

## Summary of Tax Consequences

### I. Introduction

On February 5, 2010, Xerox Corporation (“Xerox”) acquired Affiliated Computer Services, Inc. (“ACS”) (the “Merger”). Pursuant to the Merger, ACS shareholders exchanged each of their shares of ACS class A common stock (“ACS Stock”) for (a) 4.935 shares of Xerox common stock (“Xerox Stock”) and (b) \$18.60 in cash. In lieu of any fractional shares, each ACS shareholder received cash in an amount equal to the fractional share interest multiplied by \$8.65 (*i.e.*, the per share closing price of Xerox Stock on the New York Stock Exchange on February 4, 2010) rounded to the nearest cent.

This document provides a generalized, high-level summary of certain U.S. federal income tax consequences to persons who exchanged ACS Stock for Xerox Stock and cash pursuant to the Merger (each, an “ACS Holder”). This document does not constitute tax advice and does not address any special tax rules (including the alternative minimum tax) or the consequences of any state, local or foreign tax laws. For additional information on the anticipated material U.S. federal income tax consequences of the Merger, ACS Holders may consult the joint proxy statement filed by Xerox and ACS with the Securities and Exchange Commission on December 23, 2009, which may be viewed at the following link:

<http://www.corporate-ir.net/seccapsule/seccapsule.asp?m=f&c=104414&fid=6650089&dc>

***The actual tax consequences of the Merger to you may be complex and will depend on your specific situation. You should consult your own tax advisor to determine the U.S. federal income tax consequences of the Merger to you in light of your own personal circumstances as well as any other tax consequences under other U.S., state, local and foreign tax laws.***

For purposes of the following discussion, each ACS Holder is an individual citizen or resident of the United States who purchased ACS Stock for cash and held such stock as a capital asset. Additionally, the discussion is premised on the Merger qualifying as a “reorganization” within the meaning of Section 368(a) of the U.S. Internal Revenue Code of 1986, as amended.

### II. Generalized, High-Level Summary of Certain U.S. Federal Income Tax Consequences

#### A. Gain

##### 1. Realized Gain

An ACS Holder’s realized gain is equal to: (i) the fair market value (“FMV”) of Xerox Stock received (including the FMV of any fractional share), plus (ii) the amount of cash received, less (iii) such holder’s tax basis in his or her ACS Stock. For purposes of this computation, the FMV of Xerox Stock on February 5, 2010 (the effective date of the Merger) should be \$8.475 (the average of the lowest and highest quoted prices for Xerox Stock on February 5, 2010 – *i.e.*,  $\$8.35 + \$8.60 / 2$ ). Realized gain will only be taxable to the extent such gain is recognized (as described below).

##### 2. Recognized Gain

###### (a) Cash Portion of Merger Consideration

An ACS Holder’s recognized gain is equal to the lesser of (i) such holder’s gain realized, or (ii) the amount of cash received (excluding cash received in lieu of fractional shares). Such gain should constitute capital gain and will be

classified as long-term capital gain if the ACS Holder held the shares of ACS Stock surrendered pursuant to the Merger for more than one year as of February 5, 2010 (the effective date of the Merger). Such an ACS Holder would generally be taxed on long-term capital gain at a maximum U.S. federal income tax rate of 15 percent.

However, all or part of the gain might be treated as dividend income with respect to certain ACS Holders, generally including significant Xerox shareholders and ACS Holders whose percentage ownership in Xerox after the Merger was not meaningfully reduced from what it would have been if such holder had received solely shares of Xerox Stock rather than a combination of cash and shares of Xerox Stock in the Merger.

If an ACS Holder acquired ACS Stock on different dates or at different prices, any gain should be determined separately with respect to each block of ACS Stock, and the cash and shares of Xerox Stock received in the Merger should be allocated pro rata to each such block of ACS Stock.

#### **(b) Cash in Lieu of Fractional Shares**

Each ACS Holder that received cash in lieu of a fractional share should be treated, for U.S. federal income tax purposes, as having received and then sold such fractional share. Such an ACS Holder recognized gain or loss with respect to the fractional share in an amount equal to the cash received for the fractional share less the ACS Holder's tax basis in the fractional share (which should be determined as set forth in Section II.C.).

### **B. Loss**

ACS Holders may not recognize a loss pursuant to the Merger, except to the extent of a loss derived from the disposition of a fractional share.

### **C. Tax Basis**

#### **1. Aggregate Tax Basis**

The aggregate tax basis of the Xerox Stock an ACS Holder received pursuant to the Merger should be equal to the aggregate tax basis in the ACS Stock surrendered pursuant to the Merger, decreased by the amount of cash received (not including any cash received in lieu of a fractional share), and increased by the amount of recognized gain (excluding any gain derived from cash received in lieu of fractional shares).

#### **2. Per Share Tax Basis**

The per share tax basis of each share of Xerox Stock an ACS Holder received pursuant to the Merger should be equal to such holder's aggregate tax basis divided by the number of shares of Xerox Stock received (including any fractional shares).

#### **3. Fractional Share Tax Basis**

The fractional share tax basis equals the product of the fractional share interest and the per share tax basis.

#### D. Holding Period

The holding period of the Xerox Stock an ACS Holder received pursuant to the Merger should include the holding period of the ACS Stock surrendered pursuant to the Merger.

### III. Example

#### A. Summary Overview

An ACS Holder that purchased 100 shares of ACS Stock for \$1,000 on February 5, 2008 would have received, pursuant to the Merger:

- 493 whole shares of Xerox Stock (4.935 shares of Xerox Stock x 100 shares of ACS Stock)
- \$1,860.00 in cash (\$18.60 x 100 shares of ACS Stock)
- \$4.33 in cash for the 0.5 fractional share of Xerox Stock (.5 x \$8.65)

Below are the general computations that follow from these facts.

#### B. Gain

##### 1. Realized Gain

The ACS Holder's realized gain was \$5,042.41. This amount is determined through the following computation.

	\$4,182.41	(\$8.475 - fair market value of Xerox Stock on February 5, 2010 - times 493.5 shares of Xerox Stock rounded to the nearest cent)
plus	\$1,860.00	(cash received)
less	\$1,000.00	(aggregate tax basis in ACS Stock)

##### 2. Recognized Gain

###### (a) Cash Portion of Merger Consideration

The ACS Holder's recognized gain with respect to the cash received pursuant to the Merger (excluding cash for any fractional share) was \$1,860.00. This amount is the lesser of \$1,860.00 (cash received) and \$5,042.41 (realized gain).

###### (b) Cash in Lieu of Fractional Shares

The ACS Holder's gain from the fractional share was \$3.32. This amount is determined through the following computation.

	\$4.33	(cash for fractional share)
less	\$1.01	(fractional share tax basis)

The computation to determine the fractional share tax basis is described in Section III.C.3.).

## C. Tax Basis

### 1. Aggregate Tax Basis

The ACS Holder's aggregate tax basis in the Xerox Stock received pursuant to the Merger is \$1,000. This basis is determined through the following computation.

	\$1,000.00 (aggregate tax basis in ACS Stock)
plus	\$1,860.00 (recognized gain)
less	\$1,860.00 (cash received)

### 2. Per Share Tax Basis

The ACS Holder's per share tax basis in the Xerox Stock received pursuant to the Merger is \$2.03. This basis is equal to \$1,000.00 (the aggregate tax basis of Xerox Stock) divided by 493.5 (number of shares of Xerox Stock).

### 3. Fractional Share Tax Basis

The fractional share tax basis is \$1.01. This basis is equal to the product of 0.5 (the fractional share interest) and \$2.03 (the per share tax basis).

## D. Holding Period

The ACS Holder's initial holding period in the Xerox Stock received pursuant to the Merger was 2 years. This holding period equals the ACS Holder's holding period in the ACS Stock surrendered pursuant to the Merger (*i.e.*, 2 years).

## IV. Circular 230

***To ensure compliance with Treasury Department Circular 230, you are hereby notified that this document was not intended or written to be used, and cannot be used, for the purpose of (a) avoiding any tax penalty or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.***