How stocks and bonds perform against inflation 15
Diversification: the risk tamer 16
Ways to diversify 16
Putting it all together 17
Once I've made my decision, I can sit back and relax, right? 17

## HOW THE PLANS WORK 401(K) SAVINGS PLAN

At a glance 18
How it works 19
Who is eligible? 20
Before-tax contributions 20
After-tax contributions 21
Other ways to use the 401(k) savings plan 21
Investment choices 22
Tier I: Broad Strategy Funds 22
Tier II: Focused Strategy Funds 23
Tier III: Marketplace Window 23
Fund valuations 24
Checking your funds 24
Designating your beneficiary 24
Loans and withdrawals 24

# Table of contents


## HOW THE PLANS WORK PROFIT SHARING

At a glance 25
Who is eligible? 26
Calculating your contribution 26
About stock options 28
Tax withholding 32
When you leave Xerox or go on long-term disability 33
Designating your beneficiary 33
1998: A transition year 33

## HOW THE PLANS WORK EMPLOYEE STOCK OWNERSHIP PLAN

At a glance 34
Who is eligible? 35
How your ESOP account grows 35
The value of your account 36
Stock rights 37
Diversification election 38
Federal limits 38
Designating your beneficiary 39

## HOW THE PLANS WORK RETIREMENT INCOME GUARANTEE PLAN

At a glance 40
Who is eligible? 41
Benefit eligibility 41
About your beneficiary 41
Calculating your benefit for the best result 42
Early retirement reduction 44
Factors that could affect your retirement benefit 48
If you leave Xerox 49
Reemployment 49
Disability 50
If you die before retirement 51
Settling with the plan 51
Prior distributions 51

## ACCESSING YOUR FUNDS DURING YOUR EMPLOYMENT

Loans 56
Withdrawals 58

## ACCESSING YOUR FUNDS


Distributions from the 401(k) savings plan 61
Treatment of profit sharing stock options 61
Distributions from the Employee Stock Ownership Plan 62
Distributions from RIGP 63


## DISTRIBUTION OPTIONS


Cash distributions 65
Rollovers 65
Annuities 65
Installment payment option 66
Minimum distributions 66


## TAX TREATMENT OF DISTRIBUTIONS


Mandatory withholding 67
10% additional tax 68
Voluntary withholding 68
Special tax treatment for lump sums 68
Tax treatment of stock distributions 69
Impact of before-tax savings and salary redirection 70
Qualified Domestic Relations Orders 70
Social Security 70


## ADMINISTRATIVE INFORMATION

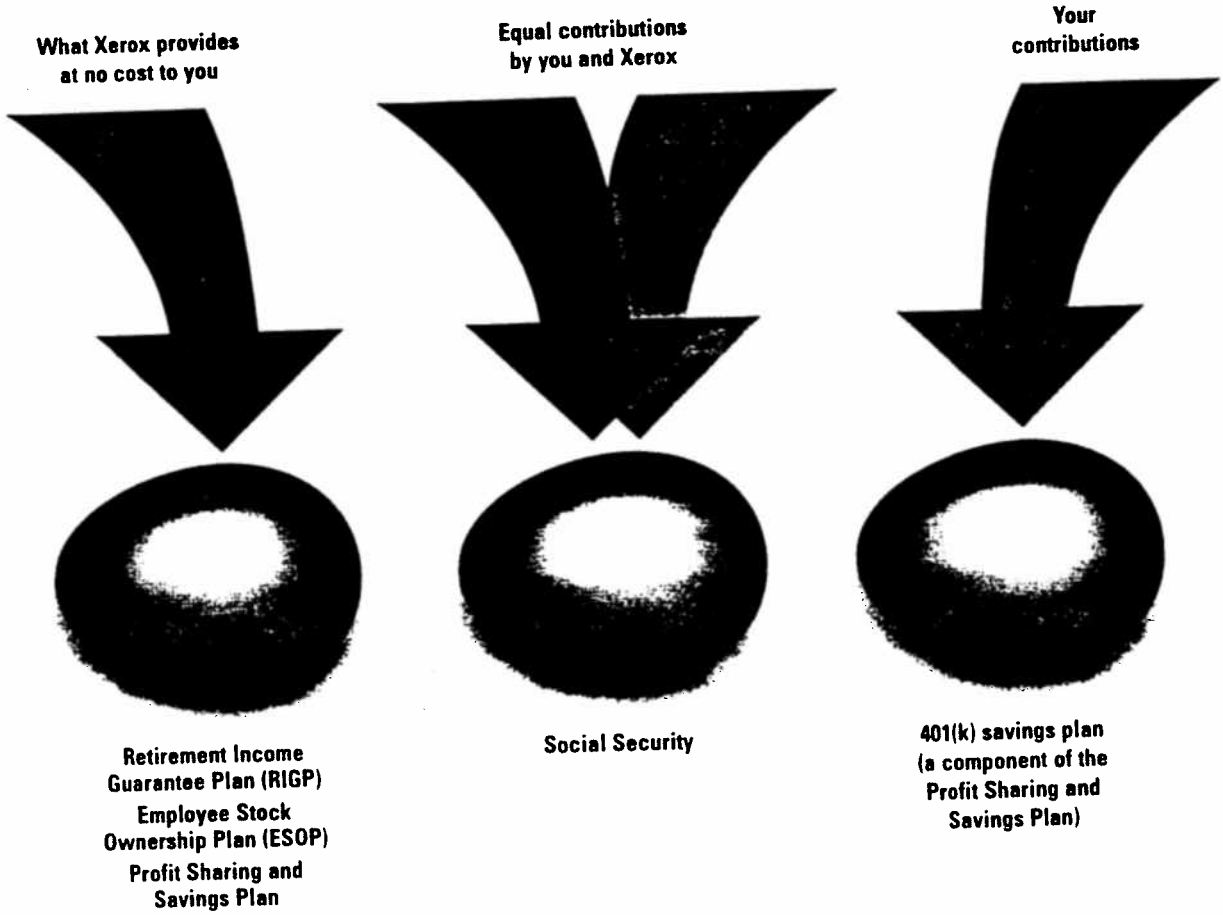

Your rights under ERISA 71
Claims denial and appeal procedures 72
Plan documents 73
Plan continuation 73
Employer identification number 73
Plan Administrator 74

*You and Xerox: WealthWise* is your reference book for information about the array of financial benefits that Xerox provides to all salaried employees. These financial benefits are structured to help provide you with a sufficient retirement income.

Having a comfortable retirement income requires the combination of all of the plans below. Your savings in the 401(k) savings plan can become a significant part of your total retirement income.

The 401(k) savings plan gives you the flexibility to invest in a range of funds. Hand in hand with that freedom of choice comes the responsibility to manage your investments. To help you make the most of your choices, the information provided in *You and Xerox: WealthWise* explains how the plans work and provides some important information about making investment decisions.

## Your retirement income



# How to use this book

## Information about how to participate in each plan

appears under the heading of each plan. Information about what happens to your accounts when you terminate or retire appears in "**Accessing your funds**."

A special section, "**Making the plans work for you**," is a guide to demystifying investment decisions, like the ones you'll need to make when you save in the 401(k) savings plan.

## If you're new to investing or if investment decisions make you nervous,

then take a look at "**Making the plans work for you**." It explains some of the basics about investing, including types of investments, the different kinds of investment risk and why it is important to identify your savings goals and time horizons.

## Even if you're a more experienced investor,

**"Making the plans work for you"** has important information about your investment options.

While **"Making the plans work for you"** may be helpful as you decide which funds to select in the 401(k) savings plan, it also applies to your larger total investment picture. That includes all the plans that Xerox provides for you. And it includes your personal savings and investments.

It's helpful to keep this larger picture in mind when making all your investment decisions.

For more detailed information on your investment options, refer to the latest **Xerox 401(k) Savings Plan Investment Funds Guide**, which is included with this book, and the **Investment Funds Annual Report**.

# Making the plans work for you

Saving for retirement might sound intimidating. If you are tempted to put off saving in the 401(k) savings plan because you think it sounds too complicated, then this section is for you. If you're ready to start saving or you're already saving but want to rethink your asset mix, this section is for you, too.

"Making the plans work for you" is designed to help you ask the right questions about investing your money and to come up with answers that make sense for your individual circumstances and needs.

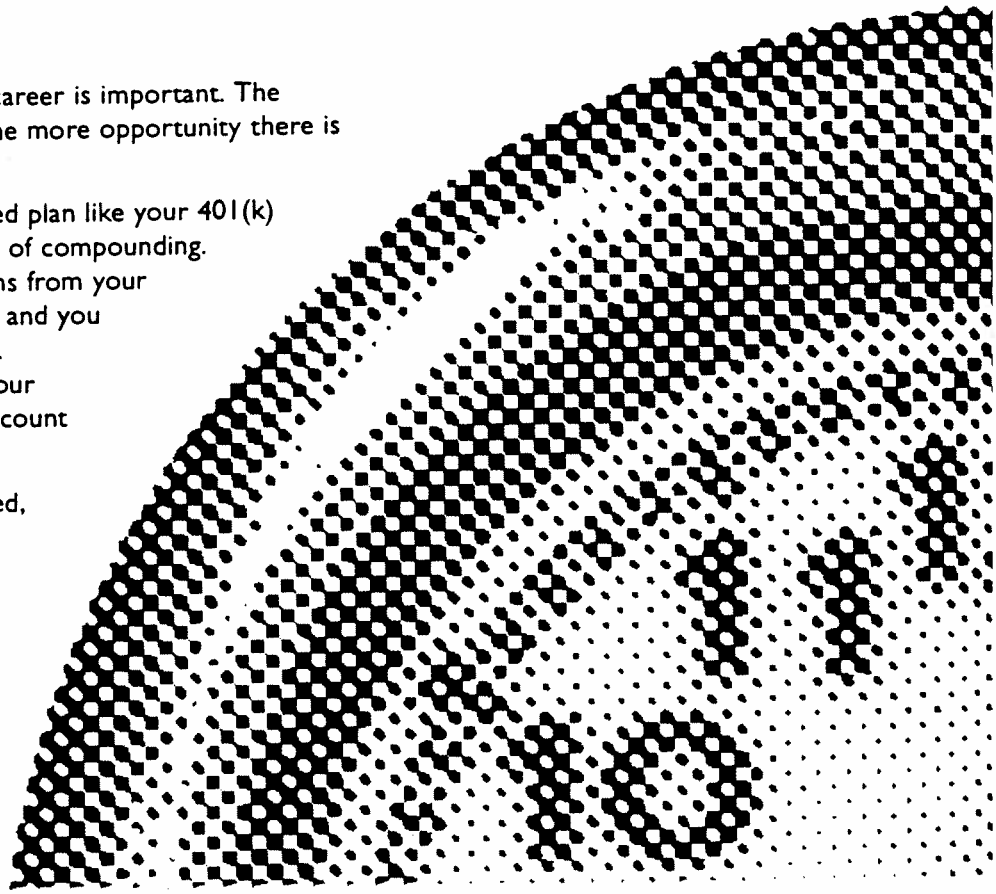
## Why should I save now?

### TIME: THE WEALTH BUILDER

Starting a savings program early in your career is important. The earlier you begin saving for retirement, the more opportunity there is for your money to grow.

Your money grows faster in a tax-deferred plan like your 401(k) savings plan. That's because of the power of compounding. All the dividends, interest, and capital gains from your investments are reinvested in your funds, and you don't have taxes taken out along the way. Reinvesting means you earn money on your investment returns, which makes your account balance grow faster.

The longer you keep your money invested, the more powerful effect compounding can have on the value of your funds. Through compounding, even small differences in investment returns can add up to big differences over a ten-, 20-, or 30-year span.

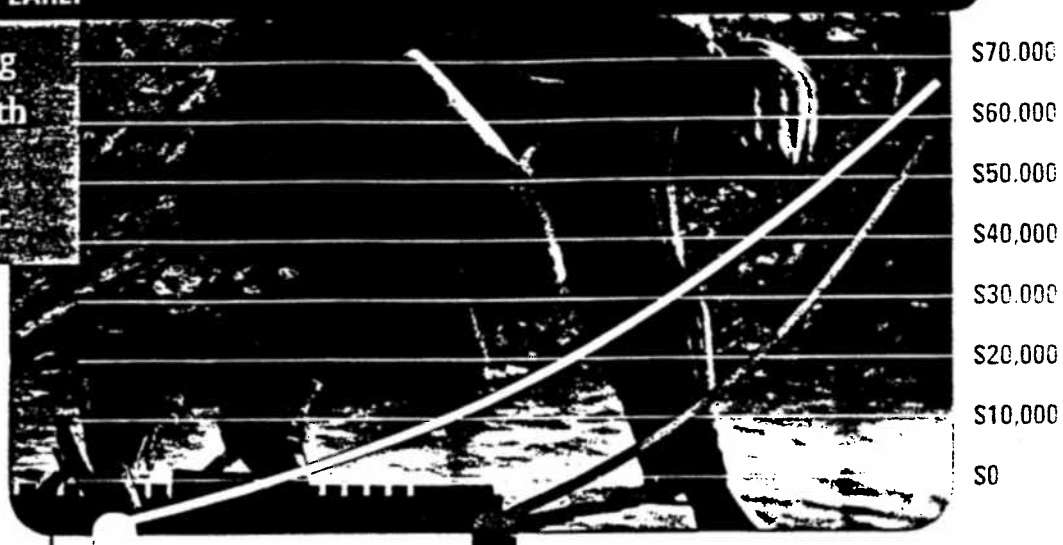


## IT PAYS TO START EARLY

In the following illustration, both savers make $40,000 a year.

Assumes each saver receives a 5% salary increase and achieves a 10% annual investment return.

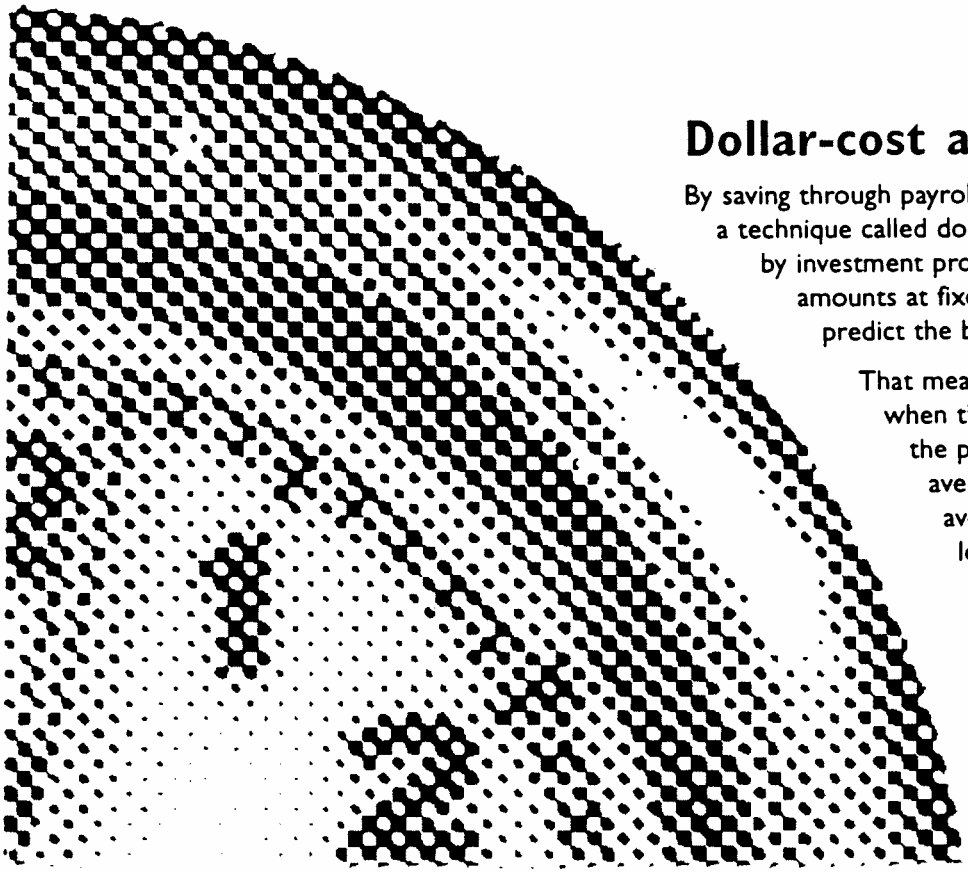
Source: Ibbotson Associates




Saver A begins right away, saving **4%** of pay from the first year of her career.

Saver B waits until the eighth year to begin saving. To make up for lost time, Saver B saves **twice as much**—8% of pay.

**But at the end of 14 years, Saver A still has almost $10,000 more than Saver B, even though she is saving half as much. It will take Saver B four more years to catch up with Saver A.**

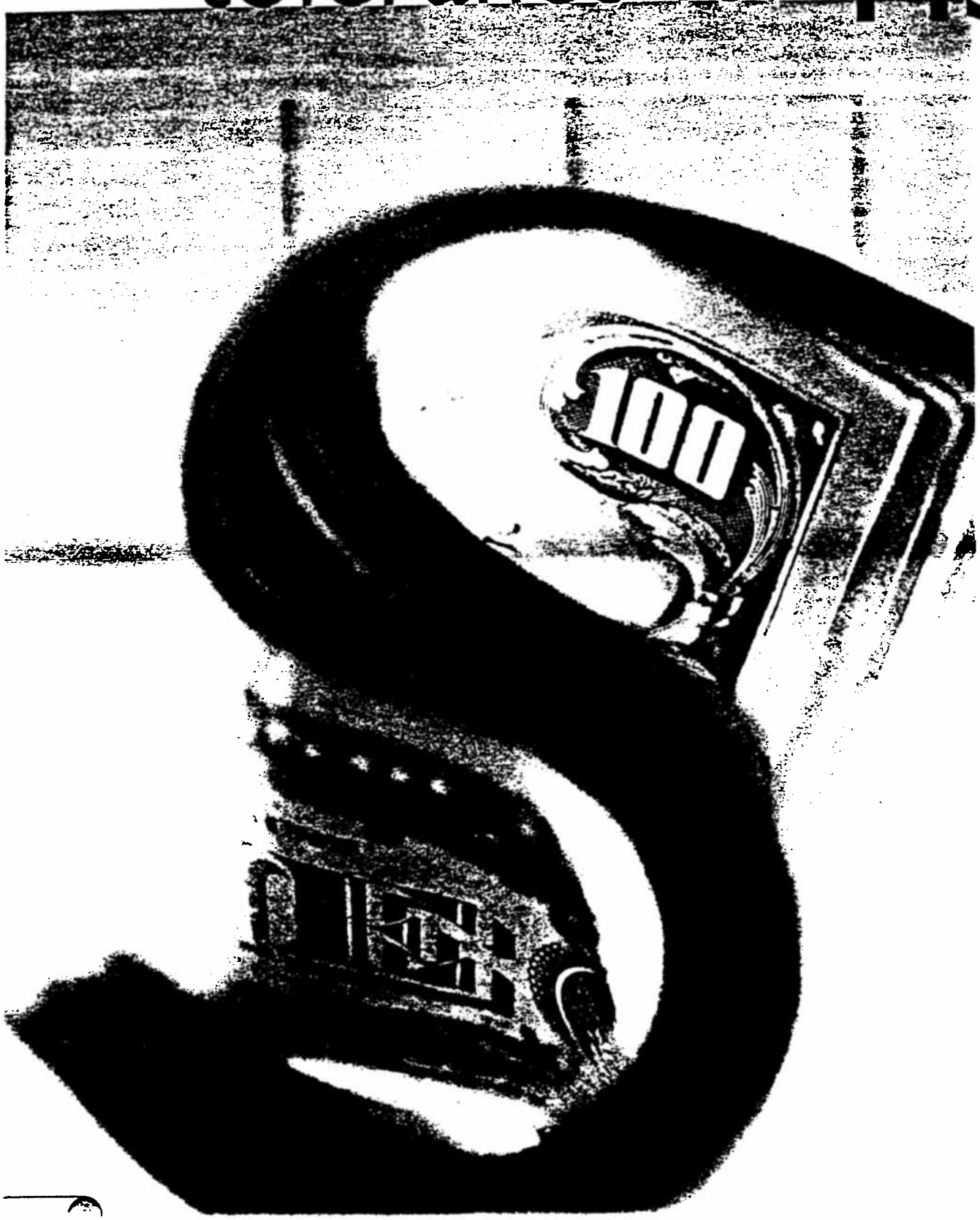


## Dollar-cost averaging

By saving through payroll deduction, you are actually using a technique called dollar-cost averaging recommended by investment professionals. You're investing regular amounts at fixed intervals, without trying to predict the best time.

That means you automatically buy more when the price is low and less when the price is high. The result is a better average share price. Dollar-cost averaging keeps you focused on long-term investment goals instead of short-term market performance.

# Determine your personal tolerance for risk



# Answer this quiz to help you decide how much investment risk you're willing to take.

**Review each pair of statements below.**
**Circle the number that best describes where you fall between the two statements.**

| | | |
|---|---|---|
| My primary goal is to protect my retirement savings. I'm concerned about losing money | 1 2 3 4 5 | My primary goal is to earn enough on my retirement savings to stay ahead of inflation. I am willing to risk some losses to do so. |
| I would definitely be upset if my 401(k) savings plan statement showed a loss. | 1 2 3 4 5 | A loss on my 401(k) savings plan statement wouldn't necessarily bother me. |
| If the stock market dropped, I'd take my losses and pull my savings out of stocks. | 1 2 3 4 5 | If the stock market dropped, I'd put more of my money into the market to catch it before it moves back up. |
| If I had a choice between $1,000 cash and a one-in-ten chance at $10,000, I'd definitely take the cash. | 1 2 3 4 5 | If I had a choice between $1,000 cash and a one-in-ten chance at $10,000, I'd definitely take the chance. |
| I would worry about short-term investment losses. | 1 2 3 4 5 | I wouldn't worry about short-term investment losses. |
| I wouldn't invest in a start-up company, even one with a promising idea. | 1 2 3 4 5 | I'd invest in a start-up company if it had a promising idea. |
| I plan to begin withdrawing my savings within the next five years. | 1 2 3 4 5 | I do not plan to take money out of my 401(k) savings plan for at least 25 years. |
| My 401(k) savings represent the majority of my personal savings and investments. | 1 2 3 4 5 | My 401(k) savings represent only a small portion of my personal savings and investments. |

Your Score:_____

**Total** the numbers from the statements above and note your score. Then check the description of risk tolerance for your score. Does it sound like you?

**8–13 Conservative**

Conservative investors are generally concerned about the stability of their investments. Their most important objective is to avoid short-term risk, and they are willing to give up return to do so.

**14–20 Conservative to Moderate**

**Moderate**

Moderate investors generally seek a balance between risk and return. They generally select a mix of funds with varying levels of risk.

**28–34 Moderate to Aggressive**

**35–40 Aggressive**

Aggressive investors look for a high return from growth investments over the long term. They are often willing to take on more risk (and short-term fluctuations) for a higher return.

# Sample investment allocations

The following sample allocations represent possible investment allocations for each risk tolerance profile. The Xerox Stock Fund is not included in these profiles because you have opportunities to own Xerox stock through profit sharing and your account in the Employee Stock Ownership Plan. Keep in mind that you have to include all your ownership in Xerox stock when evaluating your portfolio. Too much of any one stock could affect achieving your investment objectives. For more information, see "About investing in Xerox common stock" on page 17.

■ 100% Income Fund

or

■ 50% Income Fund
■ 50% Enhanced Bond Fund

## 8 to 13
## Conservative Risk Profile

Investors with a low tolerance for risk may be within three to five years of retirement or within several years of paying for college tuition. Because they will need access to their funds soon, they want to avoid market fluctuations. Capital preservation is the highest priority. But they do want some capital appreciation, since they expect to live another 25+ years.

## 14 to 20
## Conservative to Moderate Risk Profile

These investors are entering the last phase of their careers. They want some capital appreciation without taking undue risks to get it.

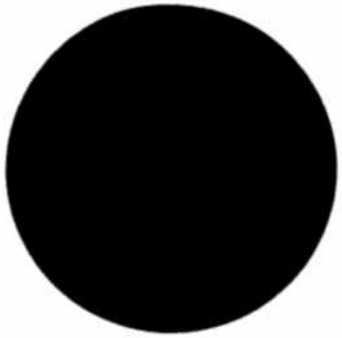
■ 40% Income Fund
■ 40% Enhanced Bond Fund
■ 20% U.S. Stock Fund

or

■ 100% Balanced Fund—More Bonds (70% bonds, 30% stocks)

- 40% Enhanced Bond Fund
- 30% U.S. Stock Fund
- 20% Small Company Stock Fund
- 10% International Stock Fund

or



- 100% Balanced Fund—Fifty/Fifty (50% bonds, 50% stocks)

21 to 27
Moderate Risk Profile

Investors in this profile may be at the mid-point of their careers. Their concerns about capital appreciation and capital preservation are about equal. Their overall allocation of stocks and fixed income investments is evenly split between the two.

## 28 to 34
## Moderate to Aggressive Risk Profile

Investors who fit this category may be in a mature phase of their careers. Retirement is still a way off, but they may be saving for children's college tuition. This investor may weight the portfolio more heavily to stocks than fixed income. Capital appreciation is more important than capital preservation.

- 35% U.S. Stock Fund
- 25% Small Company Stock Fund
- 20% Enhanced Bond Fund
- 20% International Stock Fund

or

- 100% Balanced Fund—More Stocks The original Balanced Fund (30% bonds, 70% stocks)

- 50% U.S. Stock Fund
- 25% Small Company Stock Fund
- 25% International Stock Fund

## 35 to 40
## Aggressive Risk Profile

Aggressive investors may be starting out in a career with a long time ahead before retirement. This investor may be a "do-it-yourself" investor who wants a high return and is willing to take chances to get it. High returns are the main motivator. This investor is less concerned about preserving capital.

# What's the difference between stocks and bonds?

Stocks and bonds represent different asset classes, and they perform differently. Funds that invest in either or both can be useful in your portfolio. First, here's how they work.

## Stocks

When you buy the common stock of a company, you are buying into the ownership or *equity* of the company. The value of your investment can grow in two ways:

- **Income**

  The company may pay you current income in the form of dividends on your stock. Dividends represent a part of corporate earnings distributed to shareholders.

- **Growth**

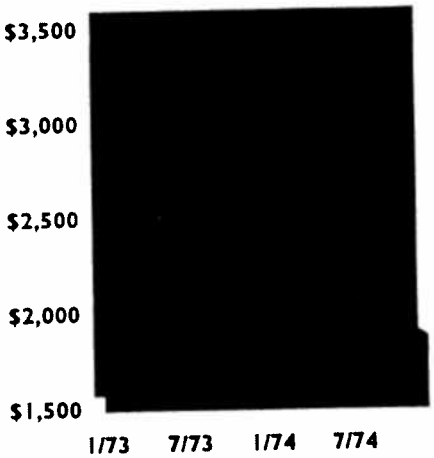
  The share price of the stock may increase.

Neither dividends nor growth in the share price of a stock is guaranteed. Stocks fluctuate in price, sometimes dramatically, over shorter periods of time. But as an investor, time is on your side.

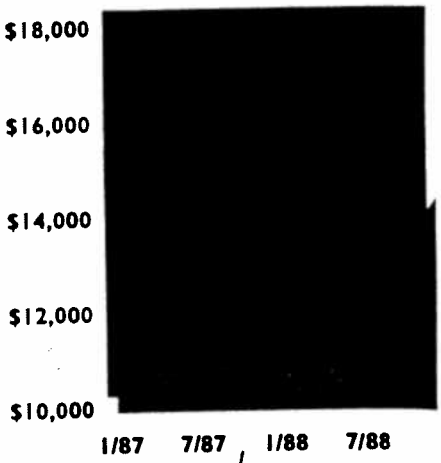
Historically, the longer money has been invested in stocks, the more it has grown. Although stocks can (and do) go up and down in value significantly in the short-term, they have generally increased over the long term. The longer you have until retirement, the more time you have to weather short-term downward trends and take advantage of long-term gains.

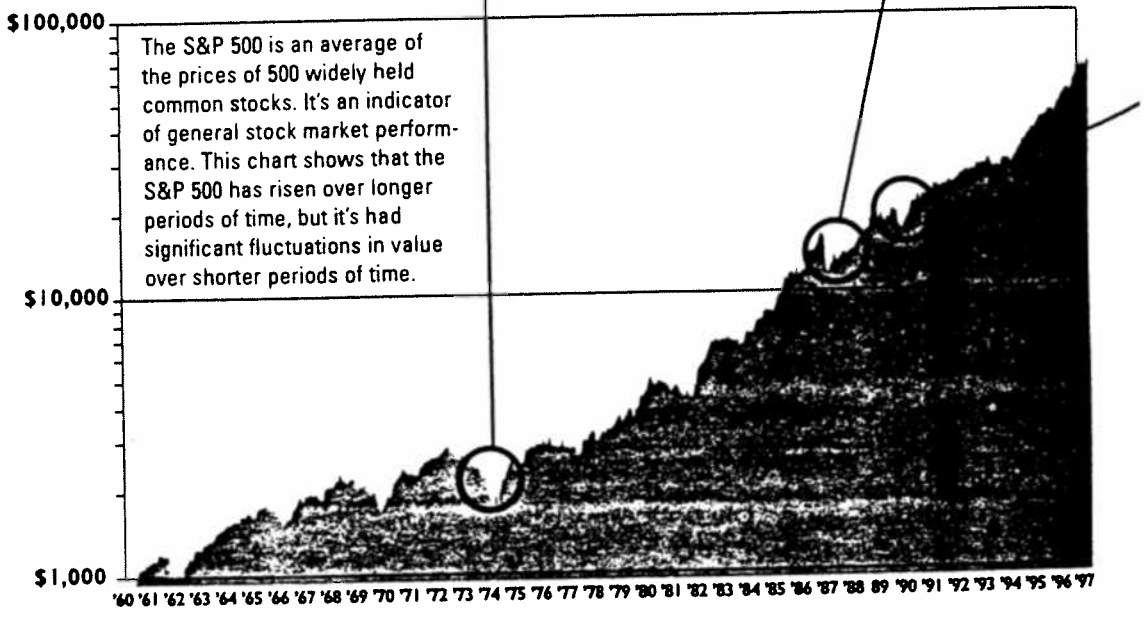
Historically, the stock market has risen over time, but it does not always rise from year to year.

The period of 1973-1974 was the last severe sustained bear (down) market that U.S. stocks experienced. During those two years, if you were an investor in the U.S. stock market, you would have lost about half the value of your equity portfolio. Although these periods occur infrequently, they can and will happen.




The market crash of 1987 was a severe correction during an otherwise up year for U.S. stocks. The S&P 500 lost over 21% during the month of October. This kind of volatility underscores the higher risk of being invested in U.S. stocks.




The S&P 500 is an average of the prices of 500 widely held common stocks. It's an indicator of general stock market performance. This chart shows that the S&P 500 has risen over longer periods of time, but it's had significant fluctuations in value over shorter periods of time.

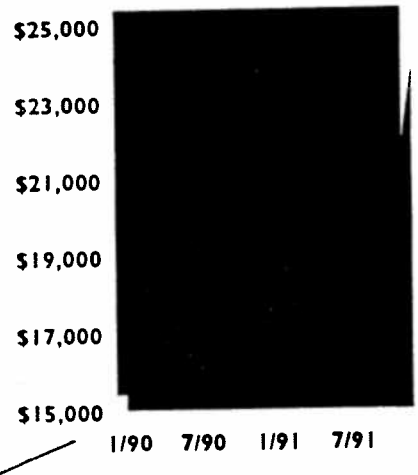
Source: Ibbotson Associates

# Bonds

Corporations, governments, and government agencies issue bonds as a way of borrowing money. Bonds are also called *debt*. When you buy a bond, you are lending money to the issuer. Bonds pay you interest and return your principal at the end of the term. The interest rate depends on the quality of the assets backing the bond and the length of time until the bond matures.

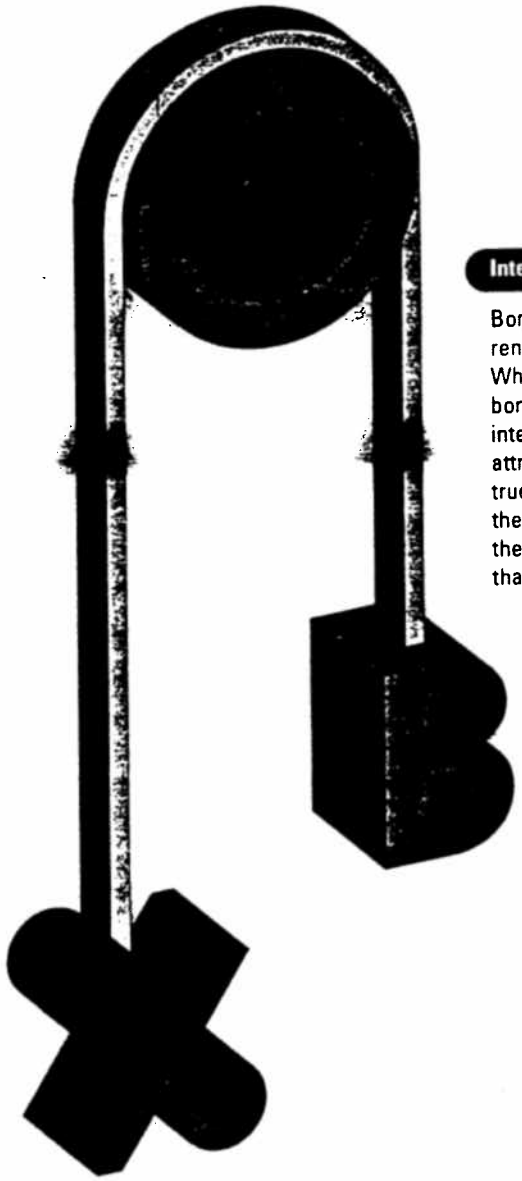
Higher interest rates may mean lower quality or longer terms: more risk. Lower interest rates may mean higher quality or shorter terms: less risk.

The period from 1990 to 1991, when viewed close up, shows how large drops can and do occur, even during times when the overall U.S. stock market is up. A similar event happened in 1997 when the Southeast Asian crisis caused a sudden drop in stock prices worldwide, even during a market that was moving strongly upward.




Each of these examples shows how you can lose money in the short term if you had to withdraw from the market during those times. If you remained invested, you would have likely recovered and increased your returns. How long is short-term? In these examples, it is as short as six months and as long as two years, and can be longer.

The past performance of the stock market in general, or any one stock in particular, is no guarantee of future performance.



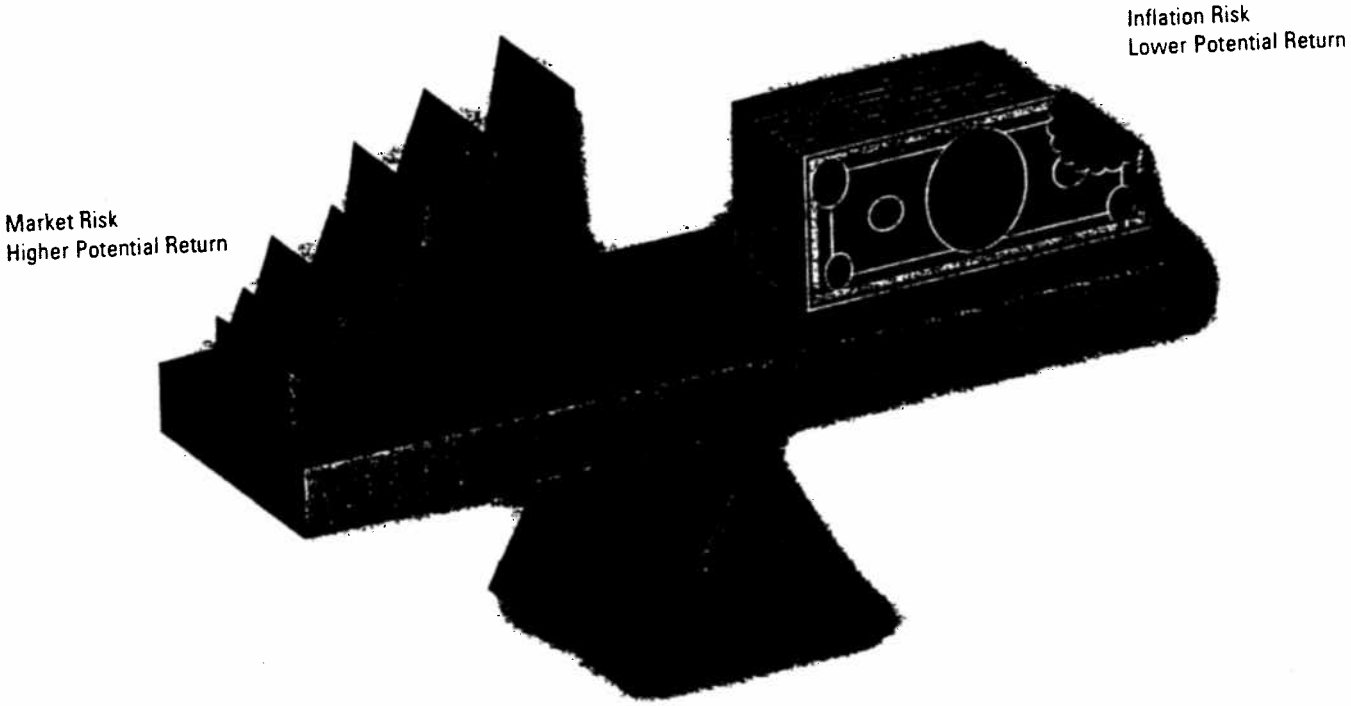
**Interest rates and bond values**

Bond values fluctuate as current interest rates change. When interest rates drop, bond prices rise because their interest rates become more attractive. The opposite is also true. When interest rates rise, the bond prices fall because their interest rates are lower than current rates.

# How much do I need to know about risk?

The relationship between risk and return is like a seesaw, with market risk and higher potential returns at one end and inflation risk and lower, steadier returns at the other. Of course, you want the highest possible return on your investment. But along with that high return comes the potential for loss. On the other hand, investments that pay a predictable return may not earn enough to achieve your savings goals.

Striking the right balance between risk and return depends in part on the length of time before you need access to your money.




## Market risk: A short-term risk

Investments with the potential for the largest increase in value over the long term usually have the most risk of loss in the short term. Stocks generally go up and down in value frequently over the short term. But over the long term, as an asset class, they have produced greater returns.

**If you plan to leave your funds invested for some years, you don't have to worry as much about market risk.**

## Inflation risk: A long-term risk

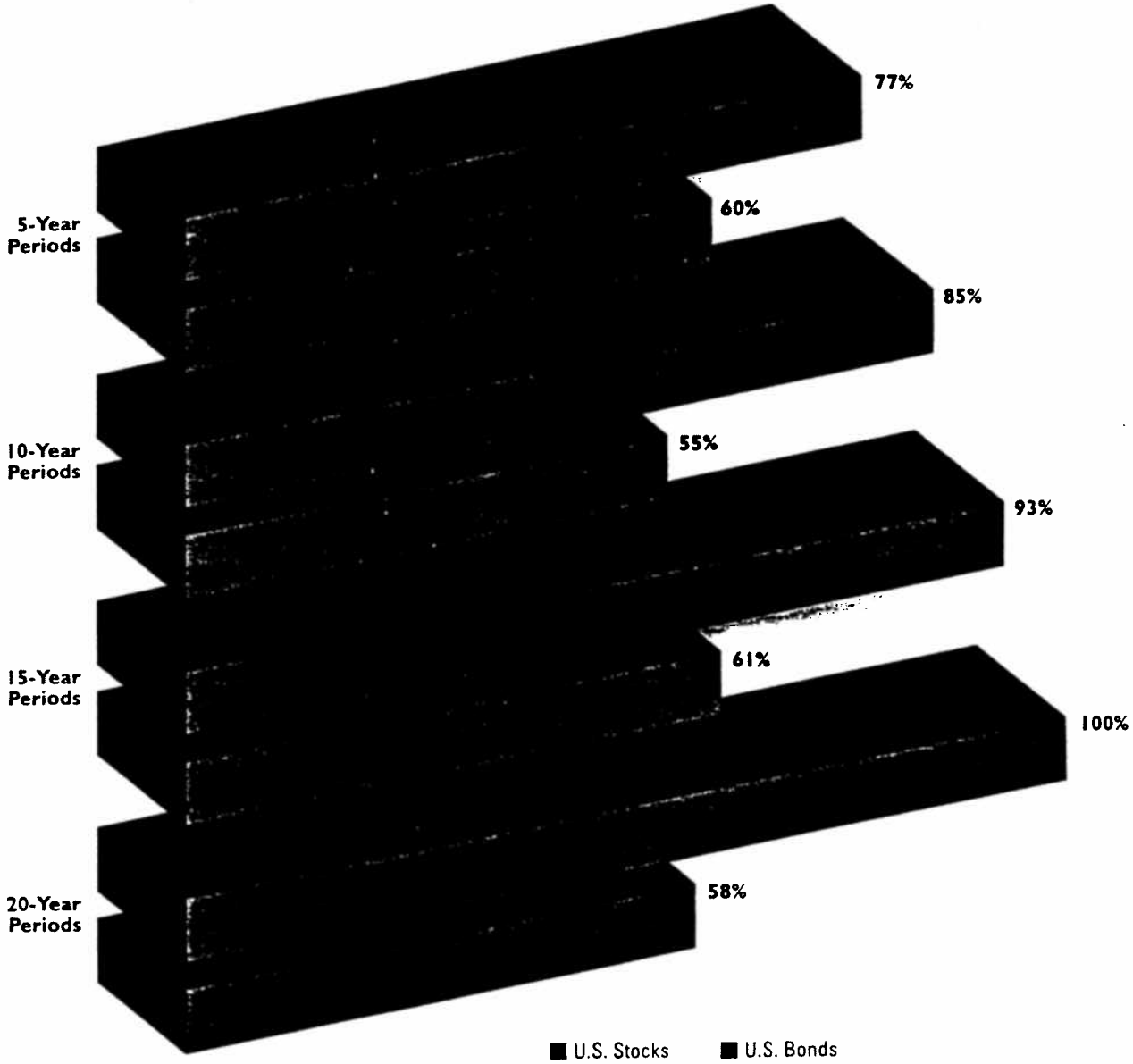
Funds that have the most stable values in the short term tend to provide lower long-term returns. If the rate of return on your investment is lower than inflation, prices will rise faster than the value of your savings, making your savings worth less. Funds that invest in "fixed income" instruments, like bonds, have less market risk because their prices tend to fluctuate less. But over the long term, they have a more difficult time outpacing inflation.

**If you are going to withdraw your money in the near future, you don't have to worry as much about inflation risk.**

The degree of risk does not indicate whether the investment is good or bad or what the outcome will be. Rather, it indicates the **potential** to fluctuate in value and whether it is **likely** to outperform inflation in the long run.

# How stocks and bonds perform against inflation

During longer periods (20 years or more), stocks have always outperformed inflation. During shorter periods (e.g., five-year spans), they outperformed inflation nearly 80% of the time. Over any time period, Treasury Bonds have had a tougher time outperforming inflation.




Percentage of time that U.S. stocks and U.S. bonds beat inflation for all five-, 10-, 15-, and 20-year periods, 1900-1997.
Source: Frank Russell & Co.

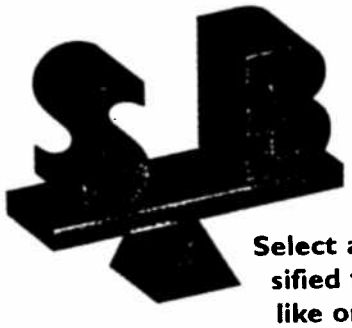
# Diversification: the risk tamer

Remember the adage about not putting all your eggs in the same basket? One way to minimize risk is to spread your investments over a broad range of assets that don't all move together. By spreading your investments over different types of assets, you have more opportunity for some investments to perform well if others perform poorly.

For example, investing in a stock fund that buys the stock of only one company or one industry sector, like utilities or technology, has a higher degree of risk than a fund that invests in many types of assets, or a broad range of stocks, like the Balanced Funds or the U.S. Stock Fund. But the more narrowly focused funds also have the potential to outperform other, more diversified investments.

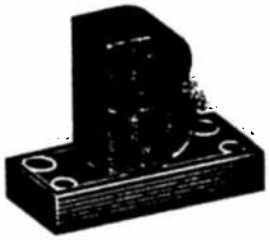
You can create your own recipe for diversification by choosing a Broad Strategy Balanced Fund, or by selecting several Focused Strategy funds or funds from more than one tier.

## Ways to diversify



**Select a diversified fund, like one of the Balanced Funds, and let the professionals make all the investment decisions.**

The Balanced Funds invest in a blend of stocks and bonds to achieve specific performance objectives. Any one of these funds is diversified enough to be your entire savings plan portfolio.



**Select a combination of different asset classes**

By investing in a combination of stock and bond funds, you have a greater likelihood of having some perform well when others are not.

**Select among several choices within the same asset class**

The various stock funds focus on different sizes of U.S. companies and on companies outside the United States. The bond funds invest for varying levels of risk.

# Putting it all together

By now, you probably have a better understanding of your own tolerance for risk. You've clarified your investment goals and thought about the length of time before you begin to withdraw the money. Together, these should help you decide how much market risk or inflation risk you can safely assume.

Remember to think about your entire investment picture when making any investment decision. Your total investment picture includes all of your Xerox-provided benefits and your own savings in the 401(k) savings plan, which your annual Value Added Statement reports in detail. Then factor in your personal savings and investments outside of Xerox. Don't forget to include your emergency savings, investment portfolios, real estate (including your home), and any life insurance policies and annuities.

Keeping your total investment picture in mind will help you make sound individual investment decisions when choosing your 401(k) savings plan fund allocations.

Investment funds generally have limits on the amount of any single stock that the fund can hold. This is done to prevent the fund from risking too much in a single stock. Even though there are no limits on how much you can invest in Company stock in the 401(k) savings plan, remember to think "big picture" and consider how much Company stock you already own through other plans before deciding to invest in the Xerox Stock Fund.

**A word to the wise**

If you decide to seek professional advice, here are a few more pointers. Make sure the fee-for-service investment planner you select has your needs in mind. Ask to see the fee schedule and make sure you are clear about how fees are charged.

**About investing in Xerox common stock**

As you think about how to allocate your payroll contributions in the 401(k) savings plan, there is an important point to consider about owning Xerox stock. Xerox provides various ways for you to participate in ownership of the Company. These include:

- The automatic deferral of 25% of your profit sharing contribution to the Xerox Stock Fund (beginning with profit sharing for 1999)
- Your 401(k) savings invested in the Xerox Stock Fund
- The 25% of your profit sharing paid in stock options
- Your account in the Employee Stock Ownership Plan (ESOP)

# Once I've made my decision, I can sit back and relax, right?

Well, not for long. It's a good idea to revisit your fund selections about once a year. Think of it as an annual investment checkup.

Much can change in a year that affects when you will need your savings. You could decide to get married. Have a child. Or start to save for future college tuition costs. The normal events of every day can affect how you allocate your savings contributions. Your once-a-year checkup is the time to step back and look at how life events might have changed your priorities. As your priorities change, so may your fund selections.

As part of your annual checkup, don't forget to take a look at your original percentage allocations and how fund performance during the year may have changed them. Fund performance can result in your allocations being out of proportion. If your original allocations are still valid, then it's a good idea to rebalance your funds so that your investment allocations remain in the right proportion.

As you can see, making investment decisions takes time and thought. But the investment of time is worth every minute. Building your retirement security is too important to take lightly. After all, it's your future.

# How the plans work

# 401(k) savings plan

## AT A GLANCE

One of the most important components of your total retirement income will be your personal savings. The 401(k) savings plan lets you save money before you pay taxes on it and accumulate earnings that remain untaxed until you take out the money. Tax-deferred saving has the potential to build wealth faster, because your savings contributions and their earnings grow without being taxed until you withdraw your funds.

You can save up to 18% of eligible pay through payroll deductions, depending on how much you earn. You can also save after-tax and enjoy tax-deferred earnings until you take out the money.

You have a range of investment choices in three tiers of funds.

**Tier I: Broad Strategy Funds** are diversified enough for any one of them to be one-stop shopping for your savings allocation.

- Balanced Fund—More Bonds
- Balanced Fund—Fifty/Fifty
- Balanced Fund—More Stocks

**Tier II: [illegible]** are six funds that invest in specific assets.

- Income Fund
- Enhanced Bond Fund
- U.S. Stock Fund
- International Stock Fund
- Small Company Stock Fund
- Xerox Stock Fund

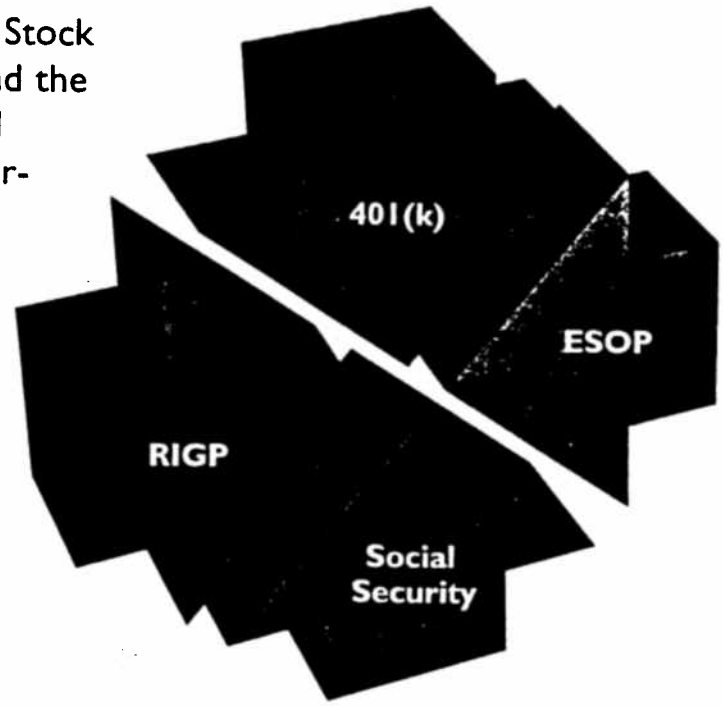
**Tier III: The Marketplace Window** gives you access to a variety of mutual funds.

Your accounts are valued daily and you can make transactions as often as you wish.

You have access to your money through certain loan and withdrawal provisions while you are employed.

## HOW IT WORKS

The 401(k) savings plan, a component of the Xerox Corporation Profit Sharing and Savings Plan, is one of the key elements of your total retirement benefits. The others are your Retirement Income Guarantee Plan (RIGP) benefit, your Employee Stock Ownership Plan (ESOP) account, and the amount you will receive from Social Security. Experts agree that your personal savings are essential to having enough money when you retire. One of the key ideas behind the *Total Pay* approach at Xerox is to give you a great deal of flexibility in how you use your benefits and the overall responsibility for using them effectively.




The 401(k) savings plan is designed to help you save over the long term for retirement. You may also use it for shorter-term goals, like borrowing from your account to pay for college tuition. When you participate in the plan,

- You can save money before you pay income taxes on it.

  Your savings are withheld from your pay before your federal income tax is calculated. That means your taxable income is lower, and so are your income taxes. Since you're paying less in taxes, you can save without missing all of the money.

- Your investment results are not taxed until a later date, when you withdraw your money.

  All of your earnings are reinvested in the plan so your money grows faster.

- You have a range of investment fund choices managed by highly qualified investment managers.
- Xerox has negotiated lower investment fees in many of the fund options.
- You can also save on an after-tax basis and your earnings will grow tax-deferred.
- You can enjoy the benefits of dollar-cost averaging by saving regularly through payroll deductions.

Each of these features alone can make your savings grow faster. Put them together and you have a powerful mechanism for building wealth.

## Who is eligible?

You are eligible to begin saving in the 401(k) savings plan as of your date of hire.

## Before-tax contributions

You can save up to 18% of your pay annually through payroll deduction, depending on how much you earn. The maximum amount is subject to limits set by federal regulations, which can change.

Before-tax contributions are deducted from your pay before income taxes are withheld. The amount you save directly reduces your taxable income. You invest your savings in a range of investments that you select, based on your personal goals.

Because you enjoy special tax advantages that are designed to help you save over the long term, access to your funds before you retire is limited.

### Saving before taxes makes a big difference

Saving before you pay income taxes helps you save more money with less impact on your take-home pay.

| | Before-Tax Savings | No Savings |
|---|---|---|
| Monthly Pay | $ 2,916.67 | $ 2,916.67 |
| Before-Tax Savings | – 116.67 | – 0 |
| Taxable Income | $ 2,800.00 | $ 2,916.67 |
| Federal Income Tax* | – 349.28 | – 391.00 |
| FICA | – 223.17 | – 223.17 |
| Pay Before Other Taxes and Deductions | $ 2,227.55 | $ 2,302.50 |
| **Difference in take-home pay** | **$74.95** | |

*Assumptions:
1997 tax estimates for a single person with one exemption, earning $35,000, saving 4% of pay, taking the standard deduction

**Pay yourself first:** If you were saving $117 a month, you would be kicking in only $75 a month. The other $42—almost 40% of your total savings—is money that would have gone to pay taxes at this salary level and savings rate. So you get to keep that money working for you until you retire or withdraw from the plan.

You're getting away much more than you'll miss in your take-home pay, making this a deal too good to pass up.

**Before-tax savings and profit sharing limits**
Federal regulations impose a limit on the *combination* of before-tax savings and the portion of the profit sharing payout you can defer into the 401(k) savings plan. This amount is subject to change each year, depending on inflation. In 1998, it is $10,000.

### Savings limits for 1998

The federal government imposes overall limits, which are subject to annual change, on how much you can save in the 401(k) savings plan. The maximum tax-deferred saving in 1998 is $10,000.

| Xerox Earnings | Before-Tax | After-Tax | Maximum Before- and After-Tax |
|---|---|---|---|
| Up to $80,000 | 18% | 18% | 18% |
| $80,000 or more | 10% | 1% | 11% |

# After-tax contributions

You can also save on an after-tax basis in the 401(k) savings plan. The earnings on your savings will grow tax-deferred as long as they remain in your account. You do not pay taxes on your after-tax contributions when you withdraw them. But you will owe income taxes on the money earned on those contributions when you withdraw your money. See page 58 for more information on how withdrawals from after-tax savings are taxed.

**Why make after-tax savings contributions?**
You might use after-tax savings if you have reached the before-tax maximum. With no taxes to pay on investment results until you withdraw the money, your wealth has the potential to grow faster. After-tax saving gives you easier access should you need some of your money, even though you must pay income tax on the earnings portion of your withdrawal. In most cases, you will also be liable for a 10% additional tax on the taxable portion of your withdrawal. The 10% tax does not apply if you are age 59½ or older, or if one of the exceptions listed on page 68 applies. You may be required to file IRS Form 5329 to avoid this additional tax.

# Other ways to use the 401(k) savings plan

You can defer the cash portion of any profit sharing payout into the 401(k) savings plan.

If you have a 401(k) plan from a previous employer, you can roll it over into the Xerox 401(k) savings plan. You can do this as a direct rollover from your previous employer, through a conduit IRA that has not been commingled with other funds, or by certified or cashier's check within 60 days of receiving the funds from your previous employer.

When you retire from Xerox, you can roll over a lump-sum distribution from the Retirement Income Guarantee Plan (RIGP) into the 401(k) savings plan and continue to manage your money in the plan, even though you have retired.

When you are eligible to diversify your ESOP account, you can invest the diversified amount in any of the funds in the 401(k) plan. For more information about diversifying your ESOP, see page 38.

**Nondiscrimination tests**

By law, Xerox must demonstrate that the 401(k) savings plan includes a fair mix of savings from all plan members and does not discriminate in favor of highly paid employees. At publication date, highly paid employees are defined under federal tax law as earning $80,000 or more. This definition is subject to change, based on increases in the Consumer Price Index and other criteria determined by the federal government. If you are a highly paid employee, your maximum savings rate will be reduced below the plan maximums for other employees. The Xerox Benefits Center will advise you of any adjustments to your maximum allowable savings rate.

# Investment choices

To accommodate the broad range of employees' investment needs and goals, Xerox provides three tiers of investment choices.

The funds are listed in order of increasing risk within each tier.

## About Tier I and Tier II funds

The funds in Tiers I and II were created exclusively for Xerox employees. The Xerox Trust Investments professionals establish the investment guidelines and select the investment managers for the funds. These professional money managers also manage segments of the Xerox pension funds, so your contributions are managed with the same professionalism and rigor as the Company's money.

The Xerox Trust Investments group may select multiple managers with complementary investment styles for each fund. Having more than one manager adds a level of additional diversification that may help to improve the fund's performance.

All funds must pay administrative expenses and investment management fees. Historically, Xerox has maintained significantly lower expense ratios than comparable mutual funds. For the funds in Tier I and Tier II, Xerox uses the combined purchasing power of the pension fund and the 401(k) savings plan funds to negotiate what are, in essence, wholesale management rates. Management fees are paid from fund earnings, so these lower fees are an important factor in the overall performance of your funds.

## Where to get more fund information

**The Xerox 401(k) Savings Plan Investment Funds Guide** accompanies *You and Xerox: WealthWise*; also available from the Xerox Benefits Center

**The Investment Funds Annual Report,** published by the Xerox Trust Investments group; mailed to you each year in March, or available from the Xerox Benefits Center

**The Xerox Benefits Center**
1-888-979-9961

**Your Benefits Resources,**
the Xerox benefits Web site
http://resources.hewitt.com/xerox

## TIER I: BROAD STRATEGY FUNDS

The Broad Strategy Funds are three variations of Balanced Funds. These funds are the most diversified of all the Xerox fund options. In fact, any of the Tier I funds has an investment strategy broad enough for one-stop shopping. You may pick your desired level of risk, and choose any one of them to be your total savings portfolio. The Balanced Funds invest in stocks of U.S. companies, international stocks, a variety of bonds and fixed income securities, money market instruments, and private investments. Each fund varies in its ratio of stock to bond holdings. This ratio gives each fund a different risk and return profile.

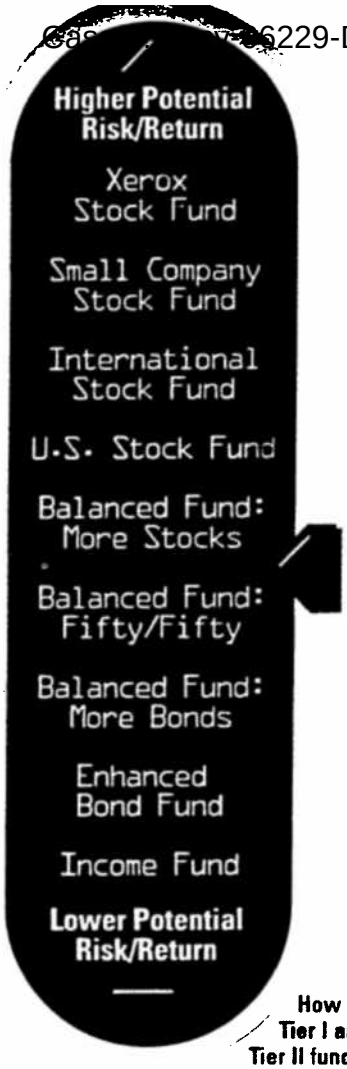
**Balanced Fund—Fifty/Fifty** targets an equal amount of assets in stocks and bonds. This fund has a moderate risk and should generate a return somewhere between the Balanced Fund—More Stocks and the Balanced Fund—More Bonds.

**Balanced Fund—More Bonds** targets about 30% of fund assets in stocks and 70% in bonds. This is the most conservative mix of the three Balanced Funds. It will generally produce a steadier return, but the return will probably be lower than the other two Balanced Funds.

**Balanced Fund—More Stocks** targets about 70% of fund assets in stocks and 30% in bonds. Of the three Balanced Funds, this one has the highest potential for short-term fluctuations in value. It also has potential for the highest returns of the three Balanced Funds. This is the original Balanced Fund in which the Xerox pension assets are invested.

## Caveat Emptor: Let the Buyer Beware!

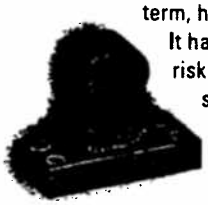
We've said it before, but it bears repeating. Funds selected from Tier III place more responsibility on you to monitor your investment choices. Although the Xerox Trust Investments Group monitors fund performance in this tier, these funds have not been created specifically for Xerox. The Trust Investments group does not establish investment management guidelines for these funds as it does for the Xerox funds, nor does it select or structure a mix of investment managers. Although the funds selected for this tier are highly reputable, indjviduals who participate in Tier III funds must be comfortable assuming more responsibility for watching over their investments. Xerox recommends that you read the prospectus for each fund to understand the fund's investment strategy, expenses, and permitted investments before investing.




How Tier I and Tier II funds rank in potential market risk and return

## TIER II: FOCUSED STRATEGY FUNDS

As the name implies, the six funds in Tier II focus on specific types of assets. One or more of these funds are best used in some combination with each other or with Tier I funds.



**The Income Fund** buys mostly short- to intermediate-term, high-quality bonds. It has a low short-term risk and relatively stable rate of return. It produces a lower long-term return than less conservative options.

**The U.S. Stock Fund** is a diversified portfolio of the stocks of large- and medium-sized U.S. companies. It has high long-term growth potential and moderate to large fluctuations in value in the short term.

**The Small Company Stock Fund** invests in stocks of businesses that are among the smallest 20% on the stock market. This fund has high long-term growth potential but may experience large fluctuations in value. It has greater potential for fluctuation than the U.S. Stock Fund.

**The Enhanced Bond Fund** is a diversified portfolio of bonds with an intermediate-term duration and a wider quality range than the Income Fund. About 30% of this fund is invested in high-yield, lower-quality bonds. It produces an anticipated higher long-term return than the Income Fund with slightly more risk.

**The International Stock Fund** is a diversified portfolio of the stocks of established companies based primarily in the economically developed countries within Europe and Asia. It has high long-term growth potential and moderate to large fluctuations in value. Currency movements are an added risk to this fund.

**The Xerox Stock Fund** invests only in Xerox common stock. Because this fund holds only Xerox stock, plus a small amount of cash for liquidity, it is not diversified and, therefore, involves special risks.

## TIER III: MARKETPLACE WINDOW

This window into the retail marketplace of mutual funds offers access to mutual funds outside of Xerox. The wide variety of mutual funds available includes a money market fund, index fund, and more stock and bond funds with a range of investment objectives. Fees and administrative expenses for many of the funds in the Marketplace Window may be higher than the fees for the funds in Tiers I and II.

To invest in funds in the Marketplace Window, you will need to speak with a representative at the Xerox Benefits Center. This representative can give you basic fund information and send you a prospectus. Be sure to read it before you invest. If you do not request a prospectus, one will be mailed to you as soon as you purchase shares in the fund.

# Fund valuations

The funds in the 401(k) savings plan are updated and valued every day that the New York Stock Exchange (NYSE) is open. Transactions placed before the NYSE closes (generally 4 p.m. Eastern time) will be executed at the prices in effect when the NYSE closes for that day. Transactions entered after the market close will be executed on the next market day, at that day's closing prices. The date your savings contributions are invested can vary; they are invested as soon as administratively possible.

Xerox policy prohibits employees from trading in Xerox common stock or any other Company securities. When you buy Company stock (other than exercising stock options), it should be for investment, meaning you intend to hold it for an indefinite period. Generally, you should not sell Company stock or transfer out of the Xerox Stock Fund for at least six months after you have invested in it.

**Checking your funds**

You can hear your balances and make transactions through the Xerox Benefits Center. And you can request a written Statement of Accounts at any time.

You also can access your fund balances and make transactions online at **Your Benefits Resources** Web site (http://resources.hewitt.com/xerox). You can access this site from any location where you have Internet access, whether from work, home, or another location.

Your Value Added Statement, which is mailed to your home each April, provides an annual summary of your accounts.

# Designating your beneficiary

You must designate a beneficiary to receive the value of your account in the event of your death. The Employee Retirement Income Security Act (ERISA) has established certain rules for married employees regarding designation of beneficiaries and how death benefits are paid. If you are married and designate someone other than your spouse as your beneficiary, you must have your spouse's written consent to do so. These rules are the same for the 401(k) savings plan as for the Xerox Retirement Income Guarantee Plan (RIGP) and the Employee Stock Ownership Plan (ESOP). They are described in more detail in "About your beneficiary" on page 41. Beneficiary designation forms are available from the Xerox Benefits Center.

# Loans and withdrawals

If you need access to your money before you retire or leave the Company, the 401(k) savings plan allows for loans and withdrawals from your savings and any profit sharing you have deferred into your savings account. After two years, the amount automatically deferred into the Xerox Stock Fund becomes available.

For more information, see the Loans and Withdrawals section on page 56 "Accessing your funds."

# How the plans work

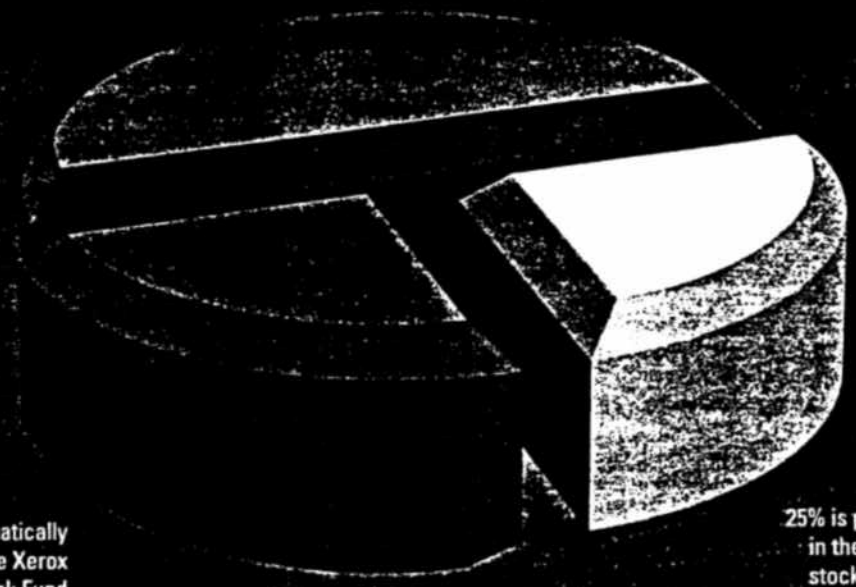
## AT A GLANCE

Profit sharing is a critical part of Xerox's *Total Pay* concept. It can add significantly to the total value you receive from the Company. It creates a link between your contribution to the Company's success and your compensation. And it gives you an ownership stake in Xerox through stock options and investments in the Xerox Stock Fund. You have the flexibility to make important decisions about how you receive the value of this important part of your total pay.

The profit sharing structure, effective in 1999, links the profit sharing contribution to growth in diluted earnings per share of Xerox common stock.

You receive your contribution in three components:

50% is paid to you in cash or—subject to IRS limits—you can defer all or a portion of this 50% into your 401(k) savings plan account



25% is automatically deferred into the Xerox Stock Fund

25% is provided in the form of stock options

The automatic deferral to the Xerox Stock Fund does not count toward your maximum contribution to the 401(k) savings plan.

Your stock options vest over three years (one-third each year). You can exercise them after they are vested. The exercise period expires eight years after the options are granted.

# Who is eligible?

You are eligible to participate in the program if you have completed one year of service. To receive profit sharing for a calendar year, in most cases, you must be working for Xerox on December 31 of that year.

For example, if you were hired on June 1, 1998, you would complete a full year of employment on May 31, 1999. You would then be eligible to **begin** participating in the program. Your first profit sharing contribution would be based on your eligible pay from June 1, 1999 through December 31, 1999.

Your eligible pay includes your base pay plus overtime, commissions, and certain bonuses and lump-sum wages (exclusive of lump-sum salary continuance payments and prior to any before-tax savings and/or salary redirection).

You are eligible for profit sharing (except for stock options) on eligible pay for the year in which you retire or die while employed. You are also eligible for profit sharing (except for stock options) on eligible Xerox pay for the year in which you transition to employment in a Xerox subsidiary or XNE (Xerox New Enterprises) entity.

Eligible employees qualify for profit sharing while they are on short-term disability (up to five months). Beginning with profit sharing for 1999 (payable in 2000), employees who are receiving long-term disability benefits are not eligible for profit sharing until they return to work. This change will apply to *all* employees receiving long-term disability benefits, regardless of when the disability began.

If you terminate prior to December 31, you are not eligible for profit sharing for that year.

# Calculating your contribution

The profit sharing contribution can range between 0% and 15% of your eligible pay. The amount is linked directly to the growth in diluted earnings per share (EPS) from the previous year. This amount may vary from year to year. If growth in EPS from the previous year is less than 5%, the profit sharing contribution is zero.

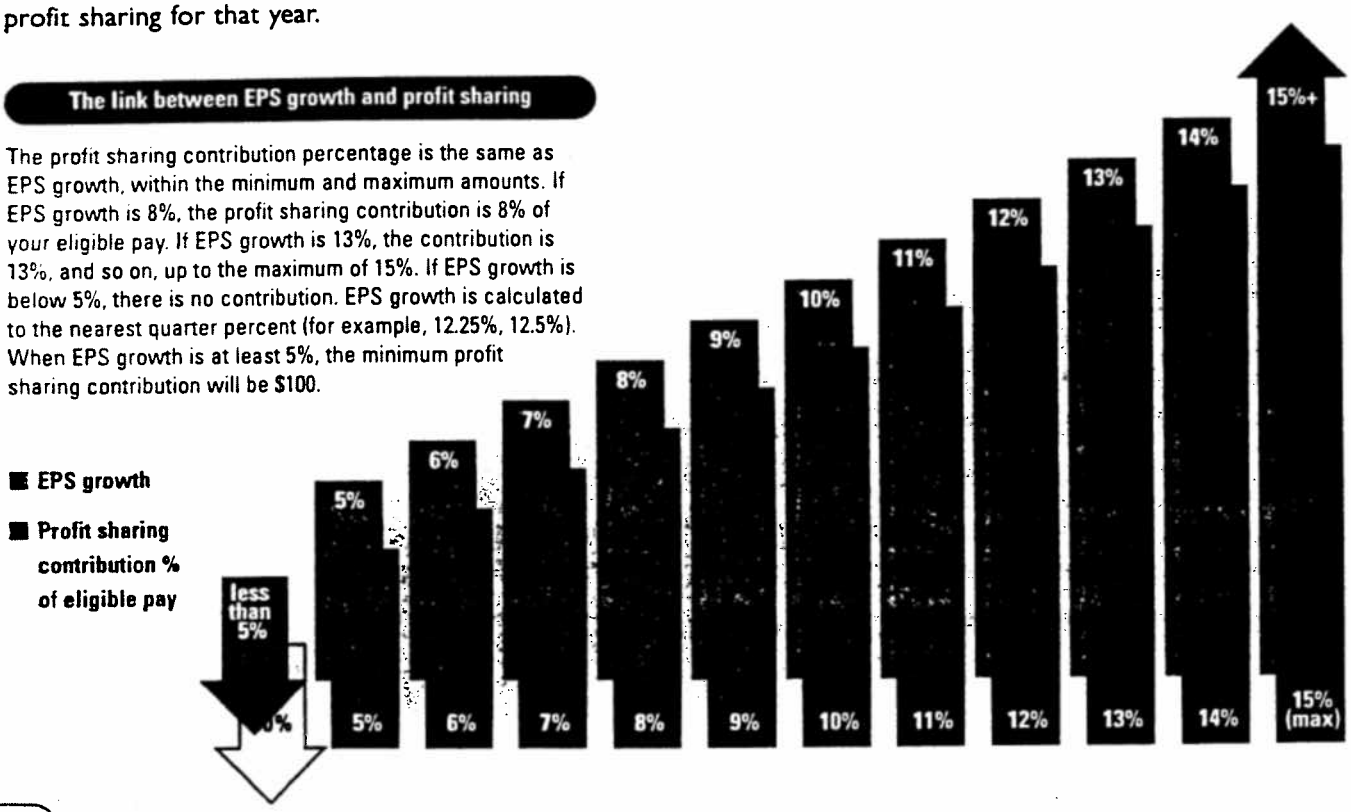
### Earnings Per Share (EPS)

EPS is a critical indicator of a company's strength and earnings ability, and of its ability to attract and reward investors. EPS provides a good reflection of Xerox' performance and our actions. It gives a clear snapshot of our work effort and results.

EPS is defined as net income divided by the number of diluted shares outstanding. The use of "diluted" shares in this calculation accounts for the existence of stock options and other securities that could become Company stock, which can affect the number of shares outstanding at any given point. The growth in diluted EPS is reported each quarter, as part of Xerox's earnings release.

**The link between EPS growth and profit sharing**

The profit sharing contribution percentage is the same as EPS growth, within the minimum and maximum amounts. If EPS growth is 8%, the profit sharing contribution is 8% of your eligible pay. If EPS growth is 13%, the contribution is 13%, and so on, up to the maximum of 15%. If EPS growth is below 5%, there is no contribution. EPS growth is calculated to the nearest quarter percent (for example, 12.25%, 12.5%). When EPS growth is at least 5%, the minimum profit sharing contribution will be $100.



**What affects EPS?**

EPS can increase when net income goes up. This might be the result of an increase in revenue or a decrease in expenses. It can also increase when the number of diluted shares outstanding goes down—such as when the Company repurchases some of its stock.

EPS can decrease when net income goes down, either as a result of decreasing revenue or increasing expenses. It can also decrease when the number of shares outstanding goes up—such as when a Company issues more shares of stock or stock options.

**Net income:** Xerox's profit from continuing operations after all expenses and taxes, exclusive of special charges

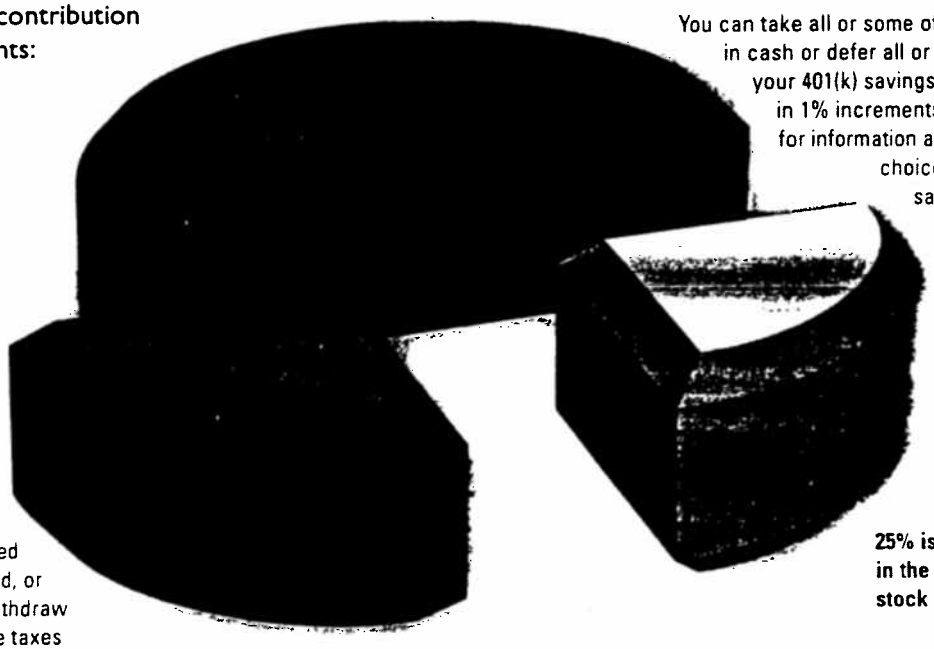
**Diluted shares outstanding:** the number of shares of Xerox common stock available, including stock options and other securities that could become stock

## How profit sharing is paid

Your profit sharing contribution has three components:

**50% is paid to you in cash or, at your election and subject to IRS limits, deferred into your 401(k) savings plan account**

You can take all or some of this portion in cash or defer all or some of it to your 401(k) savings plan account in 1% increments. See page 22 for information about your investment choices in the 401(k) savings plan.



**25% is automatically deferred into the Xerox Stock Fund**

This amount must remain invested in the Xerox Stock Fund for at least two years. After that, it can be invested in another fund, borrowed, or withdrawn. When you withdraw these funds, you will owe taxes on the money plus, in most cases, an additional 10% tax.

This automatic deferral into the stock fund does **not** count toward your maximum 401(k) savings plan contribution ($10,000 in 1998).

**25% is provided in the form of stock options**

The first two components are covered under the terms of the Xerox Corporation Profit Sharing and Savings Plan, which is a tax-qualified plan governed by the Employee Retirement Income Security Act (ERISA). Eligible pay for these two components is capped at the federal limit for qualified plans ($160,000 in 1998). Profit sharing on pay in excess of the limit will be paid in cash.

The stock options are provided under the terms of the 1998 Employee Stock Option Plan, which is not a qualified plan and is not subject to ERISA. There is no cap on eligible pay.

# About stock options

Stock options give you the right to buy shares of stock at a fixed price—the option price. The options remain in effect for eight years. This period is called the exercise period—the amount of time you have to exercise the stock options you receive as part of your profit sharing. The options expire at the end of this period.

After options are awarded, you become vested in the right to exercise them over a three-year period, at the rate of 1/3 each year. If you do not exercise your options by the end of the eighth year, they will expire.

Stock options are awarded only to employees who are actively at work. No options are awarded if you are on long-term disability or if you are receiving salary continuance. Nor will options be awarded for the year in which you retire or die. (Short-term disability does not affect your eligibility for stock options.)

**Definitions**

| | |
|---|---|
| **Exercise period** | eight years from the year of the award |
| **Vesting** | the right to exercise your options |
| **Vesting period** | up to three years—you become vested in 1/3 of your options each year |
| **Valuation date** | the date on which the option price is set; the valuation date for all Xerox stock options awarded to employees is December 31 (or the last trading day in the year, if earlier) |
| **Option price** | the price at which you may purchase Xerox stock; it is the average of the high and low prices of the stock on the valuation date |
| **Market price** | the market price of Xerox stock on the day you exercise your options |

### How stock options are granted

If your total profit sharing allocation is $6,000, you know that you'll get 50% ($3,000) in cash, which you can elect to defer to your 401(k) savings plan account. You also know that 25% ($1,500) will be automatically deferred to the Xerox Stock Fund. Finally, you know that you'll get another 25% of your profit sharing, or $1,500 worth, in stock options. But figuring out how many options you'll receive is not obvious.

There are a couple of different ways to calculate the number of options. First is the shortcut method, which is shown in the box below. For this example, the option price—the average of the high and low prices of the stock on the valuation date—is $100. (The option price is the price at which you may purchase Xerox stock when you are vested.)

**Shortcut method**

$$\frac{\text{Total Profit Sharing Allocation}}{\text{Option Price}} = \text{Number of Options Granted}$$

$$\frac{\$6{,}000 \text{ profit sharing allocation}}{\$100 \text{ option price}} = 60 \text{ options granted at } \$100 \text{ option price}$$

The second method involves two steps and a little more math, but it will help you understand how stock options are "valued." Xerox assigns a "value" to stock options, to determine how many options to award to eligible participants. For profit sharing options, Xerox "values" each option at 25% of the option price.

ANOTHER WAY

So here's the second formula for calculating the number of options awarded.

**Step 1**

| Option Price x 25% | = | "Value" of Each Option |
|---|---|---|
| $100 x 25% | = | $25 |

**Step 2**

$$\frac{\text{Profit Sharing Payable in Stock Options}}{\text{"Value" of Each Option}} = \text{Number of Options Granted}$$

$$\frac{\$1{,}500 \text{ profit sharing payable in stock options}}{\$25} = \text{60 options granted at \$100 option price}$$

Both methods give the same answer—60 options to purchase Xerox stock at $100 a share. The shortcut method works because the total profit sharing allocation is four times the amount payable in stock options, and the option price is four times the "value" of each option.

**Rounding**

Fractional options are rounded by adding 0.5 and dropping the remainder. For example:

22.57 options + 0.5 = 23.07 rounds to 23

22.34 options + 0.5 = 22.84 rounds to 22

**Cashing in**

Let's say you received 60 options with an option price of $100. Three years later, when you decide to exercise half of your options, Xerox common stock is selling for $140 a share. You exercise 30 options at $140. You make $40 a share, for a total of $1,200. You will owe federal taxes on this gain.

### Earning money from stock options

If the price of Xerox common stock goes up, you benefit from options when you exercise them—when you buy and sell, or buy and hold, the stock. Your gain is the difference between the market price of the stock and the option price. You profit from the difference. You can exercise your options any time after you are vested in them, until they expire.

All stocks fluctuate in price. If the stock price falls below the option price, there is no value to the stock option.

Although Xerox common stock has increased in value in the recent past, there is no guarantee that it will continue to do so. For more information about understanding stocks and how they perform, see "Making the plans work for you," beginning on page 4.

**Exercising stock options**

When you exercise your options, you can do so in a "cashless" transaction.

When you exercise them in this way, you are in effect buying shares and immediately selling them. A broker handles the transaction for you and charges a nominal fee for this service. Your profit equals the difference between the market price and the option price, minus the broker's fee and taxes. A brokerage firm serves as the stock option administrator for Xerox.

If you choose, you can also use your own funds to purchase and sell the shares or purchase and hold the shares. If you buy and hold the shares, you must also pay applicable taxes from your own funds.

The following table shows how options vest and accumulate over time. After the eighth year, a certain number of options will expire each year if they are not exercised.

**Accumulating ownership**

| Grant Year | Employee Earnings | Stock Options Granted | Option Price | Year 1 1999 Options Vested | Year 2 2000 Options Vested | Year 3 2001 Options Vested | Year 4 2002 Options Vested | Year 5 2003 Options Vested | Year 6 2004 Options Vested | Year 7 2005 Options Vested | Year 8 2006 Options Vested | Year Options Expire |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1999 | $40,000 | 40 | $100 | 0 | 13 | 27 | 40 | 40 | 40 | 40 | 40 | 2006 |
| 2000 | $42,000 | 38 | $110 | | 0 | 13 | 26 | 38 | 38 | 38 | 38 | 2007 |
| 2001 | $44,100 | 36 | $121 | | | 0 | 12 | 24 | 36 | 36 | 36 | 2008 |
| 2002 | $46,305 | 35 | $133 | | | | 0 | 12 | 24 | 35 | 35 | 2009 |
| 2003 | $48,620 | 33 | $148 | | | | | 0 | 11 | 22 | 33 | 2010 |
| 2004 | $51,051 | 32 | $161 | | | | | | 0 | 11 | 22 | 2011 |
| 2005 | $53,604 | 30 | $177 | | | | | | | 0 | 10 | 2012 |
| 2006 | $56,284 | 29 | $195 | | | | | | | | 0 | 2013 |
| Total Stock Options Vested | | | | 0 | 13 | 40 | 78 | 114 | 149 | 182 | 214 | |
| Stock Price at Beginning of Year | | | | | $110 | $121 | $133 | $146 | $161 | $177 | $195 | |

**Assumptions:**

Eligible earnings: $40,000
Annual pay raise: 5%
Rate EPS grows annually: 10%
December 31, 1998 common stock price: $100
Annual stock price growth: 10%
1999 grant based on the profit sharing structure effective in 1999, not 1998 transition.

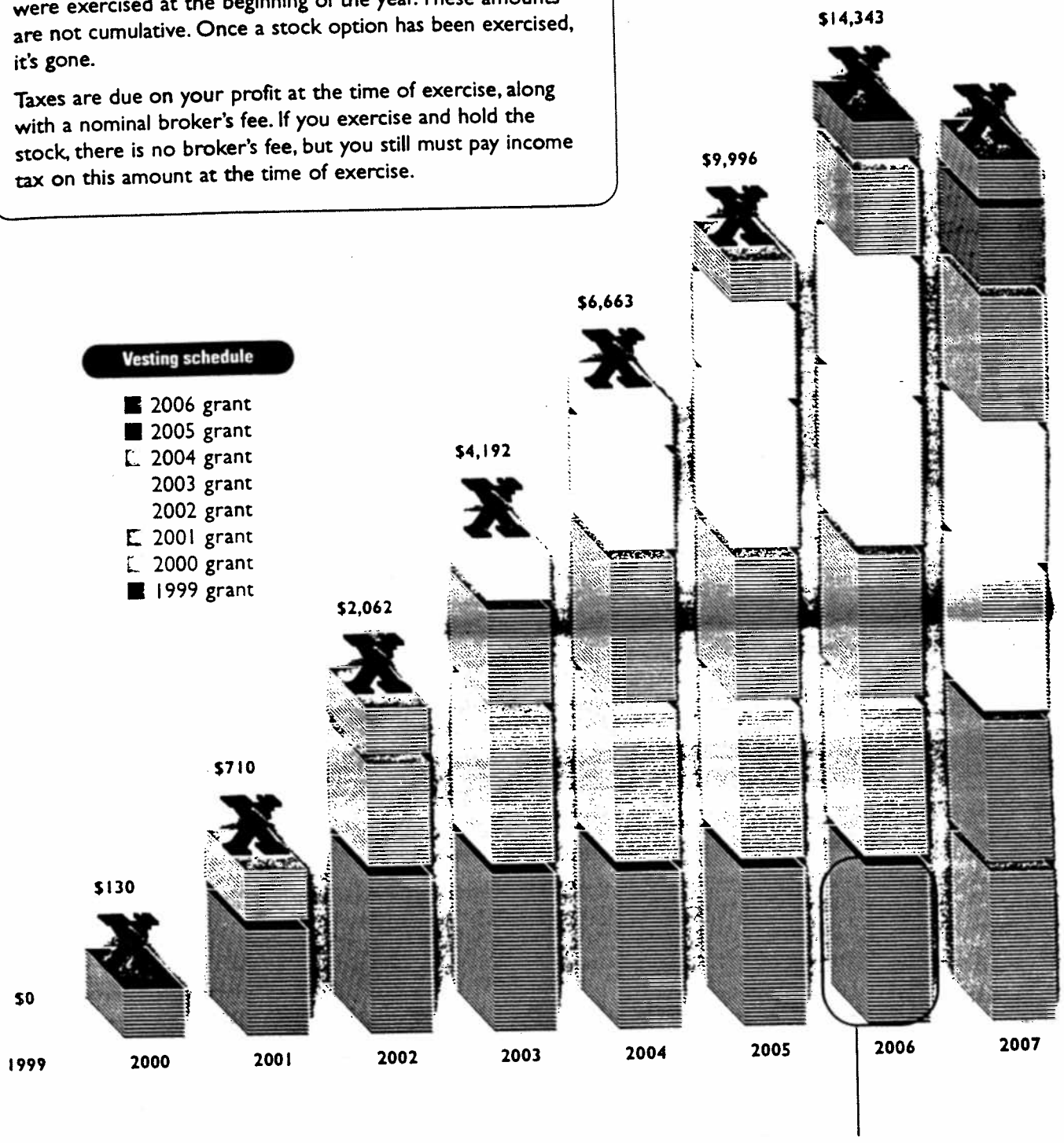
In this example, by year eight, the employee has accumulated 214 options that can be exercised at a market price of $195 per share.

The chart on the next page shows the options "piling up" as they vest.

## Vesting in your options and exercising them

This chart shows how options awarded from 1999 to 2006 vest through 2007. The dollar amount at the top of each column shows the gross profit if all the vested options were exercised at the beginning of the year. These amounts are not cumulative. Once a stock option has been exercised, it's gone.

Taxes are due on your profit at the time of exercise, along with a nominal broker's fee. If you exercise and hold the stock, there is no broker's fee, but you still must pay income tax on this amount at the time of exercise.

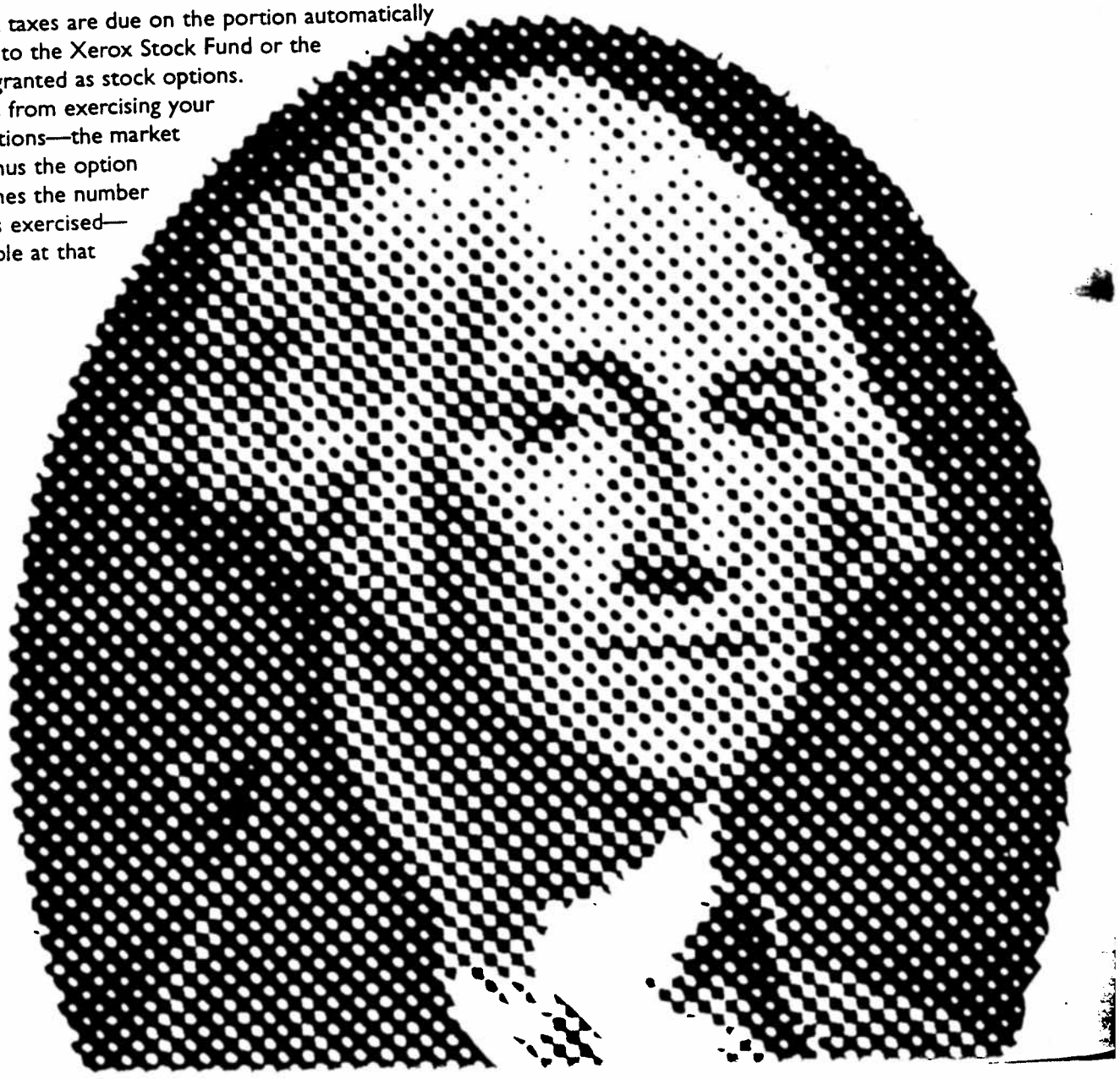


# Tax withholding

The full amount of the 50% of your profit sharing contribution that you take in cash or defer to your 401(k) savings plan account is subject to FICA withholding (currently 7.65%), whether or not you defer any or all of it to your 401(k) savings plan account.

If you choose to split the cash portion of your profit sharing contribution by deferring some to your 401(k) savings plan account and taking the balance in cash, the entire amount of FICA due on the cash and deferred portion will be withheld from your cash payout. This allows you to invest the full amount you deferred. You will owe income taxes on the amount you receive in cash. But deferred amounts are not subject to federal income tax until you withdraw them.

No FICA taxes are due on the portion automatically deferred to the Xerox Stock Fund or the portion granted as stock options. Proceeds from exercising your stock options—the market price minus the option price, times the number of shares exercised—are taxable at that time.



# When you leave Xerox or go on long-term disability

If you leave Xerox prior to December 31, you are not eligible to receive profit sharing for the year in which you terminate. When you retire, you will be eligible for a prorated profit sharing contribution (except for stock options), if any, for the year you retire, even if you do not stay to the end of the year. If you die while actively employed at Xerox, your properly designated beneficiary will receive your profit sharing contribution (except for stock options), if any, for the year of your death. The profit sharing contribution in the year you retire or die will be based on your eligible earnings for the year to the date of your death or retirement.

Beginning with profit sharing for 1999 (payable in 2000), long-term disability benefits are not eligible for profit sharing. This change applies to all employees on long-term disability, regardless of when the disability began.

If you become disabled, your profit sharing contribution will be based on your earnings up until you begin receiving payments from Xerox Long-Term Disability (after five months). Payments under long-term disability are not eligible for profit sharing. For example, if you become disabled on March 1, your five months of pay under Xerox Short-Term Disability (March through July) are eligible for profit sharing. Payments beginning August 1 under long-term disability are not eligible if you are currently receiving long-term disability benefits. You will not be eligible for profit sharing contributions until you return to work.

If your disability continues and you go on "inactive status without Xerox pay or benefits," your participation in profit sharing ends. If you are retirement eligible (age 55 with 10 years of service), you have 12 months to exercise your vested options—or until the options expire, if sooner. Otherwise, you have three months to exercise your vested options—or until the options expire, if sooner. See page 30 for more information.

**Accessing your funds**

For information about how to access your funds, see page 55.

# Designating your beneficiary

You must designate a beneficiary to receive the value of your account in the event of your death. The Employee Retirement Income Security Act (ERISA) has established certain rules for married employees regarding designation of beneficiaries and how death benefits are paid. These rules apply only to the components paid through the Xerox Corporation Profit Sharing and Savings Plan. They are described in more detail in "About your beneficiary" on page 41. Forms are available from the Xerox Benefits Center.

**1998: A transition year**

Nineteen ninety-eight is a transition year between the former plan and the new profit sharing structure. Special rules apply to 1998 before the new structure takes effect in 1999.

For 1998, you will receive half of your profit sharing contribution in cash, which you can defer to the 401(k) savings plan, as before. The other half will come to you in the form of stock options. The 1998 profit sharing contribution will be the final year that the contribution is determined by Return on Assets. The previous plan maximum of 10% of covered compensation will remain in place for the 1998 contribution.

If you retire in 1998, a special contribution structure applies only for that year. You will receive a profit sharing contribution of 50% in cash or deferred to the 401(k) savings plan, and the remaining 50% in cash in lieu of stock options.

Reminder: For 1998, 50% of your profit sharing payout will be in stock options, not 25%. If you use the shortcut method to estimate the number of options you'll receive, remember to multiply by 2.

For example, if the 1998 profit sharing contribution is 10%, your eligible pay is $36,000, and the option price is $100, you'll receive 72 options.

$$\left(\frac{\$3{,}600}{\$100} \times 2 = 72\right)$$

# How the plans work

# Employee Stock Ownership Plan

## AT A GLANCE

Xerox provides the opportunity to own Company stock and participate in the Company's financial performance through the Employee Stock Ownership Plan (ESOP). This plan provides an additional source of retirement income paid entirely by Xerox.

Under the plan, you become a Xerox shareholder through the shares of Xerox Series B convertible preferred stock that are set aside in your name. The ESOP is designed as a long-term savings plan, so shares are held in your account until you retire or leave the Company, or diversify your account. For more information about the diversification election, see page 38. One share of ESOP stock converts to three shares of Xerox common stock at the time of distribution, because of the three-for-one stock split in 1996.

You receive stock in two ways:

- A priority allocation pays the dividends earned by the shares in your account. ESOP stock pays a dividend of $6.25 per year.
- A pay-based allocation is made after the priority allocation.

Your ESOP shares have a "floor" price of $78.25 per share. They are never worth less. But they can be worth more. When you settle with the plan at retirement or termination, your distribution will be the greater of the minimum value or the current market value, based on three times the price of Xerox common stock for every share of ESOP stock.

## Who is eligible?

You are eligible to participate in the plan on the day after you complete one year of service.

For example, if you joined Xerox on June 1, 1998, you would be eligible to participate in the plan on June 1, 1999. Your first ESOP award would be a pay-based allocation, based on your eligible pay from June 1, 1999 through December 31, 1999. In subsequent years, you would receive the priority allocation (see below) and any pay-based allocation.

You receive the value of your account when you leave Xerox if you have at least five years of vesting service. If you have less than five years of service and you leave Xerox, you forfeit the value of your account.

## How your ESOP account grows

The plan was created in 1989 with about 10 million shares of Series B convertible preferred stock to be allocated over a 15-year period. Each year, the plan releases a portion of ESOP stock to be allocated to employee accounts. Employees who retire or die receive prorated allocations for the year in which they retire or die. Employees who transition to a Xerox subsidiary or XNE entity are also eligible for prorated allocations. Otherwise, you must be employed by Xerox on December 31 to receive that year's pay-based allocation.

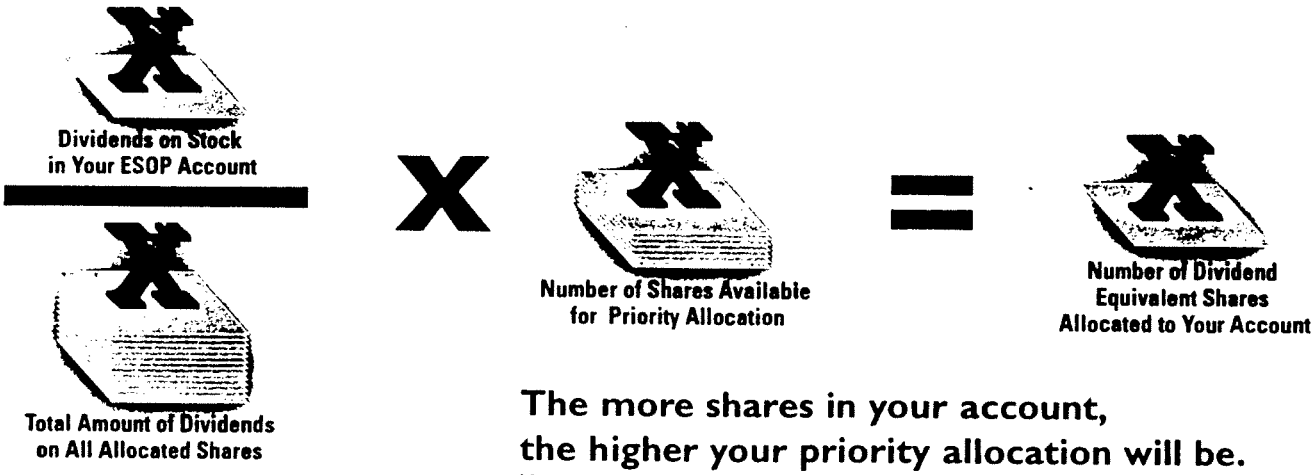
Beginning with the allocation for 1999, employees who are on long-term disability are not eligible for pay-based allocations.

Allocations are made to your account in two ways.

### Priority allocations

Each share of ESOP stock pays a dividend of $6.25 per year. The dividends that the shares in your account earned during the previous year are paid in more shares. The term *priority allocation* means that these shares are allocated before any pay-based allocations are made.

The number of shares in your priority allocation is determined by a formula. First, the dividends earned by the stock in your ESOP account are divided by the total dividends earned on the stock in all participants' accounts. Then, this fraction is multiplied by the total number of shares available for the priority allocation. The result is the number of shares allocated to your account.



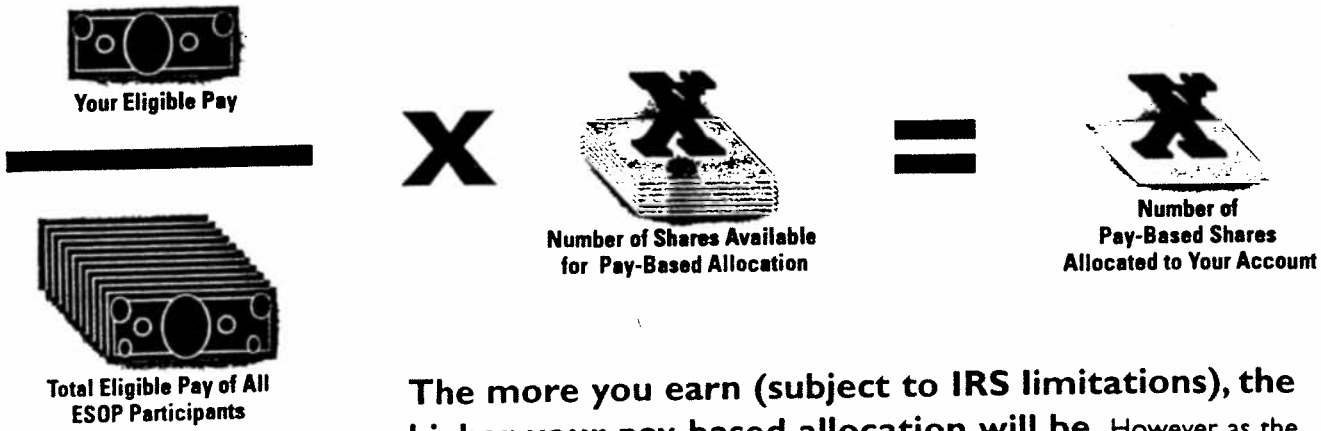

**The more shares in your account, the higher your priority allocation will be.**

If you defer settlement of your ESOP account when you terminate or retire, your account will continue to earn dividends and receive priority allocations.

**Pay-based allocations**

After the annual priority allocation, Xerox makes an allocation to your account based on your pay.

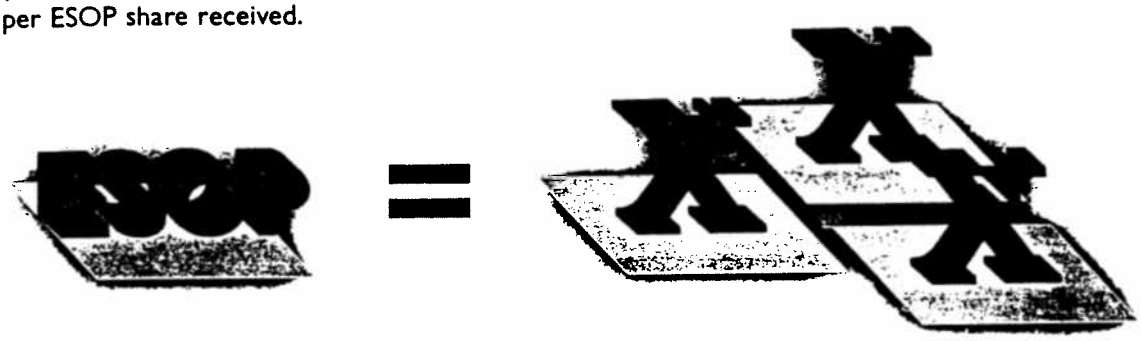
The number of Series B convertible preferred shares allocated to your account will be determined by a formula. First, your eligible pay is divided by the total pay of all Xerox ESOP participants. This fraction is multiplied by the total number of shares available for pay-based allocation. The result is the number of shares allocated to your account.




**The more you earn (subject to IRS limitations), the higher your pay-based allocation will be.** However, as the number of shares in employee accounts grows, a greater percentage of the total available shares will be used to meet the priority allocation. This means that each year, fewer shares will be available for the pay-based allocation. Pay for determining plan benefits is capped at the federally mandated limit ($160,000 in 1998) for qualified plans.

## The value of your account

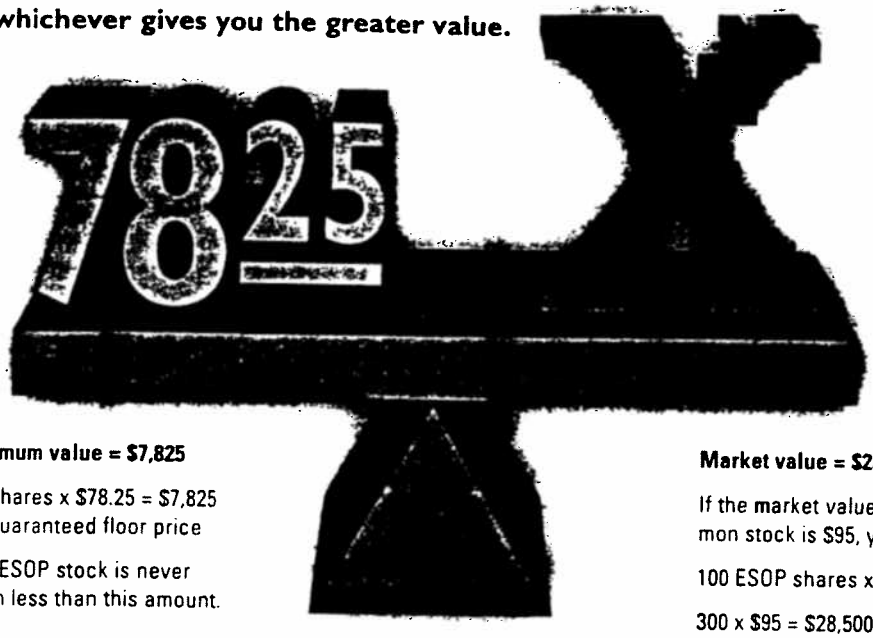
Each share of ESOP stock has a guaranteed "floor price" of $78.25. Your shares of ESOP stock will never be worth less than this amount. Each year, as you receive more shares, your account value grows by at least $78.25 per ESOP share received.



While each share's value cannot go below $78.25, it can be higher. If the price of three shares of Xerox common stock is greater than $78.25 when you leave Xerox, you receive this greater value. (Remember that one ESOP share is convertible to three shares of Xerox common stock.)

**The following example, based on having 100 ESOP shares in your account, shows how your distribution would be made, by comparing the minimum and market values of your account.**

**You receive whichever gives you the greater value.**




**Minimum value = $7,825**

100 shares x $78.25 = $7,825 the guaranteed floor price

Your ESOP stock is never worth less than this amount.

**Market value = $28,500**

If the market value of Xerox common stock is $95, you would receive

100 ESOP shares x 3 = 300

300 x $95 = $28,500

1 ESOP share = 3 shares of Xerox common stock

**If you elect to receive your distribution in shares of Xerox common stock**

You receive 100 x 3 = 300 shares

The value of your account increases with the value of Xerox common stock, so you have an important stake in increasing the stock's value. Over time, its growth can increase the value of all the shares in your account. The value of your account also increases with each year's allocation. And you pay no taxes on your account's value until you receive it.

## Stock rights

Only the trustee can hold ESOP stock. You cannot access the ESOP stock in your account. But as a plan participant, you are entitled to instruct the trustee how to vote the shares allocated to your account and whether to tender or exchange these shares in any tender or exchange offer.

Each year, prior to the annual meeting of shareholders, you will receive a proxy ballot. You use it to instruct the trustee how to vote your allocated shares on all proposals to Xerox shareholders. If you fail to instruct the trustee how to vote, the trustee will vote the shares in your account for you. The trustee will vote your shares—and all other unvoted and unallocated shares—in the same proportion as participants voted their allocated shares. This proportional voting means that Xerox employees control the voting of all Series B convertible preferred shares held in the ESOP.

In the event of a tender or exchange offer for Series B convertible preferred stock, you are entitled to instruct the trustee whether or not to tender or exchange the shares. In the event you do not instruct the trustee, you will be deemed to have elected not to tender or exchange, unless otherwise required by law.

# Diversification election

As you near retirement, the federal government allows you to diversify your ESOP holdings. When you turn age 55 and have ten years of participation in the ESOP, or any time within five consecutive years after this occurs, you may have 25% of your account value distributed to you while you continue to work at Xerox. The first year that participants will have 10 years of participation is 1999.

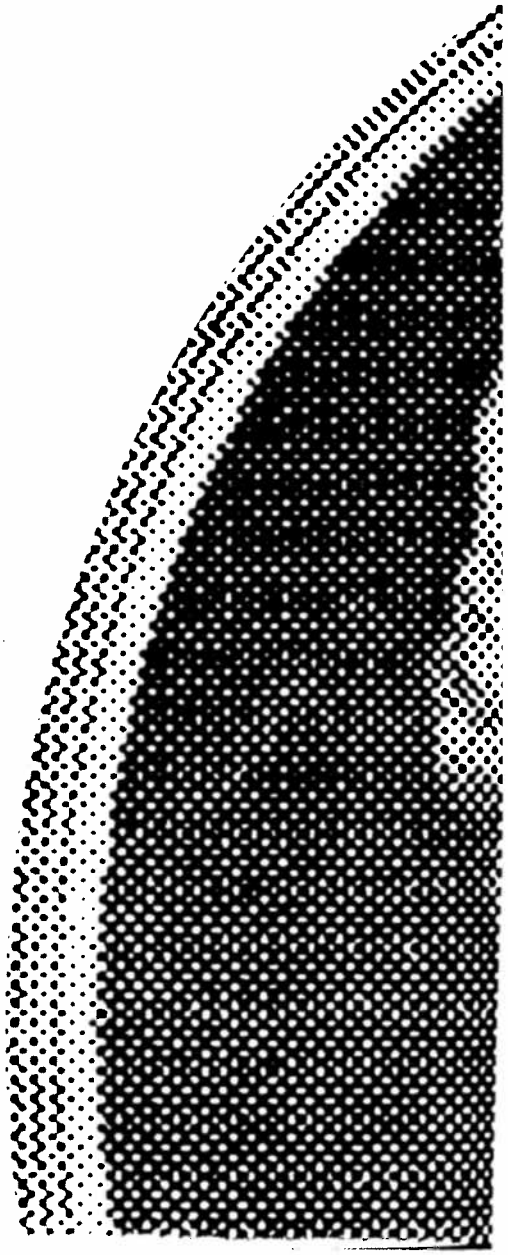
During the fifth year, eligible participants may elect to diversify an additional 25%, for a total of 50%.

You can diversify into the Xerox 401(k) savings plan and invest in the fund of your choice, as a way to continue to postpone taxes. Or you can elect to receive a lump sum (eligible for rollover to an IRA) or shares of Xerox common stock. If you take cash or shares of Xerox common stock, you will be liable for taxes on the diversification distribution.

This provision gives you added flexibility to diversify and manage your financial resources as you get closer to retirement. Any cash or stock distribution that is not rolled over is taxable in the year it is made. You must elect this diversification within the first 90 days of any plan year after you become eligible to diversify. Diversification transactions will be processed by the Xerox Benefits Center only during this 90-day period.

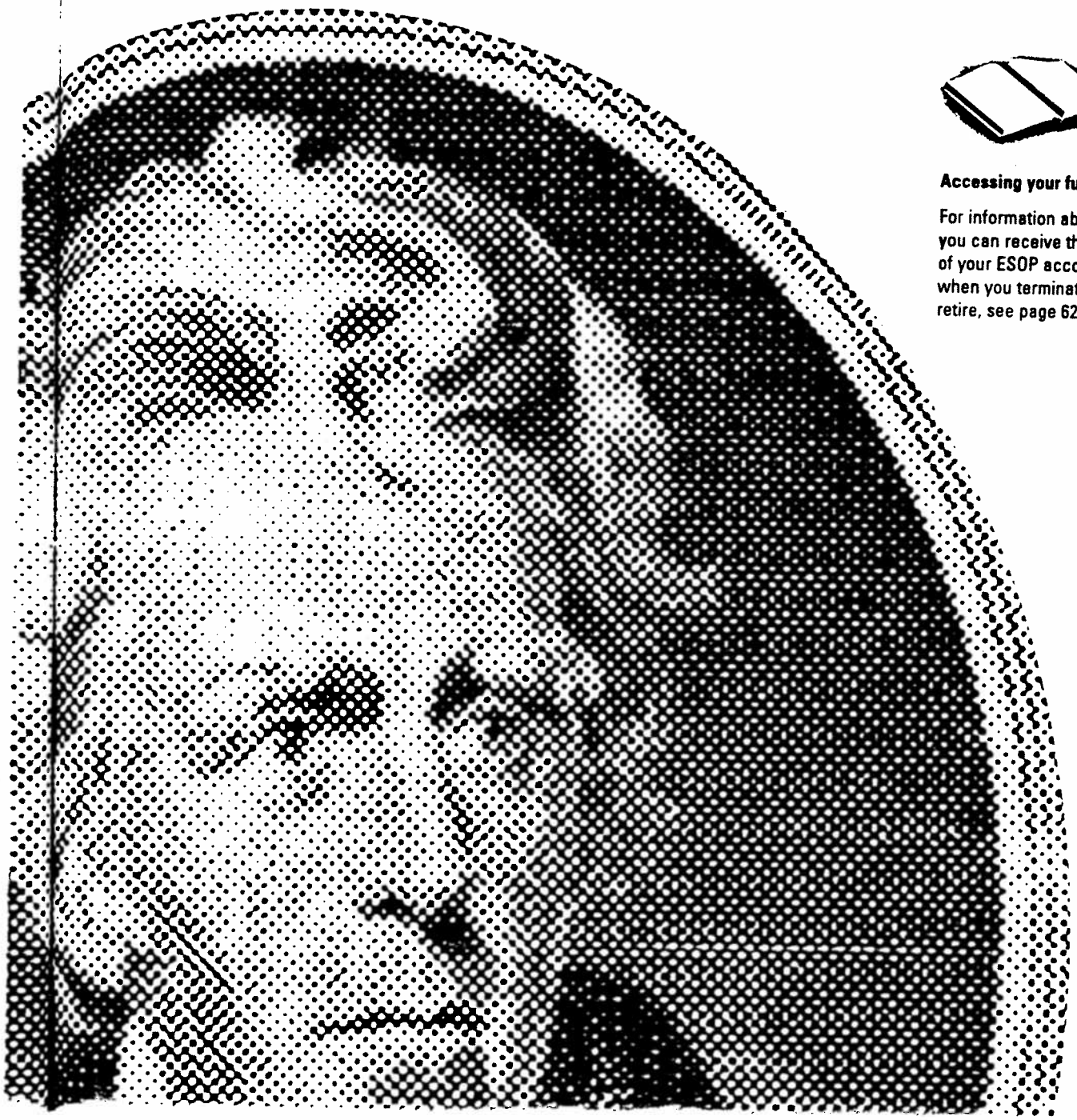
# Federal limits

The ESOP is a qualified plan and is subject to federal contribution limits and nondiscrimination requirements. Pay in excess of the federal limit ($160,000 in 1998) is not eligible for contributions under the terms of the ESOP.



# Designating your beneficiary

You must designate a beneficiary to receive the value of your account in the event of your death. The Employee Retirement Income Security Act (ERISA) has established certain rules for married employees regarding designation of beneficiaries and how death benefits are paid. If you are married and designate someone other than your spouse as beneficiary, you must have your spouse's written consent. These rules are described in more detail in "About your beneficiary" on page 41. Forms are available from the Xerox Benefits Center.



**Accessing your funds**

For information about how you can receive the value of your ESOP account when you terminate or retire, see page 62.

# How the plans work

# Retirement Income Guarantee Plan

## AT A GLANCE

The Xerox Retirement Income Guarantee Plan (RIGP) is the Xerox pension plan, designed to provide you with a foundation of income during your retirement. It is a defined benefit plan with an individual account feature. Your pension benefits are supplemented by your Social Security benefits, your ESOP account, and your savings in the 401(k) savings plan. You do not make any contributions to your retirement benefit under RIGP.

Your benefit is based on your pay and your years of benefit service. Xerox looks at several ways to calculate your benefit and gives you the one that yields the highest result.

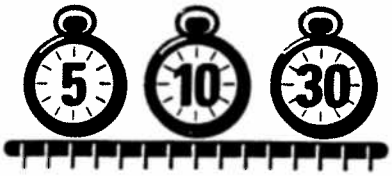
- The retirement plan formula is based on the average of your five highest-paid calendar years and your years of benefit service.
- The Cash Balance Retirement Account is an account to which Xerox makes annual employer credits equal to 5% of your eligible pay. It earns annual interest, which is credited daily.
- If you were hired before 1989, you may also have a Transitional Retirement Account. The value changes daily, based on the investment results of the funds in which your account was invested as of December 31, 1989.

Normal retirement is defined as retirement at age 65. You can take early retirement between ages 55 and 65 if you have at least 10 years of vesting service.

You have a number of options for taking your distribution. You may take a lump sum in cash and pay the taxes due, or you can roll it over into the 401(k) savings plan and continue to defer taxes. You can choose an annuity to provide a regular monthly income for your lifetime. If you are married, the normal form of payment is a 50% joint and survivor annuity; any other form of payment requires spousal consent.

# Who is eligible?

If you are an employee of a Xerox participating organization, you start earning vesting service and benefit service as of your first day of work. Xerox pays the entire cost of providing your retirement income under RIGP.




At five years, when you become vested in your plan benefit

At 10 years, which is required for retirement eligibility (you must also be at least 55 years old to retire)

At 30 years, which can affect the reduction for early retirement

**Vesting service**

*Vesting service* is defined as time worked for the Company that counts toward eligibility to receive a benefit and eligibility for retirement. Vesting service is important at three different times as shown to the right.

## Benefit eligibility

When you have completed five years of vesting service, you are entitled to a benefit from the plan. You are eligible to retire when you have reached age 55 and completed 10 years of vesting service. Normal retirement is the first day of the month after you reach age 65. If your 65th birthday falls on the first of the month, your normal retirement falls on that day. There is no mandatory retirement age.

**Benefit service**

*Benefit service* is defined as all of your years of active employment with Xerox. It does not include certain leaves of absence, times you did not work for the Company, and service as a contract employee. Time worked at Xerox as a contract employee will count toward vesting, but will not count as benefit service. Benefit service is used in calculating the retirement plan formula.

You become fully vested in your RIGP benefit at age 65, regardless of your years of vesting service.

For information about how vesting service and benefit service are calculated when you left Xerox and were subsequently rehired, see "Reemployment" on page 49.

## About your beneficiary

The Employee Retirement Income Security Act (ERISA) has established certain rules for married employees regarding designation of beneficiaries and how death benefits are paid.

- If you are under 35 years old and married, your spouse is automatically your beneficiary.
- After you reach age 35, you may designate someone other than your spouse as your beneficiary, but you must have your spouse's written and notarized consent to do so.
- If you are married and designate someone other than your spouse as your beneficiary without having obtained your spouse's consent, this designation is invalid. You must complete a new beneficiary designation form with your spouse's written, notarized consent. Contact the Xerox Benefits Center for forms and more information.
- If you die prior to retirement, your spouse has an automatic right to 50% of any retirement income supplement that would have been payable to you had you retired the day before your death. (The retirement income supplement is the difference between the higher of your Cash Balance or Transitional Retirement Account and the retirement income produced by the retirement plan formula, when the retirement plan formula benefit is higher.)

# Calculating your benefit for the best result

The Xerox Benefits Center calculates your benefit several ways, and selects the one that pays you the most money. Your benefits will be calculated according to the following methods, including a special formula if you have exceptionally long service.

### The retirement plan formula

The formula uses your average eligible pay during your five highest-paid calendar years with Xerox and your years of benefit service.

In calculating your highest-average pay, the plan only considers annual amounts up to a federally mandated limit, which is $160,000 in 1998. This limit is subject to change.

Your eligible pay includes your annual base salary plus overtime, commissions, certain bonuses, and lump-sum wages (exclusive of lump-sum salary continuance payments and prior to any before-tax savings and/or salary redirection).

**You must have worked on the last day of the year for that year's pay to be used in your highest-average pay.**

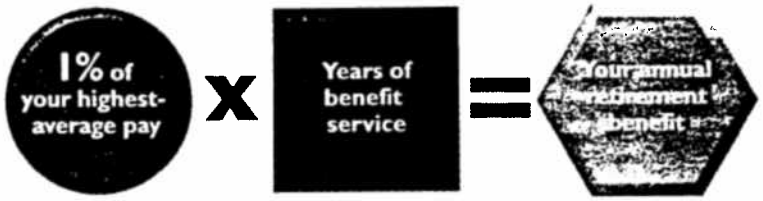
**Highest-average pay**

To calculate your highest-average pay, find the five complete calendar years of employment with Xerox (after 1974) during which your pay was highest. The years need not be consecutive. The average pay of these five years is used in the formula.

**Your highest-average pay is shown each year in your Value Added Statement.**

### Alternative method for long-service employees

If you have exceptionally long service, this alternative method may produce a higher benefit. It does not limit your years of benefit service to 30.



Here are three examples of how the retirement plan formula benefits would be calculated, based on age and years of benefit service at retirement.

**Retirement at age 65 or older with 30 or more years of benefit and vesting service**

| Normal Retirement | |
|---|---|
| Highest-average pay $36,000 x 1.4% | $ 504 |
| Years of benefit service | x 30 |
| Annual retirement benefit from Xerox | $15,120 |

Your annual retirement benefit will be supplemented by the value of your ESOP account, your savings in the 401(k) savings plan, and Social Security.

**Retirement at age 65 or older with less than 30 years of benefit and vesting service**

| Calculated the Same As Normal Retirement | |
|---|---|
| Highest average pay $36,000 x 1.4% | $ 504 |
| Years of benefit service | x 24 |
| Annual retirement benefit from Xerox | $12,096 |

Your annual retirement benefit will be supplemented by the value of your ESOP account, your savings in the 401(k) savings plan, and Social Security.

**Retirement at age 65 or older with 44 years of benefit and vesting service**

| Alternative Formula for Long-Service Employees | |
|---|---|
| Highest average pay $36,000 x 1% | $ 360 |
| Years of benefit service | x 44 |
| Annual retirement benefit from Xerox | $15,840 |

Your annual retirement benefit will be supplemented by the value of your ESOP account, your savings in the 401(k) savings plan, and Social Security.

**Early and normal retirement**

- **Normal Retirement: age 65**
  You are eligible for an unreduced retirement plan formula benefit
- **Early Retirement: between ages 55 and 65 with at least 10 years of vesting service**
  If you have at least 10 but less than 30 years of vesting service, your early retirement reduction is calculated from age 65.

  If you have at least 30 years of vesting service, your early retirement reduction is from age 62, not age 65.

# Early retirement reduction

**For early retirement with 30 or more years of vesting service at age 55 or older:**

- The retirement plan formula benefit is reduced by 5% (1/12 of 5% for each month) for each year (or portion of a year) that you begin receiving benefits before age 62.

**For early retirement with less than 30 years of service at age 55 or older:**

- The retirement plan formula benefit is reduced by 5% (1/12 of 5% for each month) for each year (or portion of a year) that you begin receiving benefits before age 65.

The early retirement reduction will be applied if you elect to receive your retirement plan formula benefit before age 65, or before age 62 with 30 or more years of vesting service.

**Here's how retirement plan formula benefits would be calculated, based on age and years of benefit service for early retirement.**

**Retirement at age 60 (60 months before age 65) with 25 years of vesting and benefit service**

| Early Retirement | |
|---|---|
| Highest-average pay $36,000 x 1.4% | $ 504 |
| Years of benefit service | x 25 |
| Annual retirement benefit payable at age 65 | $12,600 |
| Minus early retirement reduction (60 months × [1/12 × .05] = 25%) | – 3,150 |
| Annual retirement benefit payable from Xerox at age 60 | $ 9,450 |

This benefit is supplemented by the value of your ESOP account, your savings in the 401(k) plan, and Social Security when you reach age 62.

**Retirement at age 55 (120 months before age 65) with 25 years of vesting and benefit service**

| Early Retirement | |
|---|---|
| Highest-average pay $36,000 x 1.4% | $ 504 |
| Years of benefit service | x 25 |
| Annual retirement benefit payable at age 65 | $12,600 |
| Minus early retirement reduction (120 months × [1/12 × .05] = 50%) | – 6,300 |
| Annual retirement benefit payable from Xerox at age 55 | $ 6,300 |

This benefit is supplemented by the value of your ESOP account, your savings in the 401(k) plan, and Social Security when you reach age 62.

**Estimating your retirement plan formula benefit**

To estimate your annual retirement benefit from the retirement plan formula, multiply your highest-average pay (the average of your highest five complete calendar years) by the percentage indicated for your age and service.

| | Retirement age | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Benefit service | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 |
| 30 | 27.3% | 29.4% | 31.5% | 33.6% | 35.7% | 37.8% | 39.9% | 42.0% | 42.0% | 42.0% | 42.0% |
| 29 | 20.3 | 22.3 | 24.4 | 26.4 | 28.4 | 30.4 | 32.5 | 34.5 | 36.5 | 38.6 | 40.6 |
| 28 | 19.6 | 21.6 | 23.5 | 25.5 | 27.4 | 29.4 | 31.4 | 33.3 | 35.3 | 37.2 | 39.2 |
| 27 | 18.9 | 20.8 | 22.7 | 24.6 | 26.5 | 28.4 | 30.2 | 32.1 | 34.0 | 35.9 | 37.8 |
| 26 | 18.2 | 20.0 | 21.8 | 23.7 | 25.5 | 27.3 | 29.1 | 30.9 | 32.8 | 34.6 | 36.4 |
| 25 | 17.5 | 19.2 | 21.0 | 22.8 | 24.5 | 26.2 | 28.0 | 29.8 | 31.5 | 33.2 | 35.0 |
| 24 | 16.8 | 18.5 | 20.2 | 21.8 | 23.5 | 25.2 | 26.9 | 28.6 | 30.2 | 31.9 | 33.6 |
| 23 | 16.1 | 17.7 | 19.3 | 20.9 | 22.5 | 24.2 | 25.8 | 27.4 | 29.0 | 30.6 | 32.2 |
| 22 | 15.4 | 16.9 | 18.5 | 20.0 | 21.6 | 23.1 | 24.6 | 26.2 | 27.7 | 29.3 | 30.8 |
| 21 | 14.7 | 16.2 | 17.6 | 19.1 | 20.6 | 22.0 | 23.5 | 25.0 | 26.5 | 27.9 | 29.4 |
| 20 | 14.0 | 15.4 | 16.8 | 18.2 | 19.6 | 21.0 | 22.4 | 23.8 | 25.2 | 26.6 | 28.0 |
| 19 | 13.3 | 14.6 | 16.0 | 17.3 | 18.6 | 20.0 | 21.3 | 22.6 | 23.9 | 25.3 | 26.6 |
| 18 | 12.6 | 13.9 | 15.1 | 16.4 | 17.6 | 18.9 | 20.2 | 21.4 | 22.7 | 23.9 | 25.2 |
| 17 | 11.9 | 13.1 | 14.3 | 15.5 | 16.7 | 17.8 | 19.0 | 20.2 | 21.4 | 22.6 | 23.8 |
| 16 | 11.2 | 12.3 | 13.4 | 14.6 | 15.7 | 16.8 | 17.9 | 19.0 | 20.2 | 21.3 | 22.4 |
| 15 | 10.5 | 11.6 | 12.6 | 13.6 | 14.7 | 15.8 | 16.8 | 17.8 | 18.9 | 20.0 | 21.0 |
| 14 | 9.8 | 10.8 | 11.8 | 12.7 | 13.7 | 14.7 | 15.7 | 16.7 | 17.6 | 18.6 | 19.6 |
| 13 | 9.1 | 10.0 | 10.9 | 11.8 | 12.7 | 13.6 | 14.6 | 15.5 | 16.4 | 17.3 | 18.2 |
| 12 | 8.4 | 9.2 | 10.1 | 10.9 | 11.8 | 12.6 | 13.4 | 14.3 | 15.1 | 16.0 | 16.8 |
| 11 | 7.7 | 8.5 | 9.2 | 10.0 | 10.8 | 11.6 | 12.3 | 13.1 | 13.9 | 14.6 | 15.4 |
| 10 | 7.0 | 7.7 | 8.4 | 9.1 | 9.8 | 10.5 | 11.2 | 11.9 | 12.6 | 13.3 | 14.0 |

## Your Cash Balance Retirement Account (CBRA)

While the retirement plan formula generally begins to produce a significant benefit only after many years of service, your Cash Balance Retirement Account (CBRA) can grow to a substantial cash value quickly. Over time, it may grow to a retirement income value that is greater than the one produced by the retirement plan formula. This account may produce a higher benefit if you leave Xerox before you are eligible for early retirement.

Each year, Xerox credits your account with an amount equal to 5% of your eligible pay. Your employer credit is made on the last day of February for the previous year. If you retire or terminate during the year, your employer credit for eligible pay is made on the *later* of the last day of February following the year of your retirement or termination, *or* the date you settle with the plan.

Your account also earns interest, which is set annually at a fixed rate. The rate is equal to the average effective yield of the one-year Treasury bill as of the first business day of each of the 12 months of the preceding year, plus 1%. For added stability, the crediting rate also has a two percentage point floor—it can never be more than two percentage points lower than the prior year's crediting rate.

If you were with Xerox before 1989, you may have had a balance in the Profit Sharing Retirement Account, which was part of the Profit Sharing and Savings Plan before the plan was revised in 1990. That balance was credited to your CBRA, along with the Profit Sharing Retirement Account contribution for 1989.

When you retire, die, or leave the Company, your employer credits will stop, but your account will continue to earn interest until you settle with the plan. Your Cash Balance Retirement Account will be valued when you settle with the plan. For more information on the valuation date, see page 63.

**No withdrawals**

Because the purpose of RIGP is to provide you a lifetime income at retirement, no loans or withdrawals are permitted.

## Your Transitional Retirement Account (TRA)

If you were hired before 1989, your RIGP benefit is calculated yet another way, as the benefit value provided by your Transitional Retirement Account (TRA).

When plan changes were made in 1990, your Profit Sharing Retirement Account balance was transferred to this account as of December 31, 1989. Your Profit Sharing Retirement Account contribution for 1989 was also added to this account.

No further contributions or employer credits are made to this account. Your TRA balance fluctuates from the investment results of the funds in which your account was invested as of December 31, 1989. (For most participants, their TRA is invested in the Balanced Fund—More Stocks. A few participants may have a portion of their TRA balance invested in the Income Fund. If you have a TRA balance, your Value Added Statement indicates where your account is invested.)

Your account value will continue to share in investment results until you settle with the plan. The valuation date is dependent on a number of factors, which are explained in more detail on page 63.

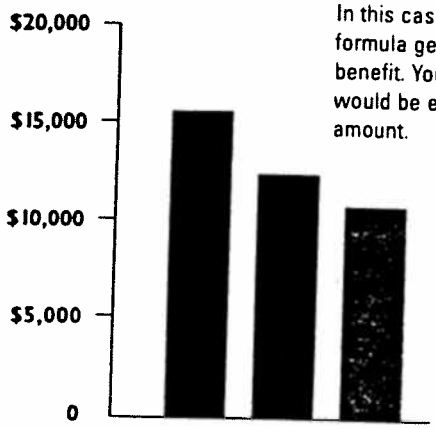
**You can take it with you**

Your Xerox retirement benefits are portable. In addition, you don't have to have long tenure to get a retirement benefit. Your CBRA balance is likely to produce a higher benefit in the short term. That means if you leave Xerox before you retire, you can take a higher retirement benefit with you than might have been produced by the retirement plan formula.

**Compare the calculations**

If you leave Xerox with five or more years of vesting service, the retirement plan formula is used to calculate your benefit payable at age 65. Then your balances in the Cash Balance Retirement Account and the Transitional Retirement Account (if you have one) are actuarially converted to an annuity so they can be compared to the benefit derived from the formula. (If you request a retirement benefit estimate from the Xerox Benefits Center, it will compare monthly benefits. For simplicity, the examples below show annual benefits.) Whichever method provides the greater amount will be the basis for the benefit you receive from RIGP.

Let's assume you retire at age 65 and your annual benefit from the retirement plan formula is $15,600.




In this case, the retirement plan formula generates the highest benefit. Your retirement benefit would be equal to the formula amount.

■ **Retirement Plan Formula**

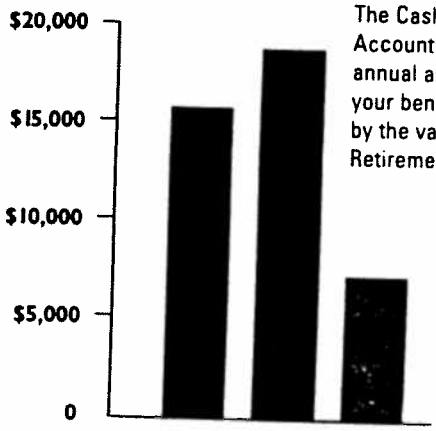
**$15,600**

■ **Cash Balance Retirement Account**

**$12,000** (actuarially equivalent annual benefit)
$120,000 account balance

■ **Transitional Retirement Account**

**$10,800** (actuarially equivalent annual benefit)
$108,000 account balance




The Cash Balance Retirement Account generates the highest annual amount in this case, so your benefit would be fully funded by the value of your Cash Balance Retirement Account.

■ **Retirement Plan Formula**

**$15,600**

■ **Cash Balance Retirement Account**

**$18,000** (actuarially equivalent annual benefit)
$180,000 account balance

■ **Transitional Retirement Account**

**$10,800** (actuarially equivalent annual benefit)
$108,000 account balance

**Converting your account to an annual benefit**

The interest rate used to determine the actuarial equivalent value of your Cash Balance Retirement Account and the Transitional Retirement Account is based on rates established by the federal government for pension calculations. It is subject to change from year to year.

# Factors that could affect your retirement benefit

These factors do not apply to all employees. You should read this section carefully to determine which—if any—apply to your situation. If you have any questions about how your benefit could be affected, call the Xerox Benefits Center.

**Maximum benefits**
Federal law imposes certain limits on the benefits that may be paid to any plan participant, including limitations in the event a participant is also covered by another of the Xerox plans. If you are eligible for benefits from other Xerox retirement plans, including predecessor plans, your retirement benefit could be reduced to account for the amount you will be receiving from those plans.

**Prior distributions**
The amount you receive will be reduced if you had previously left the Company and received a distribution at that time. For more information about prior distributions, see page 51.

**Qualified Domestic Relations Order**
Your benefit will be reduced if Xerox has accepted a Qualified Domestic Relations Order to distribute a portion of your funds to an alternate payee. For more information, see page 70.

**Provisional supplement**
The current retirement plan formula, introduced in 1990, provides most employees with a retirement income guarantee that is better than or equal to the benefit from the previous formula. For a few highly paid employees, the revised formula could result in a lower minimum guarantee. To ensure that all employees who were employed on December 31, 1989 receive at least the previous guarantee, Xerox will make up the difference with a provisional supplement. The supplement will be the difference between the benefit from the previous and the current retirement plan formulas if the difference is not made up by benefits payable from other sources. The previous formula benefit will be calculated using the same highest-average pay, with the same limits on eligible pay. The provisional supplement is not available to employees hired after December 31, 1989. Payment of any provisional supplement is made outside the qualified plan and will be in the form of a lump sum only, at about the time you take your RIGP benefit.

# If you leave Xerox

If you leave Xerox before you have five years of vesting service, you do not receive a benefit from RIGP.

If you leave Xerox after five years but before you are eligible for early retirement, you have several options for receiving your benefit immediately, or you can defer payment until a later date. If the value of your benefit is $5,000 or less, you will automatically receive your benefit as a lump sum. If you defer settlement, the Cash Balance Retirement Account will continue to earn interest and the Transitional Retirement Account will continue to fluctuate based on investment results.

You can receive the value of your benefit or you can defer payment until a later date. If you receive benefits before age 65 (or before age 62 with 30 years of vesting service), the early retirement reduction will be applied to your retirement plan formula benefit before it is compared to the value of the Cash Balance Retirement and Transitional Retirement Accounts.

# Reemployment

A "break in service" occurs when you have missed 12 consecutive months of work, as measured from the date of retirement or termination.

- If you terminate and you return to work at Xerox before a break in service occurs, the time you did not work at Xerox will be counted as vesting service, but not benefit service.
- If you leave Xerox for any reason and a break in service occurs, the time you did not work for Xerox will not be counted for vesting service or benefit service. You will begin to earn vesting service and benefit service again when you return to work.
- If you leave Xerox before becoming fully vested (five years of vesting service), you will forfeit any RIGP account balances you may have. If you return to Xerox prior to having a five-year break in service, your forfeiture will be reinstated to your RIGP accounts.

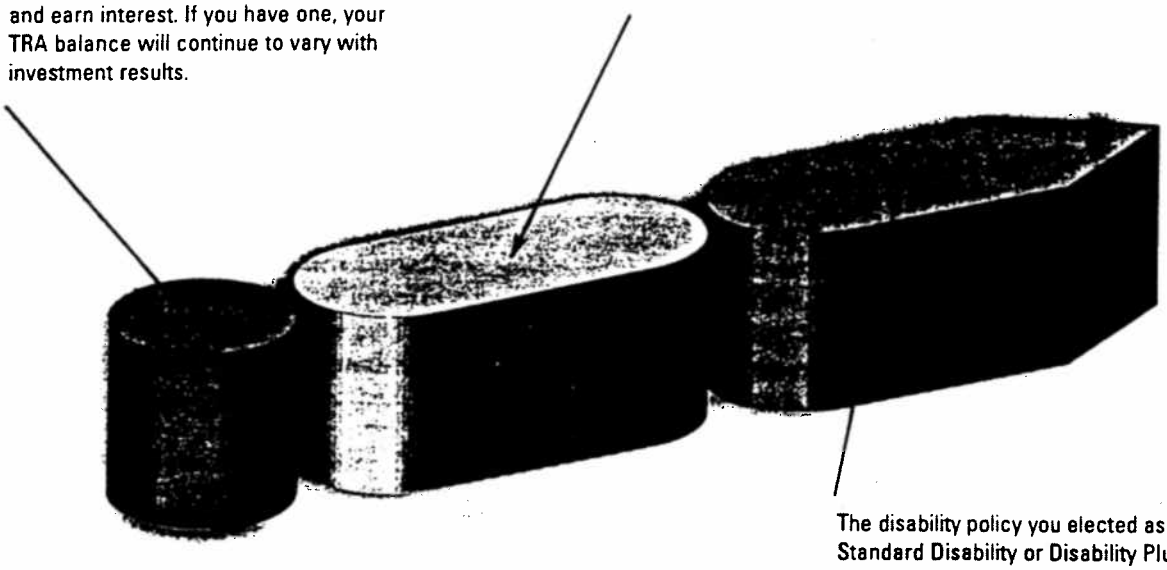
Call the Xerox Benefits Center for answers to questions regarding breaks in service.

# Disability

**Xerox implemented new disability coverage in 1996. If you are disabled on or after August 1, 1996, the following provisions apply.**

If you are disabled up to five months under Xerox Short-Term Disability, you will continue to earn vesting and benefit service, and your CBRA will continue to receive the annual 5% employer credit and earn interest. If you have one, your TRA balance will continue to vary with investment results.

If you are on long-term disability and receiving disability benefits from Xerox under the self-insured plan (generally up to two years following short-term disability), you will continue to accrue vesting and benefit service. Your CBRA will continue to receive the annual 5% employer credit and earn interest. If you have one, your TRA balance will continue to vary with investment results.



The disability policy you elected as part of *Matter of Choice*—Standard Disability or Disability Plus—starts paying benefits after you have been disabled for 29 months, unless you were disabled after age 65. In that case, it takes effect sooner. For more information, see the **Disability** section in *You and Xerox: HealthWise*. Under the disability policy, you are placed on inactive status with no Xerox pay or benefits. At this point, you no longer earn vesting or benefit service credit, nor do you receive further Xerox contributions of eny kind. Your CBRA will continue to earn interest credit only, and your TRA balance, if you have one, will continue to fluctuate with investment results until you retire or terminate and settle with the plan.

## Disability prior to August 1, 1996

If you were disabled before August 1, 1996 and you are receiving benefits from the Xerox Disability Income Plan, you will continue to earn credit for years of vesting and benefits service throughout your disability. When you reach the normal retirement age (65), your vesting and benefit service will include the years you were disabled.

During disability, you will also continue to receive annual employer credits to your Cash Balance Retirement Account. Your annual employer credit will be determined using your pay rate just before you became disabled. Your highest-average pay will be used for calculating your retirement plan formula benefit.

## If you die before retirement

The full value of your account (the greater of the Cash Balance or Transitional Retirement Account) is paid to your beneficiary in case of your death before retirement. A valid beneficiary form must be on file with the Xerox Benefits Center prior to your death. If you are married, your account is paid to your spouse, unless there is a valid spousal waiver on file.

If you die prior to retirement and you are married, your spouse has an automatic right to 50% of any retirement income supplement that would have been payable to you had you retired the day before your death. (The retirement income supplement is the difference between the higher of your accounts and the retirement plan formula benefit when the retirement plan formula benefit is higher.)

**If you die after retiring, but before settling with the plan, your spouse has an automatic right to 50% of any retirement income supplement that would have been payable to you had you settled on the day before your death.**

## Settling with the plan

To have access to your benefits, you must settle with the plan. If you do not select a settlement option when you retire or terminate employment, you will be considered to have elected deferred settlement. For more information about how to begin the settlement process, see page 63.

## Prior distributions

If you previously received a distribution from RIGP, this prior distribution will affect future benefits payable to you under the plan. If you have a prior distribution, the current value is reported each year in your Value Added Statement. It is also included in the Statement of Accounts, which you can request at any time from the Xerox Benefits Center.

Your future RIGP benefit must take into account the current value of this prior distribution, as if it had remained in your account and experienced investment results. This ensures the same retirement funding levels for all employees—whether or not they had taken a prior distribution.

To recap, when you retire or leave Xerox, you are entitled to receive the greatest of three components:

- The benefit determined by the retirement plan formula, based on years of benefit service and highest-average pay
- The value of your Cash Balance Retirement Account
- The value of your Transitional Retirement Account, if you have one. TRA is not available for employees originally hired after 1989.

**When you subsequently retire or leave Xerox, your benefit will be based on the component that provides the *greatest total* benefit: the current value of your prior distribution *plus* any actual amount in your account. This benefit will then be offset by the current value of your prior distribution.**

The retirement plan formula gives you credit for all periods of employment with Xerox. This includes all prior periods of employment and your service since you were rehired. But a portion of the amount intended to fund this benefit has already been paid to you in your prior distribution. The actual amounts in your accounts are based on service since you were rehired.

To make an apples-to-apples comparison among the three components, the plan provides a process that takes into account the current value of your prior distribution—the value as it would have been had it remained in your account. To determine retirement benefits payable to employees who have received prior distributions, the Xerox Benefits Center follows this process:

**Step 1: Calculate the *current value* of your prior distribution**

To determine what the value of your accounts would have been if you had not taken a distribution, take the amount of each account at the time it was distributed to you and add the investment results the accounts would have earned had a distribution not been taken.

**Step 2: Determine the greatest total benefit**

Add the current values of the CBRA and TRA that were previously distributed to any actual amounts earned since your rehire date. Using these total amounts, compare the three components—retirement plan formula, total CBRA, and total TRA—to determine the greatest benefit.

**Step 3: Reduce the greatest total benefit by the current value of the prior distribution**

Your future pension payment will not include the current value of your prior distribution. The greatest total benefit calculated in Step 2 will be reduced by the current value of your prior distribution. Your future pension payment will not include the current value of your prior distribution. The remaining benefit, if any, is the amount payable to you when you leave.

What this means for you:

If your **total** TRA is the greatest benefit, your benefit payable whe you leave will be your actual TRA—that is, the amount earned, if any, since your rehire date. If you took a prior distribution and were rehired after 1989, the current value of this account is $0.

If your **total** CBRA is the greatest benefit, your benefit payable when you leave will be your actual CBRA—that is, the amount earned since your rehire date.

If your retirement plan formula benefit is the greatest benefit, yo benefit payable when you leave will be reduced by the current value of the prior distribution of the account that provides the second greatest total benefit.

**Why prior distributions affect future pension benefits**

Length of benefit service is a key factor in determining retirement benefits. Calculating and including the current value of prior distributions puts employees who took a prior distribution on the same level as employees whose balances remained invested in the plan. Without this adjustment, employees who took a prior distribution could receive higher (or lower) benefits than employees who had no prior distributions. This process ensures that the Company provides the same benefit dollars for employees with the same pay and benefit service—whether or not there was a prior distribution.

**Your benefit is determined by the component that yields the greatest total benefit, not the actual amounts in your accounts, as the following examples demonstrate.**

**When TRA provides the greatest benefit**

| | TRA | CBRA | Retirement Plan Formula |
|---|---|---|---|
| Benefits at first date of termination | $ 50,000 | $ 45,000 | $ 30,000 |
| Actual account balance at second date of termination | $ 0 | $ 12,000 | N/A |
| Current value of prior distribution | $ 80,000 | $ 60,000 | N/A |
| Total benefit | $ 80,000 | $ 72,000 | $ 55,000 |
| Benefit payable at second date of termination | | | |

**How future benefits are calculated**

| | |
|---|---|
| Greatest total benefit (TRA) | $80,000 |
| Minus current value of prior distribution (TRA) | −80,000 |
| Pension benefit payable | $0 |

Although this employee has a $12,000 actual CBRA balance that reflects credits since he or she was rehired, the benefit payable is $0. If this employee had not elected a distribution at the time of his or her first termination, the benefit payable at the second termination would have been $80,000. This is the same benefit that would be payable to an employee with the same pay and benefit service but no prior distribution.

**When CBRA provides the greatest benefit**

| | TRA | CBRA | Retirement Plan Formula |
|---|---|---|---|
| Benefits at first date of termination | $ 50,000 | $ 45,000 | $ 30,000 |
| Actual account balance at second date of termination | $ 0 | $ 12,000 | N/A |
| Current value of prior distribution | $ 70,000 | $ 60,000 | N/A |
| Total benefit | $ 70,000 | $ 72,000 | $ 55,000 |
| Benefit payable at second date of termination | | $ 12,000 | |

**How future benefits are calculated**

| | |
|---|---|
| Greatest total benefit (CBRA) | $72,000 |
| Minus current value of prior distribution (CBRA) | −60,000 |
| Pension benefit payable | $12,000 |

This employee receives the $12,000 actual CBRA balance that reflects credits since rehire, because the total CBRA (with the current value of prior distribution) is the greatest benefit.

**When the retirement plan formula provides the greatest benefit**

| | TRA | CBRA | Retirement Plan Formula |
|---|---|---|---|
| Benefits at first date of termination | $ 50,000 | $ 45,000 | $ 48,000 |
| Actual account balance at second date of termination | $ 0 | $ 12,000 | N/A |
| Current value of prior distribution | $ 80,000 | $ 60,000 | N/A |
| Total Benefit | $ 80,000 | $ 72,000 | $ 84,000 |
| Benefit payable at second date of termination | | | $ 4,000 |

**How future benefits are calculated**

| | |
|---|---|
| Greatest total benefit (retirement plan formula) | $84,000 |
| Current value of prior distribution (TRA)* | −80,000 |
| Pension benefit payable | $4,000 |

* TRA provides second greatest total benefit, so the formula is offset by the current value of the prior distribution from the TRA.

# Accessing your funds

# During your employment

The 401(k) savings plan (part of the Profit Sharing and Savings Plan) is designed to help you save for retirement. But you may need access to your money before you retire or leave the Company. The 401(k) savings plan allows you to borrow or withdraw funds from your savings and any profit sharing contributions you have deferred into your savings account.

**Savings plan loans and withdrawals during your employment**

| | Loans | Withdrawals | |
|---|---|---|---|
| | | Discretionary | Hardship |
| Before-tax savings (including profit sharing contributions you deferred) | ✔ | | ✔ |
| After-tax savings | ✔ | ✔* | |
| Rollover from previous employer's plan | ✔ | ✔ | ✔ |
| Profit sharing: automatic deferral to the Xerox Stock Fund** | ✔ | ✔ | ✔ |
| Company match on before-tax savings (1987-1989) | | | |

*Pre-1987 contributions must be withdrawn first, and withdrawals from this amount are not taxable. You must withdraw your post-1986 after-tax contributions and their earnings on a prorated basis, and you must pay tax on the earnings portion.

**Not eligible until the contribution has been in the plan for two years.

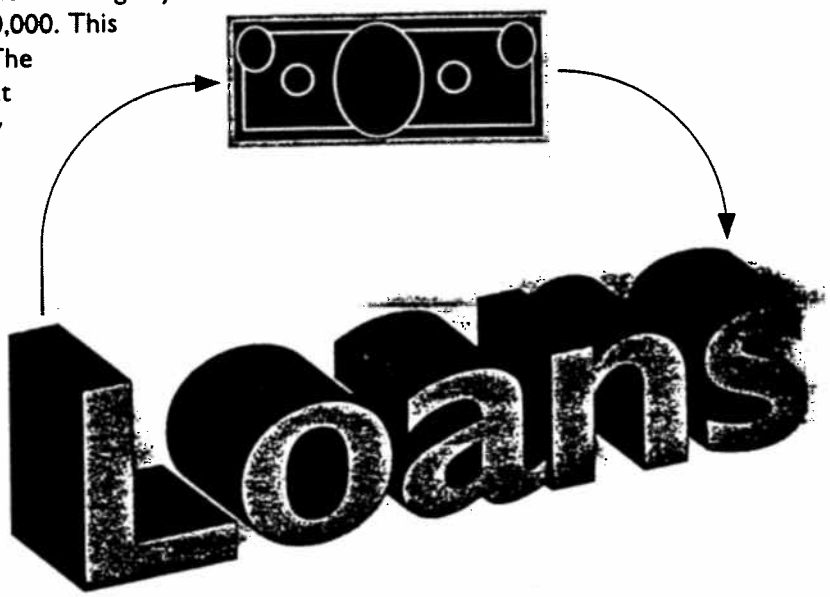
# Loans

You can take a loan from your 401(k) savings plan accounts, except for any matching Company contributions (before 1989). You repay the amount, plus interest, back into your accounts. This gives you the flexibility to use your own money and postpone paying taxes, while still building a fund for the future. Even though you are borrowing your own money and paying yourself interest on it, withdrawing it from your account will reduce some of the long-term beneficial effects of compounding.

**Types of Loans**
You can apply for a personal or a home purchase loan. Personal loans must be repaid within 54 months. Home purchase loans must be repaid within 174 months. Home loans are for the acquisition or construction of your principal residence only. You will need to provide documentation, like a signed real estate contract, to support your application.

**Minimum and maximum loan amounts**
The minimum amount you can borrow is $500. The maximum amount you can borrow at any one time is $50,000 or 50% of your balance, whichever is less. All contributions and earnings in your account are eligible, except for profit sharing contributions automatically deferred to the Xerox Stock Fund within the previous two years and matching Company contributions (1987–1989).

The total of all your outstanding loan balances during any consecutive 12 months cannot exceed $50,000. This may reduce the amount you can borrow. The maximum number of loans you may have at any one time is five, but you may have only one home purchase loan at a time.




**The terms of your loan**
The loan repayment period for both personal and home purchase loans must be at least 12 months. But you have the option to pay your loan in full at any time, including sooner than 12 months.

Every quarter, a new interest rate is set for new loans taken out during that quarter. The interest rate will be the Citibank commercial prime rate at the close of business on the last working day of the previous quarter, plus 1%. This rate is rounded to the nearest tenth, if necessary. The effective interest rate applies to all loans taken during the quarter. The interest rate remains in effect for the life of the loan and cannot be adjusted or recalculated.

**How to apply**
You can apply for a loan over the telephone by calling the Xerox Benefits Center. Or you can do it through the Internet at **Your Benefits Resources**, the Xerox benefits Web site: http://resources.hewitt.com/xerox

You will need to enter the amount you want to borrow and the number of months over which you will repay the loan. No application form is required for a personal loan.

If you are applying for a home purchase loan, you will receive a loan application in the mail. You must complete and return the application with the proper documentation before your loan can be processed. You must provide a home purchase agreement, sales contract, or a builder's construction contract. You will need to include signatures of both the buyer and seller signed within the last 120 days, the mortgage amount or a good faith estimate, and the home purchase price.

A $45 loan fee will automatically be deducted from your account when your loan is processed. State Street Bank will mail your loan check to you on the second business day after your loan is processed. You will receive the promissory note and loan repayment information under separate cover from the Xerox Benefits Center.

**Repayment**

Loans are repaid through payroll deduction. Once your loan check has been issued, you will not be able to change or revoke your deduction. The payroll deduction will remain in effect until the loan is repaid. Loan repayment deductions will take precedence over other payroll deductions for before-tax and after-tax savings and for other benefits, including salary redirection (but not deductions for medical coverage).

The principal and interest of your loan repayment will be reinvested in your 401(k) savings plan account according to your current investment fund election for payroll contributions.

You may repay your loan in full at any time. Partial repayments are not accepted. Call the Xerox Benefits Center to request the loan payoff amount, which will be sent to you in writing and mailed to your home. Then send your cashier's check, certified check, or money order—payable to Xerox Corporation Profit Sharing and Savings Plan—to the Xerox Benefits Center.

**If you are disabled**

If you are on long-term disability or an unpaid leave of absence, you do not receive regular paychecks from Xerox and payroll deductions cannot be taken. In this case, your loan payments will be adjusted to a monthly schedule and you will receive a notice from the Xerox Benefits Center requesting that you send manual payments. If you have questions, you should speak with a Xerox Benefits Center representative. You must make alternate arrangements and begin making payments within six months. If you fail to begin payments within that time, your loan will be in default and the taxable portion of the unpaid loan balance, plus any accrued interest, will be reported to the IRS as ordinary income for that tax year. You will receive an IRS form 1099 at the end of the year for the unpaid loan balance. You will be liable for taxes at ordinary income tax rates on this amount, and it may be subject to an additional 10% tax.

**If you leave Xerox**

If you leave Xerox and you elect to have your 401(k) savings plan balance paid out to you, you have 90 days to repay any unpaid loan balances. If you do not repay the loan, the amount you receive will be adjusted to reflect any unpaid loan balances and interest accrued through your date of termination. There are tax consequences in the event you do not repay any unpaid loan balances.

**If you default**

If you fail to make loan payments for a period of six months or miss any six monthly loan payments (which do not have to be consecutive), regardless of the reason, your loan will be declared in default. A letter will be mailed to your home anytime you miss a monthly loan payment indicating that your payment has not been received. When you miss any six payments, a letter will be mailed to your home stating that your loan is due immediately and payable in full. If it is not paid by a specified date, your loan will be declared in default and will become a taxable event. If this happens, you cannot save in the plan, defer profit sharing, make withdrawals, or initiate another loan. You will be subject to these restrictions for at least 12 months. Once a loan is in default, it must be repaid in full or cancelled on account of disability or other qualifying event before you are able to initiate another loan.

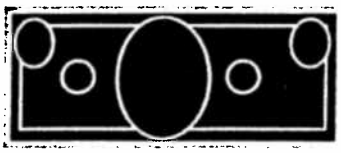
If you do not repay the loan in full when it is due and payable, the taxable portion of the unpaid loan balance plus any accrued interest will be reported on Form 1099-R to you and the IRS as ordinary income for that tax year. You will be liable for taxes at ordinary income tax rates on this amount, and it may be subject to an additional 10% tax.

**Discretionary withdrawals**

You can make unlimited discretionary withdrawals from your after-tax savings account. You must first withdraw your pre-1987 after-tax contributions, which are not taxable.

After any pre-1987 after-tax contributions have been withdrawn, you must withdraw your post-1986 after-tax contributions and their earnings on a prorated basis. The ratio of contributions to earnings in your withdrawal will be the same as the ratio of contributions to earnings in your account balance.

You must pay income tax on the earnings portion of your withdrawal. In most cases, you will also be liable for a 10% additional tax on the taxable portion of your withdrawal. The 10% tax does not apply if you are age 59½ or older, or if one of the exceptions listed on page 68 applies. You may be required to file IRS Form 5329 to avoid this additional tax.



**Financial hardship withdrawals**

You are not permitted to withdraw your before-tax savings while you are actively employed unless you need the money because of certain financial hardships and you have exhausted all other sources of funds. These restrictions, which also apply to any profit sharing contributions you have deferred, make qualifying for hardship withdrawals difficult. To make a hardship withdrawal, you must prove a financial hardship and first attempt to obtain funds from other sources, including a discretionary withdrawal or loan from the plan.

Before-tax earnings credited after December 31, 1988 are not available for hardship withdrawal unless you are age 59 1/2.

Only four financial hardships are recognized. The amount withdrawn cannot exceed your immediate need for:

- Unreimbursed medical expenses for you, your spouse, or dependent (cosmetic procedures are not eligible)
- Purchase of a primary residence
- Post-secondary tuition, room and board, books, and related education fees for you, your spouse, or your dependent for the next 12 months
- Prevention of eviction from or foreclosure on your primary residence

Before a hardship withdrawal can be approved, you must first attempt to obtain the funds from other sources, which include, but are not limited to:

- Commercial or other loans
- Reimbursement from insurance
- Liquidation of your assets
- Discretionary withdrawals or loans from the 401(k) savings plan
- Stopping payroll deductions for 401(k) savings plan contributions

The Xerox Benefits Center requires that you submit written certification that you cannot obtain the funds elsewhere. This certification must be signed and accompanied by documents that confirm your need for the withdrawal and required amount.

A mandatory 20% federal income tax will be withheld from your hardship withdrawal. In most cases, you will also be liable for an additional 10% tax on this amount. This additional 10% tax does not apply if you are age 59 1/2 or older, or if one of the exceptions listed on page 68 applies.

To pay federal and state taxes or penalties reasonably anticipated to result from the withdrawal, you may increase your financial hardship withdrawal up to 125% of the amount you need, if the funds are available.

If you make a hardship withdrawal, you cannot save in the plan or defer profit sharing for a period of 12 months.

# Accessing your funds

# When you retire or leave Xerox

When you retire or leave Xerox, you will need to inform the Xerox Benefits Center of your intentions for your account balances and retirement plan benefit. You must initiate this process. If you take no action, no retirement plan benefits will be paid, and your accounts will remain invested until you begin the settlement process, unless an account balance or present value of your retirement plan benefit is $5,000 or less. After 90 days, accounts with balances of $5,000 or less will be paid to you as a cash lump sum, minus 20% federal withholding.

You will receive a summary of your account balances, accrued retirement plan formula benefit, and vested status from the Xerox Benefits Center, as well as information about the tax consequences of receiving plan distributions. Before making any decisions about your plan distributions, Xerox recommends that you consult with a tax advisor.

For more information about the tax treatment of distributions, see page 67.

**Distribution options at retirement or termination**

| Plan | Defer Settlement | Cash Lump Sum | Rollover to other employer plan | Rollover to 401(k) savings plan | Annuity | Xerox Stock | Installments |
|---|---|---|---|---|---|---|---|
| **401(k) savings plan** | | | | | | | |
| Before-tax savings | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓** |
| After-tax savings principal | ✓ | ✓ | | | ✓ | ✓ | ✓** |
| After-tax savings earnings | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓** |
| **Profit sharing:** automatic deferral to the Xerox Stock Fund | ✓ | ✓ | ✓ | | ✓ | ✓ | ✓** |
| **ESOP** | ✓ | ✓ | ✓ | ✓* | | ✓ | ✓ |
| **RIGP** | ✓ | ✓ | ✓ | ✓* | ✓ | | |

*Effective January 1, 1999

**For retirees only

# Distributions from the 401(k) savings plan

The full value of your savings account is payable to you at retirement or if you leave Xerox for any reason before retirement. If you die while actively employed, the full value of your savings account is payable to your beneficiary.

You may receive your distribution in the following ways:

- In a cash lump sum
- In Xerox common stock—in lots of 100 shares (for the portion invested in the Xerox Stock Fund)
- As a rollover to an IRA or another qualified plan
- As an annuity
- As a series of fixed installment payments (available only if you are a retiree)

You may also defer settlement and leave your savings invested in the plan. You must begin distribution of your account when you reach age 70½.

**Beneficiaries**

If you are married, designation of your beneficiary under the 401(k) savings plan is subject to certain restrictions; see page 41.

# Treatment of profit sharing stock options

Employees who terminate have 90 days from the termination date to exercise any vested options. Any options that are not vested are forfeited. Employees who are terminated for cause forfeit all their options, including those already vested.

If you retire or die while an employee, any partially vested option awards become fully vested immediately and, therefore, fully exercisable. All exercisable options—including these just mentioned—remain fully exercisable by the retiree or deceased employee's estate for a period of 12 months following the date of retirement or death, but not beyond the original eight-year term. Option awards in which you are not yet partially vested are forfeited.

**What happens to your stock options**

| | |
|---|---|
| Actively employed | Continue to be available through normal expiration date |
| Termination | You have three months (or until the options expire, if sooner) from the day you leave Xerox to exercise vested options. Options that are not yet exercisable are cancelled. |
| Retired | You have 12 months (or until the options expire, if sooner) to exercise all options if any portion of the award is exercisable on your date of retirement. If no portion of an award is yet exercisable, the award is forfeited. |
| Death | Your estate has 12 months (or until the options expire, if sooner) to exercise all options of an award if any portion of the award is exercisable on the date of death. Awards for which no portion is yet exercisable are forfeited. |
| Termination for cause | You forfeit all options, including those already vested. |

# Distributions from the Employee Stock Ownership Plan

If you leave Xerox with five or more years of vesting service or reach age 65 regardless of service, you are fully vested in the plan and have the right to receive the value of your account. You also become fully vested on your death, regardless of your service.

If you retire or terminate as a vested participant and take your ESOP distribution, you will receive an allocation for the dividends earned by your account during your last year of employment. This "trailing allocation" is made the following year. If you retire, you will also receive a prorated pay-based allocation for the year in which you retired.

If you leave before five years of vesting service, your ESOP account balance is forfeited and reallocated at the end of the year among active participants.

If you are vested at the time you leave Xerox, you have several options:

- You can elect to receive the value of your account in cash. Each ESOP share is convertible to three shares of Xerox common stock. You will receive whichever is greater: the minimum value (based on the floor price of $78.25 per ESOP share) or the market value (number of ESOP shares times the price of Xerox common stock, times three).
- You can elect to receive the value of your ESOP account in shares of Xerox common stock. You will receive three shares of Xerox common stock for each whole share of ESOP stock in your account. Fractional shares will be paid in cash.
- You can set up calculated installments over a period of up to five years. This means you elect the time period over which payments will be made, up to five years. Payments are calculated accordingly, based on your account balance. You can receive ESOP installment payments in cash or in shares of Xerox common stock. You can choose installments paid on a monthly or quarterly basis. Installments enable you to "pay yourself" regular amounts.
- If the value of your account is more than $5,000, you can leave your ESOP account in the plan until a later time. You must begin taking your distribution by age 70 1/2.
- If the value of your account is $5,000 or less, it will be paid to you in a lump sum. You can roll over this lump sum to an IRA or another qualified plan. If you do not make an election within 90 days, you will receive a cash lump sum, minus 20% federal tax withholding.
- As of January 1, 1999, you can roll over your ESOP distribution (in cash only) to the Xerox 401(k) savings plan.

# Distributions from RIGP

RIGP provides several options to receive your money. Before making your decision, you will receive more detailed information from the Xerox Benefits Center. You should also consult a financial or tax advisor.

If you are married and elect a form of payment that does not provide a continuing lifetime benefit of at least 50% to your spouse in case you die first, federal law requires that you obtain your spouse's written, notarized consent.

Your payment options include:

- Rollover to the Xerox 401(k) savings plan
- Annuities
- Lump sum in cash (taxable)
- Lump-sum rollover to an IRA or other qualified plan
- Deferred settlement, in which case your CBRA continues to earn interest and your TRA balance (if any) remains invested until you settle or reach age 70½.

**Other information about payment options**

In the event of your death, any benefits payable to a beneficiary other than your spouse will be paid out over a maximum of 60 monthly installments, equivalent in value to the amount that would otherwise be payable.

You cannot elect an option with a payment period that extends beyond your life expectancy or the joint life expectancy of you and your spouse if you are married.

### Deferred settlement

If you do not select a settlement option when you retire or terminate, you will be considered to have elected deferred settlement.

Your pension benefit under the retirement plan formula will be based on the average of your five highest-paid calendar years, your years of benefit service at termination, and your age at termination (for retirement eligibility). If you leave the Company and defer settlement, your age for the purposes of calculating any reduction will be your age at the time you settle with the plan, not the age at which you left the Company. Your Cash Balance Retirement Account will continue to earn interest, but your account will no longer be eligible for the annual employer credit (5% of pay).

Federal regulations require that you begin receiving your retirement benefit by April 1 following the year in which you reach age 70½. If you have not made an election by that time, the Xerox Benefits Center will distribute your benefit under the normal form of payment: single life annuity if you are single or 50% joint and survivor annuity if you are married.

### Settling with RIGP

Before your pension benefit can be paid, your CBRA and TRA (if any) must be valued. The date of this valuation will be **the latest of:**

- The first of the month following the date you leave or retire from Xerox.
- The 13th day from the date the Xerox Benefits Center sends you the paperwork for electing payment of a pension benefit. The day the paperwork is mailed counts as the first day. The IRS requires a waiting period to give plan participants the opportunity to review their paperwork and make any changes if needed.
- The date your *completed* paperwork is received in the Xerox Benefits Center. If your paperwork is not complete, your benefit cannot be valued.

*Note:* If the valuation date falls on a day that the New York Stock Exchange (NYSE) is *not* open (e.g., a weekend or a holiday), the valuation will occur on the next day that the NYSE is open.

You may request the paperwork for claiming a pension benefit from the Xerox Benefits Center anytime within 90 days of the date you expect to begin receiving the money. This date is not the same as the date you retire.

The examples on page 64 show how the timing could work in several situations.

Example 1

**You request your benefits calculation within 90 days of receiving the first payment**

| Action | Date |
|---|---|
| You request a retirement benefit calculation from the Xerox Benefits Center | May 19 |
| Xerox Benefits Center sends you the paperwork | May 22 |
| 13-day waiting period expires | June 3 |
| Completed paperwork received in the Xerox Benefits Center | June 10 |
| You retire | June 21 |
| Valuation date | July 1 (the first of the month following the date you retired, the latest of the three dates) |

Example 2

**You request your benefits calculation after you retire and return your paperwork before the 13-day waiting period expires**

| Action | Date |
|---|---|
| You retire | June 21 |
| You request a retirement benefit calculation from the Xerox Benefits Center | August 17 |
| Xerox Benefits Center sends you the paperwork | August 20 |
| Completed paperwork received in the Xerox Benefits Center | August 28 |
| 13-day waiting period expires | September 1 |
| Valuation date | September 1 (the latest of the three dates) |

Example 3

**You request your benefits calculation after you retire and return your paperwork after the 13-day waiting period**

| Action | Date |
|---|---|
| You retire | June 21 |
| You request a retirement benefit calculation from the Xerox Benefits Center | August 17 |
| Xerox Benefits Center sends you the paperwork | August 20 |
| 13-day waiting period expires | September 1 |
| Completed paperwork received in the Benefits Center | September 9 |
| Valuation date | September 9 (the latest of the three dates) |

### Receiving your benefit

In general, your benefit payments will be processed on the same date your accounts are valued. Processing will be delayed, however, if the Xerox Benefits Center has not been informed of your status change through an automatic data feed from the Human Resource Data System. Once the Xerox Benefits Center receives your status change, your payments will be processed. (This delay would not affect your valuation date.)

If you request a lump-sum payment or a rollover, you should receive your check within a week to 10 days of the processing date. If you request an annuity, payments will begin as soon as administratively possible. Annuities will likely take an additional two to three weeks for payment to begin.

# Distribution options

## Cash distributions

If your balance is $5,000 or less, you must take a lump sum. If you elect to receive a lump sum in cash or if you are "cashed out" after 90 days, your distribution is subject to a mandatory 20% withholding tax.

**Requesting a rollover**
You can roll over your funds by requesting that the Xerox Benefits Center transfer your funds to another qualified plan or IRA. The Xerox Benefits Center will send a check to you, payable to the trustee of the new plan. You have 60 days to deposit these funds in the new plan. If you request that the Xerox Benefits Center make the check payable to you, 20% of the total amount will be withheld for federal income taxes as mandated by federal law. To roll over the entire amount of the distribution, you then would have to replace this 20% from your own funds.

## Rollovers

If you receive a distribution that would be subject to federal income tax, federal law allows you, in most cases, to redeposit or roll over all or part of this distribution to another tax-favored plan, like another employer's qualified plan or an IRA. Rollovers are not permitted with annuity payments for your life (or joint life expectancies of you and your spouse), installment payments for a period of ten or more years, and certain required minimum distributions after you reach age 70 1/2. If you make this rollover within 60 days of your distribution, the amount rolled over is not subject to either federal income tax or the 10% additional tax.

You can elect a "checkless" rollover of your retirement plan benefits to the Xerox 401(k) savings plan. As of January 1, 1999, you may also elect to roll over your ESOP distribution to the Xerox 401(k) savings plan.

Your after-tax savings contributions cannot be rolled over, but the tax-deferred earnings on your after-tax contributions are eligible for rollover.

## Annuities

You have a choice of annuities from which to select. Your choices include, but are not limited to:

**Single Life Annuity**
(In a RIGP settlement, this annuity option is automatically assigned to single employees unless you elect otherwise.)

With this option, you will receive monthly payments from your account for your lifetime. Your monthly payments for this option are larger than those under the 50% Joint and Survivor Annuity. However, all benefit payments stop when you die. If you are married and your spouse lives after your death, he or she receives no payments. If you are married and elect this option, you will need to obtain your spouse's written, notarized consent.

**50% Joint and Survivor Annuity**
(In a RIGP settlement, this option is automatically assigned to married employees unless you elect otherwise with written, notarized spousal consent.)

With this option, payments are made over two lifetimes. You will receive reduced monthly benefits for your lifetime. After your death, your spouse (if he or she is still alive) will receive a monthly benefit equal to 50% of your benefit. A 100% Joint and Survivor Annuity is also available.

For information on additional annuity options, call the Xerox Benefits Center.

# Installment payment option

Installments enable you to continue to manage your money in the plan and "pay yourself" regular amounts to cover your living expenses.

You can elect installment payments from your 401(k) savings plan account only if you are retirement eligible (at least 55 years of age and at least ten years of vesting service). You can elect installment payments of your ESOP account regardless of your age and service. The type of installments available vary slightly for each plan:

**401(k) installments—retirees only**

Under the 401(k) savings plan, you can set up fixed installment payments, either monthly or quarterly. This means you elect the amount you want to receive in each installment. This fixed amount will be paid to you until your account is paid in full. You may adjust the amount of your installment payments.

If the projected payment period is ten years or less, the amount is eligible for rollover. If the period is more than ten years, the amount is not rollover-eligible.

**ESOP installments**

Under the ESOP, you can set up calculated installments over a period of up to five years. This means you elect the time period over which payments will be made (up to five years). Payments will be calculated accordingly, based on your account balance. You can receive ESOP installment payments in cash or in shares of Xerox common stock. ESOP installments are paid on a monthly or quarterly basis.

# Minimum distributions

If you are retired, federal law requires that you begin receiving your distributions from qualified plans no later than April 1 of the calendar year following the calendar year in which you reach age 70 1/2.

Special rules apply if you are still actively employed when you reach age 70 1/2. If you reach age 70 1/2 on or before December 31, 1998 and you are still actively employed at Xerox, you will begin to receive retirement benefits by April 1, 1999. However, you can elect to postpone receipt of your profit sharing and ESOP accounts until the year of your retirement.

If you reach age 70 1/2 on or after January 1, 1999 and are still actively employed at Xerox, distribution from RIGP, profit sharing and ESOP will begin either April 1 of the calendar year following the calendar year in which you reach age 70 1/2 or the year of your retirement, whichever is later.

# Tax treatment of distributions



When you receive a distribution in cash, payable directly to you, from the 401(k) savings plan, ESOP, RIGP, or other qualified plan, any amounts that have not previously been taxed are subject to 20% federal income tax withholding. These distributions include:

- Before-tax contributions
- Deferred profit sharing
- Company match for 1987 through 1989
- Investment results on all savings, including after-tax savings
- Automatic deferral of profit sharing to the Xerox Stock Fund for 1999 and beyond
- CBRA, TRA, or retirement plan formula benefit (whichever is payable under RIGP)

## Mandatory withholding

Mandatory withholding applies to payments from RIGP, the 401(k) savings plan, and the ESOP that are paid directly to you rather than to the trustee of another plan or IRA.

If a distribution eligible for rollover is paid directly to you, federal law requires 20% to be withheld on the taxable portion. That 20% is paid to the IRS as income tax withholding. When you file your income tax return for that year, you are required to report the total amount of the distribution, including the withheld tax. You will be entitled to a credit for the tax withheld against any income tax you owe for that year. You also may be subject to an additional 10% tax.

If you want to roll over the distribution to an IRA or other qualified plan, you must do so within 60 days. To roll over the entire eligible amount, you would have to reinvest the funds you received and replace the withheld amount from your own funds. You would receive credit for the amount withheld when you file your income tax return for that year.

**Rollovers, if made payable to the trustee of an IRA or another qualified plan, are not subject to mandatory withholding.**

**For example**

The following example shows the difference between a $10,000 direct rollover payable to the trustee of another plan or IRA and a rollover after the funds have been paid to you.

**Direct rollover from Xerox**

| | |
|---|---|
| Distribution made payable to new employer plan or qualified IRA and sent to you. | $10,000 |
| Federal income tax withheld | $ 0 |

**Distribution paid to you for rollover**

| | |
|---|---|
| Distribution amount | $10,000 |
| Federal income tax withheld | – 2,000* |
| Balance paid to you | $ 8,000 |

**Distribution rolled over by you**

| | |
|---|---|
| Amount received from the Xerox Benefits Center | $ 8,000 |
| From your other sources | + 2,000 |
| Total rollover | $10,000 |

*You get a credit for the withheld amount when you file your income tax return.

# 10% additional tax

In addition to federal taxes, the distribution will be subject to an additional 10% tax if it is made before you reach age 59 1/2, unless:

- Your distribution is made following termination of employment or retirement that occurred during or after the year in which you reach age 55
- You are permanently and totally disabled
- You take the distribution in the form of an annuity payable over your life expectancy or over the life expectancy of you and your spouse or beneficiary
- The distribution is made to an alternate payee, as mandated by a Qualified Domestic Relations Order
- The distribution is made to your beneficiary in the event of your death
- You have medical expenses allowable as an income tax deduction
- You roll over your distribution and continue to postpone its taxation

See IRS Form 5329 for more information on the 10% additional tax and for any exceptions that may apply to you.

# Voluntary withholding

If any portion of your payment is not eligible for rollover, but is taxable, mandatory withholding does not apply. In this case, you are generally allowed to elect not to have withholding apply to that portion. You can make this election by speaking with a Xerox Benefits Center representative for all plan distributions except the retirement plan. To elect out of withholding for your retirement plan distribution, you must indicate this on the Tax Withholding Direct Deposit form provided by the Xerox Benefits Center.

# Special tax treatment for lump sums

If you take your distribution in the form of a lump sum and you are at least age 59 1/2, you may be allowed (subject to repeal for distributions made after December 31, 1999) a once-in-a-lifetime election of five-year forward averaging treatment. You must be a plan participant for a minimum of five years to qualify for forward averaging.

If you were at least age 50 before January 1, 1986, you will be allowed a once-in-a-lifetime election of either:

- Ten-year forward averaging, using 1986 tax rates
- Five-year forward averaging, using current tax rates

This choice is available at any time, but only once in your lifetime. If you were at least age 50 on January 1, 1986, you will be allowed to claim pre-1974 capital gains at an assumed tax rate of 20%.

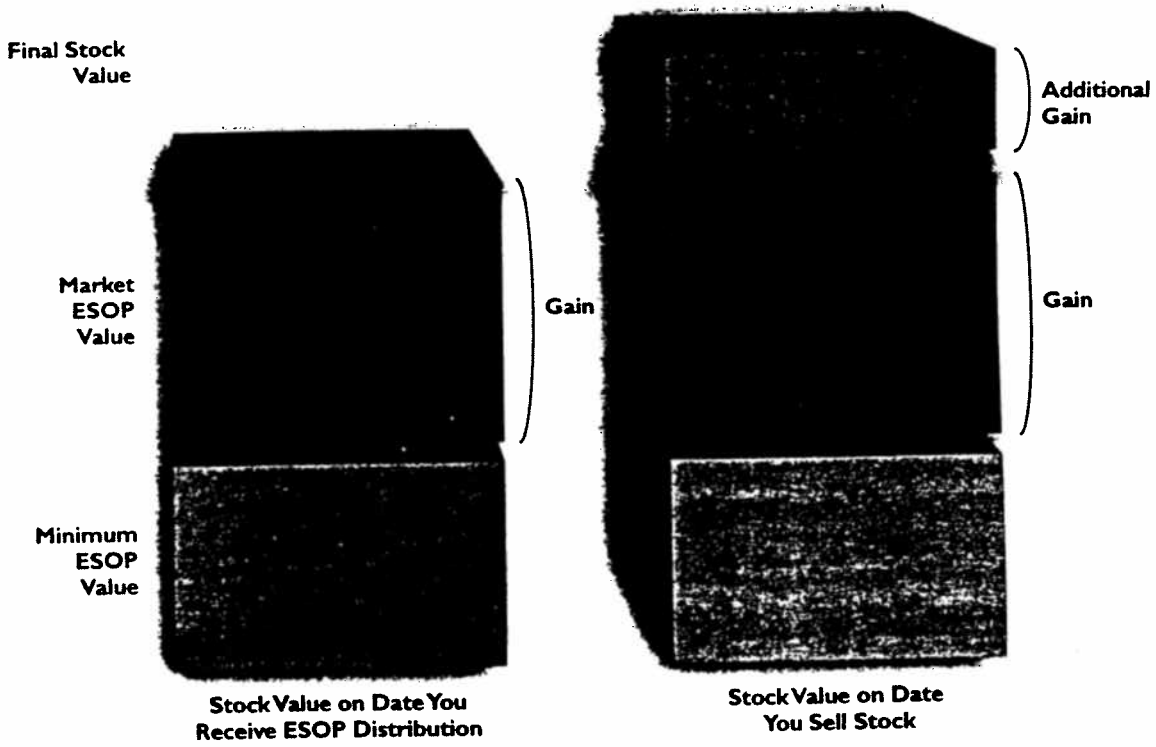
# Tax treatment of stock distributions

If you elect to receive a lump-sum distribution of your ESOP account in Xerox common stock, special tax rules apply. You will be liable for taxes on the minimum value of your account (as described on page 37) in the year you receive the distribution. However, the taxes on your gain (the difference between the market value and the minimum value of your ESOP account at the time of distribution) can be treated differently. You may choose to defer the taxes on your gain, or you may choose to pay taxes on your gain in the year you receive the distribution.

Note: This discussion also applies to any distribution taken in the form of stock from the 401(k) savings plan, including the amount automatically deferred into the Xerox Stock Fund. The basis of your stock varies, depending on the dates on which you invested in the fund. The Xerox Benefits Center can provide the purchase price data.

### If you elect to defer taxes on the gain

You can defer taxes on your gain until you sell the stock. When you later sell the stock, the original gain will be subject to tax at the long-term capital gain rate—regardless of how long you have held the stock. If the stock increases in value after your ESOP distribution, this additional gain after distribution will be considered long-term or short-term capital gain, depending on how long you held the stock, and will be subject to tax accordingly. If the stock declines in value after your ESOP distribution, the gain will be subject to tax at the long-term capital gain rate.




### If you elect to pay taxes on the gain in year of distribution

If you want to pay taxes on your gain in the year of distribution, attach a signed statement to your income tax return. On the statement, you should indicate that you are electing to include the gain as part of the lump-sum ESOP distribution for tax purposes. In this case, the gain will be taxed at the appropriate ordinary income tax rate instead of at the long-term capital gain rate. If you later sell the stock, you will be liable for income taxes on any increase in value from the date of your distribution.

## Impact of before-tax savings and salary redirection

All pay-related benefits provided by Xerox—medical, dental, life insurance, disability income, child care subsidy, profit sharing, Employee Stock Ownership Plan, and retirement benefits—will be based on the appropriate definition of *pay* prior to any deductions for before-tax savings and/or salary redirection, subject to federal limits.

## Qualified Domestic Relations Orders

Generally, payments from any qualified plan cannot be made to anyone except you, your beneficiary, or your estate. However under federal law, if a satisfactory Qualified Domestic Relations Order (QDRO) is submitted to Xerox, payments may be made from your account to satisfy alimony, child support, or marital property rights. Federal law sets stringent standards that the court order must satisfy in order to be effective. For instance, the order cannot require payments to be made from the retirement plan in any manner not permitted by the plan. The QDRO unit at the Xerox Benefits Center will review each order submitted. Those that do not comply with federal law will be returned.

## Social Security

You may also be eligible for Social Security benefits. You and Xerox make equal contributions to Social Security during your career. The annual income from Social Security at retirement is another important element of your retirement security. For an estimate of your Social Security benefit, contact your local Social Security Administration Office and request form SSA-7004-PC.

# Administrative information



## Your rights under ERISA

(the Employee Retirement Income Security Act of 1974, as amended)

As a participant in the various Xerox benefit plans, you are entitled to certain rights and protections under the Employee Retirement Income Security Act (ERISA). ERISA provides that all participants in benefit plans governed by ERISA shall be entitled to:

- Examine, without charge, at the Plan Administrator's office and at other specified locations, all plan documents, including insurance contracts and copies of all documents filed for the plan with the U.S. Department of Labor, such as detailed annual reports and plan descriptions.
- Obtain copies of all plan documents and other plan information as required by ERISA upon written request to the Plan Administrator. The administrator has the right to apply a reasonable charge for the copies.
- Receive a summary of the plan's annual financial report. The Plan Administrator is required by law to furnish each participant with a copy of this summary annual report.
- Obtain a statement telling you whether you have a right to receive a pension at normal retirement age (age 65) and, if so, what your benefits would be at normal retirement age if you stop working under the plan now. If you do not have a right to a pension, the statement will tell you how many more years you have to work to be entitled to receive a retirement benefit. This statement can be obtained by calling the Xerox Benefits Center and requesting a benefit estimate (from the RIGP menu). The plan does not charge for this statement.

In addition to creating rights for plan participants, ERISA imposes duties on the people who are responsible for the operation of the covered employee benefit plans. The people who operate these plans, called "fiduciaries" of the plans, have a duty to do so prudently and in the interest of you and other plan participants and beneficiaries. No one, including your employer, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a benefit or exercising your rights under ERISA.

If your claim for a covered plan benefit is denied, in whole or in part, you must receive a written explanation of the reason for the denial. You have the right to have the plan review and reconsider your claim. To do so, you must submit, within 60 days of your receipt of the denial of your claim, a written appeal to the Plan Administrator, in accordance with the plan's claims and appeals procedures. (See "Claims denial and appeals procedures," on page 72.)

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request materials from the plan and do not receive them within 30 days, you may file suit in a federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to $100 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the administrator.

If you have a claim for covered plan benefits that is denied (or ignored and therefore considered denied because you have not received a response within the 90-day period referred to in the "Claims Denial and Appeal Procedures" section), in whole or in part, and *you have appealed such denial in accordance with the plan's procedures*, you may file suit in a state or federal court. If it should happen that plan fiduciaries misuse the plan's money or if you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor or you may file suit in a federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay the costs and fees. If you lose, the court may order you to pay these costs and fees; for example, if it finds your claim is frivolous.

If you have any questions about this statement or about your rights under ERISA, you should contact the nearest office of the Pension and Welfare Benefits Administration, U.S. Department of Labor, listed in your telephone directory, or the Division of Technical Assistance and Inquiries, Pension and Welfare Benefits Administration; U.S. Department of Labor; 200 Constitution Avenue, N.W; Washington, D.C. 20210.

## Claims denial and appeal procedures

As a participant or beneficiary, you must file, with the Plan Administrator, a written claim for benefits under the plan. In the event that your claim is denied, the Plan Administrator shall, within a reasonable time, provide adequate notice in writing to you, clearly setting forth all the following matters:

- The specific reason or reasons for the denial
- Specific reference to the provision(s) of the plan on which the denial is based
- A description of any additional material or information required to process the claim, and an explanation of why such material or information is necessary
- Information as to the steps to be taken in order that the denial of the claim may be reviewed

The *reasonable time* cannot exceed 90 days, unless special circumstances require an extension of time of not more than an additional 90 days. In that case, you will be notified of the delay during the first 90-day period.

If written notice of the denial of a claim has not been furnished to you, and your claim has not been granted within the time prescribed above (including any applicable extensions), you should consider the claim denied.

If your claim for benefits has been denied, in whole or in part, you may appeal the denial to the Plan Administrator. This appeal must be submitted within 60 days from either the receipt of the denial of the claim or from the time the claim is considered denied. At this time you may request to review documents pertinent to your claim, and you may submit written issues and comments. **Failure to file such appeal within the applicable time period will preclude your bringing any future proceedings with respect to the claim to the extent permitted by law.**

The Plan Administrator will notify you of the decision within 60 days (unless special circumstances require an extension) after an appeal is received. This decision will be in writing and will include specific reasons for the decision and specific reference to the provision(s) of the plan on which the decision is based. The Plan Administrator (or designee) has the exclusive right to interpret the appropriate plan provisions; its decisions are conclusive and binding.

## Limitation on actions

A participant or beneficiary under the Company's plans must bring any action in state or federal court for the alleged wrongful denial of plan benefits, or for the alleged intentional interference with any ERISA-protected rights that the participant or beneficiary is or may become entitled to, within one year after the cause of action accrued. This is generally from the time one first knew or should have known of the alleged wrongful denial or interference, or as otherwise determined by a court of law.

Failure to bring such an action within this time frame shall preclude a participant from bringing such action.

Failure to request reconsideration of a claim denial as provided in the Claims Denial and Appeal Procedures also shall preclude a participant from bringing any further proceeding regarding such claim to the extent permitted by law.

## Plan documents

While this book summarizes the key features of the retirement, profit sharing, and savings plans in your Xerox benefits program, it does not cover all the details. The full terms and conditions of these plans are described in the various plan texts and insurance contracts. These documents legally govern the operation of the plans. In the event of a discrepancy between these documents and the summaries contained in this book, the plan documents are controlling.

Copies of all plan documents, as well as the annual reports of plan operations filed with the Internal Revenue Service, are available for review anytime during normal business hours at the office of the Plan Administrator.

## Plan continuation

The Company reserves the right to amend or terminate the retirement, profit sharing, and savings plans at any time.

## Employer identification number

Xerox Corporation's employer identification number, assigned by the IRS, is #16-0468020.

## Plan Administrator

The Plan Administrator for the ERISA-governed plans is Patricia M. Nazemetz, Director, Total Pay, Xerox Corporation; 800 Long Ridge Road; P.O. Box 1600; Stamford, CT 06904; telephone (203) 968-3000.

The 1998 Employee Stock Option Plan, which provides for the grant of stock options in connection with the Company's profit sharing contribution, is not a qualified plan and is not subject to the terms of ERISA. Hector J. Motroni, Vice President, Human Resources and Quality, is the Plan Administrator.

**Official plan information**

| Plan Name | Plan Number | Plan Type | Plan Trustee/ Plan Insurer/ Payer of Benefits | Plan Funding |
|---|---|---|---|---|
| ***Profit Sharing Plan*** | | | | |
| The Xerox Corporation Profit Sharing and Savings Plan | 001 | Defined contribution/ individual accounts | Trustee: State Street Bank & Trust Co. P.O. Box 1992 Boston, MA 02015 | Contributions, from both Xerox and employees, are paid to the plan trustee |
| ***Retirement Plans*** | | | | |
| Xerox Corporation Retirement Income Guarantee Plan | 006 | Defined benefit/ Individual account | Trustee: State Street Bank & Trust Co. P.O. Box 1992 Boston, MA 02015 | Xerox's contribution is actuarially determined and paid to the plan trustee |
| Xerox Corporation Employee Stock Ownership Plan (ESOP) | 007 | Defined contribution | Trustee: State Street Bank & Trust Co. P.O. Box 1992 Boston, MA 02015 | Xerox contributions and dividends on series B convertible preferred stock are paid to the plan trustee |

Legal process may be served on the plan trustee or the Plan Administrator. The end of the year for purposes of maintaining the plans' fiscal record is December 31.

THE DOCUMENT COMPANY
XEROX

September 1998