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XEROX CORP
Form 11-K
June 28, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 (FEE REQUIRED)
For the fiscal year ended: December 31, 2000

OR

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)
For the transition period from _____ to _____

Commission File Number 1-4471

A. Full title of the plan and address of the plan, if different from
that of the issuer named below:

XEROX CORPORATION PROFIT SHARING AND SAVINGS PLAN

B. Name of issuer of the securities held pursuant to the plan and the
address of its principal executive office:

Xerox Corporation
P.O. Box 1600
Stamford, Connecticut 06904-1600

THE PLAN. Pursuant to the requirements of the Securities Exchange Act of
1934, the person who administer the plan have duly caused this actual report
to be signed on its behalf by the undersigned who thereunto duly authorized.

XEROX CORPORATION PROFIT SHARING AND SAVINGS PLAN

Lawrence Becker
Plan Administrator

Stamford, Connecticut
Dated June 28, 2001

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Financial Statements and Schedule

December 31, 2000 and 1999

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(With Independent Auditors' Report Thereon)

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Statement of Net Assets Available for Plan Benefits

December 31, 2000 and 1999

(In thousands)

	2000	1999
Assets:		
Investment in Master Trust	\$ 3,281,373	3,468,763
Participant notes receivable	84,400	86,788
Total assets	\$ 3,365,773	3,555,551

The accompanying notes are an integral part of the financial statements.

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Statement of Changes in Net Assets Available for Plan Benefits

Years ended December 31, 2000 and 1999

(In thousands)

	2000	1999
Contributions:		
Employer	\$ 2,424	--
Employees' - voluntary	174,734	158,590
Rollovers from external plans	14,760	27,959
Rollovers from internal plans	199,600	163,734
Transfer from Tektronix	123,364	--
Total contributions	514,882	350,283
Net (loss)/income from Master Trust investments, net of administrative expenses	(401,216)	49,785
Interest income on participant notes receivable	7,645	7,751
Total	121,311	407,819
Benefit Payments	(323,486)	(230,504)
Transfers between plans	16,045	--
Transfers out to DPIX and Contentguard	(3,648)	--
Net increase/(decrease) in net assets available for plan benefits	(189,778)	177,315
Net Assets available for plan benefits:		
Beginning of year	3,555,551	3,378,236

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End of year	3,365,773	3,555,551
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The accompanying notes are an integral part of the financial statements.

XEROX CORPORATION PROFIT SHARING AND SAVINGS PLAN

Notes to Financial Statements

December 31, 2000 and 1999

(1) Description of Plan and Summary of Significant Accounting Policies

The following description of the Xerox Corporation Profit Sharing and Savings Plan (Plan) provides only general information. Participants should refer to the summary plan description and the Plan document for a more complete description of the Plan's provisions.

(a) General

The Plan is a defined contribution plan covering substantially all full and part-time U.S. employees of Xerox Corporation (sponsor) and participating subsidiaries, except those covered by a collective bargaining agreement unless that agreement calls for participation in the Plan. Employees are automatically eligible to participate in the 401(k) savings portion of the Plan upon date of hire.

(b) Plan Amendment

In January 2001, the Xerox Corporation Profit Sharing and Savings Plan was amended to eliminate the cash/deferred component of profit sharing (see note 1(e) for further discussion). The Plan has been renamed the Xerox Corporation Savings Plan.

Effective January 1, 2000, all employees of Tektronix pursuant to the terms of the Asset Purchase Agreement dated September 22, 1999 will receive credit for all hours of service for periods when employed by Tektronix for purposes of determining eligibility under the Plan. As of January 1, 2000, all assets of the accounts held under Tektronix 401(k) Plan for each participating employee were transferred to this plan.

(c) Payments of Benefits

Upon termination of service, a participant may elect to receive either a lump sum amount equal to the value of his or her account, or may purchase an annuity payable from a life insurance company. There were no benefits allocated from the Plan for participants at December 31, 2000 and 1999.

(d) Employee Savings Contributions

Subject to limits imposed by the Internal Revenue Code, eligible employees may contribute up to 18% of pay (as defined in the Plan) through a combination of before-tax and after-tax payroll deductions. Employees are immediately vested in their savings contributions.

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December 31, 2000 and 1999

(e) Xerox Profit Sharing Contribution

A profit sharing payout has two components. They are as follows: (i) 50% of the payout will come in the form of cash which can be deferred to the 401(k) savings portion of the plan, and (ii) 50% of the payment is provided in the form of stock options which are not a component of this Plan. Employees are immediately vested in profit sharing contributions.

The maximum profit sharing payout will be 15%. In any given year, the payout bears a one-to-one relationship to earnings per share (EPS) growth up to 15%. However, if EPS growth is below 5%, there is no payment.

For the calendar year ended December 31, 2000 and 1999, the sponsor's EPS growth was below 5%. In accordance with the plan document, there was no Xerox Profit Sharing contribution for 2000 and 1999.

Effective January 1, 2001, the Company has eliminated the cash payment component for any future profit sharing contributions.

(f) Investment Funds

As further described in note 3, the investment funds are part of the Xerox Trust Agreement to Fund Retirement Plans (Master Trust). Employees can direct their plan accounts to one or more of the following ten investment funds:

International Stock Fund - Invests primarily in stocks of companies outside the U.S.

U.S. Stock Fund - Invests primarily in stocks of medium to large U.S. companies.

Small Company Stock Fund - Invests primarily in stocks of smaller U.S. companies.

Balanced Fund - Fifty/Fifty- Usually invests approximately 50% in stocks and 50% in bonds; some private placements and cash. The mix may shift with the market outlook.

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Balanced Fund - More Bonds - Usually invests 30% in stocks, most of the rest in bonds, some private placements and cash. The mix may shift with market

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outlook.

Balanced Fund - More Stocks - Usually invests approximately 70% in stocks, most of the rest in bonds, some private placements and cash. The mix may shift with market outlook.

Enhanced Bond Fund - Invests in bonds with an average intermediate duration; approximately 70% high quality bonds, and 30% high-yield lower quality bonds.

Income Fund - Invests in short to intermediate duration, high quality bonds.

Xerox Stock Fund - Invests in Xerox Corporation common stock and some cash for administrative purposes.

Marketplace Window- Offers access to no-load mutual funds outside of Xerox funds.

(g) Employee Loan Fund

Participants are permitted to borrow from their profit sharing savings accounts subject to certain limitations. The loans are payable over terms up to 14.5 years and bear interest at the quarterly Citibank commercial prime rate in effect at the time of loan issuance plus 1%. Principal and interest payments on the loans are redeposited into the participants' accounts based on their current investment allocation elections. At December 31, 2000 and 1999, market value of loans approximates fair value.

(h) Summary of Significant Accounting Policies

a. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

b. If available, quoted market prices are used to value investments. Non-readily marketable investments are carried at estimated fair value.

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c. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. Derivative investments are marked to market on a daily basis which is reported as margin variation on futures contracts in the statement of changes in net assets of the Master Trust.

(2) Federal Income Taxes

The Plan obtained its latest determination letter from the Internal Revenue Service (IRS) on March 31, 1998, covering Plan amendments through March 31, 1997, indicating that the Plan, as designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan administrator

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and Plan's internal tax counsel believe that the Plan, as currently designed and operated, is in compliance with the applicable requirements of the Internal Revenue Code. Accordingly, they believe that the Plan was qualified and the related trust was tax-exempt as of the financial statement date.

As long as the Plan continues to be qualified under present Federal income tax laws and regulations, participants will not be taxed on company contributions or on investment earnings on such contributions at the time such contributions and investment earnings are received by the trustee under the Plan, but may be subject to tax thereon at such time as they receive distributions under the Plan.

(3) Master Trust

As discussed in note 1, the Plan participates in the Master Trust. The following other Xerox employee benefit plans also participate in the Master Trust as of December 31, 2000:

The Profit Sharing Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial and Textile Employees, A.F.L. - C.I.O. - C.L.C.;

Xerox Corporation Retirement Income Guarantee Plan; and

Retirement Income Guarantee Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial and Textile Employees, A.F.L. - C.I.O. - C.L.C.

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PROFIT SHARING AND SAVINGS PLAN

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At December 31, 2000, the Master Trust has eight investment pools - the International Stock Pool, U.S. Stock Pool, Small Company Stock Pool, Other Equity Pool, Income Fund, Bond Pool, Xerox Stock Fund, and Marketplace Window.

Participants direct their accounts into investment funds, as described in note 1, which participate in the aforementioned investment pools. Each of the plans has an ownership interest in one or more of these investment pools in accordance with that interest as determined by participant fund elections.

The Expense Pool represents net accrued, plan specific administrative expenses that are attributable to the Other Equity Pool and the Bond Pool, which comprise the Balanced Fund. It is not an investment pool.

In September 2000, there was a pool restructure. Assets of the Other Fixed Pool were transferred to the Bond Pool.

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Notes to Financial Statements,

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December 31, 2000 and 1999

The following financial information is presented for the Master Trust and each of the Master Trust investment pools:

Statement of Net Assets of the Master Trust as of December 31, 2000 is as follows (in thousands):

Assets	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Cash (overdraft) \$	13,229	1,840	(1,067)	188
Receivables:				
Dividends	1,496	1,672	511	--
Interest	261	352	199	6,357
Due from brokers	900,520	8,791	6,470	2,011
Other	163	--	5	--
Total receivables	902,440	10,815	7,185	8,368
Investments at fair value:				
At quoted market value:				
Short-term investments	66,459	52,627	46,281	114,524
Fixed income investments	1,979	--	1,905	740,552
Equity securities:				
Xerox common stock	--	--	--	--
Other	1,093,609	2,643,203	752,361	11,808
At estimated fair value:				
Interest in real estate trusts	--	--	--	--
Other investments	--	--	--	--
Total investments	1,162,047	2,695,830	800,547	866,884
Total assets	2,077,716	2,708,485	806,665	875,440
Liabilities				
Due to brokers	(901,827)	(13,039)	(5,036)	(161,882)
Other	(2,047)	(1,604)	(855)	(337)
Net assets \$	1,173,842	2,693,842	800,774	713,221

Xerox Stock Fund	Other Equity Pool	Marketplace Window	Bond Pool	Total
--	(1,216)	--	(3,342)	9,632
1,329	60	--	146	5,214
25	833	--	26,772	34,799
--	1,217	4,737	115,164	1,038,910
--	--	--	--	168
1,354	2,110	4,737	142,082	1,079,091

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3,853	95,384	--	117,185	496,313
--	--	--	2,388,431	3,132,867
133,329	--	--	--	133,329
--	121,815	270,330	119,561	5,012,687
--	2,336	--	--	2,336
--	467,956	--	--	467,956
137,182	687,491	270,330	2,625,177	9,245,488
138,536	688,385	275,067	2,763,917	10,334,211
(21)	--	(3,962)	(462,159)	(1,547,926)
(208)	(201)	--	(1,560)	(6,812)
138,307	688,184	271,105	2,300,198	8,779,473

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

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December 31, 2000 and 1999

The following financial information is presented for the Master Trust and each of the Master Trust investment pools:

Statement of Net Assets of the Master Trust as of December 31, 1999 is as follows (in thousands):

Assets	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Cash (overdraft) \$	(230)	2	2	(68)
Receivables:				
Dividends	1,316	1,645	255	--
Interest	220	574	338	7,653
Due from brokers	2,231	261	4,171	10,115
Other	80	--	--	--
Total receivables	3,847	2,480	4,764	17,768

Investments at fair value:

At quoted market value:

Short-term investments	67,026	115,890	146,755	106,070
Fixed income investments	2,102	--	--	774,937
Equity securities:				

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Xerox common stock	--	--	--	--
Other	1,379,984	2,990,177	683,719	3,852
At estimated fair value:				
Interest in real estate trusts	--	--	--	--
Other investments	--	--	--	--
Total investments	1,449,112	3,106,067	830,474	884,859
Total assets	1,452,729	3,108,549	835,240	902,559
Liabilities				
Due to brokers	(11,121)	(2,311)	(4,159)	(128,244)
Other	(1,970)	(1,662)	(702)	(468)
Net assets	\$ 1,439,638	3,104,576	830,379	773,847

Xerox Stock Fund	Other Equity Pool	Other Fixed Pool	Marketplace Window	Bond Pool	Total
--	--	--	--	38,086	37,792
3,697	--	--	--	--	6,913
38	674	216	--	20,876	30,589
--	--	--	1,891	52,405	71,074
--	--	--	--	--	80
3,735	674	216	1,891	73,281	108,656
8,059	166,235	52,809	--	147,207	810,051
--	--	--	--	1,875,604	2,652,643
427,828	--	--	--	--	427,828
--	145,046	--	161,843	70,755	5,435,376
--	3,505	--	--	--	3,505
--	340,264	--	--	--	340,264
435,887	655,050	52,809	161,843	2,093,566	9,669,667
439,622	655,724	53,025	163,734	2,204,933	9,816,115
--	(133)	--	(1,649)	(220,434)	(368,051)
(43)	(297)	(167)	--	(1,463)	(6,772)
439,579	655,294	52,858	162,085	1,983,036	9,441,292

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

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Notes to Financial Statements

December 31, 2000 and 1999

Investment in Master Trust for all participating plans as of December 31, 2000 and 1999 is as follows (in thousands):

	2000	1999
Xerox Corporation Profit Sharing and Savings Plan \$	3,281,373	3,468,763
The Profit Sharing Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial and Textile Employees, A.F.L. - C.I.O. - C.L.C.	214,941	252,168
Xerox Corporation Retirement Income Guarantee Plan	4,802,628	5,159,922
Retirement Income Guarantee Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial And Textile Employees, A.F.L. -C.I.O. - C.L.C.	480,531	560,439
Total	\$ 8,779,473	9,441,292

XEROX CORPORATION PROFIT SHARING AND SAVINGS PLAN

Notes to Financial Statements

December 31, 2000 and 1999

Statement of Changes in Net Assets of the Master Trust for the year ended December 31, 2000 is as follows (in thousands):

	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Additions:				
Transfers in	\$ 50,975	106,581	88,053	235,391
Investment earnings:				
Interest	2,637	5,844	2,895	46,488
Dividends	17,089	22,238	3,184	571
Net appreciation (depreciation)	(222,049)	(251,994)	23,849	8,678
Margin variation on futures contracts	(238)	(2,743)	(971)	(319)
Other	(13,498)	836	753	(103)
Total investment earnings	(216,059)	(225,819)	29,710	55,315
Total additions	(165,084)	(119,238)	117,763	290,706

Deductions:

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Administrative expenses	(10,024)	(9,039)	(4,345)	(1,856)
Transfers out	(73,130)	(159,457)	(64,123)	(349,476)
Total deductions	(83,154)	(168,496)	(68,468)	(351,332)
Transfer between fund/pool	(17,558)	(123,000)	(78,900)	--
Net assets:				
Beginning of year	1,439,638	3,104,576	830,379	773,847
End of year	\$ 1,173,842	2,693,842	800,774	713,221

Xerox Stock Fund	Other Equity Pool	Other Fixed Pool	Marketplace Window	Bond Pool	Expense Pool	Total
174,473	--	--	239,382	18,165	--	913,020
453	2,612	2,283	--	109,564	--	172,776
13,499	9,635	--	19,935	3,854	--	90,005
(406,949)	410,854	868	(66,301)	50,032	--	(453,012)
--	(4,669)	403	--	(2,414)	--	(10,951)
(12)	12,109	--	15	2,628	--	2,728
(393,009)	430,541	3,554	(46,351)	163,664	--	(198,454)
(218,536)	430,541	3,554	193,031	181,829	--	714,566
(447)	(2,529)	55	(263)	(7,798)	(1,785)	(38,031)
(82,289)	(367,465)	(91,553)	(83,748)	(68,898)	1,785	(1,338,354)
(82,736)	(369,994)	(91,498)	(84,011)	(76,696)	--	(1,376,385)
--	(27,657)	35,086	--	212,029	--	--
439,579	655,294	52,858	162,085	1,983,036	--	9,441,292
138,307	688,184	--	271,105	2,300,198	--	8,779,473

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Notes to Financial Statements

December 31, 2000 and 1999

Statement of Changes in Net Assets of the Master Trust for the year ended December 31, 1999 is as follows (in thousands):

	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Additions:				
Transfers in	\$ 90,431	155,074	46,723	154,653
Investment earnings:				

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Interest	1,625	6,862	2,424	51,889
Dividends	19,430	27,271	3,499	168
Net appreciation (depreciation)	336,067	544,823	203,930	(22,348)
Margin variation on futures contracts	(385)	(6,508)	(2,146)	633
Other	1,296	823	376	889
Total investment earnings	358,033	573,271	208,083	31,231
Total additions	448,464	728,345	254,806	185,884
Deductions:				
Administrative expenses	(8,744)	(8,684)	(3,333)	(2,323)
Transfers out	(95,513)	(125,724)	(71,348)	(346,863)
Total deductions	(104,257)	(134,408)	(74,681)	(349,186)
Transfer between fund/pool	13,952	(495,000)	(31,000)	--
Net assets:				
Beginning of year	1,081,479	3,005,639	681,254	937,149
End of year	\$ 1,439,638	3,104,576	830,379	773,847

Xerox Stock Fund	Other Equity Pool	Other Fixed Pool	Marketplace Window	Bond Pool	Expense Pool	Total
418,469	794	12,398	150,408	36,210	--	1,065,160
610	7,461	8,786	--	76,242	--	155,899
10,769	3,682	--	5,519	2,045	--	72,383
(456,299)	210,313	(20,000)	25,002	(52,983)	--	768,505
--	(15,280)	(1,719)	--	261	--	(25,144)
(10)	26,733	3	--	1,699	--	31,809
(444,930)	232,909	(12,930)	30,521	27,264	--	1,003,452
(26,461)	233,703	(532)	180,929	63,474	--	2,068,612
(660)	(1,482)	(798)	(48)	(6,442)	(1,813)	(34,327)
(177,059)	(563,105)	(782)	(38,592)	(33,879)	--	(1,452,865)
(177,719)	(564,587)	(1,580)	(38,640)	(40,321)	(1,813)	(1,487,192)
--	291,588	(105,500)	--	325,000	1,885	925
643,759	694,590	160,470	19,796	1,634,883	(72)	8,858,947
439,579	655,294	52,858	162,085	1,983,036	--	9,441,292

XEROX CORPORATION
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December 31, 2000 and 1999

Net income (loss) from Master Trust Investments, net of administrative expenses for all participating plans as of December 31, 2000 and 1999 is as follows (in thousands):

	2000	1999
Xerox Corporation Profit Sharing and Savings Plan \$	(401,216)	49,785
The Profit Sharing Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial and Textile Employees, A.F.L. - C.I.O. - C.L.C.	(31,583)	(12,561)
Xerox Corporation Retirement Income Guarantee Plan	176,557	840,877
Retirement Income Guarantee Plan of Xerox Corporation and The Xerographic Division, Union of Needletrades, Industrial And Textile Employees, A.F.L. - C.I.O. - C.L.C.	19,757	91,024
Total	\$ (236,485)	969,125

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Master Trust investments are managed by selected investment managers under the direction of the Treasurer of Xerox Corporation. The Finance Committee of the Xerox Corporation Board of Directors is responsible for establishing investment objectives and policies, reviewing the investment decisions of the Treasurer and reviewing the investment results of the Master Trust. The Finance Committee of the Xerox Corporation Board of Directors consists, at present, of six members of the Xerox Corporation Board of Directors, none of whom are officers of Xerox Corporation.

Marketable securities are valued at the last reported sales price on the last business day of the year. Quotations are obtained from national securities exchanges or, in instances where securities are not listed on any of the exchanges, quotations are obtained from brokerage firms.

Non-readily marketable investments, which include private placements, are carried at fair value, based upon the cost of the investments, developments concerning the portfolio investments of the private placements, and other factors as the managing general partners of these investments may deem relevant. Private placement investments are valued by the investment manager general partner on a periodic basis and these values are reflected in the Plans as they are received from the Trustee. The valuations do not necessarily represent amounts which might ultimately be realized from the investments.

At December 31, 2000 and 1999, the Master Trust held no investment contracts with insurance companies or banks.

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The Master Trust invests in real estate group trusts. These trusts provide pension and profit sharing plans with a medium for pooling their funds for investment in income producing real estate. The investment trusts value real estate holdings at estimated market value based upon independent appraisals, consideration of significant changes in economic circumstances, and capital additions made to properties after the appraisal date. Such market value estimates necessarily involve subjective judgments. Accordingly, the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

Purchases and sales of securities are recorded on a trade date basis. Dividend income is record on the ex-dividend date. Interest income is recorded as earned. Margin variation represents market fluctuations on futures investments.

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Derivative financial instruments are used by the Master Trust's equity and balanced portfolio investment managers primarily to alter the fixed income/equity allocation of the Master Trust's portfolio and to hedge the currency risk component of the Master Trust's foreign investments. Certain of the Master Trust's fixed income investment managers are permitted to use certain specified types of derivative instruments as part of their respective strategies. These strategies include the use of swap agreements and exchange traded futures and options as substitutes for certain types of fixed income securities. Leveraging of the Master Trust's assets and speculation are prohibited. Currency hedge positions are not permitted to exceed the level of exposure in the related Master Trust's assets.

The derivatives most commonly used by the investment managers are highly liquid exchange traded equity and fixed income futures and over-the-counter foreign exchange forward contracts. The use of derivative instruments is not believed to materially increase the credit or market risk of the Master Trust's investment.

The carrying amount and estimated fair value of derivative financial instruments at December 31, 2000 and 1999 is \$1,193,850,000 and \$1,192,720,000, respectively.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133). SFAS No. 133 requires that an entity recognize all derivatives and measure those instruments at fair value.

SFAS No. 133 is effective for fiscal years beginning after June 15, 2000. Pursuant to SFAS No. 137, the Plan is required to adopt SFAS No. 133 effective January 1, 2001. Management will determine the impact of SFAS No. 133 on the Plan financial statements for 2001.

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The net appreciation (depreciation) of investments for the year ending December 31, 2000 is as follows (in thousands):

	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Investments at quoted market value:				
Short-term and fixed income investments	\$ (314)	--	--	8,678
Xerox common stock	--	--	--	--
Other equity investments	(221,735)	(251,994)	23,849	--
Investments at estimated fair value:				
Interest in real estate trusts	--	--	--	--
Other investments	--	--	--	--
Total	\$ (222,049)	(251,994)	23,849	8,678

Xerox Stock Fund	Other Equity Pool	Other Fixed Pool	Marketplace Window	Bond Pool	Total
--	--	868	--	51,506	60,738
(406,949)	--	--	--	--	(406,949)
--	48,974	--	(66,301)	(1,474)	(468,681)
--	(1,169)	--	--	--	(1,169)
--	363,049	--	--	--	363,049
(406,949)	410,854	858	(66,301)	50,032	(453,012)

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Notes to Financial Statements

December 31, 2000 and 1999

The net appreciation (depreciation) of investments for the year ending December 31, 1999 is as follows (in thousands):

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	International Stock Pool	U.S. Stock Pool	Small Company Stock Pool	Income Fund
Investments at quoted market value:				
Short-term and fixed income investments	\$ 309	--	--	(22,348)
Xerox common stock	--	--	--	--
Other equity investments	335,758	544,823	203,930	--
Investments at estimated fair value:				
Interest in real estate trusts	--	--	--	--
Other investments	--	--	--	--
Total	\$ 336,067	544,823	203,930	(22,348)

Xerox Stock Fund	Other Equity Pool	Other Fixed Pool	Marketplace Window	Bond Pool	Total
--	--	(20,000)	--	(54,921)	(96,960)
(456,299)	--	--	--	--	(456,299)
--	24,014	--	25,002	1,938	1,135,465
--	(8,926)	--	--	--	(8,926)
--	195,225	--	--	--	195,225
(456,299)	210,313	(20,000)	25,002	(52,983)	768,505

XEROX CORPORATION
PROFIT SHARING AND SAVINGS PLAN

Schedule of Assets Held for Investment Purposes at End of Year

December 31, 2000

(In thousands)

Identity of issue,	Description of investment including maturity date, rate of
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borrower, lessor, or similar party	interest, collateral, par or maturity value	Cost	Current value
Investment in Master Trust	(1)	\$ --	\$ 3,281,373
*Investment in Participant notes Receivable	Loans to Plan participants, maturity dates through 5/31/12, interest rates from 8.0% to 11.5% per annum	--	84,400

* Party-in-interest

(1) See note 1

Independent Auditors' Report

The Plan Administrator and Participants
Xerox Corporation Profit Sharing and Savings Plan:

We have audited the accompanying statements of net assets available for plan benefits of The Xerox Corporation Profit Sharing and Savings Plan (Plan) as of December 31, 2000 and 1999, and the related statements of changes in net assets available for plan benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2000 and 1999, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets held for investment purposes at December 31, 2000 is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 5, 2001

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Accountants' Consent

The Board of Directors
Xerox Corporation:

We consent to incorporation by reference in the Registration Statements (No. 2-86274 and No. 333-22059) on Form S-8 of Xerox Corporation of our report dated June 5, 2001, relating to the statement of net assets available for plan benefits of the Xerox Corporation Profit Sharing and Savings Plan as of December 31, 2000 and 1999, and the related statements of changes in net assets available for plan benefits for the years then ended and related schedule, which report appears in the December 31, 2000 Annual Report on Form 11-K of the Xerox Corporation Profit Sharing and Savings Plan.

Rochester, New York
June 28, 2001