

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended: June 30, 1995

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 (IRS Employer Identification No.)
of incorporation or organization)

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 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 July 31, 1995
Common Stock	107,536,433 shares
Class B Stock	1,000 shares

This document consists of 39 pages.

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Xerox Corporation
Form 10-Q
June 30, 1995

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PART I - FINANCIAL INFORMATION

Xerox Corporation
Consolidated Statements of Income

(In millions, except per-share data)	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
Document Processing				
Revenues				
Sales	\$ 2,088	\$ 1,795	\$ 3,961	\$ 3,324
Service and rentals	1,715	1,545	3,360	3,035
Finance income	251	244	503	496
Total Revenues	4,054	3,584	7,824	6,855
Costs and Expenses				
Cost of sales	1,184	1,065	2,285	1,977
Cost of service and rentals	847	740	1,684	1,457
Equipment financing interest	129	122	255	250
Research and development expenses	247	226	466	422
Selling, administrative and general expenses	1,176	1,074	2,278	2,067
Other, net	59	47	77	110
Total Costs and Expenses	3,642	3,274	7,045	6,283
Income before Income Taxes, Equity Income and Minorities' Interests	412	310	779	572
Income Taxes	160	121	302	225
Equity in Net Income of Unconsolidated Affiliates	51	33	64	38
Minorities' Interests in Earnings of Subsidiaries	49	55	100	87
Income from Document Processing	254	167	441	298
Insurance				
Revenues				
Insurance premiums earned	480	598	1,033	1,176
Investment and other income	110	106	231	211
Total Revenues	590	704	1,264	1,387
Costs and Expenses				
Insurance losses and loss expenses	382	454	855	899
Insurance acquisition costs and other insurance operating expenses	146	194	330	385
Interest expense	60	52	121	104
Administrative and general expenses	40	10	69	23
Total Costs and Expenses	628	710	1,375	1,411
Realized Capital Gains	10	2	14	9
Income (loss) before Income Taxes	(28)	(4)	(97)	(15)
Income Tax Benefits	12	5	41	14
Income (loss) from Insurance	(16)	1	(56)	(1)
Total Company				
Net Income	\$ 238	\$ 168	\$ 385	\$ 297
Primary Earnings per Share	\$ 2.07	\$ 1.31	\$ 3.30	\$ 2.36
Fully Diluted Earnings per Share	\$ 1.96	\$ 1.28	\$ 3.16	\$ 2.31
See accompanying notes.				

Xerox Corporation
Consolidated Balance Sheets

(In millions, except share data in thousands)	June 30, 1995	December 31, 1994
Assets		
Document Processing		
Cash	\$ 34	\$ 35
Accounts Receivable, net	1,988	1,811
Finance Receivables, net	3,820	3,910
Inventories	2,789	2,294
Deferred Taxes and Other Current Assets	1,105	1,199
Total Current Assets	9,736	9,249
Finance Receivables Due after One Year, net	6,098	6,038
Land, Buildings and Equipment, net	2,062	2,108
Investments in Affiliates, at equity	1,528	1,278
Goodwill	636	66
Other Assets	667	635
Total Document Processing Assets	20,727	19,374
Insurance		
Cash	18	21
Investments Available-for-Sale	7,776	8,384
Reinsurance Recoverable	2,723	3,063
Premiums and Other Receivables	1,235	1,276
Goodwill	267	284
Deferred Taxes and Other Assets	1,235	1,438
Total Insurance Assets	13,254	14,466
Investment in Discontinued Operations	3,669	4,692
Total Assets	\$ 37,650	\$ 38,532
Liabilities and Equity		
Document Processing		
Short-Term Debt and Current Portion of		
Long-Term Debt	\$ 3,053	\$ 3,159
Accounts Payable	487	562
Accrued Compensation and Benefit Costs	607	709
Unearned Income	265	298
Other Current Liabilities	1,932	2,110
Total Current Liabilities	6,344	6,838
Long-Term Debt	6,484	5,494
Liability for Postretirement Medical Benefits	1,025	1,006
Deferred Taxes and Other Liabilities	2,060	2,210
Total Document Processing Liabilities	15,913	15,548
Insurance		
Unpaid Losses and Loss Expenses	7,842	8,809
Unearned Income	818	1,066
Notes Payable	413	425
Other Liabilities	906	954
Total Insurance Operating Liabilities	9,979	11,254
Discontinued Operations Liabilities -		
Life Reinsurance Payable and Other	3,261	4,194
Other Long-Term Debt and Obligations	2,522	2,102
Deferred ESOP Benefits	(596)	(596)
Minorities' Interests in Equity of Subsidiaries	734	1,021
Preferred Stock	772	832
Common Shareholders' Equity	5,065	4,177
Total Liabilities and Equity	\$ 37,650	\$ 38,532
Shares of common stock issued and outstanding	107,395	105,993
See accompanying notes.		

Xerox Corporation
Consolidated Statements of Cash Flows

Six months ended June 30,	(In millions)	1995	1994
Cash at Beginning of Period			
Document Processing		\$ 35	\$ 68
Insurance		21	18
Total		56	86
Document Processing			
Cash Flows from Operating Activities		(129)	(168)
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment		(171)	(159)
Proceeds from sales of land, buildings and equipment		30	98
Purchase of additional interest in Rank Xerox		(972)	-
Net change in payables to Insurance		(30)	(28)
Net transactions with Insurance		75	38
Net transactions with Discontinued Operations		31	20
Total		(1,037)	(31)
Cash Flows from Financing Activities			
Net change in debt		1,377	801
Yen financing repayment		-	(116)
Dividends on common and preferred stock		(195)	(200)
Proceeds from sale of common stock		89	64
Redemption of preferred stock		(60)	(237)
Dividends to minority shareholders		(42)	(44)
Net proceeds returned to minority shareholders		-	(32)
Total		1,169	236
Effect of Exchange Rate Changes on Cash		(4)	(67)
Net Cash Flows from Document Processing		(1)	(30)
Insurance			
Cash Flows from Operating Activities		7	(148)
Cash Flows from Investing Activities			
Proceeds from sale of Constitution Re		421	-
Purchase of portfolio investments		(1,070)	(1,453)
Proceeds from sales of portfolio investments		757	416
Decrease in short-term investments		241	1,069
Subtotal		349	32
Other, net		(25)	(2)
Net transactions with Discontinued Operations		58	12
Total		382	42
Cash Flows from Financing Activities			
Net change in notes payable		(12)	-
Net change in debt		(305)	163
Net transactions with Document Processing		(75)	(38)
Total		(392)	125
Net Cash Flows from Insurance		(3)	19
Discontinued Operations			
Income from discontinued operations		-	-
Collections and changes in assets, net		1,022	183
Net change in debt		(1)	(65)
Net change in operating liabilities		(932)	(86)
Net transactions with Document Processing		(31)	(20)
Net transactions with Insurance		(58)	(12)
Net Cash Flows from Discontinued Operations		-	-
Cash at End of Period			
Document Processing		34	38
Insurance		18	37
Total		\$ 52	\$ 75

See Supplemental Cash Flows Information and accompanying notes.

Xerox Corporation
Consolidated Statements of Cash Flows
Supplemental Cash Flows Information

Reconciliation of income to cash flows from operating activities:			
Six months ended June 30,	(In millions)	1995	1994
Document Processing			
Income from Document Processing		\$ 441	\$ 298
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization		321	320
Provisions for doubtful accounts		117	94
Provision for postretirement medical benefits		30	26
Charges against 1993 restructuring reserve		(194)	(204)
Minorities' interests in earnings of subsidiaries		100	87
Undistributed equity in income of affiliated companies		(63)	(35)
Increase in inventory		(586)	(395)
Increase in finance receivables		(50)	(170)
Increase in accounts receivable		(218)	(170)
Decrease in accounts payable and accrued compensation and benefit costs		(47)	(61)
Net change in current and deferred income taxes		111	21
Other, net		(91)	21
Cash Flows from Operating Activities		\$ (129)	\$ (168)
Insurance			
Loss from Insurance		\$ (56)	\$ (1)
Adjustments required to reconcile loss to cash flows from operating activities:			
Depreciation and amortization		18	15
Provisions for doubtful accounts		5	5
Realized capital gains		(14)	(9)
Decrease in receivables		231	269
Increase (Decrease) in accounts payable and accrued compensation and benefit costs		25	(35)
Decrease in unearned income		(31)	(27)
Decrease in unpaid losses and loss expenses		(287)	(349)
Other, net		116	(16)
Cash Flows from Operating Activities		\$ 7	\$ (148)

See accompanying notes.

Xerox Corporation
Notes to Consolidated Financial Statements

1. The consolidated financial statements presented herein have been prepared by Xerox Corporation ("the Company") in accordance with the accounting policies described in its 1994 Annual Report to Shareholders and should be read in conjunction with the notes thereto. The 1994 financial statements presented herein have been reclassified to conform with the 1995 presentation.

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. Interim financial data presented herein are unaudited.

2. Inventories consist of (in millions):

	June 30, 1995	December 31, 1994
Finished products	\$ 1,781	\$ 1,458
Work in process	100	88
Raw materials and supplies	343	268
Equipment on operating leases, net	565	480
Total	\$ 2,789	\$ 2,294

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

	June 30, 1995	December 31, 1994
Common stock	\$ 109	\$ 107
Additional paid-in-capital	1,497	1,406
Retained earnings	3,370	3,197
Net unrealized gain (loss) on investment securities	1	(433)
Translation adjustments	88	(100)
Total	\$ 5,065	\$ 4,177

4. Effective January 1, 1995, the Company changed the reporting periods of the companies owned jointly with The Rank Organisation Plc ("RO")("the Rank Xerox Companies") and Latin American operations from fiscal years ending October 31 and November 30, respectively, to a calendar year ending December 31. The results of these operations during the period between the end of the 1994 fiscal year and the beginning of the new calendar year ("the stub period") were recorded as a direct charge to retained earnings and amounted to a loss of \$21 million. The charge to retained earnings was necessary to avoid reporting more than twelve months results of operations in one year. Accordingly, the Company's 1995 Consolidated Statements of Income reflect the results of worldwide operations for periods beginning January 1, 1995. The Consolidated Statement of Cash Flows reflects the cash activity

Xerox Corporation
Notes to Consolidated Financial Statements

for the stub period in the "Other, net" line of the Document Processing Operating Activities section.

5. On February 28, 1995, the Company paid R0 620 million pounds sterling, or approximately \$972 million, for 40 percent of R0's financial interest in the Rank Xerox Companies. The transaction increased the Company's financial interest in the Rank Xerox Companies to 80 percent from 67 percent. Based on the allocation of the purchase price, this transaction resulted in goodwill of approximately \$574 million (including transaction costs), a decline in minorities' interests in the equity of subsidiaries of approximately \$400 million, and an increase in long-term debt of \$972 million. The goodwill will be amortized on a straight-line basis over 40 years.

6. The Company's Consolidated Balance Sheet at June 30, 1995 includes current and non-current accrued liabilities of \$290 million and \$251 million, respectively, associated with the Document Processing restructuring program announced in December 1993. At December 31, 1994, the corresponding accrued liabilities aggregated \$765 million. During the stub period and the six month period ended June 30, 1995, \$30 million and \$194 million of net pre-tax charges, respectively, were charged against the aggregate reserve balance. Management believes the aggregate reserve balance of \$541 million at June 30, 1995 is adequate for the completion of the restructuring program. Additional information concerning the progress of the restructuring program is included in the accompanying Management's Discussion and Analysis on page 19.

7. Other Information on the Company's Consolidated Statements follows:

Interest expense totaled \$217 million and \$179 million for the three months ended June 30, 1995 and 1994, respectively. Interest expense was \$417 million and \$360 million for the six month periods then ended.

Long-term debt, excluding the current portion, totaled \$9,207 million at June 30, 1995 and \$7,780 million at December 31, 1994.

8. During April 1995, Talegen Holdings, Inc. ("Talegen"), a subsidiary of the Company, entered into an agreement with Guaranty National Corporation for the sale of Viking Insurance Holdings, Inc., ("Viking") a Talegen subsidiary. Revenues for Viking were (in millions) \$161, \$182, and \$224 for the years ended December 31, 1994, 1993, and 1992, respectively. On July

Xerox Corporation
Notes to Consolidated Financial Statements

18, 1995, the sale of Viking closed for approximately \$103 million in cash plus future upward price adjustments based on loss reserve development. The transaction approximated book value.

9. On April 26, 1995, the sale of Constitution Re Corporation, another Talegen subsidiary, to EXOR America Inc. closed for a final purchase price of \$421 million in cash, and resulted in a net loss of approximately \$7 million.

10. On June 1, 1995, Xerox Financial Services, Inc. (XFSI) completed the sale of its discontinued Xerox Financial Services Life Insurance Company and related subsidiaries to a subsidiary of General American Life Insurance Company for approximately \$104 million before settlement costs and capital funding of OakRe Life Insurance Company, another XFSI subsidiary. OakRe Life assumed responsibility for the Single Premium Deferred Annuity (SPDAs) policies issued by Xerox Life's Missouri and California companies via a coinsurance agreement. As a result of this coinsurance agreement, the Company has retained on its consolidated balance sheet approximately \$3.0 billion of investment portfolio assets and reinsurance reserves related to its former SPDA policies. These amounts will decrease over the next five years as the SPDA policies are either terminated by the policyholder or renewed and transferred to General American.

11. On June 1, 1995, XFSI established a \$500 million letter of credit and line of credit with a group of banks to support OakRe Life's coinsurance obligations. The term of this letter of credit is five years and it is unused and available at June 30, 1995. Upon a drawing under the letter of credit, XFSI has the option to cover the drawing in cash or to draw upon the credit line.

12. Litigation

Document Processing

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. On April 15, 1994, another case was filed in the United States District Court for the Northern District of California by 21 different ISOs from 12 states. Plaintiffs in these actions claim damages (to be trebled) to their individual businesses resulting from essentially the same alleged violations of law at issue in the antitrust class action in Texas, which was

Xerox Corporation
Notes to Consolidated Financial Statements

settled by the Company during 1994. In one of the cases damages are unspecified and in the other damages in excess of \$10 million are sought. In addition, injunctive relief is sought in both actions. Claims for individual lost profits of ISOs who were not named parties were not included in the class action. The two actions have been consolidated for pretrial proceedings in the District of Kansas. The Company has asserted counterclaims against the plaintiffs alleging patent and copyright infringement and misappropriation of Xerox trade secrets and has filed a motion for leave to assert additional related counterclaims, including claims for unfair competition and/or false advertising, as well as a motion for a preliminary injunction requiring certain plaintiffs/counterclaim defendants immediately to cease illegal reproduction and conversion of copyrighted Xerox manuals and software. Discovery is in its initial stages. The Company denies any wrongdoing and intends to vigorously defend these actions and pursue its counterclaims.

Insurance

On September 15, 1992, International Surplus Lines Insurance Company, which has since been merged into International Insurance Company (International Insurance), a subsidiary of Talegen, filed a complaint in the United States District Court for the Southern District of Ohio, Eastern District, in Columbus, Ohio against certain underwriting syndicates at Lloyd's of London and other foreign reinsurance companies. The complaint seeks a declaratory judgment that the defendants are obligated to reimburse International Insurance under various reinsurance contracts for approximately \$255 million in payments made or to be made to Owens-Corning Fiberglas (OCF) for asbestos-related losses. In an Opinion and Order dated September 27, 1994, International Insurance's motion for summary judgment was granted. The court ruled that International Insurance's payment of OCF's losses, based on the determination that the manufacture, sale and distribution of products containing asbestos constituted a single occurrence, was reasonable and therefore binding on International Insurance's reinsurers. The defendants filed motions for reconsideration of the September 27 order. In order to avoid the expense of further litigation and possible appeals, International Insurance has executed settlement agreements with most of the defendants in the action. The recovery pursuant to the settlement agreements approximates the recorded reinsurance recoverable balance after consideration for amounts written-off for uncollectible reinsurance in prior years. Settlement discussions with the remaining defendants are continuing and are expected to result in additional executed settlement agreements with some or all defendants. As of June 30, 1995, approximately \$14.9 million is outstanding with these remaining

Xerox Corporation
Notes to Consolidated Financial Statements

reinsurers. The litigation is currently stayed by agreement of the parties pending the current discussions to settle the litigation in its entirety.

In another OCF matter, on December 13, 1993, a complaint was filed in the United States District Court for the District of New Jersey against The North River Insurance Company (North River), a subsidiary of Talegen, by certain foreign insurance companies and underwriting syndicates at Lloyd's of London seeking to recover certain sums paid, and to avoid certain sums to be paid, by them to North River under various reinsurance contracts. Such sums relate to approximately \$106 million in defense expense costs North River paid under insurance policies it issued for asbestos bodily injury coverage to OCF; the payments resulted from a decision rendered in favor of OCF in a binding arbitration. The reinsurers allege that North River misrepresented and withheld certain facts surrounding the decision and breached certain duties to its reinsurers. As part of the Talegen restructuring, International Insurance has assumed the rights and obligations with respect to these reinsurance contracts. A motion by North River to dismiss the complaint for lack of federal subject matter jurisdiction was granted on May 3, 1995. Plaintiffs refiled their claims in New York state court on June 28, 1995. International Insurance believes it is entitled to the full payment of these reinsurance recoverables, will vigorously defend the foregoing action and will counterclaim for remaining amounts due.

Farm & Home Savings Association (Farm & Home) filed a lawsuit in the United States District Court for the Western District of Missouri, Southwest Division alleging that under an agreement previously entered into by certain Talegen insurance companies (Insurance Companies) with Farm & Home (Indemnification Agreement), the Insurance Companies are required to defend and indemnify Farm & Home from actual and punitive damage claims being made against Farm & Home relating to the Brio superfund site (Brio). The Indemnification Agreement had been entered into in connection with the settlement of disputes between Farm & Home and the Insurance Companies regarding policies issued to Farm & Home during the time it was developing the Southbend subdivision in Friendswood, Texas (Southbend), which is close to Brio. Under the Indemnification Agreement, the Insurance Companies are required to indemnify Farm & Home only as to claims asserted by current or former residents of Southbend itself, or persons whose injuries are alleged to have been incurred as a direct consequence of exposure to allegedly hazardous substances within Southbend emanating from the Brio site. Farm & Home alleges that the Indemnification Agreement covers claims for injuries arising elsewhere than Southbend. The Insurance Companies deny any liability to Farm & Home and intend to continue to vigorously contest coverage under the

Xerox Corporation
Notes to Consolidated Financial Statements

Indemnification Agreement for injuries not arising out of Southbend. Cross motions for summary judgment in the action are pending.

In a number of lawsuits pending against Farm & Home in the District Courts of Harris County, Texas, plaintiffs seek both actual and punitive damages allegedly relating to injuries arising out of the hazardous substances at Brio. The Insurance Companies have been defending these cases under a reservation of rights because it is unclear whether the claims fall under the coverage of either the policies or the Indemnification Agreement. In one of the pending cases, the court dismissed claims brought by plaintiffs who were unable to demonstrate a pertinent nexus to the Southbend subdivision.

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

The financial summary for the second quarter and year-to-date and this discussion present the operating results from Document Processing and Insurance with discontinued operations discussed separately. Income from Insurance, as shown in the financial summary, includes allocated interest expense from the parent company.

Financial Summary

(In millions, except per-share data)	Second quarter			Year-to-date June 30,		
	1995	1994	% Growth	1995	1994	% Growth
Revenues						
Document Processing	\$4,054	\$3,584	13%	\$7,824	\$6,855	14%
Insurance	590	704	(16)	1,264	1,387	(9)
Total Revenues	\$4,644	\$4,288	8	\$9,088	\$8,242	10
Net Income (Loss)						
Document Processing	\$ 254	\$ 167	52	\$ 441	\$ 298	48
Insurance	(16)	1	*	(56)	(1)	*
Net Income	\$ 238	\$ 168	42	\$ 385	\$ 297	30
Primary Earnings (Loss) per Share						
Document Processing	\$ 2.21	\$ 1.30	70	\$ 3.81	\$ 2.37	61
Insurance	(.14)	.01	*	(.51)	(.01)	*
Primary Earnings per Share	\$ 2.07	\$ 1.31	58	\$ 3.30	\$ 2.36	40
Fully Diluted Earnings (Loss) per Share						
Document Processing	\$ 2.09	\$ 1.27	65	\$ 3.63	\$ 2.31	57
Insurance	(.13)	.01	*	(.47)	-	*
Fully Diluted Earnings per Share	\$ 1.96	\$ 1.28	53	\$ 3.16	\$ 2.31	37

* Calculation not meaningful.

Summary of Total Company Results

In view of the Company's 1993 decision to concentrate its resources on its core Document Processing business and disengage from the Insurance and Other Financial Services (IOFS) businesses, management believes the most meaningful and appropriate portrayal of the Company's operating results and financial position is to report the Document Processing and Insurance businesses on a tiered basis within the Company's consolidated financial statements.

The MD&A on page 14 discloses earnings per share (EPS) for the Company's consolidated operations and for the Document Processing and Insurance Operations. The presentation of separate Document Processing and Insurance EPS amounts is not in accordance with generally accepted accounting principles. The Company believes, however, that for analytical purposes, these EPS amounts represent the contributions of the Company's two businesses to the consolidated results of operations and that the Document Processing results are an appropriate basis for comparison with future financial results from Document Processing. EPS amounts presented in accordance with generally accepted accounting principles are on page 4.

Document Processing

Underlying Growth

To understand the trends in the business, the Company believes 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. This adjusted growth is referred to as "underlying growth."

When compared with the major European currencies, the U.S. dollar was approximately 16 percent weaker in the 1995 second quarter than in the 1994 second quarter. As a result, foreign currency translation had a favorable impact of 5 percentage points on total revenues in the 1995 second quarter.

The Company does not hedge the translation of foreign currency-denominated revenues.

Revenues

Management estimates that the components of underlying revenue growth were as follows:

Underlying Growth

	1995		FY	1994			
	Q2	Q1		Q4	Q3	Q2	Q1
Total Revenues	8%	11%	7%	11%	4%	6%	5%
Sales							
Equipment	8	9	10	13	4	11	9
Supplies	10	22	11	22	10	3	10
Paper	42	52	4	21	1	(2)	(1)
Total	12	18	10	14	5	9	9
Service/Rentals/FacMgmt/Other							
Service	4	3	4	6	4	4	3
Rentals	(2)	3	(1)	5	(4)	(3)	(7)
Facilities Management/Other	28	33	20	22	20	22	17
Total	6	6	5	8	5	5	3
Finance Income	(2)	(4)	(4)	(3)	(3)	(6)	(7)
Memo:							
Non-Equipment Revenues	9	12	5	9	4	4	3

Total revenue growth of 8 percent in the 1995 second quarter was driven by good growth in both equipment sales and non-equipment revenues.

The good growth in equipment sales in the second quarter reflected excellent growth in production publishing and color copying and printing and modest growth in black-and-white copying. Excellent growth in Latin America was moderated by weaker demand in the U.S. and Europe due to difficult environments in certain European countries, an increase in customer preference for equipment rentals in the U.S., and disruption as we implemented important productivity initiatives affecting our U.S. sales organization.

Non-Equipment revenues from supplies, paper, service, rentals, facilities management and other revenues, and income from customer financing represented 68 percent of total revenues in the 1995 second quarter. Growth in these revenues is primarily a function of the growth in the Company's installed population of equipment, usage and pricing.

Supplies sales: The strong growth in the 1995 second quarter is due principally to excellent growth in enterprise printing and cartridge sales for personal copiers and OEM printers.

Paper sales: The Company's strategy is to charge a spread over mill wholesale prices to cover its costs and value added as a distributor. The continued excellent growth in the second quarter was due to higher worldwide prices. Although the higher prices significantly increased revenues, the gross margin declined, principally due to a shift in mix to mill direct shipments and some lags in passing through price increases.

Service revenues: The continuing modest growth reflects the diversionary trend to facilities management as well as a shift towards equipment rentals in the U.S. in recent quarters.

Rental revenues: Non-U.S. rental revenues continued the long term decline reflecting a customer preference for outright purchase. In the U.S., however, there is an increasing trend toward cost-per-copy rental plans, which adversely affects equipment sales, service revenues and finance income. This trend toward rentals rather than equipment sales also increases revenues in future periods but reduces current period total revenues.

Facilities management, copy centers and other revenues: This growth reflects the trend of customers focusing on their core businesses and outsourcing their document processing requirements to Xerox. This has the effect of diverting revenue from equipment sales, service and finance income. This trend toward facilities management rather than equipment sales also increases revenues in future periods but reduces current period total revenues.

Finance income: The decline is due to lower interest rates on financing contracts year-over-year.

Geographic Revenues

Geographically, the underlying revenue growth rates are estimated as follows:

	1995		FY	Q4	1994		
	Q2	Q1			Q3	Q2	Q1
Total Revenues	8%	11%	7%	11%	4%	6%	5%
United States	5	8	7	10	6	7	4
Rank Xerox	5	13	7	13	3	7	6
Other Areas	25	17	7	10	4	2	5

U.S. revenue growth declined from recent quarters primarily due to an increase in customer preference for equipment rentals and disruption as we implemented important productivity initiatives affecting our U.S. sales organization.

Rank Xerox Limited and related companies (Rank Xerox) manufactures and markets Xerox products principally in Europe. Revenue growth in the second quarter was excellent in Italy and Eastern Europe, strong in Spain, good in the United Kingdom and modest in Germany and the smaller European countries. Revenue in France declined modestly.

Other Areas includes operations principally in Latin America and Canada. Revenue growth in the second quarter was excellent in Brazil and a number of smaller Latin American countries, and strong in Canada. Revenues declined significantly in Mexico due to currency and the continuing economic disruption following devaluation of the Mexican peso in December 1994.

Major Product Categories

For the major product categories, the underlying revenue growth rates are estimated as follows:

	1995		FY	Q4	1994		
	Q2	Q1			Q3	Q2	Q1
Total Revenues	8%	11%	7%	11%	4%	6%	5%
Black & White Copiers	2	4	4	7	-	4	3
Enterprise Printing	20	22	20	22	17	22	21

Revenues from black-and-white copying represented 60 percent of total document processing revenues in the 1995 second quarter, 61 percent in the 1995 first quarter and 63 percent for the 1994 full year. Revenues from enterprise printing, including production publishing, data center printing, network printing, and color printing and copying, represented 24 percent of total

revenues in the 1995 second quarter, 23 percent in the 1995 first quarter and 22 percent for the 1994 full year.

Productivity Initiatives

In December 1993, the Company announced a restructuring program with the objectives of continuing to significantly reduce the cost base and to improve productivity. The Company's objective was to reduce its worldwide work force by more than 10,000 employees and to close or consolidate a number of facilities. The Company achieved pre-tax cost reductions of approximately \$350 million in 1994, and expects to achieve approximately \$700 million in 1995 and higher amounts thereafter. The Company has stated, however, that a portion of these savings will be reinvested to reengineer business processes, to support expansion in emerging markets, and to mitigate anticipated continued pressure on gross margins.

Employment declined by 11,200 from year-end 1993 to 85,800 employees at the end of the 1995 second quarter; 10,600 of the reductions were due to restructuring program initiatives and 1,300 employees were transferred to Electronic Data Systems Corp. (EDS), partially offset by 700 net hires. Employment declined by 500 in the second quarter, consisting of 1,100 due to the restructuring program, partially offset by the addition of 600 employees, principally to support the rapidly growing facilities management business.

To date, the activities associated with the productivity initiatives are on track towards achieving the Company's objectives.

Costs and Expenses

The gross margins by revenue stream were as follows:

Gross Margins

	1995			Q4	1994		
	Q2	Q1	FY		Q3	Q2	Q1
Total Gross Margin	46.7%	45.2%	45.8%	45.3%	45.7%	46.2%	46.3%
Sales	43.3	41.2	40.7	41.5	40.1	40.6	40.3
Service/Rental	50.6	49.1	51.6	50.9	51.5	52.1	51.9
Financing	48.5	50.1	50.1	50.1	51.2	49.8	49.3

Total gross margins improved by 0.5 percentage points in the 1995 second quarter from the 1994 second quarter. The improvement of 2.7 percentage points in the sales gross margin from the 1994 second quarter was principally due to favorable product and geographical mix and cost reductions, partially offset by continuing pricing pressures. The erosion in the service and rentals gross margin of 1.5 percentage points from the 1994

second quarter was largely due to significant inflationary cost increases which were not offset by pricing in Brazil, and pricing pressures, partially offset by productivity improvements.

Research and development (R&D) expense increased 9 percent in the 1995 second quarter. The Company expects to continue to increase its investment in technological development to maintain its premier position in the rapidly changing document processing market and expects to introduce a stream of new, technologically innovative products in the coming months. The Company's R&D is strategically coordinated with that of Fuji Xerox Co., Ltd., an unconsolidated joint venture between Rank Xerox Limited and Fuji Photo Film Company Limited. Fuji Xerox invested approximately \$500 million in R&D in 1994.

Selling, administrative and general expenses (SAG) increased 5 percent in the 1995 second quarter principally due to economic cost increases, particularly in Brazil, and investments in improved systems and sales distribution channels, partially offset by improved productivity. SAG was 29.0 percent of revenue in the second quarter, an improvement of 1.0 percentage point from the 1994 second quarter.

Other expenses, net in the 1995 second quarter reflect:

A year-over-year reduction in losses from balance sheet translation of \$81 million, primarily due to a lower rate of net currency devaluation in Brazil. It should be noted that the reduced Brazilian currency losses were largely offset by inflationary cost and expense increases that could not be offset by price increases. Nevertheless, the Company's Latin American operations had continued excellent profit growth, principally due to increased equipment sale revenues.

Higher interest expense principally due to the financing of the Company's increased financial interest in Rank Xerox and the redemptions of preferred stock.

The non-recurrence of several 1994 one-time favorable items, including a change in post-retirement benefits for U.S. union employees.

Income Taxes, Equity in Net Income of Unconsolidated Affiliates and Minorities' Interests in the Earnings of Subsidiaries

Income before income taxes, equity in net income of unconsolidated affiliates and minorities' interests increased 33 percent to \$412 million in the 1995 second quarter from \$310 million in the 1994 second quarter.

The effective tax rate was 38.8 percent in the 1995 second quarter compared with 39.0 percent in the 1994 second quarter and 39.3 percent in the 1994 full year.

Equity in the net income of unconsolidated affiliates, principally Fuji Xerox, increased in the 1995 second quarter to \$51 million from \$33 million in the 1994 second quarter. The increase was due to good revenue growth, improved margins and currency translation at Fuji Xerox.

On February 28, 1995, Xerox increased its financial interest in Rank Xerox to 80 percent from 67 percent. The decrease in minorities' interests in the earnings of subsidiaries to \$49 million in the 1995 second quarter from \$55 million in the 1994 second quarter was due to the Company's increased financial interest in Rank Xerox, partially offset by excellent growth in Rank Xerox income. After the increased interest expense and goodwill amortization associated with the transaction, the increased financial interest in Rank Xerox resulted in a significant incremental contribution to income in the 1995 second quarter.

Income

Income in the 1995 second quarter was \$254 million, a growth of 52 percent compared with the 1994 second quarter.

The 1995 second quarter Document Processing primary earnings per share increased 70 percent to \$2.21 and fully diluted earnings per share increased 65 percent to \$2.09. The higher growth in earnings per share than in income is due to the absence of the premium for the redemption of preferred stock in the 1994 second quarter, partially offset by increased common shares.

Rank Xerox and Latin American Fiscal-Year Change in 1995

Effective January 1, 1995, the Company changed Rank Xerox and Latin American operations to calendar-year financial reporting. The 1994 fiscal year ended on October 31 for Rank Xerox and on November 30 for Latin American operations. The results of these non-U.S. operations that occurred between the 1994 and 1995 fiscal years (the stub period) were accounted for as a direct charge to equity. A loss of \$21 million was charged to equity in the stub period, primarily due to the currency devaluation and related economic dislocations in Mexico. Excluding the Mexican devaluation and related economic dislocations, income during the stub period was \$4 million.

Brazilian Tax Rate

The Brazilian Congress passed a tax law in June, 1995 which implemented a tax rate increase for subsequent years that was lower than the initial proposal. The net impact on Xerox income for this rate change was not significant.

Insurance

Insurance Operating Results

The results of Insurance and Other Financial Services ("IOFS") are separated into the continuing Insurance segment and discontinued operations, which include Other Financial Services ("OFS"), (discontinued in 1993) and third-party financing and real-estate development (discontinued in 1990). The Insurance segment includes Talegen Holdings, Inc. ("Talegen"), Ridge Reinsurance Limited ("Ridge Re") and that portion of Xerox Financial Services, Inc. ("XFSI") interest expense and other costs associated with the continuing business activities. The Constitution Re Corporation ("Constitution Re") sale to EXOR America Inc. ("EXOR") was completed on April 26, 1995 for a cash sale price of \$421 million. The transaction resulted in a net loss of approximately \$7 million. On July 18, 1995, Xerox completed the sale of Viking Insurance Holdings, Inc., a Talegen subsidiary, to Guaranty National Corporation for approximately \$103 million in cash plus future upward price adjustments based on loss reserve development. The transaction approximated book value. Net proceeds from the sales of Constitution Re to EXOR and Viking to Guaranty National will largely be used to pay down debt and are in line with the Company's previously announced strategy to disengage from financial services and redeploy capital into its more profitable document processing business. Talegen continues to own Crum & Forster Holdings, Inc., Industrial Indemnity Holdings, Inc., Coregis Group, Inc., Westchester Specialty Group, Inc., The Resolution Group, Inc. and three insurance related service companies (which, including Talegen, are referred to as the "Remaining Companies").

Income after-tax from the Insurance segment was a \$16 million loss in the second quarter, 1995, compared with a \$1 million profit in the second quarter, 1994. First half, 1995, income after-tax was a \$56 million loss compared to a \$1 million loss in the first half, 1994. Second quarter and first half results are summarized in the following table.

(In millions)	Second Quarter		First Half	
	1995	1994	1995	1994
Talegen Remaining Companies	\$ 46	\$ 34	\$ 78 *	\$ 64
Monsanto Settlement (Holding Co. Portion)	-	-	(14)*	-
Viking	(2)	3	-	4
Constitution Re	(7)	9	(7)	15
Total Talegen	37	46	57	83
Cessions To Ridge Re	(14)	(6)	(34)*	(6)
Interest/Other	(39)	(39)	(79)	(78)
Total Insurance	\$(16)	\$ 1	\$(56)*	\$ (1)

* The first half, 1995, includes the \$22 million after-tax impact of the March 2, 1995 settlement between Monsanto Company and

Talegen and four of its insurance subsidiaries (\$1 million in Remaining Companies, \$14 million at the holding company level and \$7 million in cessions to Ridge Re).

The Remaining Companies had after-tax income of \$46 million in the second quarter, 1995, compared with \$34 million in the second quarter, 1994. For the first half, 1995, after-tax income totaled \$78 million compared with \$64 million in the first half, 1994. The year-over-year improvement in the second quarter and first half is due to improved underwriting results, higher investment income and higher net realized capital gains partially offset by interest expense related to the \$425 million in debt issued in the fourth quarter, 1994.

Revenues from the Insurance businesses were \$590 million in the second quarter, 1995, a decline of 16 percent from the second quarter, 1994. Revenues for the first half, 1995, totaled \$1,264 million, a 9% decline from the first half, 1994. The lower revenues in both the second quarter and first half 1995 reflect decreases in earned premiums resulting from the absence of May and June, 1995 premium volume for Constitution Re due to its sale, partially offset by increases in overall investment and other income. Further details on premium levels are included in the individual Talegen Insurance Operating Group results.

The underwriting loss for the Remaining Companies in the second quarter, 1995 improved by \$6 million to \$32 million, compared with \$38 million in the second quarter, 1994. For the first half of 1995, the underwriting loss improved by \$11 million to \$77 million, compared to \$88 million in the first half, 1994. The overall decrease in 1995 primarily reflects improved loss experience in certain Insurance Operating Groups on current and prior years' business and continuing overall expense controls.

Second quarter, 1995, underwriting results include cessions to Ridge Re (a wholly owned subsidiary of XFSI that provides reinsurance coverage to current and former Talegen Insurance Operating Groups) of \$22 million pre-tax and \$14 million after-tax of adverse development related to 1992 and prior accident years. First half, 1995, cessions total \$53 million pre-tax and \$34 million after-tax. Cessions to Ridge Re in the second quarter and first half, 1994, totaled \$9 million pre-tax and \$6 million after-tax.

Pre-tax catastrophe losses for the Remaining Companies were approximately \$8 million in the second quarter, 1995, compared with \$3 million in the second quarter, 1994. First half losses totaled \$10 million compared with \$22 million in the first half, 1994. The increase in the second quarter compared to the prior year reflects heavier storm activity primarily in the midwest, while the year to date reduction reflects the impact of the Northridge earthquake in California and Northeast winter storms in 1994.

Underwriting results (expressed in terms of gross written premiums and combined ratios) and after-tax income for each of Talegen's four ongoing insurance operating groups included in the Remaining Companies performance are summarized in the following table. Underwriting results for The Resolution Group are not meaningful on this basis since that unit has insignificant run-off premiums and, therefore, are not displayed.

(\$ in millions)	Gross Premiums Written	Growth %	Combined Ratio		After-Tax Income	
			1995	1994	1995	1994
Second Quarter						
Coregis	\$ 76	14%	90.6	105.8	\$16	\$ 7
Crum & Forster Insurance	281	12	108.2	105.6	22	16
Industrial Indemnity	74	(22)	102.2	112.2	3	4
Westchester Specialty Group	85	(11)	111.3	106.2	6	6
Six Months						
Coregis	\$ 167	15%	99.6	107.8	\$20	\$ 9
Crum & Forster Insurance	552	9	109.3	107.5	34	27
Industrial Indemnity	157	(24)	108.8	111.0	8	14
Westchester Specialty Group	147	(14)	113.9	106.9	12	12

The combined ratio is a standard insurance industry measurement of underwriting results. It measures the relationship of losses and expenses to net earned premiums. It does not include income from an insurer's investments. The combined ratio is the sum of three ratios: (i) the loss and loss adjustment expense ratio, (ii) the underwriting expense ratio and (iii) the dividend ratio. The loss and loss adjustment expense ratio reflects claims expenses, the underwriting expense ratio reflects policy acquisition and administrative costs, and the dividend ratio reflects dividends to policyholders. The objective of the combined ratio is to match costs with revenues. Generally, a combined ratio under 100 percent indicates underwriting profits while a combined ratio exceeding 100 percent indicates underwriting losses.

The following are the key reasons for the year-over-year performance changes for each Insurance Operating Group.

At Coregis gross premiums grew by 14 percent for the quarter and 15 percent for the six months compared to the same periods in 1994. Growth in both periods was due to continued strength in its program management discipline as evidenced by good renewal retentions and expansion in various core programs. The combined ratio decreased 15.2 points to 90.6 for the quarter and 8.2 points to 99.6 for six months reflecting an adjustment for favorable loss experience which was partially offset by higher operating expenses. Net income increased \$9 million for the quarter and \$11 million for the six months due to increased

production, better underwriting results, higher net investment income and realized capital gains.

Crum & Forster Insurance continued to achieve growth through new business and strong renewal retentions with the company's custom agents. This improved penetration led to an increase in gross written premiums of 12 percent for the second quarter and 9 percent for the six months. The combined ratio increased 2.6 points for the quarter to 108.2 and 1.8 points to 109.3 for the six months due to higher loss funding primarily on business written in prior years. Net income increased \$6 million for the quarter and \$7 million year-to-date as the benefits of improved net investment income were partially offset by interest expense on debt issued in the fourth quarter of 1994.

At Industrial Indemnity the combined ratio improved 10.0 points for the quarter and 2.2 points for the six months reflecting significantly better loss experience on current and prior years' business. Gross premium volume declined 22 percent for the quarter and 24 percent for the first half due to continued intense competition for workers compensation business in California, the company's largest market, due to the new open rating environment. Lower production in California and interest expense on debt issued in the fourth quarter of 1994 resulted in a \$1 million decrease in net income for the quarter and \$6 million for the six months.

Gross premium volume at Westchester Specialty declined 11 percent for the second quarter and 14 percent for the six months. Continuing the trend of recent quarters, casualty volumes declined due to market pressure on prices and related exposure reductions, while premiums grew in profitable property business. The company has strengthened its loss funding for casualty business causing the combined ratio to increase 5.1 points for the quarter to 111.3 and 7.0 points for the six months to 113.9. Improved net investment income helped offset the decline in underwriting results allowing net income to remain level for the quarter and the six months.

The Resolution Group's combined ratio is not meaningful due to the absence of new and renewal business, and gross premium volume for the quarter was insignificant representing the run-off of discontinued business. Net income was higher due to increased net investment income primarily resulting from reinsurance recoveries in the fourth quarter of 1994.

Investment income for Talegen Remaining Companies was \$98 million in the second quarter, 1995, compared with \$87 million in the second quarter, 1994. First half, 1995, investment income was \$197 million compared with \$170 million in the first half, 1994. The increase in 1995 investment income primarily reflects a higher level of invested assets and higher yields.

Realized pre-tax capital gains for Talegen Remaining Companies totaled \$9 million in the second quarter, 1995, compared with \$3 million in the second quarter, 1994. First half, 1995, gains totaled \$13 million compared to \$10 million in the first half, 1994. The level of capital gains in 1995 reflects normal investment activities.

Property and Casualty Operating Trends

The industry's profitability can be significantly affected by cyclical competitive conditions, as well as, by volatile and unpredictable developments, including changes in the propensity of courts to grant large awards, fluctuations in interest rates and other changes in the investment environment (which affect market prices of insurance companies' investments, the income from those investments and inflationary pressures that may tend to affect the size of losses), and judicial decisions affecting insurers' liabilities. Talegen's operating results have historically been influenced by these industry trends, as well as, by Talegen's exposure to uncollectible reinsurance, which had been greater than most other insurers.

Disengagement From Insurance Business

During the disengagement process, the Company will continue to be subject to all business risks and rewards of its insurance businesses. The Company anticipates that future income or losses from its insurance businesses may vary widely as the disengagement strategy is implemented, due to, among other reasons, the recognition of proceeds of sales or other forms of disengagement and the results from operations of the remaining insurance businesses. No assurances can be given as to the timing of the disengagement process, the amount and timing of proceeds of sales or other forms of disengagement from insurance units or the impact the remaining insurance businesses will have on the Company's total results from operations during the disengagement process.

The Company's objective is to continue to obtain value from the Insurance investments. The ultimate value, which will depend on the success of the operational improvements, timing, the level of interest rates, and the relative values of insurance properties, can not be projected at this time and a sizable charge to income could occur.

Talegen Reserves

The methodologies for establishing reserves for unpaid losses and loss expenses and reserves for uncollectible reinsurance are discussed in the Company's Form 10-K. The following table sets forth gross unpaid losses and loss expenses, reinsurance recoverables on unpaid losses and loss expenses and the resultant

net unpaid losses and loss expenses for the insurance companies within the Remaining Companies as of June 30, 1995 and December 31, 1994:

Unpaid Losses and Loss Expenses

(\$ in millions)	June 30, 1995			December 31, 1994		
	Reinsurance			Reinsurance		
	Gross Reserves	Recoverable	Net Reserves	Gross Reserves	Recoverable	Net Reserves
Coregis	\$1,021	\$ 279	\$ 742	\$ 995	\$271	\$ 724
Crum & Forster Insurance	2,922	804	2,118	2,941	768	2,173
Industrial Indemnity	1,391	184	1,207	1,445	188	1,257
The Resolution Group	1,604	974	630	1,680	983	697
Westchester Specialty Group	1,249	509	740	1,225	485	740
Ceded balances to affiliates	(432)	(432)	-	(451)	(451)	-
Total	\$7,755	\$2,318	\$5,437	\$7,835	\$2,244	\$5,591

Memo Item:

1) Included in the above reinsurance recoverable balances are recoverables from Ridge Re of \$106 million and \$53 million at June 30, 1995 and December 31, 1994, respectively.

The changes in gross reserves over the first half of the year represent reserves established for premiums earned during the quarter offset by claim payments made. Additionally, insurance companies within the Crum & Forster Insurance, the Westchester Specialty Group and The Resolution Group strengthened gross reserves for development on 1994 and prior accident year claims, by \$33 million, \$30 million and \$13 million, respectively, whereas insurance companies within Coregis reduced gross reserves by \$20 million. Of the reserve strengthening amounts, \$21 million, \$21 million and \$11 million, respectively, were ceded to Ridge Re. Cessions to Ridge Re, while beneficial to Talegen, do not result in a benefit to the Insurance Segment or consolidated Xerox accounts.

The Company's Form 10-K discusses the complexity and uncertainty pertaining to claims resulting from asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail losses, and provides a discussion on what Talegen and the insurance operating groups believed to be reasonably possible exposure on known claims in these claim categories as of December 31, 1994. Talegen continues to gather and analyze developing legal and factual information with regard to claims in these areas and makes adjustments to the reserves in the period that the related uncertainties are resolved. Total reserves for asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims for the insurance companies within the Remaining Companies as of June 30, 1995 and December 31, 1994 are as follows:

Total Reserves (1) by Claim Categories

Millions	June 30, 1995		December 31, 1994	
	Gross	Net	Gross	Net
Crum & Forster Insurance				
Asbestos Bodily Injury	\$ 57	\$ 34	\$ 58	\$ 40
Asbestos-in-Building	-	-	-	-
Hazardous Waste	71	54	79	61
Other Latent or Long-Tail Claims	83	38	110	57
Total	\$211	\$126	\$247	\$158
The Resolution Group				
Asbestos Bodily Injury	\$161	\$ 16	\$170	\$ 17
Asbestos-in-Building	20	1	21	2
Hazardous Waste	89	33	101	36
Other Latent or Long-Tail Claims	48	4	48	2
Total	\$318	\$ 54	\$340	\$ 57
Westchester Specialty Group				
Asbestos Bodily Injury	\$ 36	\$ 10	\$ 38	\$ 11
Asbestos-in-Building	45	1	45	1
Hazardous Waste	29	18	34	21
Other Latent or Long-Tail Claims	9	1	9	1
Total	\$119	\$ 30	\$126	\$ 34
Total (1)				
Asbestos Bodily Injury	\$254	\$ 60	\$266	\$ 68
Asbestos-in-Building	65	2	66	3
Hazardous Waste	189	105	214	118
Other Latent or Long-Tail Claims	140	43	167	60
Total	\$648	\$210	\$713	\$249

(1) Included are case, IBNR and allocated loss adjustment expense reserves. Total excludes \$2 million of hazardous waste reserves as of both June 30, 1995 and December 31, 1994 for Coregis Insurance Company, an insurance company within the Coregis insurance operating group. Hazardous waste exposures for Coregis are not significant primarily because 1986 was the first year significant business volume was written by insurance companies within the Coregis insurance operating group.

The reduction in other latent or long-tail claim reserves during the first half of the year primarily results from claims resolved in connection with the March 2, 1995 Monsanto settlement. The reduction in hazardous waste reserves for the first half of the year primarily result from payments on claims.

Ridge Re Cessions

Second quarter, 1995, underwriting results include cessions to Ridge Re (a wholly owned subsidiary of XFSI that provides reinsurance coverage to the Talegen Insurance Operating Groups) of \$22 million pre-tax and \$14 million after-tax of adverse loss development related to 1992 and prior accident years. First half, 1995, cessions total \$53 million pre-tax and \$34 million after-tax and were from three of the Talegen insurers (Crum & Forster Insurance - \$14 million, Westchester Specialty Group - \$13 million and The Resolution Group - \$7 million). Cessions to Ridge Re in the second quarter and first half, 1994, totaled \$9 million pre-tax and \$6 million after-tax.

Interest and Other

Interest and other charges on an after-tax basis were \$39 million in both the second quarter, 1995 and 1994. First half, 1995, interest and other charges totaled \$79 million compared with \$78 million in the first half, 1994, and primarily relate to interest.

During the second quarter, 1995, the Other Postretirement Benefit accrual related to employees of the Talegen Remaining Companies was reduced by \$19 million, after-taxes, as a result of various amendments made by the Insurance Operating Groups to their retiree medical plans.

An after-tax provision of \$19 million was recorded in the second quarter of 1995 related to disengagement from the various Insurance businesses in light of uncertainties surrounding the ultimate values to be obtained from these operations.

Discontinued Operations

Other Financial Services (OFS), which were discontinued in the fourth quarter of 1993, had no after-tax income in the first half of 1995 and 1994. The net investment in OFS was \$174 million and \$232 million at June 30, 1995 and December 31, 1994, respectively. Management currently believes that the liquidation of the remaining OFS units will not result in a net loss.

The sale of the business and assets of Shields, a former Furman Selz subsidiary, and Regent, a subsidiary of Shields, to Alliance Capital Management L. P. was completed in March, 1994. Under the terms of the Furman Selz sales agreement, the sales proceeds yielded cash of approximately \$60 million before settlement of related liabilities.

On June 1, 1995, XFSI completed the sale of Xerox Financial Services Life Insurance Company and related companies ("Xerox Life Companies") to a subsidiary of General American Life Insurance Company. After the sale, the Xerox Life Companies names were changed to replace the name "Xerox" in the corporate titles with the name "Cova" ("Cova Companies"). OakRe Life Insurance Company, an XFSI subsidiary formed in 1994, has assumed responsibility for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life's Missouri and California companies via coinsurance agreements ("Coinsurance Agreements"). The Coinsurance Agreements include a provision for the assumption (at their election) by the Cova Companies, of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with an affiliate of the new owner provides for the assumption of the liability under the Coinsurance Agreements for any SPDA policies not so assumed by the Cova Companies. Other policyholders (of Immediate, Whole Life, and Variable annuities as well as a minor amount of SPDAs issued by Xerox Life New York) will continue to be the responsibility of

the Cova Companies. The sale of Xerox Life Companies is part of the Company's strategy to exit the financial services business and focus on its core document processing business, which was announced in June 1993.

During the first half, 1995, sales of real-estate and third-party assets and run-off activity reduced assets associated with these businesses by \$33 million to a total of \$514 million. Assigned debt increased by \$3 million to \$234 million. The debt increase includes a tax payment made in 1995 relating to the 1994 sale of a portion of the Direct Financing Lease portfolio, partially offset by the run-off related reduction of assets. Management believes that the combination of existing reserves together with run-off profits should adequately provide for any credit losses or losses on disposition.

Liquidity and Capital Structure

The following table summarizes funds generation and usage for the six months ended June 30, 1995 and 1994 and the related impacts on cash and debt balances. These data exclude restricted cash flows of the insurance businesses.

(In millions)	Funds Generation/(Use)		
	Year-to-Date 1995	June 30, 1994	Better/ (Worse)
Non-Financing:			
Document Processing	\$ (616)	\$ (213)	\$ (403)
Rank Xerox Purchase	(972)	-	(972)
Yen Financing Repayment	-	(116)	116
IOFS-related/other	321	(163)	484
Non-Financing	(1,267)	(492)	(775)
Financing:			
Xerox Equipment Financing	110	(141)	251
Third-Party Financing	1	65	(64)
Financing	111	(76)	187
Operations generation(use)	(1,156)	(568)	(588)
Shareholder Dividends	(195)	(200)	5
Equity issuance/(redemption) and changes in cash	30	(143)	173
Debt(increase)decrease	\$ (1,321)	\$ (911)	\$ (410)

The following table summarizes Document Processing non-financing operations funds generation and usage, after investments in the business, for the six months ended June 30, 1995 and 1994:

(In millions)	Funds Generation/(Use)		
	Year-to-Date 1995	June 30, 1994	Better/ (Worse)
Document Processing			
Non-Financing:			
Income	\$ 326	\$ 188	\$ 138
Depreciation and Amortization	321	320	1
Restructuring Payments	(194)	(204)	10
Capital Expenditures	(171)	(159)	(12)
Assets Sold	30	98	(68)
Working Capital/Other	(928)	(456)	(472)
	\$ (616)	\$ (213)	\$ (403)

Capital Resources

In management's opinion, funds usage and debt changes are best understood by examining the more highly leveraged financing businesses separately from the Company's other businesses.

Non-Financing Businesses

Business Equipment funds usage of \$616 million was \$403 million greater than in the first six months of 1994 as a result of higher profit sharing payments and growth in inventory and receivables partially offset by higher income. On February 28, 1995, \$972 million was paid to The Rank Organisation Plc whereby Xerox increased its financial interest in Rank Xerox to about 80 percent from 67 percent.

IOFS-related funds generation was \$321 million or \$484 million better than in 1994 reflecting proceeds from sales of Constitution Re and Xerox Life.

Financing Businesses

Xerox Equipment Financing generated \$110 million of funds during the first six months of 1995 or \$251 million more than in 1994 resulting from slightly lower penetration rates due to product mix, increased sales in markets which do not participate in our financing programs, and a trend toward rentals in the U.S.

Third Party Financing generated funds of \$1 million during the first half of 1995 compared with \$65 million of funds generation in 1994 due to a tax payment related to certain leveraged-lease sales arranged in 1994 and to lower collections on the portfolio consistent with the reduction in the asset base.

Total Company Debt

Total debt increased by \$1,321 million in the first six months of 1995. This growth is attributable to the purchase of incremental interest in Rank Xerox, premium payments and related financing charges to Ridge Re and an increase in Business Equipment funds usage (which included the payment of 1994 profit sharing in 1995).

Management believes that the Company has adequate short-term credit facilities available to fund its day-to-day operations and readily available access to the capital markets to meet any longer-term financing requirements. The Company's domestic operations have three revolving credit agreements totaling \$5.0 billion, of which \$1.3 billion expires December 1995 and the remainder in 1999. In addition, the Company's foreign subsidiaries had unused committed lines of credit aggregating \$1.9 billion in various currencies at prevailing interest rates.

The Company's subsidiary, Xerox Financial Services, Inc.(XFSI) has agreed to provide support for Talegen in the form of excess of loss reinsurance protection through Ridge Reinsurance Limited (Ridge Re), XFSI's single-purpose, wholly-owned Bermuda reinsurance company. XFSI is obligated to pay annual installments of \$49 million in the aggregate each year, plus related financing charges, payable for up to ten years, for coverage of \$1,245 million, net of 15 percent coinsurance. During the 1995 first half XFSI paid the required 1995 installment which, including the related financing charges, was \$81 million.

In addition to XFSI's original contribution of \$25 million to the capitalization of Ridge Re, XFSI is obligated, under certain circumstances to purchase over time additional redeemable preferred shares up to a maximum of \$301 million. XFSI has guaranteed to the Talegen insurance companies that Ridge Re will meet all of its financial obligations under all of the foregoing excess of loss reinsurance issued to them. In addition, the Company has guaranteed to the Talegen insurance companies the payment by XFSI of all of the required premiums for such excess of loss reinsurance to Ridge Re.

Management believes that the funds to meet the foregoing obligations will be available from dividends from the earnings of the Talegen insurance companies(to the extent permitted under insurance laws), proceeds from the sale of all or part of the Talegen insurance companies, cash flow from operations and borrowings.

Hedging Instruments

Certain financial instruments have been entered into by the Company to manage its Document Processing related interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements and forward-foreign exchange agreements. The Company has long-standing policies prescribing that derivative instruments are only to be used to achieve a set of very limited objectives: to lock-in the value of cross-border cash flows and to reduce the impact of currency and interest rate volatility on costs, assets and liabilities. The Company does not enter into derivative instrument transactions for trading purposes.

Currency derivatives are only arranged in conjunction with underlying transactions which give rise to foreign currency-denominated payables and receivables: for example, an option to buy foreign currency to settle the importation of goods from suppliers, or, a forward exchange contract to fix the rate at which a dividend will be paid by a foreign subsidiary.

The Company does not hedge foreign currency-denominated revenues of its foreign subsidiaries since these do not represent cross-border cash flows.

With regard to interest rate hedging, virtually all customer financing assets earn fixed rates of interest and, therefore, the Company "locks-in" an interest rate spread by arranging fixed-rate liabilities with similar maturities as the underlying assets. Additionally, customer financing assets in one currency are consistently funded with liabilities in the same currency. The Company refers to the effect of these conservative practices as "match funding" its customer financing assets.

More specifically, pay fixed-/receive variable-rate swaps are typically used in place of more expensive fixed-rate debt for the purpose of match funding fixed-rate, customer contracts. Pay variable-/receive variable-rate swaps are used to transform variable-rate medium term debt into commercial paper or local currency libor obligations. Additionally, pay variable-/receive fixed-rate swaps are used infrequently to transform longer-term fixed-rate debt into commercial paper based rate obligations. The transactions performed within each of these three categories enable the Company to manage its interest rate exposures. The potential risk attendant to this strategy is the performance of the swap counterparty. The Company addresses this risk by arranging swaps exclusively with a diverse group of strong-credit counterparties, regularly monitoring their credit ratings, and determining the replacement cost, if any, of existing transactions.

The Company's currency and interest rate hedging are typically not affected by changes in market conditions as forward contracts, options and swaps are normally held to maturity in order 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 13 contained in the "Notes to Consolidated Financial Statements" on pages 10 - 13 of this Quarterly Report, on Form 10-Q, is incorporated by reference in answer to this item.

Item 4. Submission of matters to a Vote of Security Holders.

The Annual Meeting of Shareholders of Xerox Corporation was duly called and held on May 18, 1995 at The Rittenhouse, 210 Rittenhouse Square, Philadelphia, Pennsylvania.

Proxies for the meeting were solicited on behalf of the Board of Directors of the Registrant pursuant to Regulation 14A of the General Rules and Regulations of the Commission. There was no solicitation in opposition to the Board of Directors' nominees for election as directors as listed in the Proxy Statement, and all nominees were elected.

At the meeting, votes were cast upon the Proposals described in the Proxy Statement for the meeting (filed with the Commission pursuant to Regulation 14A and incorporated herein by reference) as follows:

Proposal 1 - Election of directors for the ensuing year.

Name	For	Withheld Vote
Paul A. Allaire	92,050,207	8,530,638
Robert A. Beck	91,367,069	9,213,776
B. R. Inman	91,821,899	8,758,946
Vernon E. Jordan, Jr.	91,362,573	9,218,272
Yotaro Kobayashi	91,792,929	8,787,916
Hilmar Kopper	83,134,734	17,446,111
Ralph S. Larsen	91,790,949	8,789,876
John D. Macomber	91,777,203	8,803,642
N. J. Nicholas, Jr.	91,779,325	8,801,520
John E. Pepper	91,795,968	8,784,877

Martha R. Seger 91,736,202 8,844,643

Thomas C. Theobald 91,791,079 8,789,766

Proposal 2 - To elect KPMG Peat Marwick LLP as independent auditors for the year 1995.

For - 99,572,177
Against - 649,671
Abstain - 358,996

Proposal 3 - To approve the Xerox Executive Performance Incentive Plan.

For - 90,166,117
Against - 9,043,886
Abstain - 1,277,670
Broker Non-vote - 93,171

Proposal 4 - Shareholder proposal relating to the MacBride Principles.

For - 13,881,421
Against - 76,741,062
Abstain - 4,805,929
Broker Non-vote - 5,098,231

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibit 11 Computation of Net Income per Common Share.

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.

(b) Current Report on Form 8-K dated June 1, 1995 reporting Item 5 "Other Events" was 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)

Date: August 9, 1995

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

Xerox Corporation

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

	Three months ended June 30,		Six months ended June 30,	
	1995	1994	1995	1994
I. Primary Net Income Per Common Share				
Net income	\$ 238	\$ 168	\$ 385	\$ 297
Accrued dividends on ESOP preferred stock, net	(10)	(12)	(21)	(21)
Accrued dividends on redeemable preferred stock	(1)	(3)	(2)	(9)
Call premium on redeemable preferred stock	-	(11)	-	(11)
Adjusted net income	\$ 227	\$ 142	\$ 362	\$ 256
Average common shares outstanding during the period	107,226	105,481	106,781	105,088
Common shares issuable with respect to common stock equivalents for stock options, incentive and exchangeable shares	2,957	3,106	2,957	3,106
Adjusted average shares outstanding for the period	110,183	108,587	109,738	108,194
Primary earnings per share	\$ 2.07	\$ 1.31	\$ 3.30	\$ 2.36
II. Fully Diluted Net Income Per Common Share				
Net income	\$ 238	\$ 168	\$ 385	\$ 297
Accrued dividends on redeemable preferred stock	(1)	(3)	(2)	(9)
Call premium on redeemable preferred stock	-	(11)	-	(11)
ESOP expense adjustment, net of tax	(2)	(2)	(4)	(4)
Interest on convertible debt, net of tax	-	-	1	1
Adjusted net income	\$ 235	\$ 152	\$ 380	\$ 274
Average common shares outstanding during the period	107,226	105,481	106,781	105,088
Stock options, incentive and exchangeable shares	2,957	3,106	2,957	3,106
Convertible debt	881	881	881	881
ESOP preferred stock	9,616	9,813	9,616	9,813
Adjusted average shares outstanding for the period	120,680	119,281	120,235	118,888
Fully diluted earnings per share	\$ 1.96	\$ 1.28	\$ 3.16	\$ 2.31

Exhibit 12

Xerox Corporation
Computation of Ratio of Earnings to Fixed Charges

(In Millions)	Six months ended			Year ended			1990
	June 30, 1995	1994	1994	1993*	1992**	1991***	
Fixed charges:							
Interest expense	\$ 417	\$ 360	\$ 732	\$ 755	\$ 788	\$ 758	\$ 799
Rental expense	90	96	190	201	208	206	191
Total fixed charges before capitalized interest	507	456	922	956	996	964	990
Capitalized interest	-	1	2	5	17	3	-
Total fixed charges	\$ 507	\$ 457	\$ 924	\$ 961	\$1,013	\$ 967	\$ 990
Earnings available for fixed charges:							
Earnings****	\$ 746	\$ 595	\$1,558	\$ (227)	\$ 192	\$ 939	\$1,116
Less undistributed income in minority owned companies	(63)	(35)	(54)	(51)	(52)	(70)	(60)
Add fixed charges before capitalized interest	507	456	922	956	996	964	990
Total earnings available for fixed charges	\$1,190	\$1,016	\$2,426	\$ 678	\$1,136	\$1,833	\$2,046
Ratio of earnings to fixed charges (1)(2)	2.35	2.22	2.63	0.71	1.12	1.90	2.07

(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, by total fixed charges. Fixed charges consist of interest, including capitalized interest, and one-third of rent expense as representative of the interest portion of rentals. Interest expense has been assigned to discontinued operations principally on the basis of the relative amount of gross assets of the discontinued operations. Management believes that this allocation method is reasonable in light of the debt specifically assigned to discontinued operations. The discontinued operations consist of the Company's real-estate development and related financing operations and its third-party financing and leasing businesses, and Other Financial Services 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, due to their nature, traditionally operate at lower earnings to fixed charges ratio levels than do non-financial companies.

* In 1993, the ratio of earnings to fixed charges includes the effect of the \$1,373 million before-tax (\$813 million after-tax) charge incurred in connection with the restructuring provision and litigation settlements. Excluding this charge, the ratio was 2.13. 1993 earnings were inadequate to cover fixed charges. The coverage deficiency was \$283 million.

** In 1992, the ratio of earnings to fixed charges includes the effect of the \$936 million before-tax (\$778 million after-tax) charge incurred in connection with the decision to disengage from the Company's Insurance and Other Financial Services businesses. Excluding this charge, the ratio was 2.05.

*** In 1991, the ratio of earnings to fixed charges includes the effect of the \$175 million before-tax (\$101 million after-tax) charge incurred in connection with a Document Processing work-force reduction. Excluding this charge, the ratio was 2.08.

****Sum of income before income taxes and income attributable to minority ownership.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S JUNE 30, 1995 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

6-MOS	DEC-31-1995	JUN-30-1995
	37,650	37,650
	25	109
		747
		4,956
37,650	9,088	
	385	261
		0
		0
		0
		385
		3.30
		3.16

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1,000,000

6-MOS	
DEC-31-1995	JUN-30-1995
	34
	0
	12,294
	388
	2,789
9,736	
	4,744
	2,682
20,727	
6,344	
	9,537
	3,961
7,824	
	2,285
	4,224
2,821	
	104
417	
	779
	302
441	

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1,000,000

6-MOS	DEC-31-1995	JUN-30-1995
	6,956	
	0	
	0	161
		0
		0
	7,776	
		18
	2,723	
135		
	13,254	
	7,842	
	777	
	0	
	0	
	413	
		1,033
	220	
	14	
		11
		855
194		
	136	
	(97)	
	(41)	
	(56)	
	8,809	
	0	
	0	
	0	
	0	
	0	
	0	
	0	

DATA NOT AVAILABLE FOR INTERIM REPORTING.