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

Prospectus Supplement

To Prospectus Dated February 3, 2004

$700,000,000

Xerox Corporation

6.40% Senior Notes due 2016

We are offering $700,000,000 aggregate principal amount of our 6.40% senior notes due 2016, or the notes .

The notes will mature on March 15, 2016. We will pay interest on the notes on each March 15 and September 15, commencing September 15, 2006.

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

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

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

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

	Public Offering Price	Underwriting Proceeds	Proceeds, before expenses, to us
Per note	99.413%	1.000%	98.413%
Total	$ 695,891,000	$ 7,000,000	$ 688,891,000

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

We expect that delivery of the notes will be made to purchasers in book-entry form through The Depository Trust Company on or about March 20, 2006.

Joint Book-Running Managers

JPMorgan **Goldman, Sachs & Co.**

Co-Lead Managers

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

Co-Managers

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

The date of this prospectus supplement is March 15, 2006

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ABOUT THIS PROSPECTUS SUPPLEMENT

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

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

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

WHERE YOU CAN FIND MORE INFORMATION

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

Public Reference Room

100 F Street, N.E.

Room 1850

Washington, D.C. 20549

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

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

MARKET AND INDUSTRY DATA

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

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PROSPECTUS SUPPLEMENT SUMMARY

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

The Company

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

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

Industry Overview

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

Our Position

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

Eligible Offset market. Within the Eligible Offset market,

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

Key Offerings

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

Our Business Model

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

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The Offering

Issuer	Xerox Corporation.
Notes Offered	$700,000,000 aggregate principal amount of Senior Notes due 2016.
Maturity	March 15, 2016.
Interest Rate	The notes will bear interest from March 20, 2006 at the rate of 6.40% per annum, payable semi-annually.
Interest Payment Dates	March 15 and September 15 of each year, beginning on September 15, 2006.
Guarantor	The notes will initially be guaranteed by one of our subsidiaries on a senior basis. That subsidiary also currently guarantees our outstanding 9 3/4% Senior Notes due 2009, 7 1/8% Senior Notes due 2010, 7 5/8% Senior Notes due 2013 and 6 7/8% Senior Notes due 2011 (collectively, the Existing Senior Notes). Our guarantor subsidiary represents less than 1% of our consolidated revenues and less than 1% of our consolidated assets for the year ended December 31, 2005 and as of December 31, 2005, respectively. As of December 31, 2005, on a *pro forma* basis giving effect to the notes offering and the application of proceeds therefrom, the Company had total secured debt of approximately $3.5 billion on a consolidated basis, of which approximately $308 million was secured debt solely of the Company and our guarantor subsidiary. If Xerox cannot make payments on the notes when they are due, our guarantor subsidiary must make them instead. We expect the guarantor subsidiary will cease to be a guarantor of the Existing Senior Notes and the notes when we enter into our new credit facility. See Certain Other Indebtedness and Preferred Stock 2006 Credit Facility .
Ranking	The notes are unsecured and will rank equally in right of payment with all of our other existing and future senior unsecured indebtedness.
	The notes will be effectively subordinated to all of the secured indebtedness of Xerox and the guarantor subsidiary which, as of December 31, 2005, was approximately $308 million. The notes will be structurally subordinated to all of the secured and unsecured indebtedness and other liabilities of our non-guarantor subsidiaries. As of December 31, 2005, our non-guarantor subsidiaries had approximately $6.5 billion of outstanding indebtedness and other liabilities, including trade payables but excluding intercompany liabilities.
Optional Redemption	We may redeem some or all of the notes offered hereby at any time at 100% of the principal amount plus a make-whole premium. See Description of the Notes Optional Redemption .

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Change of Control	If we undergo a change of control, we must give all holders of the Notes the opportunity to sell to us their notes at 101% of their face amount, plus accrued interest. We might not be able to pay to you the required price for Notes that you present to us upon a change of control, because: we might not have enough funds at that time; or the terms of our debt instruments may prevent us from paying.
Certain Covenants	The indenture governing the notes will contain covenants limiting our ability and our subsidiaries ability to: create certain liens; and consolidate or merge with, or convey, transfer or lease substantially all our assets to, another person. These limitations will be subject to a number of important qualifications and exceptions. You should read Description of the Notes Covenants for a description of these covenants.
Use of Proceeds	We intend to use a portion of the net proceeds of this offering to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured loan agreements, and for other general corporate purposes, and may use a portion of the net proceeds to repay all or a portion of the $300 million term loan tranche outstanding under the 2003 Credit Facility.
Risk Factors	See Risk Factors beginning on page S-5 of this prospectus supplement and on page 2 of the related prospectus for important information regarding us and an investment in the notes.
Further Issuances	We may create and issue further notes ranking equally with the notes (other than the payment of interest accruing prior to the issue date of such further notes or except for the first payment of interest following the issue date of such further notes). Such notes may be consolidated and form a single series with the notes.

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RISK FACTORS

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

Risks related to the notes

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

We have, and after this offering and the application of the net proceeds therefrom will continue to have, a substantial amount of debt and other obligations. As of December 31, 2005, on a *pro forma* basis assuming the consummation of this offering, we would have had $8.0 billion of debt, on a consolidated basis, of which $3.5 billion would have been secured, and $0.7 billion of liabilities to subsidiary trusts issuing preferred securities outstanding.

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

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

become due and payable upon a change of control.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If Xerox becomes insolvent or is liquidated, or if payment under any of our secured debt obligations is accelerated, the secured lenders would be entitled to exercise the remedies available to a secured lender under applicable law and will have a claim on those assets before the holders of our senior notes that are unsecured or the notes offered under this prospectus supplement. As a result, the notes are effectively subordinated to our secured indebtedness to the extent of the value of the assets securing that indebtedness or the amount of indebtedness secured by those assets. Therefore, the holders of the notes may recover ratably less than the lenders of our secured debt in the event of our bankruptcy or liquidation. At December 31, 2005, after giving effect to the issuance of notes offered by this prospectus supplement, we would have had \$8.0 billion of debt on a consolidated basis, of which \$3.5 billion would be secured debt. Approximately \$2.9 billion principal amount of

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

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

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

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

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

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

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

- was insolvent or rendered insolvent by reason of such incurrence;

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

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

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

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

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

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

it could not pay its debts as they become due.

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

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

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

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

An active trading market may not develop for the notes.

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

Risks related to our business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our operating results may be negatively impacted by revenue trends.

Our ability to return to and maintain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of our worldwide equipment placements, as well as sales of services and supplies occurring after the initial equipment placement (post sale revenue) in the key growth markets of digital printing, color and multifunction systems. We expect that revenue growth can be further enhanced through our document management and consulting services in the areas of personalized and product life cycle communications, office and production services and document content and imaging. The ability to achieve growth in our equipment placements is subject to the successful implementation of our initiatives to provide advanced systems, industry-oriented global solutions and services for major customers, improve direct sales productivity and expand our indirect distribution channels in our developing markets operations and other geographic areas in the face of global competition and pricing pressures. Our ability to increase post sale revenue is largely dependent on our ability to increase the volume of pages printed, the mix of color pages, equipment utilization and color adoption. Equipment placements typically occur through leases with original terms of three to five years. There will be a lag between the increase in equipment placement and an increase in post sale revenues. The ability to grow our customers usage of our products may continue to be adversely impacted by the movement toward distributed printing and electronic substitutes and the impact of lower equipment placements in prior periods. If we are unable to return to and maintain a consistent trend of revenue growth, it could materially adversely affect our results of operations and financial condition.

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

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

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

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USE OF PROCEEDS

The net proceeds of this offering after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, are expected to be approximately $688.2 million. We intend to use a portion of the net proceeds to finance customer purchases of equipment, in lieu of borrowings under our existing senior secured loan agreements, and for other general corporate purposes, and may use a portion of the net proceeds to repay all or a portion of the $300 million term loan tranche outstanding under the 2003 Credit Facility. The current interest rate applicable to the term loan tranche under the 2003 Credit Facility is 6.35%. The term loan tranche outstanding under the 2003 Credit Facility matures on September 30, 2008.

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CAPITALIZATION

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

(in millions)	**As of December 31, 2005**	
	Actual	**Adjusted**
Cash and cash equivalents (1)	$ 1,322	$ 2,010
Short-term investments	244	244
Total cash, cash equivalents and short-term investments	1,566	2,254
Debt maturing within one year (2)	1,139	1,139
Long-term debt (3)	6,139	6,139
Senior Notes due 2016		696
Total Debt	7,278	7,974
Minorities interests in equity of subsidiaries	90	90
Liabilities to subsidiary trusts issuing preferred securities (4)	724	724
Common shareholder s equity and preferred stock:		
Series C mandatory convertible preferred stock	889	889
Common stock, par value $1.00 per share, 1.05 billion shares authorized, 945,105,974 shares issued	945	945
Additional paid-in-capital	3,796	3,796
Treasury stock, at cost (13,916,900 shares)	(203)	(203)
Retained earnings	3,021	3,021
Accumulated other comprehensive loss	(1,240)	(1,240)
Total Common Shareholders Equity and Preferred Stock	7,208	7,208
Total Capitalization	**$ 15,300**	**$ 15,996**