SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (date of earliest event reported): April 23, 2004

XEROX CORPORATION

(Exact name of registrant as specified in its charter)

New York	1-4471	16-0468020
(State or other Jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

800 Long Ridge Road
P. O. Box 1600
Stamford, Connecticut 06904-1600
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (203) 968-3000

Not Applicable
(Former name or former address, if changed since last report)

Item 12. Results of Operations and Financial Condition.

On April 23, 2004, Registrant released its first quarter 2004 earnings and is furnishing a copy of the earnings release to the Securities and Exchange Commission under Item 12 of this Form 8-K Report. On April 23, 2004, Registrant also held an earnings conference call to discuss its results of operations for the first quarter 2004. The earnings presentation slides and the audio replay of the first quarter 2004 earnings conference call, including the question and answer session, are available under the "Investor Relations" tab on Registrant's website http://www.xerox.com. During the earnings conference call, Anne Mulcahy, Chairman and Chief Executive Officer of Registrant, and Lawrence A. Zimmerman, Senior Vice President and Chief Financial Officer of Registrant, made certain remarks and presented these slides.

Attached as Exhibit A to this Report is a copy of Registrant's first quarter 2004 earnings release.

Attached as Exhibit B to this Report is a copy of the slides used during the earnings conference call held on April 23, 2004. Exhibit B attached to this Report contains certain pro-forma earnings measures that constitute non-GAAP financial measures, as defined under Regulation G promulgated under the Securities Exchange Act of 1934, as amended. These non-GAAP financial measures are consistent with the definition and presentation of "Segment Revenues and Operating Profit" in the earnings release (the "Segment Table") and in "Segment Reporting" in Note 8 to the consolidated financial statements contained in Registrant's 2003 Annual Report on Form 10-K.

Registrant's pro-forma operating profit, a non-GAAP financial measure, is identical to the Segment Operating Profit in the Segment Table and is calculated as the sum of Income (Loss) from Continuing Operations before Income Taxes and Equity Income and Equity in net income of unconsolidated affiliates, less the sum of Restructuring and asset impairment charges and the Provision for litigation. In calculating Registrant's first quarter 2003 pro-forma operating profit, this would have the effect of, among other things, excluding the $300 million provision recorded in connection with the Berger litigation. Registrant's pro-forma operating margin, also a non-GAAP financial measure, is identical to the Total Operating Margin in the Segment Table and is based on the pro-forma operating profit noted above. Registrant believes these non-GAAP financial measures, which are consistent with its segment profitability measures, are useful to investors because Registrant's management uses these same measures in evaluating the performance of the Company's operations. A reconciliation of these non-GAAP financial measures and the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles is also included in Exhibit B.

Attached as Exhibit C to this Report is a summary of certain remarks made by Registrant's Chief Executive Officer and Chief Financial Officer during the first quarter 2004 earnings conference call.

The information contained in this Report and Exhibits A, B and C to this Report shall not to be deemed "filed" with the Commission for purposes of Section 18 of the Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.

Forward Looking Statements

The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to Registrant, are intended to identify forward-looking statements. Such statements reflect Registrant's 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 or intended. Registrant does not intend to update these forward-looking statements.

Registrant is making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors, including without limitation those that are included in Registrant's Annual Report on Form 10-K for the year ended December 31, 2003. Such factors could cause actual results to differ materially from those contemplated by the forward-looking statements and other public statements Registrant makes.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Registrant has duly authorized this Report to be signed on its behalf by the undersigned duly authorized.

XEROX CORPORATION

By: /s/ Gary R. Kabureck

Gary R. Kabureck
Vice President and Chief Accounting Officer

Date: April 27, 2004

EXHIBIT INDEX

Exhibit No.	Description
A	Registrant’s first quarter 2004 earnings release dated April 23, 2004
B	Slides used in Registrant’s April 23, 2004 earnings conference call
C	Summary of certain remarks made by Registrant’s Chief Executive Officer and Chief Financial Officer during the April 23, 2004 earnings conference call

THE DOCUMENT COMPANY

XEROX®

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XEROX'S FIRST-QUARTER EARNINGS EXCEED EXPECTATIONS; NEW TECHNOLOGY DRIVES EQUIPMENT SALE GROWTH

- 25 cents earnings per share, includes 8 cents per share from ContentGuard sale
- 9 percent equipment sale growth
- 2 percent revenue growth; total revenue of $3.8 billion

STAMFORD, Conn., April 23, 2004—Xerox Corporation (NYSE: XRX) announced today first-quarter earnings that reflect strong sales of its industry-leading color systems and office digital products.

The company reported first-quarter 2004 earnings per share of 25 cents including an 8-cent gain from the previously announced sale of substantially all of Xerox's ownership position in ContentGuard.

"We began the quarter with the introduction of advanced offerings in the office and production markets that exemplify Xerox's strength as a technology powerhouse. And, we closed the quarter with strong sales that prove the effectiveness of our services-led value proposition—providing customers with practical solutions to reduce document costs and simplify work processes," said Anne M. Mulcahy, Xerox chairman and chief executive officer.

Technology Investments Fuel Equipment Sales

Equipment sales grew 9 percent in the first quarter including a currency benefit of 5 percentage points. Total revenue for the first quarter was $3.8 billion, an increase of 2 percent from the first quarter of 2003 including a currency benefit of 5 percentage points. Revenue growth continued to be impacted by post-sale revenue declines from the company's older light lens technology. The overall post-sale trend continued to improve as the revenue stream from new digital systems and services increasingly offsets declines from light lens.

Total first-quarter revenue from the company's targeted growth areas—office digital, production digital and value-added services—grew 9 percent year over year and now represents about 71 percent of the company's revenue. Xerox also noted significant progress in its developing markets operations, which delivered total revenue growth of 6 percent in the quarter and 33-percent equipment sales growth.

"With about 55 percent of all equipment sales in the quarter generated from products launched in the past two years, it is clear that Xerox's investment strategy is winning in the marketplace," added Mulcahy.

Revenue from color products grew 26 percent in the first quarter and is a key driver of Xerox's growth strategy as the increasing volume of pages printed on Xerox's color systems flows through to post-sale revenue. Color revenue now represents 23 percent of Xerox's total revenue.

Driving the New Business of Printing

Through the company's production business, Xerox continues to lead the "new business of printing" by helping commercial printers and document-intensive industries make the transition from offset to the more dynamic world of digital.

Production color installs grew 27 percent in the quarter driven by accelerated demand for the Xerox DocuColor® 6060 and 5252 digital color systems. Last month, Xerox reported the 10,000th installation of its entry-level color presses, reflecting the success of the DocuColor 2000 Series, which includes systems that range in speeds from 45 pages per minute to 60 ppm.

Xerox also has been named the exclusive provider of digital color printing technology for Consolidated Graphics' 65 nationwide commercial printing locations. Consolidated Graphics has initially installed six Xerox DocuColor iGen3® Digital Production Presses and six DocuColor 6060 Digital Color Presses. In the first quarter, Xerox continued its market development for the iGen3 and expects momentum to build further next month at drupa, the world's largest graphic arts and printing event.

Installs of production monochrome products increased 28 percent primarily driven by the Xerox 2101 light production system and initial demand for the new DocuTech® 100/120 copier/printer, which began shipping in March. This black-and-white digital system defines a new product category, delivering the kind of printing and publishing power previously only available on higher-end equipment.

Digitizing the Office

Xerox has nearly doubled its portfolio of digital office systems in the last year and now has the industry's broadest line of award-winning products for offices small to large. Installs of Xerox office monochrome systems were up 10 percent in the first quarter as demand increased from small and midsized businesses for the company's WorkCentre® M15 and PE16 desktop multifunction devices. Office color multifunction installs grew 45 percent. Office color printing installs grew 46 percent due to strong demand for the Phaser® 8400 solid ink color printer, which launched in January and, at less than $1,000, breaks a key price barrier. Earlier this month, Xerox launched its lowest-priced laser printers yet—the Phaser 6100 color printer starting at $699 and the Phaser 3130 monochrome printer starting at $299.

“Our strong first-quarter install activity in key markets is complemented by a comprehensive services business that leverages Xerox’s leadership position with large enterprises,” said Mulcahy. “The customer base for Xerox Global Services has significantly increased in the past year as more enterprises rely on the unparalleled expertise of Xerox people to manage the endless flow of paper and digital documents that are so essential in business today.”

Xerox reported first-quarter selling, administrative and general expenses of 27.1 percent of revenue. First-quarter gross margins were 39.8 percent reflecting an increased proportion of desktop office and light production equipment sales. The company generated operating cash flow of $243 million, a year-over-year improvement of $84 million.

Last month, Xerox sold substantially all of its interest in ContentGuard—a provider of digital rights management technology based on Xerox-developed innovation—to Time Warner Inc. and Microsoft Corp., resulting in an after-tax gain of $83 million. With this sale and other recent divestitures, Xerox is effectively commercializing its innovation while continuing to invest in the future through its commitment to research and development.

Commenting on the second quarter, Mulcahy said she expects consistent progress through continued equipment sale growth and increased revenue in key markets. “Our strong first-quarter results set the stage for another year of positive performance that builds on the power of the Xerox brand and our competitively advantaged systems and services.”

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For additional information about The Document Company Xerox, please visit our Worldwide Web site at www.xerox.com/investor.

Xerox Corporation
Condensed Consolidated Statements of Income (Unaudited)

(in millions, except per share data)	Three Months Ended March 31, 2004	2003	%Change
Revenues			
Sales	$ 1,681	$ 1,589	6%
Service, outsourcing and rentals	1,908	1,917	—
Finance income	238	251	(5%)
Total Revenues	**3,827**	**3,757**	**2%**
Costs and Expenses			
Cost of sales	1,112	1,001	11%
Cost of service, outsourcing and rentals	1,102	1,089	1%
Equipment financing interest	89	92	(3)%
Research and development expenses	193	236	(18)%
Selling, administrative and general expenses	1,036	1,020	2%
Restructuring and asset impairment charges	6	8	(25)%
Provision for litigation	—	300	*
Other expenses, net	87	157	(45)%
Total Costs and Expenses	**3,625**	**3,903**	**(7)%**
Income (Loss) from Continuing Operations before Income Taxes and Equity Income**	**202**	**(146)**	*****
Income taxes (benefits)	67	(67)	*
Equity in net income of unconsolidated affiliates	30	14	*
Income (Loss) from Continuing Operations	165	(65)	
Gain on sale of ContentGuard, net of income taxes of $26	83	—	
Net Income (Loss)	**$ 248**	**$ (65)**	*****
Less: Preferred stock dividends, net	(24)	(10)	*
Income (Loss) Available to Common Shareholders	**$ 224**	**$ (75)**	*****
Basic Earnings (Loss) per share:			
Earnings (Loss) from continuing operations	**$ 0.18**	**$ (0.10)**	*****
Net Earnings (Loss) per Share	**$ 0.28**	**$ (0.10)**	*****
Diluted Earnings (Loss) per share			
Earnings (Loss) from continuing operations	**$ 0.17**	**$ (0.10)**	*****
Net Earnings (Loss) per Share	**$ 0.25**	**$ (0.10)**	*****

Note: Certain reclassifications of prior year amounts have been made to these financial statements to conform to the current year presentation.

* Percent not meaningful.

** Referred to as “pre-tax income (loss)” throughout the remainder of this document.

Xerox Corporation
Condensed Consolidated Balance Sheets (Unaudited)

(in millions)	March 31, 2004	December 31, 2003
Assets		
Cash and cash equivalents	$ 2,298	$ 2,477
Accounts receivable, net	2,114	2,159
Billed portion of finance receivables, net	435	461
Finance receivables, net	2,873	2,981
Inventories	1,199	1,152
Other current assets	1,154	1,105
Total Current Assets	10,073	10,335
Finance receivables due after one year, net	5,119	5,371
Equipment on operating leases, net	347	364
Land, buildings and equipment, net	1,776	1,827
Investments in affiliates, at equity	720	644
Intangible assets, net	316	325
Goodwill	1,763	1,722
Deferred tax assets, long-term	1,495	1,526
Other long-term assets	2,350	2,477
Total Assets	$ 23,959	$ 24,591
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,852	$ 4,236
Accounts payable	957	1,010
Accrued compensation and benefits costs	632	532
Unearned income	227	251
Other current liabilities	1,360	1,540
Total Current Liabilities	7,028	7,569
Long-term debt	6,764	6,930
Pension and other benefit liabilities	903	1,058
Post-retirement medical benefits	1,272	1,268
Liability to subsidiary trusts issuing preferred securities	1,783	1,809
Other long-term liabilities	1,250	1,278
Total Liabilities	19,000	19,912
Series B convertible preferred stock	489	499
Series C mandatory convertible preferred stock	889	889
Common stock, including additional paid in capital	3,290	3,239
Retained earnings	1,539	1,315
Accumulated other comprehensive loss	(1,248)	(1,263)
Total Liabilities and Equity	$ 23,959	$ 24,591

Shares of common stock issued and outstanding were (in thousands) 800,244 and 793,884 at March 31, 2004 and December 31, 2003 respectively.

Xerox Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

(in millions)	Three Months Ended March 31, 2004	2003
Cash Flows from Operating Activities		
Net income (loss)	$ 248	$ (65)
Adjustments required to reconcile net income (loss) to cash flows from operating activities:		
Gain on sale of Contentguard	(83)	—
Provision for litigation	—	300
Depreciation and amortization	175	199
Provisions for receivables and inventory	51	75
Restructuring and other charges	6	8
Cash payments for restructurings	(60)	(180)
Contributions to pension benefit plans	(17)	(20)
Net (gain) loss on sales of businesses and assets	(10)	2
Undistributed equity in net income of unconsolidated affiliates	(23)	(13)
Increase in inventories	(73)	—
Increase in on-lease equipment	(40)	(36)
Decrease in finance receivables	178	183
Decrease (increase) in accounts receivable and billed portion of finance receivables	39	(25)
Decrease in accounts payable and accrued compensation	(83)	(157)
Net change in income tax assets and liabilities	20	(91)
Decrease in other current and long-term liabilities	(85)	(4)
Early termination of derivative contracts	60	—
Other, net	(60)	(17)
Net cash provided by operating activities	243	159
Cash Flows from Investing Activities		
Cost of additions to land, buildings and equipment	(48)	(35)
Proceeds from sales of land, buildings and equipment	32	1
Cost of additions to internal use software	(8)	(10)
Proceeds from divestitures, net	67	3
Net change in escrow and other restricted investments	33	(53)
Net cash provided by (used in) investing activities	76	(94)
Cash Flows from Financing Activities		
Cash proceeds from new secured financings	504	813
Debt payments on secured financings	(573)	(459)
Net cash payments on debt	(409)	(258)
Dividends on preferred stock	(25)	(11)
Proceeds from issuances of common stock	29	3
Net cash (used in) provided by financing activities	(474)	88
Effect of exchange rate changes on cash and cash equivalents	(24)	(5)
(Decrease) increase in cash and cash equivalents	(179)	148
Cash and cash equivalents at beginning of period	2,477	2,887
Cash and cash equivalents at end of period	$ 2,298	$ 3,035

Xerox Corporation
Segment Revenues and Operating Profit

(in millions, except margins)	Three Months Ended March 31, 2004	2003	Change
Revenues			
Production*	$ 1,094	$ 1,056	4%
Office*	1,857	1,820	2%
Developing Markets Operations (DMO)*	420	395	6%
Other*	456	486	(6)%
Total Revenues	**$ 3,827**	**$ 3,757**	**2%**
Memo: Color**	$ 892	$ 706	26%
Operating Profit			
Production*	$ 78	$ 90	$ (12)
Office*	161	157	4
DMO*	22	33	(11)
Other*	(23)	(104)	81
Total Operating Profit	**$ 238**	**$ 176**	**$ 62**
Operating Margin			
Production*	7.1%	8.5%	(1.4) pts
Office*	8.7%	8.6%	0.1 pts
DMO*	5.2%	8.4%	(3.2) pts
Other*	(5.0)%	(21.4)%	16.4 pts
Total Operating Margin	**6.2%**	**4.7%**	**1.5 pts**
Reconciliation to pre-tax income (loss)			
Segment Operating Profit	**$ 238**	**$ 176**	
Reconciling items:			
Restructuring and asset impairment charges	(6)	(8)	
Provision for litigation	—	(300)	
Allocated item:			
Equity in net income of unconsolidated affiliates	(30)	(14)	
Pre-tax income (loss)	**$ 202**	**$ (146)**	

* In 2004, we reclassified the operations of our Central and East European entities to DMO. As a result, 2003 revenue of $147 million was reclassified from Production, Office and Other to DMO. The quarterly impact for the first, second, third and fourth quarters of 2003, respectively, was as follows (in millions): Production: $(8), $(9), $(10), $(13); Office: $(14), $(15), $(14), $(18); DMO: $32, $35, $34, $46; Other: $(10), $(11), $(10), $(15). Operating profit was reclassified for this change as well as for certain other expense allocations. The quarterly impact for the first, second, third and fourth quarters of 2003, respectively, was as follows (in millions): Production: $(2), $(1), $(15), $(3); Office: $1, $(2), $(5), $(5); DMO: $4, $4, $4, $9; Other: $(3), $(1), $16, $(1).

Production: *Monochrome 91+ pages per minute (ppm), Color 41+ ppm; North America & Europe*

Office: *Monochrome up to 90 ppm; Color up to 40 ppm; North America & Europe*

DMO: *Operations in Latin America, Central-Eastern Europe, Middle East, India, Eurasia, Russia and Africa*

Other: *Paper, SOHO, Wide Format Systems, Xerox Technology Enterprises (XTE), consulting, equity income and non-allocated corporate items*

** Color revenues represent a subset of total revenues.

Financial Review

Summary

(in millions)	Three Months Ended Mar. 31, 2004	2003	Change
Equipment sales	$ 982	$ 898	9%
Post sale and other revenue	2,607	2,608	—
Finance income	238	251	(5)%
Total Revenues	**$3,827**	**$3,757**	2%
Reconciliation to Condensed Consolidated Statements of Income			
Sales	$1,681	$1,589	
Less: Supplies, paper and other sales	(699)	(691)	
Equipment Sales	$ 982	$ 898	
Service, outsourcing and rentals	$1,908	$1,917	
Add: Supplies, paper and other sales	699	691	
Post sale and other revenue	$2,607	$2,608	

Total first quarter 2004 revenues of $3.8 billion grew 2 percent from the 2003 first quarter including a 5-percentage point benefit from currency. Equipment sales grew 9 percent in the first quarter 2004 reflecting the success of our numerous recent digital office and production product launches, growth in our developing markets operations (“DMO”) and a 5-percentage point benefit from currency. 2004 first quarter post sale and other revenue was unchanged from the 2003 first quarter as a 5-percentage point currency benefit offset declines from older technology light lens products. These declines are due to the reduction of light lens equipment at customer locations and related page volume declines. Finance income declined 5 percent, including a 5-percentage point benefit from currency.

2004 first quarter net income of $248 million or $0.25 per diluted share included an after-tax gain of $83 million ($109 million pre-tax) related to the sale of all but 2 percent of our 75 percent equity interest in ContentGuard Holdings, Inc. (“ContentGuard”). The first quarter 2003 net loss of $65 million or $0.10 per diluted share included a $183 million after-tax charge ($300 million pre-tax) related to the Berger v. Retirement Income Guarantee Plan Litigation.

Operations Review

Revenues for the three months ended March 31, 2004 and 2003 were as follows:

(in millions)	Production	Office	DMO	Other	Total
2004					
Equipment sales	$ 275	$ 551	$ 118	$ 38	$ 982
Post sale and other revenue	729	1,169	299	410	2,607
Finance income	90	137	3	8	238
Total Revenue	$ 1,094	$ 1,857	$ 420	$ 456	$ 3,827
2003					
Equipment sales	$ 213	$ 551	$ 89	$ 45	$ 898
Post sale and other revenue	749	1,121	303	435	2,608
Finance income	94	148	3	6	251
Total Revenue	$ 1,056	$ 1,820	$ 395	$ 486	$ 3,757

Equipment sales of $982 million in the first quarter 2004 increased 9 percent from $898 million in the first quarter 2003 reflecting significant color, light production and DMO growth as well as a 5-percentage point benefit from currency. Continued equipment sales growth reflects the success of numerous products launched during the last 2 years as over 55 percent of 2004 first quarter equipment sales was generated from these products. Color equipment sales continued to grow rapidly in the first quarter 2004 and represented about 30 percent of total equipment sales.

Production: 2004 first quarter equipment sales grew 29 percent from the first quarter 2003 as significant installation growth and favorable currency more than offset the impact of monochrome product mix and price declines of less than 5 percent. Very strong color equipment sales growth reflected excellent installation growth and an increased proportion of DocuColor 6060 and DocuColor iGen3 sales, partially offset by modest price declines. Double-digit production monochrome equipment sales growth reflected light production installation growth primarily driven by the continued success of the Xerox 2101 light production system and initial demand for the new DocuTech 100 and DocuTech 120 copier/printers, which began installations in March 2004. These two DocuTech copier/printers represent the first major redesign of the DocuTech family, which was introduced in 1990.

Office: 2004 first quarter equipment sales were consistent with the 2003 first quarter as strong color and monochrome installation growth as well as favorable currency were offset by moderating price declines of approximately 5 to 10 percent and product mix. Product mix reflected an increased proportion of low-end equipment sales due to very strong growth in black and white desktop multifunction devices (“Segments 1&2”) and office color printers. Office color printing growth primarily reflects the success of the Phaser 8400, which was launched in January 2004. At 24 pages per minute and priced under $1,000, the Phaser 8400 sets an industry standard for speed, performance, functionality and price.

DMO: DMO equipment sales consist primarily of Segment 1&2 devices and printers. Equipment sales in the first quarter 2004 grew 33 percent, or $29 million, from the 2003 first quarter as growth in Russia and Central and Eastern Europe more than offset declines in Latin America.

Post sale and other revenues of $2,607 million remained essentially flat as compared with $2,608 million in the first quarter 2003, including a 5-percentage point benefit from currency, which offset declines due to lower equipment populations. Post sale revenue is largely a function of the equipment placed at customer locations and the volume of prints and copies that our customers make on that equipment as well as associated services. First quarter 2004 supplies, paper and other sales of $699 million (included within post sale and other revenue) grew one percent from the 2003 first quarter, due primarily to favorable currency. Service, outsourcing and rental revenue of $1,908 million declined less than one percent from the 2003 first quarter including a currency benefit which was more than offset by declines related to lower equipment populations and related page volumes.

Production: 2004 first quarter post sale and other revenue declined 3 percent as monochrome declines driven by lower page volumes and competitive price investments more than offset color page growth and favorable currency.

Office: 2004 first quarter post sale and other revenue grew 4 percent as strong digital monochrome and color page growth and favorable currency more than offset declines in older technology light lens products.

DMO: 2004 first quarter post sale and other revenue declined one percent due largely to declines in rental revenue, which were only partially offset by higher supplies, paper and service revenue. The year over year trend improved in the first quarter 2004 as significant equipment growth in Segments 1&2 and printers has increased equipment populations although at lower average page volume per device.

Other: 2004 first quarter post sale and other revenue declined 6 percent from the 2003 first quarter as declines in SOHO supply sales, following our 2001 exit from this business, and paper sales more than offset the impact of favorable currency.

Key Ratios and Expenses

	Q1 2004	Q1 2003
Gross Margin		
Sales	33.8%	37.0%
Service, outsourcing and rentals	42.2	43.2
Financing	62.6	63.3
Total	39.8	41.9
R&D% revenue	5.0	6.3
SAG% revenue	27.1	27.1

First quarter 2004 **total gross margin** of 39.8 percent declined 2.1 percentage points from 41.9 percent in the first quarter 2003. About 1.2 percentage points of the decline was due to an increased proportion of sales in office Segments 1&2, office printing and digital light production, as well as a greater proportion of our revenues from lower margin equipment and paper sales. Lower prices not fully offset by manufacturing and service productivity improvements represented approximately 0.5 percentage points of the decline. The remainder of the decline primarily related to the 0.4 percentage point impact from the completion of the R&D phase of the DocuColor iGen3 development. These costs are included in ongoing engineering costs, which is a component of cost of sales. First quarter 2004 **sales gross margin** declined 3.2 percentage points from the 2003 first quarter with about 2.5 percentage points of the decline due to the previously discussed product and revenue stream mix and about 1.0 percentage point due to the DocuColor iGen3 ongoing engineering costs. These declines were partially offset by the net impact of price investments, manufacturing productivity and other improvements. **Service outsourcing and rentals margin** declined 1.0 percentage point from the first quarter 2003 as price investments were only partially offset by improved service productivity.

Research and development (R&D) expense of $193 million was $43 million less than the first quarter 2003, primarily related to improved R&D productivity as we capture benefits from our platform development strategy and the commercial launch of the DocuColor iGen3. We continue to invest in technological development, particularly in color, and believe our R&D spending is at an adequate level to remain technologically competitive. Xerox R&D remains strategically coordinated with that of Fuji Xerox.

Selling, administrative and general (SAG) expenses of $1,036 million in the 2004 first quarter increased by $16 million from the 2003 first quarter as adverse currency impacts of $47 million were only partially offset by improved productivity, reflecting the benefit from previous restructuring actions, and a $14 million reduction in bad debt expense. First quarter 2004 bad debt expense of $44 million reflected improved collections performance, receivables aging and write-off trends.

In the first quarter 2004, we recorded **restructuring and asset impairment charges** of $6 million, primarily consisting of pension settlements related to previous employee restructuring actions. The remaining restructuring reserve balance at March 31, 2004 for all restructuring programs was $160 million.

Worldwide **employment** of 60,600 declined by 500 from the 2003 fourth quarter due to reductions attributable to our restructuring programs and attrition.

Other expenses, net for the three months ended March 31, 2004 and 2003 were as follows:

(in millions)	2004	2003
Non-financing interest expense	$ 95	$146
Interest income	(15)	(10)
(Gain) loss on sales of businesses and assets	(14)	2
Currency losses, net	8	1
Amortization of intangible assets	9	9
All other, net	4	9
Total	**$ 87**	**$157**

First quarter 2004 non-financing interest expense of $95 million was $51 million lower than the 2003 first quarter primarily due to lower average debt balances as a result of the June 2003 recapitalization and other repayments. First quarter 2004 interest income increased by $5 million compared to the first quarter 2003, primarily reflecting interest of $5 million related to a domestic tax receivable. The first quarter 2004 gain on sales of businesses and assets primarily related to the sale of certain excess land and buildings in Europe and Mexico.

In the first quarter 2004, we recorded **income tax expense** of $67 million compared with an income tax benefit of $67 million in the first quarter 2003. The effective tax rate for the first quarter 2004 and 2003 was 33.2 percent and 45.9 percent, respectively. The difference between the 2003 first quarter effective tax rate and the U.S. statutory tax rate relates primarily to $13 million of non-recurring net tax benefits arising in foreign jurisdictions. Our effective tax rate will change based on nonrecurring events as well as recurring factors including the geographical mix of income before taxes and the related tax rates in those jurisdictions. We anticipate that our 2004 annual effective tax rate will approximate 40 percent.

Equity in net income of unconsolidated affiliates of $30 million in the first quarter 2004 increased $16 million from the 2003 first quarter primarily reflecting our 25 percent share of Fuji Xerox's fourth quarter net income.

Segment Operating Profit

Total segment operating profit was $238 million in the first quarter 2004 compared to $176 million in the first quarter 2003. The 2004 first quarter total segment operating margin of 6.2 percent increased 1.5 percentage points from the 2003 first quarter as non-financing interest expense reductions benefiting the Other segment more than offset declines in our Production and DMO segments.

Production: Production operating profit was $78 million in the first quarter 2004 compared to $90 million in the first quarter 2003. The 2004 first quarter Production operating margin of 7.1 percent declined 1.4 percentage points from the 2003 first quarter as competitive monochrome price investments were not offset by cost productivity. These declines and selling investments were only partially offset by improved R&D expense and infrastructure efficiencies.

Office: Office operating profit was $161 million in the first quarter 2004 compared to $157 million in the first quarter 2003. The 2004 first quarter Office operating margin of 8.7 percent improved 0.1 percentage points from the 2003 first quarter reflecting R&D efficiencies.

DMO: DMO operating profit was $22 million in the first quarter 2004 compared to $33 million in the first quarter 2003. The 2004 first quarter DMO operating margin of 5.2 percent declined 3.2 percentage points from the 2003 first quarter primarily reflecting lower gross margins as a greater proportion of revenues were generated from lower margin equipment and paper sales and post sale revenue declines in certain countries were only partially offset by improved service productivity.

Other: First quarter 2004 Other operating loss of $23 million improved $81 million from the first quarter 2003. The 2004 first quarter operating margin improved 16.4 percentage points from the 2003 first quarter primarily reflecting significantly lower non-financing interest expense and higher equity income related to Fuji Xerox.

In the first quarter 2004, we sold all but 2 percent of our 75 percent equity interest in **ContentGuard** to Microsoft Corporation and Time Warner Inc for $66 million cash. The sale resulted in an after-tax book gain of approximately $83 million ($109 million pre-tax). ContentGuard, which was originally created out of research developed at the Xerox Palo Alto Research Center (PARC), licenses intellectual property and technologies related to digital rights management. The decision to sell is consistent with our strategy to focus our investments in areas related to our document management core business.

Capital Resources and Liquidity

Cash Flow Analysis

The following table summarizes our cash flows for the three months ended March 31, 2004 and 2003 as reported in our Condensed Consolidated Statements of Cash Flows:

	Three Months Ended March 31,	
(in millions)	**2004**	**2003**
Operating Cash Flows	$ 243	$ 159
Investing Cash Flows (Usage)	76	(94)
Financing Cash (Usage) Flows	(474)	88
Effect of exchange rate changes	(24)	(5)
(Decrease) increase in cash and cash equivalents	(179)	148
Cash and cash equivalents at beginning of period	2,477	2,887
Cash and cash equivalents at end of period	$ 2,298	$ 3,035

First quarter 2004 **cash flows from operating activities** were $243 million and reflect pre-tax income of $202 million and the following non-cash items: depreciation and amortization of $175 million, provisions for receivables and inventory of $51 million, and net gains on the sale of businesses and assets of $10 million. In addition, net collections of finance receivables generated $178 million of operating cash flow resulting from sequentially lower equipment sales and a slight increase in the proportion of cash equipment sales. Cash proceeds of $60 million from the early termination of certain interest rate swaps also contributed positively to our operating cash flow. Offsetting these positive items were other liability decreases of $85 million, a substantial portion of which was driven by the first quarter 2004 payment of European value-added taxes related to seasonally higher fourth quarter purchases. In addition, an $83 million decrease in accounts payable and accrued compensation, a $73 million increase in new product inventory, $60 million of restructuring payments and approximately $100 million of tax payments and other uses further reduced our operating cash flow. The 2004 first quarter operating cash flow was $84 million higher than the 2003 first quarter primarily due to reduced restructuring payments of $120 million and $60 million of proceeds from the early termination of certain interest rate swaps, partially offset by higher inventory purchases of $73 million.

Cash flows from investing activities of $76 million for the first quarter 2004 included proceeds of $67 million from the sale of businesses, primarily consisting of those from ContentGuard, $32 million of proceeds from the sale of certain excess land and buildings and $33 million released from restricted cash. These proceeds were partially offset by capital expenditures and internal use software spending of $56 million. The 2003 first quarter included $45 million of capital and internal use software spending and a $53 million increase in restricted cash balances principally related to our secured financing activity.

Cash flows from financing activities for the first quarter 2004 primarily consisted of scheduled payments on term and other debt of $409 million, net payments on secured borrowings with GE and other vendor financing partners of $69 million and dividends on our Series B and C preferred stock of $25 million, partially offset by proceeds from stock option exercises of $29 million. Financing activities for the first quarter 2003 primarily consisted of net proceeds from secured borrowing activity of $354 million offset by $258 million of net payments of other maturing debt and $11 million of dividends on our Series B preferred stock.

Financing Activity

During the first quarter 2004 we originated loans, secured by finance receivables, generating cash proceeds of $504 million and repaid loans, secured by finance receivables, of $573 million. The proportion of total finance receivables that are secured is 59 percent, consistent with the fourth quarter 2003. As of March 31, 2004, debt secured by finance receivables represented approximately 40 percent of total debt.

The following table compares finance receivables to financing related debt as of March 31, 2004:

(in millions)	Finance Receivables	Secured Debt
Finance Receivables Encumbered by Loans(1) :		
GE Loans—U.S. and Canada	$ 3,365	$2,897
GE Loans—U.K.	747	659
Merrill Lynch and Asset-Backed Loan—France	530	435
DLL-Netherlands, Spain & Belgium	338	261
Other	5	2
Total—Finance Receivable Securitizations	$ 4,985	$4,254
Unencumbered Finance Receivables	$ 3,442	
Total Finance Receivables(2)	$ 8,427	

(1) Encumbered Finance receivables represent the net book value of finance receivables that secure each of the indicated loans.

(2) Includes (i) Billed portion of finance receivables, net (ii) Finance receivables, net and (iii) Finance receivables due after one year, net as included in the condensed consolidated balance sheets as of March 31, 2004.

Debt

Our debt maturities for the remainder of 2004 and 2005 by quarter, and 2006, 2007, 2008 by year and thereafter are as follows:

(in millions)	2004	2005	2006	2007	2008	Thereafter
First Quarter	—	$ 485				
Second Quarter	$1,159	1,251				
Third Quarter	713	255				
Fourth Quarter	1,495	272				
Full Year	$3,367	$2,263	$578	$424	$1,120	$ 2,864
Debt secured by finance receivables (subset of above)	$1,644	$1,168	$546	$103	$ 736	$ 57

Recent Events

Scansoft

On April 8, 2004, we sold our ownership interest in ScanSoft, Inc. ("Scansoft") to affiliates of Warburg Pincus for approximately $80 million in cash. Prior to the sale, we beneficially owned approximately 15 percent of ScanSoft's outstanding equity interests. The sale resulted in a pre-tax gain of approximately $38 million, which will be recorded in the second quarter 2004. Prior to this transaction, our investment in Scansoft was accounted for as an investment "available for sale" in accordance with SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities". The decision to sell is aligned with our strategy to focus our investments in areas related to our document management core business. We plan to continue working with ScanSoft as a business partner and application provider.

Pension Contribution

Following a review of the 2004 actuarial valuation results and given our strong liquidity position, we elected to contribute $210 million to our tax qualified U.S. pension plans in April 2004 for the purpose of making those plans 100 percent funded on a current liability basis under government funding rules.

Forward-Looking Statements

This earnings release and financial review contain **forward-looking statements** and information relating to Xerox that are based on our beliefs as well as assumptions made by and information currently available to us. The words "anticipate," "believe," "estimate," "expect," "intend," "will" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements. Information concerning certain factors that could cause actual results to differ materially is included in our 2003 Form 10-K filed with the SEC. We do not intend to update these forward-looking statements.

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Exhibit B

Xerox Corporation

First Quarter 2004

Earnings Presentation

April 23, 2004

Anne Mulcahy
Chairman & CEO

Larry Zimmerman
Senior Vice President & CFO

Disclosures

"During this meeting, Xerox executives will make forward-looking statements. Actual results could differ materially from those projected in such forward-looking statements.
You can find information concerning certain factors that could cause actual results to differ materially in the Company's 2003 10-K.
The Company does not intend to update any forward-looking statements made during this meeting."

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Anne Mulcahy

Chairman & CEO,
Xerox Corporation

Anne M

First-Quarter Highlights

- Strong earnings of $0.25 including $0.08 gain on ContentGuard sale
- Improving revenue trends
  - Equipment sales grew 9%
  - Continued improvement in post-sale trends
- Effective execution of strategy
  - 'Color Everywhere' success with 26% growth in color revenue
  - Significant technology announcements - new Office and Production platforms
- Operating margin improvement and earnings expansion
- Excellent operating cash flow of $243 million
  - Year-over-year improvement of $84 million
- Cash balance remains strong at $2.3 billion

Revenue Trends Continue to Improve

($M)	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1
Equipment Sales					
Revenue	$ 898	$ 1,023	$ 948	$ 1,381	$ 982
Growth	*3%*	*8%*	*5%*	*11%*	*9%*
Post Sale & Financing					
Revenue	$ 2,859	$ 2,897	$ 2,784	$ 2,911	$ 2,845
Growth	*(4%)*	*(4%)*	*(4%)*	*(3%)*	*--%*
Total Revenue					
Revenue	$ 3,757	$ 3,920	$ 3,732	$ 4,292	$ 3,827
Growth	*(3%)*	*(1%)*	*(2%)*	*1%*	*2%*

- Total Revenue grew 2%
- Continued Equipment Sales growth
- Improving trends in Post Sale & Financing

Increasing Proportion of Revenue in Growth Areas

($M)	Revenue 2004 Q1	% Growth 2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1
Growth Areas						
Digital Office	$1,683	8%	13%	8%	11%	9%
Digital Production	1,004	4%	5%	4%	9%	9%
Value Added Services	44	1%	(4%)	(12%)	(11%)	(2%)
Subtotal	2,731	7%	10%	6%	10%	9%
Growth areas as a % of Total Revenue		**67%**	**69%**	**69%**	**72%**	**71%**
Developing Markets	420	(19%)	(11%)	(2%)	1%	6%
Light Lens / SOHO	292	(29%)	(31%)	(33%)	(32%)	(37%)
Other	384	6%	(9%)	(1%)	(18%)	(3%)
Total Revenue	$3,827	(3%)	(1%)	(2%)	1%	2%
Memo: Color Revenue	$ 892	15%	19%	15%	20%	26%
Color as a % of Total	23%					

Production Segment Highlights

Total Revenue

Total Production 4%

Light Lens (33%)

Digital 9%

	Q1 2004 Install Growth
Production Monochrome	28%
Production Color	27%

May 6: drupa 2004 sets the stage for expanded system and solution offerings in Production market

First-Quarter Highlights

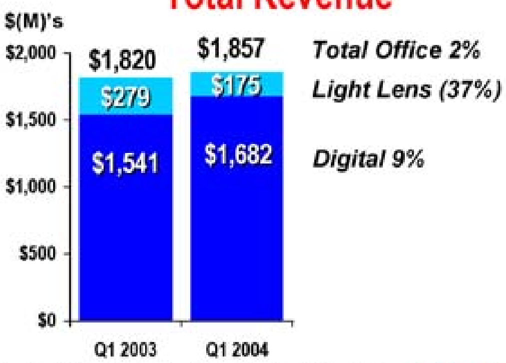
- Strong initial demand for new DocuTech platform
  - DocuTech 100/120 copier/printer installs began in March
- Xerox 2101 drives 28% growth in Production Monochrome:

B&W Publishing	(22%)
Production Printing	(4%)
Light Production	128%

- DocuColor 5252 and 6060 fuel 27% install growth in production color
  - 10,000th entry color press installed in March
- DocuColor iGen3 market development continues through availability in new markets
  - Over 10% of iGen3 customers have purchased multiple systems

Office Segment Highlights

Total Revenue



	Q1 2004 Install Growth
Office B&W Digital Copiers & MFD's	10%
Segments 1 & 2	33%
21-90 ppm	(12%)
Office Color Copiers / MFD's (11-40 ppm)	45%
Color Printers	46%

First-Quarter Highlights

- Strong demand for Phaser 8400 solid ink color printer; offered at under $1000; launched in January
- DocuColor and WorkCentre systems fuel 45% growth in Office Color MFDs
- M15 and PE16 desktop multifunction devices drive 10% growth in Office Digital B&W
- Services-led technology wins expand Xerox's relationships with large global enterprises
- Xerox office systems recognized with 8 industry awards – including two Editor's Choice awards from *PC Magazine*

April: Launched lowest priced laser printers - Phaser 6100, Phaser 3130
May: New offerings in Segment 2

DMO Segment Highlights

Total Revenue

% Growth

Revenue Trend	2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1
Equipment Sale	17%	39%	33%	21%	33%
Post Sale & Financing	(26%)	(21%)	(11%)	(6%)	(1%)
Total Revenue	(19%)	(11%)	(2%)	1%	6%

First-Quarter Highlights

- Equipment Sales growth of 33 percent drives total revenue growth
- Post-sale revenue trend continues to moderate
- Accelerated demand for digital technology in Russia and Central & Eastern Europe; growing markets with strong business performance

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Larry Zimmerman

Senior Vice President & CFO,
Xerox Corporation

Solid First Quarter Performance…

■ **Delivery on commitments**	- Earnings better than expected: $0.25 including $0.08 gain on ContentGuard sale - YOY earnings expansion - Consistent, improving, predictable results
■ **Revenue transitioning to growth**	- Total revenue grew 2% - 5 quarters of equipment sales growth - Improving post sale trend - Growth in investment areas - Color revenue grew 26% and represents 23% of total
■ **Operating margin expansion**	- Operating margin* 6.2% - up 1.5 pts. YOY - Significantly reduced interest expense - 39.8% gross margin driven by mix - SAG 27.1% of revenue
■ **Strengthened financial position**	- $243 million operating cash flow - $2.3 billion cash on hand - $10.6 billion debt – down $3.7 billion YOY - Non-financing debt/capital ratio 36% - down from 69%

…demonstrates the model is working

** Operating margin is based on a pro-forma measure as noted on slide 12. See reconciliation of "pro-forma" measures to "as reported" on slide 20.*

Strong, Predictable, Improving Earnings

($ millions except per share data)	First Quarter 2004	First Quarter 2003	2004 B/(W) 2003
Equipment Sale Revenue	$ 982	$ 898	9 %
Post Sale / Financing	2,845	2,859	--
Total Revenue	$ 3,827	$ 3,757	2 %
Gross Margin	39.8 %	41.9 %	(2.1)pts
R&D % of Revenue	5.0%	6.3 %	1.3 pts
SAG % of Revenue	27.1 %	27.1 %	--
Other, Net	$ 87	$ 157	$ 70
Provision for Litigation	$ --	$ 300	nm
Operating Profit Margin – as reported*	5.3 %	(3.9 %)	9.2 pts
Operating Profit Margin – pro forma*	6.2 %	4.7 %	1.5 pts
Effective Tax Rate	33.2 %	(45.9 %)	nm
Gain on Sale of ContentGuard, net of tax	$ 83	$ --	nm
Net Income / (Loss)	$ 248	$ (65)	$ 313
Diluted EPS	$ 0.25	$ (0.10)	$ 0.35

** Operating profit refers to "pre-tax income (loss)" in our financial statements. See reconciliation of "as reported" to "pro-forma" on slide 20.*

Increasing Proportion of Revenue in Growth Areas

($M)	Revenue 2004 Q1	% Growth 2003 Q1	2003 Q2	2003 Q3	2003 Q4	2004 Q1	Q1 2004 Effect on Overall Growth
Growth Areas							
Digital Office	$ 1,683	8%	13%	8%	11%	9%	
Digital Production	1,004	4%	5%	4%	9%	9%	
Value Added Services	44	1%	(4%)	(12%)	(11%)	(2%)	
Subtotal	2,731	7%	10%	6%	10%	9%	
Growth areas as a % of Total Revenue		67%	69%	69%	72%	**71%**	***6 pts***
Developing Markets	420	(19%)	(11%)	(2%)	1%	6%	***1 pt***
Light Lens / SOHO	292	(29%)	(31%)	(33%)	(32%)	(37%)	***(4) pts***
Other	384	6%	(9%)	(1%)	(18%)	(3%)	***(1) pt***
Total Revenue	$ 3,827	(3%)	(1%)	(2%)	1%	2%	***2 pts***

Memo: Color Revenue	$ 892	15%	19%	15%	20%	26%
Color as a % of Total	23%					

Operating Margins Expanding

Gross Margin

Q1 2003	41.9%
Mix	(1.2)pts
iGen3 sustaining engineering	(0.4)pts
Productivity & Price	(0.5)pts
Q1 2004	39.8%

SAG

	$M's	% Rev
Q1 2003	$1,020	27.1%
Infrastructure reductions, net	(17)	
Bad debt	(14)	
Currency	47	
Q1 2004	$1,036	27.1%

Interest Expense

($M)	Non-financing Interest
Q1 2003	$ 146
Q1 2004	95
B/(W)	$ 51

Improvement reflects impact of June 2003 recapitalization and other repayments

R&D

	$M's	% Rev
Q1 2003	$236	6.3%
iGen3 sustaining engineering	(16)	
Platform strategy efficiencies	(27)	
Q1 2004	$193	5.0%

YOY Operating margin up 1.5 pts – Operating profit up 35%*

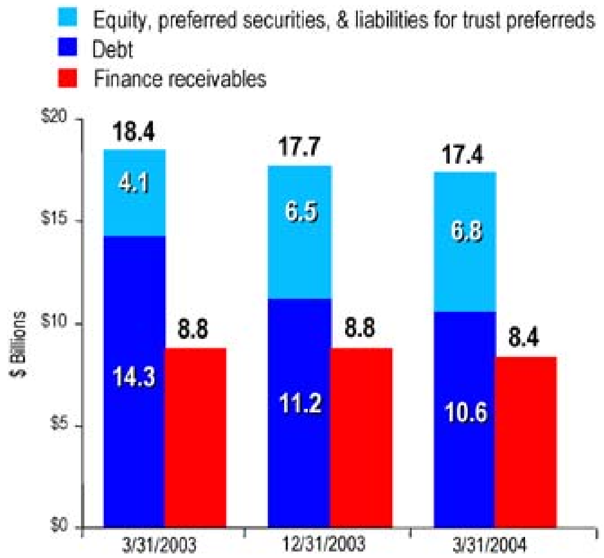
** Operating margin and profit are based on pro-forma measures as noted on slide 12. See reconciliation of "pro-forma" measures to "as reported" on slide 20.*

Cash Performance

$M's	Q1 2004
Cash Flows from Operations	
Net Income	$ 248
Depreciation and Amortization	175
Cash payments for restructurings	(60)
Gain on sale of ContentGuard, net	(83)
Decrease in finance receivables	178
Decrease in accounts receivable and billed portion of finance receivables	39
Increase in inventories	(73)
All other	(181)
Net cash provided by operating activities	$ 243
Cash Flows from Investing	$ 76
Cash Flows from Financing	
Cash proceeds from new secured financings	$ 504
Debt payments on secured financings	(573)
Net cash payments on debt	(409)
All other	4
Net cash used in financing activities	$ (474)
(Decrease) in cash and cash equivalents	$ (179)
Cash and cash equivalents balance	$ 2,298

Continued Strengthening of Balance Sheet

Total Capitalization and Finance Receivables



Debt to Capital

	Q1 2003	Q4 2003	Q1 2004
Total Xerox	78%	63%	61%
Non-financing*	69%	39%	36%

- ✓ *Debt significantly reduced*
- ✓ *Aligning debt with finance receivables*
- ✓ *Leveraging finance receivables to provide efficient funding*

**Non-financing debt to capital utilizing 7:1 debt to capital for financing receivables*

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Anne Mulcahy

Chairman & CEO,
Xerox Corporation

Summary

- Technology investments continue to fuel strong equipment sales
  - Services-led offerings expand Xerox's relationships with large enterprises
- Effective execution of strategy
  - Business model yielding positive results
  - Launch of new technology platforms
  - Services momentum building
  - Color everywhere
- More to come …
  - Office, Production, and Services announcements
  - Market expansion through new channels and partners
- Second quarter on track with 2004 direction
  - Equipment sales growth
  - Revenue growth in key investment areas
  - Earnings improvement

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Supplemental Information

Non-GAAP Measures

In an effort to provide investors with additional and useful information regarding the Company's results of operations, the Company has disclosed certain pro-forma financial measures on pages 11, 12 and 14 of the Earnings Presentation that constitute non-GAAP financial measures, as defined under Regulation G promulgated pursuant to the Securities Exchange Act of 1934, as amended. These non-GAAP financial measures are consistent with the definition and presentation of "Segment Revenues and Operating Profit" in the earnings release (the "Segment Table") and in "Segment Reporting" in Note 8 to the consolidated financial statements contained in our 2003 Annual Report on Form 10-K.

Our pro-forma operating profit, a non-GAAP financial measure, is identical to the Segment Operating Profit in the Segment Table and is calculated as the sum of Income (Loss) from Continuing Operations before Income Taxes and Equity Income and Equity in net income of unconsolidated affiliates, less the sum of Restructuring and asset impairment charges and the Provision for litigation. In calculating our first quarter 2003 pro-forma operating profit, this would have the effect of, among other things, excluding the $300 million provision recorded in connection with the Berger litigation. Our pro-forma operating margin, also a non-GAAP financial measure, is identical to the Total Operating Margin in the Segment Table and is based on the pro-forma operating profit noted above. Management believes these non-GAAP financial measures, which are consistent with our segment profitability measures, are useful to investors because management uses these same measures in evaluating the performance of the Company's operations. A reconciliation of these non-GAAP financial measures and the most directly comparable financial measures calculated and presented in accordance with generally accepted accounting principles is set forth below:

	2004			2003		
		$M's	Profit Margin		$M's	Profit Margin
Operating Profit as reported: Income (Loss) from Continuing Operations before Income Taxes and Equity Income	$	202	5.3%	$	(146)	(3.9%)
Restructuring and asset impairment charges		6	0.2%		8	0.2%
Provision for Berger litigation		-	-		300	8.0%
Equity in net income of unconsolidated affiliates		30	0.8%		14	0.4%
Operating Profit pro-forma (Segment Profit)	$	238	6.2%	$	176	4.7%
Memo: Total revenue	$	3,827		$	3,757	

Summary of Remarks Made by Registrant's Chief Executive Officer and Chief Financial Officer During April 23, 2004 Earnings Conference Call

Regarding earnings guidance, Mrs. Mulcahy, Registrant's Chief Executive Officer, stated that during the second quarter 2004, Registrant expects to recognize a 2-cent gain from the previously announced sale of its interest in ScanSoft, a company founded on Xerox innovation. Registrant plans to invest this gain in additional marketing activities, such as increased advertising spending, and some modest restructuring activity. With this and continued progress in the marketplace, Registrant expects earnings in the range of 14 to 18 cents per share for the second quarter 2004.

Mrs. Mulcahy stated that Registrant certainly remains comfortable with its previous 67 to 72 cents per share guidance for the full year 2004 (which guidance was last made on January 27, 2004) based on the same assumptions on which the January 27, 2004 guidance had been made, and remains optimistic that the full year earnings will be at the high end of that range. Mrs. Mulcahy further stated that Registrant is evaluating investing a portion of the 8-cent gain from the first quarter 2004 ContentGuard sale in incremental marketing investments in the second half of the year. Registrant will finalize the amount of these incremental investments in the next couple of months, and during its second quarter 2004 earnings call will provide an update on how much of the ContentGuard gain is expected to flow through to full-year 2004 earnings.

Regarding quarterly revenue, Mrs. Mulcahy stated that the first quarter 2004 total revenue was up 2 percent, including a 5-percentage point currency benefit. Mrs. Mulcahy further stated that at current spot rates, Registrant anticipates currency will benefit its top-line by about 3 percent in the second quarter 2004. The current spot rates were based on the currency exchange rate of $1.22 per €1.00.

Regarding post-sale revenue and its trend, Mrs. Mulcahy stated that Registrant remains on track for constant currency post-sale revenue to turn toward the latter part of 2004.

Regarding gross margins, Mrs. Mulcahy stated that Registrant expects its 2004 full year gross margins to be consistent with its previously discussed business model target which is within the 41 to 42 percent range.

Regarding color, Mrs. Mulcahy stated that color continues to be favorable with total color revenue up 26 percent versus first quarter 2003. Color revenue now represents about 23 percent of total revenue and color accounts for about 4 percent of total pages printed on Xerox technology. Mr. Zimmerman, Registrant's Chief Financial Officer, stated that Registrant expects color to account for about 5 to 6 percent of total pages printed by the end of 2004.

Regarding the number of installs of DocuColor iGen3, Mrs. Mulcahy stated that Registrant is still standing by its previous forecast of 400 to 500 for the full year 2004.

Regarding research and development (R&D) expense, Mrs. Mulcahy stated that Registrant's model contemplates that R&D expense will approximate 5 to 6 percent of total revenue for full year 2004. Mrs. Mulcahy further stated that for full year 2004, Registrant expects R&D expense will be closer to the low end of that range primarily because ongoing engineering costs of the DocuColor iGen3 are now recorded in the cost of sales line and because of the benefits it is realizing from improved R&D efficiency as a result of Registrant's platform development strategy as well as certain of its Lean Six Sigma projects.