FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: September 30, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to___________

Commission File Number 1-4471

XEROX CORPORATION
(Exact Name of Registrant as specified in its charter)

New York	16-0468020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 1999
Common Stock	664,261,541 shares

This document consists of 35 pages

Forward-Looking Statements

From time to time Xerox Corporation (the Registrant or the Company) and its representatives may provide information, whether orally or in writing, including certain statements in this Form 10-Q under "Management's Discussion and Analysis of Results of Operations and Financial Condition ," which are deemed to be "forward-looking" within the meaning of the Private Securities Litigation Reform Act of 1995 ("Litigation Reform Act"). These forward-looking statements and other information relating to the Company are based on the beliefs of management as well as assumptions made by and information currently available to management.

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

In accordance with the provisions of the Litigation Reform Act we are making investors aware that such "forward-looking" statements, because they relate to future events, are by their very nature subject to many important factors which could cause actual results to differ materially from those contained in the "forward-looking" statements. Such factors include but are not limited to the following:

Competition - the Registrant operates in an environment of significant competition, driven by rapid technological advances and the demands of customers to become more efficient. There are a number of companies worldwide with significant financial resources which compete with the Registrant to provide document processing products and services in each of the markets served by the Registrant, some of whom operate on a global basis. The Registrant's success in its future performance is largely dependent upon its ability to compete successfully in its currently-served markets and to expand into additional market segments.

Transition to Digital - presently black and white light-lens copiers represent approximately 30 percent of the Registrant's revenues. This segment of the general office is mature with anticipated declining industry revenues as the market transitions to digital technology. Some of the Registrant's new digital products replace or compete with the Registrant's current light-lens equipment. Changes in the mix of products from light-lens to digital, and the pace of that change as well as competitive developments could cause actual results to vary from those expected.

Pricing - the Registrant's ability to succeed is dependent upon its ability to obtain adequate pricing for its products and services which provide a reasonable return to shareholders. Depending on competitive market factors, future prices the Registrant can obtain for its products and services may vary from historical levels. In addition, pricing actions to offset currency devaluations may not prove sufficient to offset further devaluations or may not hold in the face of customer resistance and/or competition.

Financing Business - a significant portion of the Registrant's profits arise from the financing of its customers' purchase of the Registrant's equipment. On average, 75 to 80 percent of equipment sales are financed through the Registrant. The Registrant's ability to provide such financing at competitive rates and realize profitable spreads is highly dependent upon its own costs of borrowing which, in turn, depend upon its credit ratings. Significant changes in such ratings could reduce the profitability of such financing business and/or make the Registrant's financing less attractive to customers thus reducing the volume of financing business done. The Registrant's present credit ratings permit ready access to the credit markets. There is no assurance that these credit ratings can be maintained and/or ready access to the credit markets can be assured.

Productivity - the Registrant's ability to sustain and improve its profit margins is largely dependent on its ability to maintain an efficient, cost-effective operation. Productivity improvements through business process reengineering, design efficiency and supplier cost improvements are required to offset labor cost inflation and potential materials cost changes and competitive price pressures.

International Operations - the Registrant derives approximately half its revenue from operations outside of the United States. In addition, the Registrant manufactures many of its products and/or their components outside the United States. The Registrant's future revenue, cost and profit results could be adversely affected by a number of factors, including changes in foreign currency exchange rates, changes in economic conditions from country to country, changes in a country's political conditions, trade protection measures, licensing requirements and local tax issues.

New Products/Research and Development - the process of developing new high technology products and solutions is inherently complex and uncertain. It requires accurate anticipation of customers' changing needs and emerging technological trends. The Registrant must then make long-term investments and commit significant resources before knowing whether these investments will eventually result in products that achieve customer acceptance and generate the revenues required to provide anticipated returns from these investments.

Revenue Growth - the Registrant's ability to attain a consistent trend of revenue growth over the intermediate to longer term is largely dependent upon expansion of its equipment sales worldwide. The ability to achieve equipment sales growth is subject to the successful implementation of our initiatives to provide industry-oriented global solutions for major customers and expansion of our distribution channels in the face of global competition and pricing pressures. Our inability to attain a consistent trend of revenue growth could materially affect the trend of our actual results.

Restructuring - the Registrant's ability to ultimately reduce pre-tax annual expenditures by approximately $1 billion is dependent upon its ability to successfully implement the 1998 restructuring program including the elimination of 9,000 jobs, net, worldwide, the closing and consolidation of facilities, and the successful implementation of business process and systems changes. In addition, the timing and effectiveness in overcoming issues in centralizing its customer administration centers can impact the timing of improvements in revenue, profit and cash flow.

Sales Force Realignment - the Registrant's ability to increase future revenue and profits is in part dependent upon its ability to successfully implement the substantial changes in the alignment of its sales force to sell products, services and solutions by industry sectors.

Year 2000 - the Registrant's ability to complete its Year 2000 plan is dependent upon the availability of resources, the Registrant's ability to discover and correct the potential Year 2000 sensitive problems which could have a serious impact on the Registrant's information management systems, facilities and products, and the ability of the Registrant's suppliers and customers to bring their systems into Year 2000 compliance.

Xerox Corporation
Form 10-Q
September 30, 1999

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

PART I - FINANCIAL INFORMATION

Item 1

Xerox Corporation
Consolidated Statements of Income (Unaudited)

(In millions, except per-share data)	Three months ended September 30, 1999	1998	Nine months ended September 30, 1999	1998
Revenues				
Sales	$ 2,463	$ 2,438	$ 7,140	$ 7,209

Service and rentals	1,918	1,904	5,861	5,644
Finance income	247	265	789	800
Total Revenues	4,628	4,607	13,790	13,653
Costs and Expenses				
Cost of sales	1,384	1,281	3,898	3,920
Cost of service and rentals	1,096	1,047	3,294	3,076
Inventory charges	-	-	-	113
Equipment financing interest	143	147	416	426
Research and development expenses	230	273	737	770
Selling, administrative and general expenses	1,208	1,277	3,631	3,767
Restructuring charge and asset impairments	-	-	-	1,531
Other, net	62	42	182	164
Total Costs and Expenses	4,123	4,067	12,158	13,767
Income (Loss) before Income Taxes (Benefits), Equity Income and Minorities' Interests	505	540	1,632	(114)
Income taxes (benefits)	157	173	506	(66)
Equity in net income of unconsolidated affiliates	(5)	(28)	(39)	(54)
Minorities' interests in earnings of subsidiaries	14	14	35	35
Income (Loss) from Continuing Operations	339	381	1,130	(29)
Discontinued Operations	-	-	-	(190)
Net Income (Loss)	$ 339	$ 381	$ 1,130	$ (219)
Basic Earnings (Loss) per Share				
Continuing Operations	$ 0.50	$ 0.56	$ 1.66	$ (0.10)
Discontinued Operations	-	-	-	(0.29)
Basic Earnings per Share	$ 0.50	$ 0.56	$ 1.66	$ (0.39)
Diluted Earnings (Loss) per Share				
Continuing Operations	$ 0.47	$ 0.53	$ 1.55	$ (0.10)
Discontinued Operations	-	-	-	(0.29)
Diluted Earnings per Share	$ 0.47	$ 0.53	$ 1.55	$ (0.39)

See accompanying notes.

Xerox Corporation
Consolidated Balance Sheets

(In millions, except share data in thousands)	September 30, 1999	December 31, 1998
Assets	(Unaudited)	
Cash	$ 106	$ 79
Accounts receivable, net	3,081	2,671
Finance receivables, net	5,074	5,220
Inventories	3,048	3,269
Deferred taxes and other current assets	1,267	1,236
Total Current Assets	12,576	12,475
Finance receivables due after one year, net	7,909	9,093
Land, buildings and equipment, net	2,440	2,366
Investments in affiliates, at equity	1,522	1,456
Goodwill, net	1,751	1,731
Other assets	1,499	1,233
Investment in discontinued operations	1,255	1,670
Total Assets	$ 28,952	$ 30,024
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 4,022	$ 4,104
Accounts payable	808	948
Accrued compensation and benefit costs	568	722
Unearned income	199	210

Other current liabilities	2,093	2,523
Total Current Liabilities	7,690	8,507
Long-term debt	11,616	10,867
Postretirement medical benefits	1,123	1,092
Deferred taxes and other liabilities	2,229	2,711
Discontinued operations liabilities - policyholders' deposits and other	519	911
Deferred ESOP benefits	(370)	(370)
Minorities' interests in equity of subsidiaries	122	124
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	638	638
Preferred stock	674	687
Common shareholders' equity	4,711	4,857
Total Liabilities and Equity	$ 28,952	$ 30,024
Shares of common stock issued	664,029	657,196
Shares of common stock outstanding	664,029	656,787

See accompanying notes.

Xerox Corporation
Consolidated Statements of Cash Flows (Unaudited)

Nine months ended September 30 (In millions)	1999	1998
Cash Flows from Operating Activities		
Income (Loss)from Continuing Operations	$ 1,130	$ (29)
Adjustments required to reconcile income to cash flows from operating activities:		
Depreciation and amortization	659	589
Provisions for doubtful accounts	205	173
Restructuring and other charges	-	1,644
Provision for postretirement medical benefits, net of payments	31	26
Charges against 1998 restructuring reserve	(327)	(197)
Minorities' interests in earnings of subsidiaries	35	35
Undistributed equity in income of affiliated companies	(39)	(49)
Increase in inventories	(57)	(887)
Increase in on-lease equipment	(249)	(286)
Decrease (increase) in finance receivables	249	(892)
Increase in accounts receivable	(480)	(390)
Decrease in accounts payable and accrued compensation and benefit costs	(411)	(256)
Net change in current and deferred income taxes	197	(551)
Change in other current and noncurrent liabilities	(224)	(17)
Other, net	(428)	(451)
Total	291	(1,538)
Cash Flows from Investing Activities		
Cost of additions to land, buildings and equipment	(393)	(337)
Proceeds from sales of land, buildings and equipment	29	67
Acquisitions	(107)	(380)
Other, net	(24)	6
Total	(495)	(644)
Cash Flows from Financing Activities		
Net change in debt	565	2,499
Dividends on common and preferred stock	(439)	(398)
Proceeds from sale of common stock	120	99
Repurchase of common and preferred stock	-	(147)
Dividends to minority shareholders	(29)	(4)
Total	217	2,049
Effect of Exchange Rate Changes on Cash	(9)	6
Cash Provided (used) by Continuing Operations	4	(127)
Cash Provided by Discontinued Operations	23	158
Increase in Cash	27	31
Cash at Beginning of Period	79	75
Cash at End of Period	$ 106	$ 106

See accompanying notes.

1. The unaudited consolidated interim financial statements presented herein have been prepared by Xerox Corporation ("the Company") in accordance with the accounting policies described in its 1998 Annual Report to Shareholders and should be read in conjunction with the notes thereto.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary for a fair statement of operating results for the interim periods presented have been made.

Certain historical amounts have been restated to reflect reclassifications to conform to the current presentation. The impact of these changes is not material and did not affect net income.

References herein to "we" or "our" refer to Xerox and consolidated subsidiaries unless the context specifically requires otherwise.

2. Inventories consist of (in millions):

	September 30, 1999	December 31, 1998
Finished goods	$ 1,910	$ 1,923
Work in process	138	111
Raw materials	366	464
Equipment on operating leases, net	634	771
Total	$ 3,048	$ 3,269

3. On January 25, 1999, the Board of Directors approved a two for-one split of the Company's common stock. The effective date of the stock split was February 23 for shareholders of record as of February 4. Shareholders' equity has been restated to give retroactive recognition to the stock split in prior periods by reclassifying from additional paid-in capital to common stock the par value of the additional shares arising from the split. In addition, all references in the financial statements to number of shares and per-share amounts have been restated.

4. On April 7, 1998, we announced a worldwide restructuring program associated with enhancing our competitive position and lowering our overall cost structure. In connection with this program, in the second quarter of 1998 we recorded a pre-tax provision of $1,644 million ($1,107 million after taxes and including our $18 million share of a restructuring charge recorded by Fuji Xerox). The program includes the elimination of approximately 9,000 jobs, net, worldwide, the closing and consolidation of facilities, and the write-down of certain assets. The charges associated with this restructuring program include $113 million of inventory charges recorded as cost of revenues and $316 million of asset impairments. Included in the asset impairment charge are facility fixed assets write-downs of $156 million and other asset write-downs of $160 million. For facility fixed assets classified as assets to be disposed of, the impairment loss recognized is based on fair value less cost to sell, with fair value based on third-party valuations as well as our internal estimates of existing market prices for similar assets. The effect of suspending depreciation on assets no longer in use for the third quarter of 1999 is not material. The remaining $160 million of asset impairments includes the write-down of certain technology assets and other items impacted by the consolidation activities.

The headcount reductions are occurring primarily in administrative functions, but also impact service, research and manufacturing.

The following table summarizes the status of the restructuring reserve (in millions):

	Charges	September 30,

	Total Reserve	Against Reserve	1999 Balance
Severance and related costs	$1,017	$584	$ 433
Asset impairment	316	316	-
Lease cancellation and other costs	198	75	123
Inventory charges	113	113	-
Total	$1,644	$1,088	$ 556

As of September 30 1999, approximately 9,100 employees have left the Company under the restructuring program.

There have been no material changes to the program since its announcement in April 1998, and the majority of the remaining reserve will be utilized throughout the remainder of 1999 and 2000.

5. Common shareholders' equity consists of (in millions):

	September 30, 1999	December 31, 1998
Common stock	$ 666	$ 660
Additional paid-in-capital	1,499	1,265
Retained earnings	4,358	3,712
Translation adjustments	(1,812)	(761)
Treasury stock	-	(19)
Total	$ 4,711	$ 4,857

Comprehensive income is as follows (in millions):

	Three months ended September 30,		Nine months ended September 30,	
	1999	1998	1999	1998
Net income (loss)	$ 339	$ 381	$1,130	$ (219)
Fuji Xerox stub period income(loss)	-	-	-	(6)
Translation adjustments	(75)	77	(1,051)	(153)
Comprehensive income (loss)	$ 264	$ 458	$ 79	$ (378)

6. Interest expense totaled $606 million and $553 million for the nine months ended September 30, 1999 and 1998, respectively.

7. Operating segment profit or loss information for the three months ended September 30, 1999 and 1998 is as follows (in millions):

	Core Business	Paper and Media	Other	Total
1999				
Revenue from external customers	$ 3,760	$ 277	$ 344	$ 4,381
Finance income	247	-	-	247
Intercompany revenues	(47)	-	47	-
Total segment revenues	$ 3,960	$ 277	$ 391	$ 4,628
Segment profit	$ 495	$ 8	$ 2	$ 505
1998				
Revenue from external customers	$ 3,759	$ 272	$ 311	$ 4,342
Finance income	264	-	1	265
Intercompany revenues	(103)	-	103	-
Total segment revenues	$ 3,920	$ 272	$ 415	$ 4,607
Segment profit (loss)	$ 546	$ 12	$ (18)	$ 540

Operating segment profit or loss information for the nine months ended September 30, 1999 and 1998 is as follows (in millions):

	Core Business	Paper and Media	Other	Total
1999				
Revenue from external customers	$11,181	$ 839	$ 981	$13,001

Finance income	787	-	2	789
Intercompany revenues	(123)	-	123	-
Total segment revenues	$11,845	$ 839	$1,106	$13,790
Segment profit	$ 1,581	$ 42	$ 9	$ 1,632
1998				
Revenue from external customers	$11,109	$ 861	$ 883	$12,853
Finance income	798	-	2	800
Intercompany revenues	(262)	-	262	-
Total segment revenues	$11,645	$ 861	$1,147	$13,653
Segment profit (loss) before restructuring	$ 1,548	$ 41	$ (59)	$ 1,530
Segment profit (loss) after restructuring	$ 43	$ 38	$ (195)	$ (114)

8. Securitization of Receivables

In the third quarter of 1999, Xerox Credit Corporation, a wholly owned subsidiary, sold approximately $400 million of finance receivables which resulted in a pre-tax gain of approximately $11 million. This gain was recorded in Finance income. A 1999 second quarter sale of $750 million resulted in a pre-tax gain of $28 million.

9. In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivatives as assets or liabilities measured at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. In July 1999, the FASB issued SFAS 137 which defers the effective date of SFAS 133 until the start of fiscal years beginning after June 15, 2000. We will adopt SFAS 133 beginning January 1, 2001. We do not expect this Statement to have a material impact on our consolidated financial statements.

10. Acquisitions

In August, 1999 we purchased OmniFax from Danka Business Systems for $45 million in cash. OmniFax is a supplier of business laser multifunction fax systems. The acquisition resulted in goodwill of approximately $16 million. Also during the third quarter, we paid $62 million to increase our ownership in our joint venture in India from approximately 40 percent to 68 percent. This transaction resulted in goodwill of $48 million. The operating results of these companies, which are immaterial, have been included in our consolidated statement of income from the date of acquisition.

On September 22, 1999 we announced an agreement to purchase the Color Printing and Imaging Division of Tektronix, Inc. for $950 million. The transaction, subject to regulatory reviews, is expected to close in the fourth quarter of 1999.

11. Litigation

On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. Subsequently, a single corporate entity, CSU, L.L.C.("CSU") was substituted for the three affiliated companies. CSU claimed damages predominately resulting from the Company's alleged refusal to sell parts for high volume copiers and printers to CSU prior to 1994. The Company's policies and practices with respect to the sale of parts to ISOs were at issue in an antitrust class action in Texas, which was settled by the Company during 1994. Claims for individual lost profits of ISOs who were not named parties, such as CSU, were not included in that class action. The Company asserted counterclaims against CSU alleging patent and copyright infringement relating to the copying of diagnostic software and service manuals. On April 8, 1997, the District Court granted partial summary judgment in favor of the Company on CSU's antitrust claims, ruling that the Company's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. On January 8, 1999, the Court dismissed with prejudice all of CSU's antitrust claims. CSU has preserved for appeal only its claims that Xerox unlawfully refused to sell critical parts (including patented parts), to sell manuals and to license patented and copyrighted software and its claim that the Company's refusal to sell non-critical parts was unlawful because it was in conjunction with an allegedly unlawful refusal to sell critical parts. The District Court also granted summary judgment in favor of the Company on its patent infringement claim, leaving open with respect to patent infringement only the issues of willfulness and the amount of damages, and granted partial summary judgment in favor of the Company with respect to some of its claims of copyright infringement. A judgment in the amount of $1,039,282 was entered in favor of the Company and against CSU on the copyright infringement counterclaim. CSU has appealed to the United States Court of Appeals for the Federal Circuit.

On April 11, 1996, an action was commenced by Accuscan Corp. (Accuscan), in the United States District Court for the Southern District of New York, against the Company seeking unspecified damages for infringement of a patent of Accuscan which expired in 1993. The suit, as amended, was directed to facsimile and certain other products containing scanning functions and sought damages for sales between 1990 and 1993. On April 1, 1998, the jury entered a verdict in favor of Accuscan for $40 million. However, on September 14, 1998, the Court granted the Company's motion for a new trial on damages. The Company is also seeking to appeal the issue of liability and believes that the liability verdict should be set aside. The trial ended on October 25, 1999 with a jury verdict of $9,716,379. We intend to file a motion to have the judge dismiss or modify the verdict.

On December 18, 1998, three former employees of Crum & Forster Holdings, Inc. (a former subsidiary of ours) ("C&F") filed a lawsuit in the United States District Court for the District of New Jersey claiming wrongful termination of their participation in the Xerox Corporation Employee Stock Ownership Plan ("ESOP"). Xerox, the ESOP, C&F and the company that acquired C&F are named defendants. Plaintiffs purport to bring this action on behalf of themselves and a class of approximately 10,000 persons who were employed by C&F (or one of its insurance subsidiaries which also participated in the ESOP) from July 1, 1989 through December 31, 1993. Plaintiffs assert violations of the Employee Retirement Income Security Act, breach of contract, conversion, unjust enrichment and fraudulent misrepresentation. They are seeking approximately $250 million in damages.

The foregoing action is related to an action previously filed in the United States District Court for the Western District of Texas. The Texas plaintiffs did not specify their damages, but they sought certification of a similar class of former ESOP participants. Plaintiffs' motion for class certification was denied by the Court on March 26, 1999. The plaintiffs have asked the Court to reconsider its decision.

On May 26, 1999, the District Court of New Jersey granted Xerox' motion to transfer the New Jersey case to the Western District of Texas, where it has been consolidated with the previously filed action.

We deny any wrongdoing and we intend to vigorously defend the consolidated action.

On June 24, 1999 Xerox Corporation was served with a summons and complaint filed in the Superior Court of the State of California for the County of Los Angeles. The complaint was filed on behalf of 681 individual plaintiffs claiming damages as a result of Xerox' alleged disposal and/or release of hazardous substances into the soil, air and groundwater. On July 22, 1999 a complaint was filed in the same Court, which has not yet been served on Xerox, in a separate action on behalf of an additional 80 plaintiffs with the same claims for damages as the earlier action. Plaintiffs in both cases further allege that they have been exposed to such hazardous substances by inhalation, ingestion and dermal contact, including but not limited to, hazardous substances contained within the municipal drinking water supplied by the City of Pomona and the Southern California Water Company. Plaintiffs' claims against Xerox include personal injury, wrongful death, property damage, negligence, trespass, nuisance, fraudulent concealment, absolute liability for ultra-hazardous activities, civil conspiracy, battery, and violation of California Unfair Trade Practices Act. Damages are unspecified.

We deny any liability for the plaintiffs' alleged damages and intend to vigorously defend these actions.

Item 2 Xerox Corporation

Management's Discussion and Analysis of Results of Operations and Financial Condition

Document Processing

Summary

Pre-currency revenues, excluding Brazil, grew 6 percent, reflecting revenue growth of 6 percent in the United States, 3 percent in Europe, and 13 percent in the rest of the world. Including Brazil where revenues declined substantially due to the continuing effects of the January currency devaluation and the subsequent economic weakness, pre-currency revenues grew 2 percent. Including the effect of adverse European currency translation, total 1999 third quarter revenues of $4.6 billion were equal to the 1998 third quarter.

Income declined 11 percent to $339 million in the 1999 third quarter from $381 million in the 1998 third quarter. The income decline reflects significant gross margin deterioration almost offset by lower selling, administrative and general expenses and lower research and development spending. The 1999 third quarter income decline also reflects deterioration in equity income, predominantly Fuji Xerox and increased non-financing interest expense. Operating income benefited from significantly lower provisions for overall incentive compensation expense.

Third quarter 1999 revenue and income reflect unfavorable product mix, increased competition and pricing pressures. In addition, sales activity was significantly impacted by the ongoing disruptive effects of the U.S. customer administration reorganization and, to a much lesser extent, the realignment of the sales organization to an industry approach.

Diluted earnings per share declined 11 percent to $0.47 in the 1999 third quarter from $0.53 in the 1998 third quarter.

For the first nine months of the year, diluted earnings per share from continuing operations, before the 1998 restructuring charge, increased 4 percent to $1.55 and income from continuing operations increased 5 percent to $1,130 million.

We believe that implementing the substantial changes to align our sales force to sell products, services and solutions by industry sector; overcoming issues in centralizing our customer administration centers; and the economic weakness in Brazil and Japan will continue to adversely impact our results for the next several quarters.

Pre-Currency Growth

To understand the trends in the business, we believe that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted growth as "pre-currency growth." Latin American currencies are shown at actual exchange rates for both pre-currency and post-currency reporting, since these countries generally have volatile currency and inflationary environments, and our operations in these countries traditionally implement pricing actions to recover the impact of inflation and devaluation.

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency. When compared with the average of the major European currencies on a revenue-weighted basis, the U.S. dollar was approximately 5 percent stronger in the 1999 third quarter than in the 1998 third quarter. As a result, European currency translation had an unfavorable impact of less than two percentage points on revenue growth.

The unfavorable impact of our Brazilian operation on our total revenue growth was approximately 4 percentage points. This included the continued impact of the very significant currency devaluation and a weaker economic environment. The average Real exchange rate declined 37 percent to 1.86 in the 1999 third quarter from 1.17 in the 1998 third quarter.

Revenues denominated in currencies where the local currency is the functional currency, including the Brazilian Real, are not hedged for purposes of translation into U.S. dollars.

Revenues

Total pre-currency revenues grew 2 percent in the 1999 third quarter and grew 6 percent excluding Brazil. For the major product categories, the pre-currency revenue growth rates are as follows:

	1998					1999			1999 (Excluding Brazil)		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q1	Q2	Q3
Total Revenues	10%	10%	6%	7%	8%	(1)%	4%	2%	3%	7%	6%
Digital Products	34	41	38	33	36	28	26	19	33	32	24
Light Lens Copiers	(4)	(8)	(15)	(16)	(11)	(24)	(20)	(19)	(20)	(18)	(14)

Digital product revenues grew 19 percent in the 1999 third quarter and reached 53 percent of revenues compared with 45 percent of total revenues in the 1998 third quarter. This growth was driven by the continued outstanding revenue growth from our expanding family of black-and-white Document Centre digital multi-function products, particularly the 55 and 65 page-per-minute products and the recently introduced 32 and 40 page-per-minute products. Production publishing revenues grew 12 percent in the 1999 third quarter reflecting strong activity partially offset by unfavorable product mix, and production printing revenues declined 4 percent due to unfavorable product mix and pricing incentives related to year 2000 transition which more than offset higher activity. Color copying and printing revenue growth improved to 13 percent in the 1999 third quarter, compared with 8 percent and 11 percent in the first two quarters of 1999, respectively, reflecting accelerating revenue from DocuColor 100 and indirect channels color laser and inkjet products, the initial strong market reception for the DocuColor 12 introduced in August, as well as continued strong growth in DocuColor 30 and 40 revenues with a clear mix shift to DocuColor 30. Office color copier revenue declined, as unit volume increases were more than offset by pricing pressure and a continued shift to less-featured models. Revenue growth from our DocuPrint N series of monochrome laser printers and new and expanding line of monochrome digital copiers sold through indirect sales channels was excellent, but the growth was concentrated in lower-end products. For the first nine months of 1999, digital product revenues grew 24 percent, driven by outstanding growth from the Document Centre digital copier family, the DocuPrint N series of black and white laser printers and digital copiers sold through indirect sales channels as well as 11 percent growth in production publishing revenues and 11 percent growth in color copying and printing revenues. Black-and-white light-lens copier revenues declined 19 percent in the 1999 third quarter and 21 percent in the first nine months as a result of increased pricing pressures, customer transition to digital devices and weakness in Brazil.

Geographically, the pre-currency revenue growth rates are as follows:

1998					1999		
Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3

Total Revenues	10%	10%	6%	7%	8%	(1)%	4%	2%
United States	7	13	10	11	10	4	9	6
Europe	13	10	5	8	9	2	6	3
Other Areas	11	6	(4)	(4)	1	(16)	(12)	(10)
Memo: Fuji Xerox	2	(4)	(6)	(4)	(3)	(1)	(3)	-

U.S. revenue growth slowed to 6 percent in the 1999 third quarter as sales activity was significantly affected by the ongoing disruptive impacts of the customer administration reorganization and to a much lesser extent, the continued realignment of the sales organization to an industry approach. In addition, the competitive environment intensified, and unfavorable production publishing, production printing and color product mix and pricing incentives to accelerate production printing placements, adversely impacted third quarter 1999 revenues. U.S. revenue growth in the first nine months of 1999 of 6 percent was driven by strong growth in equipment sales through both direct and indirect channels, as well as continued excellent growth in document outsourcing partially offset by the factors mentioned above.

European revenue growth slowed to 3 percent in the 1999 third quarter, reflecting increased competitive and pricing pressures, particularly in large bid and tender transactions, unfavorable product mix, as well as lower sales productivity in some countries as a result of the realignment of the sales organization to an industry approach. Italy had strong revenue growth in the 1999 third quarter, France and Germany had modest revenue growth, while revenues in the U.K. and Holland declined. European revenue growth of 4 percent in the first nine months of 1999 reflected good equipment sales growth and outstanding document outsourcing growth partially offset by the factors mentioned above.

Other Areas include operations principally in Latin America, Canada, China, Russia, India, the Middle East and Africa. Revenue in Brazil declined by 41 percent in the 1999 third quarter and 39 percent in the first nine months of 1999, primarily reflecting the very significant currency devaluation as well as the economic weakness. Brazilian revenues represented approximately 5 percent of Xerox revenues in the 1999 third quarter compared with 9 percent in the 1998 third quarter. Excluding Brazil, revenue in Other Areas grew 13 percent in the third quarter, including excellent growth in Mexico, good growth in Canada and a resumption of growth in developing markets.

Fuji Xerox Co., Ltd., an unconsolidated entity jointly owned by Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan, Australia, New Zealand, and other areas of the Pacific Rim. Fuji Xerox revenue in the 1999 third quarter was equal to the 1998 third quarter, reflecting flat revenue in Japan and modest revenue growth in Fuji Xerox' other Asia Pacific territories. Fuji Xerox revenue for the first nine months of 1999 declined 1 percent reflecting a modest revenue decline in Japan partially offset by modest revenue growth in Fuji Xerox' other Asia Pacific Territories.

The pre-currency growth rates by type of revenue are as follows:

	1998								1999 (Excluding Brazil)		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q1	Q2	Q3
Equipment Sales	17%	19%	7%	10%	12%	(3)%	2%	5%	4%	12%	13%
Recurring Revenues	6	6	5	4	5	1	4	-	3	4	3
Total Revenues	10%	10%	6%	7%	8%	(1)%	4%	2%	3%	7%	6%
Memo:											
Document Outsourcing*	29	39	36	44	38	31	34	32	34	35	34

*Includes equipment accounted for as equipment sales.

Equipment sales, which grew 5 percent in the 1999 third quarter and 1 percent for the first nine months of 1999, were impacted by the currency devaluation and recession in Brazil. While equipment sales excluding Brazil grew 13 percent in the third quarter and 10

percent in the first nine months of 1999, U. S. sales activity was significantly impacted by the ongoing disruptive impacts of the customer administration reorganization. Indirect channels equipment sales revenue growth also slowed with unit placements increasing substantially, offset by equipment price declines and product mix. The substantial increase in equipment placements should result in higher future supplies revenue. Over 50 percent of 1999 third quarter equipment sales was derived from products introduced since 1997, including the company's expanding line of black-and-white Document Centre digital multi-function equipment, the DocuColor 12, the DocuColor 30, the DocuColor 70, the DocuColor 100, the DocuTech 65, 96 and 180 page-per-minute Production Publishers, and the expanding monochrome and color laser and inkjet product families sold through indirect channels.
Recurring revenues, including revenues from service, document outsourcing, rentals, supplies, paper and finance income, represent the revenue stream that follows equipment placement. These revenues are primarily a function of our installed population of equipment, usage levels, pricing and interest rates. Recurring revenues in the 1999 third quarter were equal to the 1998 third quarter and grew 2 percent in the first nine months of 1999. Excellent growth in Document Outsourcing continued as customers focus on their core business and outsource their document processing requirements to Xerox. Recurring revenues were adversely impacted by the devaluation and weakness in Brazil, lower service revenues and lower copy volume growth reflecting diversion of pages from light lens copiers to printers not yet offset by page increases on network-connected Document Centre multifunction products. In addition, recurring revenues were also adversely impacted by competitive price pressures and reduced product sales to Fuji Xerox, which are classified in recurring revenue. In the 1999 third quarter, finance income included an $11 million gain from the securitization of $400 million of finance receivables partially offset by the unfavorable flow-through impact of the $28 million gain on the 1999 second quarter securitization of $750 million.

Key Ratios and Expenses

The trend in key ratios was as follows:

	1998					1999		
	Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3
Gross Margin	44.9%	45.6%	46.3%	48.0%	46.3%	45.9%	45.3%	43.3%
SAG % Revenue	27.8	27.3	27.7	26.8	27.3	27.2	25.8	26.1

The gross margin declined by 3.0 percentage points in the 1999 third quarter from the 1998 third quarter as unfavorable product mix, higher revenue growth in the lower-margin document outsourcing and indirect channels businesses, some decline in service margin and accelerating competitive price pressures were only partially offset by significantly lower provisions for overall incentive compensation expense and manufacturing and other productivity improvements. The gross margin decreased 0.8 percentage points in the first nine months of 1999 versus the first nine months of 1998 before the 1998 restructuring charge because of continued competitive price pressures and changing business mix due primarily to higher revenue growth in both the document outsourcing and the indirect channels businesses.

Selling, administrative and general expenses (SAG) declined 4 percent in the 1999 third quarter from the 1998 third quarter and 3 percent in the first nine months of 1999 driven by a decline in general and administrative expenses reflecting the benefits of our 1998 restructuring program, significantly lower provisions for overall incentive compensation expense, our continued focus on productivity and expense controls and the beneficial currency translation impact of the devaluation of the Brazilian currency which were partially offset by the impact of U.S. customer administration issues. In the 1999 third quarter and the first nine months of 1999, SAG represented 26.1 percent and 26.3 percent of revenue, an improvement of 1.6 and 1.3 percentage points, respectively, from the corresponding 1998 periods.

Research and development (R&D) expense in the 1999 third quarter declined 16 percent from the 1998 third quarter and 4 percent for the first nine months of 1999, largely due to lower provisions for overall incentive compensation expense. We continue to invest in technological development to maintain our position in the rapidly changing document processing market with an added focus on increasing the effectiveness of that investment. Xerox R&D is strategically coordinated with that of Fuji Xerox which invested $636 million in R&D in the 1998 full year, for a combined total of $1.7 billion.

Worldwide employment increased by 1,000 in the 1999 third quarter to 93,500 as a result of the acquisition of the Omnifax business with 600 employees and the net hiring of 1,300 employees for the company's fast-growing document outsourcing business, direct sales representatives, and staffing for the centralized European customer care and shared services operations in Ireland, partially offset by 900 employees leaving the company under the worldwide restructuring program.

The $20 million increase in other expenses, net, in the 1999 third quarter and the $18 million increase in the first nine months of 1999, reflects increased non-financing interest expense resulting from higher debt balances and the net impact of several non-recurring items which included a gain from the sale of our remaining minority interest in Documentum, Inc.

Income Taxes (Benefits), Equity in Net Income of Unconsolidated Affiliates and Minorities' Interests in Earnings of Subsidiaries

Income before income taxes declined 6 percent to $505 million in the 1999 third quarter from $540 million in the 1998 third quarter.

The effective tax rate was 31.0 percent in the 1999 third quarter, which is the same as the 1999 first half and consistent with the full year expectation.

Equity in net income of unconsolidated affiliates is principally our 50 percent share of Fuji Xerox income. Total equity in net income decreased significantly in the 1999 third quarter and the first nine months of 1999. Fuji Xerox business in its territories was essentially consistent with first half trends but third quarter income in the Xerox consolidated accounts was significantly lower because of the deferral of profits from intercompany product shipments.

On April 7, 1998, we announced a worldwide restructuring program associated with enhancing our competitive position and lowering our overall cost structure. In connection with this program, we recorded a second quarter 1998 pre-tax provision of $1,644 million ($1,107 million after taxes and including our $18 million share of a restructuring charge recorded by Fuji Xerox). The program includes employment reductions, the closing and consolidation of facilities, and the write-down of certain assets.

As of September 30, 1999, approximately 9,100 employees had left the company under the restructuring program. The reserve balance of $556 million at September 30, 1999 relates to cash expenditures to be incurred primarily during the remainder of 1999 and 2000.

On September 22, 1999 we announced an agreement to purchase the Tektronix, Inc. Color Printing and Imaging Division for $950 million in cash. The purchase agreement is subject to regulatory reviews and is expected to close in the fourth quarter of 1999.

The Year 2000 (Y2K) problem is the result of computer programs written in two digits, rather than four, to define the applicable year. As a result, many information systems are unable to properly recognize and process date-sensitive information beyond December 31, 1999. As with all major companies, certain of our information systems and products require remediation or replacement in order to render these systems Year 2000 compliant. Virtually all of our remediation and replacement work has been completed.

We have divided the Year 2000 project into five major sections: Information Technology; and the non-Information Technology areas of Facilities, External supplier Readiness, Product Compliance and Facilities Management products and services. The general phases common to all sections are: 1) Awareness - a strategic approach was developed to address the Year 2000 problem. 2) Assessment - detailed plans and target dates were developed. 3) Programming - includes hardware and software upgrades, systems replacements, vendor certification and other associated changes. 4) Testing - includes testing and conversion of system applications. 5) Implementation - includes compliance achievement and user acceptance.

The Information Technology section includes applications (software), compute (mainframe/smaller computer environments), infrastructure (networks, servers, and workstations), and telecommunications. The status of each section as of September 30, 1999 is as follows:

Applications - 100 percent of the mission-critical applications are Y2K Compliant and tested.

Compute - 98 percent of our mainframe/smaller computer environments have been upgraded to be Y2K compliant with the remainder scheduled to be completed in the fourth quarter of 1999.

Infrastructure - 99.9 percent of networks, servers, and workstations have been upgraded to be Y2K compliant with the remainder to be completed in the fourth quarter of 1999.

Telecommunications - 98 percent of internal mission-critical components requiring upgrades are Y2K compliant with the remainder planned for compliance in the fourth quarter of 1999. We continue to assess external public utility provider readiness and pursue status on those providers who do not respond.

The Facilities section, which includes building electrical systems, elevators, access control, security systems, etc., is primarily in the remediation phase. We are on track for achieving compliance of critical owned and leased sites in the fourth quarter of 1999.

We began our efforts in the Vendor Compliance area in 1997. A general awareness letter was sent to all external suppliers, and an assessment survey was sent to all business critical suppliers. Follow-up was then initiated to validate survey responses and provide a risk profile for each supplier.

From a global purchasing perspective, 100 percent of all business critical suppliers have been assessed for Y2K readiness, with 90 percent rated "high confidence". The Y2K Assessment Team will continue to work with the commodity managers, and their appointed Y2K leads, to determine next steps for all "low confidence" suppliers. Our current focus is on assessing the balance of the key product suppliers.

In addition to assessing supplier readiness, an extra measure of safety in the form of a Y2K inventory hedge will ensure continuity of supply through the rollover. This approved strategy will protect Xerox revenue by assuring the availability of selected key parts and products and delivery dates.

In summary, we believe the inventory hedge incorporated in the Y2K vendor strategy is adequate to provide supplier continuity coverage. This procedure is intended to provide a means of managing risk; however, no assurance can be given that it will eliminate the potential disruption caused by third party failure.

Regarding Product Compliance, 99 percent of our products, excluding end-of-life products, are Y2K compliant, can be made compliant with a software patch or upgrade, or have another solution available. We are implementing these Y2K solutions for all in-field Xerox products worldwide. Product remediation is 93 percent complete worldwide through the end of September. The remainder of the remediation is aggressively underway, and will be complete before year-end.

In Facilities Management, required remediation of third party components is 98 percent complete worldwide. In addition, 78 percent of on-site integrated tests have been accomplished. Remediation of Xerox products at these sites is being coordinated with the product compliance area and is nearing completion. Contingency plans are developed for 72 percent of the high priority sites.

Contingency Planning--Certain of our processes have in place business resumption plans. In addition, we have established a contingency program which requires our critical business process managers to develop alternative plans should our, or third party remediation efforts experience unforeseen difficulty.

We are also dependent upon our customers for sales and cash flows. Y2K interruptions in our customers' operations could result in reduced sales, increased inventory or receivable levels and cash flow reductions. While these events are possible, our customer base is sufficiently broad to minimize those risks.

In 1993, Xerox began a project to replace the majority of its legacy systems, which in many cases date back to the 1960s. These efforts continue today. As to remediation, we currently estimate that costs, exclusive of software and systems that are being replaced or upgraded in the normal course of business, and including our products and facilities, as well as legacy systems, will be $183 million, of which $28 million was spent in 1997, $92 million in 1998 and $45 million in the first nine months of 1999. We estimate $18 million will be spent in the remainder of 1999.

We believe that the remediation of our information systems and products will occur in a timely fashion so that the Y2K problem will not result in significant operating problems with our operating systems, facilities and products. However, if such remediations are not completed in a timely manner or if third party suppliers of products or services have not completed their remediation efforts, the Y2K problem could potentially have a material adverse impact on our operations. Possible worst case consequences could include an interruption in our ability to: bill and apply collections from our customers; manufacture and deliver products to our customers; or meet our cash requirement needs.

New Accounting Standards. In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 requires companies to recognize all derivatives as assets or liabilities measured at their fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. We do not expect this Statement to have a material impact on our consolidated financial statements. In July 1999, the FASB issued SFAS 137 which defers the effective date of SFAS 133 until the start of fiscal years beginning after June 15, 2000. We will adopt SFAS 133 beginning January 1, 2001.

Discontinued Operations - Insurance and Other Financial Services

The net investment in the discontinued financial services businesses which includes Insurance, Other Financial Services and Third Party Financing and Real Estate totaled $736 million at September 30, 1999 compared with $759 million at December 31, 1998. The decrease in 1999 was primarily caused by the sale of six of our remaining eight financing leases, the sale of other Real Estate investments and other run-off activity which were partially offset by the funding of reinsurance coverage for the former Talegen Holdings, Inc. (Talegen) companies to Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt. A discussion of the discontinued businesses follows.

Status of Insurance

In 1995, we recorded a $1,546 million after tax charge in connection with the disengagement activities for our five then remaining Talegen insurance companies and three related service companies.

In 1997 and 1998, all of the insurance companies and service companies were sold. As part of the consideration for one of the companies, The Resolution Group, Inc. (TRG), which closed in the fourth quarter of 1997, we received a $462 million performance-based instrument. We will participate in the future cash flows of TRG via the performance-based instrument. The recovery of this instrument is dependent upon the sufficiency of TRG's available cash flows. Based on current forecasts at September 30, 1999, we expect to realize $462 million for this instrument. However, the ultimate realization may be greater or less than this amount.

Xerox Financial Services, Inc. (XFSI) continues to provide aggregate excess of loss reinsurance coverage to one of the former Talegen units and TRG through Ridge Re, a wholly owned subsidiary.

The coverage limits remaining at September 30, 1999 total $578 million, which is net of 15 percent coinsurance and exclusive of $234 million in coverage which was reinsured under a retrocessional arrangement during the fourth quarter of 1998. At September 30, 1999, Ridge Re had recognized the discounted value of approximately $331 million of the available coverage and it is possible that some additional reserves could ultimately be needed, although this is not currently anticipated. In August 1999, Ridge Re entered into a commutation agreement to eliminate its obligations for the reinsurance coverage relating to one of the Talegen units. The coverage limit under the policy that was commuted was $42 million.

XFSI has guaranteed to one of the former Talegen units and TRG that Ridge Re will meet all of its financial obligations under the Reinsurance Agreements. Related premium payments to Ridge Re are made by XFSI and guaranteed by us. As of September 30, 1999, there were three remaining annual premium installments of $38 million, plus finance charges. We have also guaranteed that Ridge Re will meet its financial obligations on $578 million of the Reinsurance Agreements and have provided a $400 million partial guaranty of Ridge Re's $600 million letter of credit facility. This facility is required to provide security with respect to aggregate excess of loss reinsurance obligations under contracts with one of the former Talegen units and TRG.

XFSI may also be required, under certain circumstances, to purchase over time additional redeemable preferred shares of Ridge Re, up to a maximum of $301 million.

Net Investment in Insurance

The net investment in Insurance at September 30, 1999 totaled $609 million compared with a balance of $513 million at December 31, 1998. The increase in 1999 is primarily due to contractual payments to Ridge Re for annual premium installments and associated finance charges, an anticipated settlement payment related to the sale of one of the former Talegen units and interest on the assigned insurance debt.

Other Financial Services

The net investment in Other Financial Services at September 30, 1999 was $139 million compared with $132 million at December 31, 1998. Debt associated with these assets totaled $50 million at September 30, 1999 and December 31, 1998. The increase in the investment is primarily due to interest on the assigned debt and settlement of litigation, partially offset by the disposition of other investments.

Third Party Financing and Real Estate

Third Party Financing and Real Estate assets at September 30, 1999 and December 31, 1998 totaled $38 million and $250 million, respectively. The reduction primarily relates to the sale of six of our remaining eight financing leases, sale of the last remaining Xerox Centre office building, as well as other asset sales and runoff activity that were consistent with the amounts contemplated in the formal disposal plan. Debt associated with these assets has been fully paid down at September 30, 1999. Debt totaled $86 million at December 31, 1998.

Capital Resources and Liquidity

Total debt, including ESOP and Discontinued Operations debt not shown separately in our consolidated balance sheets, increased to $15,688 million at September 30, 1999 or $554 million more than at December 31, 1998. The changes in consolidated indebtedness during the first nine months of 1999 and 1998 are summarized as follows.

	1999	1998
Total debt* as of January 1	$15,107	$12,903
Non-Financing Businesses:		
Document Processing operations cash usage	687	1,115
Brazil dollar debt reallocation	572	-
Discontinued businesses	(109)	(388)
Non-Financing Businesses	1,150	727
Financing Businesses	(1,154)	647

Shareholder dividends	439	398
Acquisitions	161**	380
Common stock, cash balance and other	(15)	79
Total Debt* as of September 30	$15,688	$15,134

* Includes discontinued operations.
** Includes $54 million of India joint venture debt

For analytical purposes, total equity includes common equity, ESOP preferred stock, mandatorily redeemable preferred securities and minorities' interests.

The following table summarizes the changes in total equity during the first nine months of 1999 and 1998 (in millions):

	1999	1998
Total equity as of January 1	$6,306	$6,454
Income from Continuing Operations	1,130	(29)
Loss from Discontinued Operations	-	(190)
Shareholder dividends	(439)	(398)
Exercise of stock options	120	99
Repurchase of common stock	-	(147)
Change in minorities' interests	(2)	-
Translation adjustments	(1,051)	(153)
All other, net	81	50
Total equity as of September 30	$6,145	$5,686

Non-Financing Operations

The following table summarizes document processing non-financing operations cash generation and usage for the nine months ended September 30, 1999 and 1998 (in millions):

	1999	1998
Document Processing Non-Financing:		
Income (loss) from continuing operations	$ 886	$ (140)
1998 restructuring charge, net of tax	-	1,107
Depreciation* and amortization	659	589
Subtotal	1,545	1,556
Additions to land, buildings and equipment	(393)	(337)
Increase in inventories	(57)	(887)
Increase in on-lease equipment	(249)	(286)
Increase in accounts receivable	(480)	(390)
Net change in other assets and liabilities	(726)	(574)
Subtotal	(1,905)	(2,474)
Cash charges against 1998 restructuring reserve	(327)	(197)
Net Cash Usage	$ (687)	$(1,115)

* Includes rental equipment depreciation of $332 million and $303 million in the nine months ended September 30, 1999 and 1998, respectively.

Non-financing operations' cash usage during the first nine months of 1999 totaled $687 million or $428 million less than in the first nine months of 1998. The improved cash performance resulted from significant improvement in inventory turns and lower disbursements due to our productivity programs. Offsetting these items were increased capital spending related to our pan European initiatives, an increase in the aging of accounts receivable resulting from the centralization of the U.S. customer administration centers and higher payments related to the 1998 restructuring reserve.

Financing Businesses

Customer financing-related debt declined by $1,154 million and increased by $647 million during the first nine months of 1999 and 1998, respectively.   This period-over-period reduction reflects the securitization in 1999 of $1,150 million of Xerox Credit

Corporation financing contracts and an allocation to non financing operations, based on our 8:1 debt to equity guideline. This allocation was necessary because of the impact on our Brazilian finance receivables of the significant devaluation in the Brazilian Real.

Debt related to discontinued third party financing and real estate activities, which has been included in financing business debt, was fully paid down at September 30, 1999. Third party financing and real estate related debt was reduced by $86 million and $19 million during the first nine months of 1999 and 1998, respectively.

Risk Management

Xerox is typical of multinational corporations because it is exposed to market risk from changes in foreign currency exchange rates and interest rates that could affect our results of operations and financial condition.

We have entered into certain financial instruments to manage interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward exchange contracts and foreign currency swap agreements. We do not enter into derivative instrument transactions for trading purposes and employ long-standing policies prescribing that derivative instruments are only to be used to achieve a set of very limited objectives.

Currency derivatives are primarily arranged in conjunction with underlying transactions that give rise to foreign currency-denominated payables and receivables. For example, an option to buy foreign currency to settle the importation of goods from foreign suppliers, or a forward exchange contract to fix the dollar value of a foreign currency-denominated loan.

With regard to interest rate hedging, virtually all customer-financing assets earn fixed rates of interest. Therefore, we "lock in" an interest rate spread by arranging fixed-rate liabilities with similar maturities as the underlying assets, and fund the assets with liabilities in the same currency, except in developing economies where capital market access to these financial instruments is impracticable. We refer to the effect of these conservative practices as "match funding" customer financing assets. This practice effectively eliminates the risk of a major decline in interest margins during a period of rising interest rates. Conversely, this practice effectively eliminates the opportunity to materially increase margins when interest rates are declining.

Pay fixed-rate and receive variable-rate swaps are typically used in place of more expensive fixed-rate debt. Additionally, pay variable-rate and receive fixed-rate swaps are used from time to time to transform longer-term fixed-rate debt into variable rate obligations. The transactions performed within each of these categories enable more cost-effective management of interest rate exposures. The potential risk attendant to this strategy is the non-performance of the swap counterparty. We address this risk by arranging swaps with a diverse group of strong-credit counterparties, regularly monitoring their credit ratings and determining the replacement cost, if any, of existing transactions.

Our currency and interest rate hedging are typically unaffected by changes in market conditions as forward contracts, options and swaps are normally held to maturity consistent with our objective to lock in currency rates and interest rate spreads on the underlying transactions.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under Note 11 contained in the "Notes to Consolidated Financial Statements" on pages 12-14 of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this item.

Item 2. Changes in Securities

During the quarter ended September 30, 1999, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

(a) Securities Sold: On July 1, 1999, Registrant issued 1,717 shares of Common stock, par value $1 per share.

(b) No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: B.R. Inman, A.A.Johnson, V.E. Jordan, Jr., Y. Kobayashi, H. Kopper, R.S. Larsen, G.J. Mitchell, N.J. Nicholas, Jr., J.E. Pepper, P. F. Russo, M.R. Seger and T.C.Theobald.

(c) The shares were issued at a deemed purchase price of $59.0625 per share (aggregate price $101,125), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan for Directors.

(d) Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit 3 (a) (1) Restated Certificate of Incorporation of Registrant filed by the Department of State of the State of New York on October 29, 1996. Incorporated by reference to Exhibit 3 (a) (1) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1996.

Exhibit 3 (b) By-Laws of Registrant, as amended through April 6, 1999. Incorporated by reference to Exhibit 3 (b)to Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999.

Exhibit 11 Computation of Net Income per Common Share.

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.

Exhibit 27 Financial Data Schedule (in electronic form only).

(b) Current reports on Form 8-K dated June 24, 1999 and dated September 22, 1999 reporting Item 5 "Other Events" were filed during the quarter for which this Quarterly Report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

XEROX CORPORATION
(Registrant)

/s/ Philip D. Fishbach
____

Date: November 10, 1999

By Philip D. Fishbach
Vice President and Controller
(Principal Accounting Officer)

Exhibit 11

Xerox Corporation

Computation of Net Income Per Common Share
(Dollars in millions, except per-share data; shares in thousands)

	Three months ended September 30, 1999	Three months ended September 30, 1998	Nine Months ended September 30, 1999	Nine Months ended September 30, 1998
I. Basic Net Income (Loss) Per Common Share				
Income (loss) from continuing operations	$ 339	$ 381	$ 1,130	$ (29)
Accrued dividends on ESOP preferred stock, net	(9)	(11)	(29)	(34)
Adjusted income (loss)from continuing operations	330	370	1,101	(63)
Discontinued operations	-	-	-	(190)
Adjusted net income (loss)	$ 330	$ 370	$ 1,101	$ (253)
Average common shares outstanding during the period	663,409	655,310	661,094	655,476
Common shares issuable with respect to exchangeable shares	1,078	3,300	1,739	3,300
Adjusted average shares outstanding for the period	664,487	658,610	662,833	658,776
Basic earnings (loss) per share:				
Continuing operations	$ 0.50	$ 0.56	$ 1.66	$ (0.10)
Discontinued operations	-	-	-	(0.29)
Basic earnings per share	$ 0.50	$ 0.56	$ 1.66	$ (0.39)

	Three months ended September 30, 1999	Three months ended September 30, 1998	Nine Months ended September 30, 1999	Nine Months ended September 30, 1998
II. Diluted Net Income (Loss) Per Common Share				
Income (loss) from continuing operations	$ 339	$ 381	$ 1,130	$ (29)
ESOP expense adjustment, net of tax	1	1	5	-
Interest on convertible debt, net of tax	4	4	12	-
Accrued dividends on ESOP preferred stock, net	-	-	-	(34)
Adjusted income (loss) from continuing operations	344	386	1,147	(63)
Discontinued operations	-	-	-	(190)
Adjusted net income (loss)	$ 344	$ 386	$ 1,147	$ (253)
Average common shares outstanding during the period	663,409	655,310	661,094	655,476
Stock options, incentive and exchangeable shares	10,403	13,070	12,028	3,300
Convertible debt	13,191	13,190	13,191	-
ESOP preferred stock	52,159	53,622	52,159	-
Adjusted average shares outstanding for the period	739,162	735,192	738,472	658,776
Diluted earnings (loss) per share:				
Continuing operations	$ 0.47	$ 0.53	$ 1.55	$ (0.10)
Discontinued operations	-	-	-	(0.29)
Diluted earnings per share	$ 0.47	$ 0.53	$ 1.55	$ (0.39)

Exhibit 12

Xerox Corporation
Computation of Ratio of Earnings to Fixed Charges

(In millions)	Nine months ended September 30, 1999	1998*	Year ended December 31, 1998*	1997	1996	1995	1994
Fixed charges:							
Interest expense	$ 606	$ 553	$ 748	$ 617	$ 592	$ 603	$ 520
Rental expense	94	104	145	140	140	142	170
Total fixed charges before capitalized interest and preferred stock dividends of subsidiaries	700	657	893	757	732	745	690
Preferred stock dividends of subsidiaries	41	41	55	50	-	-	-
Capitalized interest	2	-	-	-	-	-	2
Total fixed charges	$ 743	$ 698	$ 948	$ 807	$ 732	$ 745	$ 692
Earnings available for fixed charges:							
Earnings**	$1,671	$ (60)	$ 837	$2,268	$2,067	$1,980	$1,602
Less undistributed income in minority owned companies	(39)	(49)	(27)	(84)	(84)	(90)	(54)
Add fixed charges before capitalized interest and preferred stock dividends of subsidiaries	700	657	893	757	732	745	690
Total earnings available for fixed charges	$2,332	$ 548	$1,703	$2,941	$2,715	$2,635	$2,238
Ratio of earnings to fixed charges (1)(2)	3.14	0.79	1.80	3.64	3.71	3.54	3.23

(1) The ratio of earnings to fixed charges has been computed based on the Company's continuing operations by dividing total earnings available for fixed charges, excluding capitalized interest and preferred stock dividends of subsidiaries, by total fixed charges. Fixed charges consist of interest, including capitalized interest and preferred stock dividends of subsidiaries, and one-third of rent expense as representative of the interest portion of rentals. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Discontinued operations consist of the Company's Insurance, Other Financial Services, and Third Party Financing and Real Estate businesses.

(2) The Company's ratio of earnings to fixed charges includes the effect of the Company's finance subsidiaries, which primarily finance Xerox equipment. Financing businesses are more highly leveraged and, therefore, tend to operate at lower earnings to fixed charges ratio levels than do non-financing businesses.

* Earnings for the nine months of 1998 were inadequate to cover fixed charges. The coverage deficiency was $150 million. Excluding the restructuring charge, the ratio of earnings to fixed charges would have been 3.14 and 3.55 for the nine months ended September 30, 1998 and the year ended December 31, 1998, respectively.

** Sum of "Income before Income Taxes, Equity Income and Minorities' Interests" and "Equity in Net Income of Unconsolidated Affiliates."

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED
FROM XEROX CORPORATION'S 9-30-99 FINANCIAL STATEMENTS AND IS
QUALIFED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS
DEC-31-1999
SEP-30-1999
106
0
16,515
451
3,048
12,576
5,376
2,937
28,952
7,690
15,688
638
674
666
4,045
28,952
7,140
13,790
3,898
7,608
4,550
205
606
1,632
506
1,130
0
0
0
1,130
1.66
1.55