

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: September 30, 1996

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 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, 1996
Common Stock	324,561,501 shares

This document consists of 28 pages.

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Xerox Corporation  
Form 10-Q  
September 30, 1996

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For additional information about The Document Company Xerox, please visit our World-wide Web site at <http://www.xerox.com> and select "Investor Information"

#### PART I - FINANCIAL INFORMATION

##### Xerox Corporation Consolidated Statements of Income

(In millions, except per-share data)	Three months ended		Nine months ended	
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995
<b>Revenues</b>				
Sales	\$ 2,172	\$ 2,066	\$ 6,289	\$ 6,011
Service and rentals	1,733	1,700	5,258	5,073
Finance income	253	246	756	749
Total Revenues	4,158	4,012	12,303	11,833
<b>Costs and Expenses</b>				
Cost of sales	1,215	1,183	3,500	3,478
Cost of service and rentals	889	861	2,667	2,544
Equipment financing interest	131	123	386	378
Research and development expenses	261	242	779	707
Selling, administrative and general expenses	1,256	1,145	3,691	3,411
Gain on affiliates' sales of stock, net	(11)	-	(11)	-
Other, net	34	43	65	121
Total Costs and Expenses	3,775	3,597	11,077	10,639
<b>Income before Income Taxes, Equity Income and Minorities' Interests</b>	383	415	1,226	1,194
Income taxes	138	160	441	462
Equity in net income of unconsolidated affiliates	30	38	92	102
Minorities' interests in earnings of subsidiaries	25	37	97	137

Income from Continuing Operations	250	256	780	697
Discontinued Operations	-	(20)	-	(76)
Net Income	\$ 250	\$ 236	\$ 780	\$ 621
Primary Earnings per Share				
Continuing Operations	\$ 0.71	\$ 0.74	\$ 2.24	\$ 2.01
Discontinued Operations	-	(.06)	-	(.23)
Primary Earnings per Share	\$ 0.71	\$ 0.68	\$ 2.24	\$ 1.78
Fully Diluted Earnings per Share				
Continuing Operations	\$ 0.68	\$ 0.70	\$ 2.14	\$ 1.91
Discontinued Operations	-	(.05)	-	(.21)
Fully Diluted Earnings per Share	\$ 0.68	\$ 0.65	\$ 2.14	\$ 1.70

See accompanying notes.

Xerox Corporation  
Consolidated Balance Sheets

(In millions, except share data in thousands)	September 30, 1996	December 31, 1995
<b>Assets</b>		
Cash	\$ 136	\$ 136
Accounts receivable, net	2,099	1,914
Finance receivables, net	4,101	4,069
Inventories	3,099	2,656
Deferred taxes and other current assets	1,032	1,095
<b>Total Current Assets</b>	<b>10,467</b>	<b>9,870</b>
Finance receivables due after one year, net	6,505	6,406
Land, buildings and equipment, net	2,180	2,105
Investments in affiliates, at equity	1,337	1,314
Goodwill	620	627
Other assets	933	876
Investment in discontinued operations	4,501	4,810
<b>Total Assets</b>	<b>\$ 26,543</b>	<b>\$ 26,008</b>
<b>Liabilities and Equity</b>		
Short-term debt and current portion of long-term debt	\$ 3,276	\$ 3,274
Accounts payable	483	578
Accrued compensation and benefit costs	631	731
Unearned income	184	228
Other current liabilities	1,997	2,216
<b>Total Current Liabilities</b>	<b>6,571</b>	<b>7,027</b>
Long-term debt	9,088	7,867
Postretirement medical benefits	1,033	1,018
Deferred taxes and other liabilities	2,389	2,437
Discontinued operations liabilities - policyholders' deposits and other	2,350	2,810
Deferred ESOP benefits	(547)	(547)
Minorities' interests in equity of subsidiaries	823	755
Preferred stock	727	763
Common shareholders' equity	4,109	3,878
<b>Total Liabilities and Equity</b>	<b>\$ 26,543</b>	<b>\$ 26,008</b>
Shares of common stock issued and outstanding	324,551	325,029

See accompanying notes.

Xerox Corporation  
Consolidated Statements of Cash Flows

Nine months ended September 30	(In millions)	1996	1995
<b>Cash Flows from Operating Activities</b>			
Income from Continuing Operations		\$ 780	\$ 697
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization		528	528
Provisions for doubtful accounts		164	152
Provision for postretirement medical benefits		30	37
Charges against 1993 restructuring reserve		(147)	(258)
Minorities' interests in earnings of subsidiaries		97	137
Undistributed equity in income of affiliated companies		(91)	(99)
Increase in inventories		(747)	(871)
Increase in finance receivables		(379)	(123)
Increase in accounts receivable		(242)	(256)
(Decrease)Increase in accounts payable and accrued compensation and benefit costs		(223)	1
Net change in current and deferred income taxes		194	207
Other, net		(287)	(138)
<b>Total</b>		<b>(323)</b>	<b>14</b>
<b>Cash Flows from Investing Activities</b>			
Cost of additions to land, buildings and equipment		(340)	(274)
Proceeds from sales of land, buildings and equipment		30	35
Purchase of additional interest in Rank Xerox		-	(972)
Proceeds from sale of Constitution Re		-	526
<b>Total</b>		<b>(310)</b>	<b>(685)</b>
<b>Cash Flows from Financing Activities</b>			
Net change in debt		1,314	1,009
Dividends on common and preferred stock		(330)	(292)
Proceeds from sale of common stock		97	120
Repurchase of common and preferred stock		(269)	(65)
Dividends to minority shareholders		(1)	(64)
Proceeds received from minority shareholders		-	20
<b>Total</b>		<b>811</b>	<b>728</b>
Effect of Exchange Rate Changes on Cash		(2)	(2)
<b>Cash Provided by Continuing Operations</b>		<b>176</b>	<b>55</b>
<b>Cash Used by Discontinued Operations</b>		<b>(176)</b>	<b>(39)</b>
<b>Increase in Cash</b>		<b>-</b>	<b>16</b>
<b>Cash at Beginning of Period</b>		<b>136</b>	<b>41</b>
<b>Cash at End of Period</b>		<b>\$ 136</b>	<b>\$ 57</b>

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 1995 Annual Report to Shareholders and should be read in conjunction with the notes thereto. Effective with 1996 reporting, the Company's China operations are fully consolidated. The 1995 financial statements presented herein have been restated to reflect this change and several other accounting reclassifications to conform with the 1996 presentation. The impact of these changes is not material and did not affect net income.

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.

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, 1996	December 31, 1995
Finished products	\$ 1,893	\$ 1,646
Work in process	114	88
Raw materials and supplies	399	295
Equipment on operating leases, net	693	627
Total	\$ 3,099	\$ 2,656

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

	September 30, 1996	December 31, 1995
Common stock	\$ 331	\$ 327
Additional paid-in-capital	1,293	1,334
Retained earnings	2,769	2,321
Net unrealized gain (loss) on investment securities	2	(1)
Translation adjustments	(215)	(103)
Treasury stock	(71)	-
Total	\$ 4,109	\$ 3,878

4. Our Consolidated Balance Sheet at September 30, 1996 includes current and non-current accrued liabilities of \$149 million and \$92 million, respectively, associated with the Document Processing restructuring program announced in December 1993. At December 31, 1995, the corresponding accrued liabilities aggregated \$395 million. During the nine month period ended September 30, 1996, restructuring-related activity reduced the accrued liability by \$154 million. Management believes the aggregate reserve balance of \$241 million at September 30, 1996 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 15.

5. Interest expense totaled \$446 million and \$452 million for the nine months ended September 30, 1996 and 1995, respectively.

6. At our annual meeting on May 16, 1996, shareholders approved an increase in the number of authorized shares of common stock, from 350 million to 1.05 billion to effect a three-for-one stock split. The effective date of the split was June 6 for shareholders of record as of May 23. All share and per share amounts have been restated to retroactively reflect the stock split.

7. The Board of Directors has authorized the Company to repurchase up to \$1 billion of Xerox common stock. The stock will be purchased from time to time on the open market depending on market conditions. As of September 30, 1996, we have repurchased 5 million shares for \$232 million.

8. In the third quarter of 1996, we recognized an \$11 million pre-tax gain which reflects our proportionate share of the increase in equity of certain small affiliated companies as a result of recent sales by these affiliates of additional shares of common stock in the open markets.

9. In January 1996, we announced agreements to sell all of our remaining Talegen Holdings, Inc. (Talegen) insurance units (Coregis Group, Inc., Crum & Forster Holdings, Inc., Industrial Indemnity Holdings, Inc., Westchester Specialty Group, Inc. and two insurance-related service companies) and The Resolution Group, Inc. (TRG) to investor groups led by Kohlberg Kravis Roberts & Co. (KKR) and Talegen/TRG management. In connection with the transactions, we recorded in 1995 a \$1.546 billion after-tax charge. On September 11, 1996, we and KKR announced that we had mutually agreed to terminate the transactions. No additional charges are required as a result of the terminated agreements. Steps have been initiated for the marketing of each

of the remaining Talegen units and TRG. We expect our strategy of exiting the financial services business to be either fully completed or substantially completed on or before the end of 1997.

Summarized operating results of Insurance follow:

(In millions)	Third Quarter		Nine Months	
	1996	1995	1996	1995
Revenues				
Insurance premiums earned	\$ 433	\$ 464	\$1,287	\$1,497
Investment and other income	112	106	325	337
Total Revenues	545	570	1,612	1,834
Costs and Expenses				
Insurance losses and loss expenses	349	406	1,054	1,261
Insurance acquisition costs and other operating expenses	178	145	461	475
Interest expense	50	54	153	175
Administrative and general expenses	10	33	19	102
Total Costs and Expenses	587	638	1,687	2,013
Realized Capital Gains	-	32	2	46
Income (loss) before income taxes	(42)	(36)	(73)	(133)
Income Tax Benefits	16	16	31	57
Income (loss) from Insurance	\$ (26)*	\$ (20)	\$ (42)*	\$ (76)

\* The 1996 total insurance after-tax loss of \$26 million in the third quarter and \$42 million in the first nine months was charged to reserves established for this purpose and, therefore, does not impact the Company's earnings.

The net assets at September 30, 1996 and December 31, 1995 of the Insurance businesses included in our consolidated balance sheets as discontinued operations are as follows:

	September 31, 1996	December 31, 1995
Insurance Assets		
Investments	\$ 8,042	\$ 7,871
Reinsurance recoverable	2,450	2,616
Premiums and other receivables	1,111	1,191
Deferred taxes and other assets	1,324	1,450
Total Insurance assets	\$12,927	\$13,128
Insurance Liabilities		
Unpaid losses and loss expenses	\$ 8,571	\$ 8,761
Unearned income	855	859
Notes payable	323	372
Other liabilities	1,314	1,458
Total Insurance liabilities	\$11,063	\$11,450
Investment in Insurance, net	\$ 1,864	\$ 1,678

## 10. Litigation

### Continuing Operations

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. Plaintiffs claim damages predominately resulting from the Company's alleged refusal to sell parts or license diagnostic software for high volume copiers and printers to plaintiffs prior to 1994 and the Company's alleged continued refusal to sell parts at nonexclusionary prices or to license diagnostic software on nonexclusionary terms. In addition to monetary damages in excess of \$10 million (to be trebled), injunctive relief is sought. 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 the plaintiffs in the Kansas action, were not included in that class action. The Company has asserted counterclaims against the plaintiffs alleging patent and copyright infringement, misappropriation of Xerox trade secrets, conversion and unfair competition and/or false advertising. On December 11, 1995, the District Court issued a preliminary injunction against the parent company for copyright infringement. A trial date of April 15, 1997 has been set. The Company denies any wrongdoing and intends to vigorously defend these actions and pursue its counterclaims.

On August 5, 1996, the District Court dismissed the complaint of 20 different ISOs and the cross complaint of the Company against those 20 ISOs as a result of a settlement between the parties. The terms of the settlement will have no material effect on the Company.

#### Discontinued Operations

Farm & Home Savings Association, now known as Roosevelt Bank, (Farm & Home) and certain Talegen insurance companies (Insurance Companies) entered into an agreement (Indemnification Agreement) under which the Insurance Companies are required to defend and indemnify Farm & Home from certain actual and punitive damage claims being made against Farm & Home relating to the Brio superfund site (Brio). In a number of lawsuits pending against Farm & Home in the District Courts of Harris County, Texas, several hundred 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 certain of the claims fall under the coverage of either the policies or the Indemnification Agreement. The Insurance Companies have been successful in having some claims dismissed which were brought by plaintiffs who were unable to demonstrate a pertinent nexus to the Southbend subdivision. However, there are numerous plaintiffs who do have a nexus to the Southbend subdivision. The Insurance Companies have been in settlement discussions with respect to claims brought by plaintiffs who have or had a pertinent nexus to the Southbend subdivision. In addition, Farm & Home presently has pending motions for summary judgment which would dispose of many of the claims asserted. If not settled or resolved by summary judgment, one or more of these cases can be expected to be tried in 1997.

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

#### Document Processing

##### Income from Continuing Operations

Income from continuing operations declined 2 percent to \$250 million in the 1996 third quarter and grew 12 percent to \$780 million in the first nine months of 1996.

Although enterprise printing revenue growth accelerated in all major geographic areas, overall revenue growth was adversely affected by a modest decline in black-and-white copier revenues. Our investments in sales coverage and promotion did not yield the results we expected in the quarter. We expect some improvement in the fourth quarter, with somewhat slower growth in costs and expenses. We continue to be optimistic about 1997.

Primary earnings per share declined 4 percent to 71 cents in the 1996 third quarter and grew 12 percent to \$2.24 in the first nine months. Fully diluted earnings per share declined 3 percent to 68 cents and grew 12 percent to \$2.14 for the first nine months. All earnings per share amounts reflect the 3 for 1 stock split on June 6, 1996.

#### Underlying 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 "underlying growth."

A substantial portion of our consolidated revenues is derived from operations outside of the United States in subsidiaries where the U.S. dollar is not the functional currency, primarily in Europe. When compared with the major European currencies, the U.S. dollar was approximately 2 percent stronger in the 1996 third quarter than in the 1995 third quarter. As a result, foreign currency translation had an unfavorable impact of 1

percentage point on total revenues in the 1996 third quarter.

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

## Revenues

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

	1996			FY	1995			—
	Q3	Q2	Q1		Q4	Q3	Q2	
Total Revenues	5%	6%	4%	7%	2%	8%	8%	11%
Enterprise Printing	23	21	19	17	10	18	20	22
Black & White Copiers	(4)	-	-	2	(2)	3	2	4

Third quarter enterprise printing revenue growth accelerated from the second quarter in all major geographical areas. DocuTech and color products revenue growth was excellent and printing systems products growth was good. Revenues from enterprise printing represented 30 percent of total revenues in the 1996 third quarter compared with 29 percent in the 1996 second quarter and 25 percent for the 1995 full year.

Black-and-white copier revenues declined as a result of several important factors, including price pressures and difficult economic environments in Europe and a number of emerging markets. In addition, there was a significant slowdown in growth in Brazil, following two years of exceptional growth. Longer term trends also continued of volume transferring to DocuTech production publishing and document outsourcing. The trend to document outsourcing has the effect of diverting revenues from up-front equipment sales as well as service and finance income. Revenues from black-and-white copying represented 56 percent of total document processing revenues in the 1996 third quarter, 57 percent in the 1996 second quarter and 59 percent in the 1996 first quarter and for the 1995 full year.

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

	1996			FY	1995			—
	Q3	Q2	Q1		Q4	Q3	Q2	
Total Revenues	5%	6%	4%	7%	2%	8%	8%	11%
United States	5	6	5	3	(3)	5	5	8
Rank Xerox	2	2	(2)	8	10	2	5	13
Other Areas	6	10	11	16	2	27	25	17

Third quarter U.S. revenue growth was due to accelerated growth in enterprise printing revenues and increased OEM printer engine sales to IBM and Apple, partially offset by a decline in black-and-white copier revenues and lower paper prices.

Rank Xerox (Rank Xerox Limited and related companies) manufactures and markets Xerox products principally in Europe. The modest revenue growth in Rank Xerox reflects good growth in the U.K., a modest decline in France, essentially flat revenues in Germany, modest growth in the rest of western Europe, and declines in most of the eastern European markets.

Other Areas include operations principally in Latin America and Canada. Lower revenue growth in the 1996 third quarter, compared with the first and second quarters, was due primarily to a significant slowdown in black-and-white copier revenue growth in Brazil, following two years of exceptional growth. Cycles consisting of strong growth, consolidation and then further growth are not unusual in Brazil. Our 1995 revenues were approximately \$1.3 billion in Brazil and \$200 million in Mexico.

We estimate that the components of underlying revenue growth were as follows:

	1996			FY	1995			—
	Q3	Q2	Q1		Q4	Q3	Q2	



Total Revenues	5%	6%	4%	7%	2%	8%	8%	11%
Sales								
Equipment*	6	9	7	6	(1)	12	8	8
Supplies	9	6	-	9	(1)	9	10	21
Paper	(12)	(7)	(2)	39	22	42	42	54
Total	6	7	2	9	-	11	12	18
Service/Rentals/Outsourcing/Other								
Service	(2)	(1)	1	2	1	1	4	3
Rentals	1	2	2	1	1	3	(2)	3
Document Outsourcing	51	51	48	46	51	44	43	46
Total	3	4	6	6	5	6	6	6
Finance Income	4	-	1	(4)	(1)	(7)	(2)	(4)
Memo: Revenues Excluding Equipment Sales*	4	4	2	7	4	6	9	12

\* Equipment sales to end-users only

Equipment sale revenue growth to end users of 6 percent in the 1996 third quarter reflects an acceleration in enterprise printing equipment sales growth but lower copier sales principally reflecting the slowdown in revenue growth in Brazil. The 1996 second quarter growth of 9 percent included excellent enterprise printing equipment sales growth and modest copier growth.

Revenues from supplies, paper, service, rentals, document outsourcing and other revenues, and income from customer financing represented 67 percent of total revenues in the 1996 third quarter. Growth in these revenues is primarily a function of the growth in our installed population of equipment, usage and pricing.

Supplies sales: The improved growth in the 1996 third quarter from prior quarters is due principally to continuing excellent growth in enterprise printing and an increase in sales of OEM printer cartridges.

Paper sales: Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor. The decline in the 1996 third quarter is due to lower prices because of excess industry supply.

Service revenues: The decline in the 1996 third and second quarters and the modest growth in the preceding quarters reflects the increasing impact of customer preference for document outsourcing as well as competitive price pressures.

Rental revenues: Rental revenues outside the U.S. continued the long term trend of declining rentals and increasing equipment sales. This decline has been more than offset by growth in the U.S. where there has been an increasing trend toward cost-per-copy rental plans, which adversely affects up-front equipment sales, as well as service revenues and finance income.

Document Outsourcing: This growth reflects the trend of customers to outsource their document processing requirements to Xerox. In part, this has the effect of diverting revenues from up-front equipment sales as well as service and finance income. This trend reduces current period total revenues but increases revenues in future periods.

Finance income: Our strategy for financing equipment sales is to charge a spread over our cost of borrowing and to lock in that spread by match-funding the notes receivable with borrowings of similar maturities. The growth in the third quarter was due primarily to continuing growth in the financing of equipment sales in Latin America. U.S. interest income had modest growth, reflecting higher interest rates, after several quarters of decline resulting from lower average interest rates, and the trends to document outsourcing and rental plans.

#### Productivity Initiatives

In 1993, we announced a restructuring program to significantly reduce the cost base and to improve productivity. Our objectives were to reduce our worldwide work force by more than 10,000

employees and to close or consolidate a number of facilities. To date, the activities associated with the 1993 restructuring program have reduced employment by 13,600, achieved pre-tax cost reductions of approximately \$350 million in 1994 and \$650 million in 1995, and we are on track towards achieving our restructuring program objectives. A portion of the savings has been reinvested to reengineer business processes, to support the expansion in growth markets, and to mitigate pricing pressures.

As a result of hiring in our fast-growing document outsourcing business, worldwide employment increased by 400 in the 1996 third quarter to 87,000. Increases in sales and manufacturing were offset by reductions due to productivity actions.

#### Gross Profit and Expenses

Gross profit increased 4 percent as a result of volume and an improvement in gross margins.

The gross margins by revenue stream were as follows:

	1996				1995			
	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1
Total Gross Margin	46.2%	47.9%	46.0%	46.1%	46.7%	46.0%	46.5%	45.2%
Sales	44.0	45.8	43.0	43.0	45.0	42.7	42.7	40.9
Service/Rental/ DocOut	48.7	50.3	48.9	49.6	48.9	49.3	50.8	49.3
Financing	48.3	49.5	49.0	49.7	50.1	50.1	48.3	50.4

Total gross margins improved by 0.2 percentage points in the 1996 third quarter from the 1995 third quarter, compared with a 1.4 percentage point improvement in the 1996 second quarter from the 1995 second quarter.

The improvement of 1.3 percentage points in the sales gross margin from the 1995 third quarter was principally due to cost reductions and favorable currency, partially offset by pricing pressures. The erosion in the service and rentals gross margin of 0.6 percentage points from the 1995 third quarter was largely due to mix, pricing pressures and economic cost increases, partially offset by the benefits from productivity initiatives. Financing gross margins fluctuate due to country mix.

Research and development (R&D) expense increased 8 percent in the 1996 third quarter and 10 percent in the 1996 first nine months reflecting increased investment in future product introductions. The lower growth in the third quarter from earlier in 1996 reflects product program calendarization. We will continue to invest in technological development to maintain our premier position in the rapidly changing document processing market. We expect to introduce a stream of new, technologically innovative products in the coming months. Xerox 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 \$600 million in R&D in 1995.

Selling, administrative and general expenses (SAG) increased 10 percent in the 1996 third quarter and 9 percent in the 1996 first nine months. SAG was 30.2 percent of revenue in the third quarter, an increase of 1.6 percentage points from the 1995 third quarter. The growth was due to economic cost increases, and investments to increase worldwide sales effectiveness, including the expansion of direct sales coverage and indirect distribution channels, new product advertising, marketing support, and systems to improve productivity in various administrative functions. We expect somewhat slower growth in the fourth quarter of 1996.

Gain on affiliates' sales of stock, net reflects our proportionate share of the increase in equity of certain small affiliated companies as a result of recent sales by these affiliates of additional shares of common stock in the open markets.

The \$9 million decrease in other expenses, net, from the 1995 third quarter was due to reduced interest expense and currency losses from balance sheet translation in our Latin American operations. Other expenses, net are lower by \$56 million for the

first nine months of 1996 reflecting lower interest expense and the non-recurrence of several one-time charges in 1995.

#### 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 declined 8 percent to \$383 million in the 1996 third quarter from \$415 million in the 1995 third quarter.

The effective tax rate was 36.0 percent in the 1996 third quarter and in the 1996 year to date compared with 38.5 percent in the 1995 third quarter and 38.7 percent in the 1995 year to date. The decline was primarily due to a lower statutory tax rate in Brazil and the mix of profits from our worldwide operations.

Equity in the net income of unconsolidated affiliates, principally Fuji Xerox, decreased in the 1996 third quarter to \$30 million from \$38 million in the 1995 third quarter and declined for the first nine months to \$92 million in 1996 from \$102 million in 1995. The underlying growth in Fuji Xerox income was more than offset by the adverse impact of currency translation and declines in income from smaller investments.

Minorities' interests in the earnings of subsidiaries was \$25 million in the 1996 third quarter compared with \$37 million in the 1995 third quarter primarily due to lower Rank Xerox income.

#### Discontinued Operations

The net investment in the discontinued financial services businesses which includes Insurance, Other Financial Services and Third-Party / Real-Estate totaled \$2.151 billion at September 30, 1996 compared with \$2.000 billion at December 31, 1995. The increase primarily includes scheduled funding of reinsurance coverage to the Talegen companies by Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt, partially offset by reductions in third-party assets (primarily from sales and run-off activity). A discussion of the discontinued businesses follows.

#### Insurance Segment

In January 1996, Xerox announced agreements to sell all of its Remaining Talegen insurance units (Coregis Group, Inc., Crum & Forster Holdings, Inc., Industrial Indemnity Holdings, Inc., Westchester Specialty Group, Inc. and two insurance-related service companies) and The Resolution Group, Inc. (TRG) to investor groups led by Kohlberg Kravis Roberts & Co. (KKR) and Talegen/TRG management. In connection with the transactions, Xerox recorded in 1995 a \$1.546 billion after-tax charge.

On September 11, 1996, Xerox and KKR announced that they had mutually agreed to terminate the transactions. Steps have been initiated for the marketing of each of the Remaining Talegen units and TRG with the objective of completing the individual sale transactions as soon as possible. No additional charges are considered necessary as a result of the aforementioned termination of the transactions. The insurance segment has been classified as a discontinued operation for all periods presented and its operating results did not affect the Company's earnings in the first nine months of 1996.

#### Insurance Operating Results

Operating results for the discontinued Insurance segment (Talegen/TRG, Ridge Re and Xerox Financial Services, Inc. holding company expenses, primarily assigned interest) in the third quarter and first nine months of 1996 and 1995 follow:

(In millions)	Third Quarter		Nine Months	
	1996	1995	1996	1995
Total Insurance Revenue	\$ 545	\$ 557	\$1,612	\$1,588
Insurance Pre-Tax Income Underwriting	\$ (92)	\$ (87)	\$ (226)	\$ (240)

Investment Income	112	101	323	299
Net Realized Capital Gains	-	32	2	46
Interest Expense	(50)	(53)	(153)	(175)
Other Expenses	(12)	(26)	(19)	(53)
Insurance Pre-Tax Income (Loss)	\$ (42)	\$ (33)	\$ (73)	\$ (123)
After-Tax Income				
Insurance	\$ (26)	\$ (22)	\$ (42)	\$ (71)
Dispositioned Companies	-	2	-	(5)
Total After-Tax Income (Loss)	\$ (26)*	\$ (20)	\$ (42)*	\$ (76)

\* The 1996 total insurance after-tax loss of \$26 million in the third quarter and \$42 million in the first nine months was charged to reserves established for this purpose and, therefore, does not impact the Company's earnings.

The preceding table's revenue and pre-tax income excludes the results of Constitution Re Corporation (CRC) and Viking which were sold during the second and third quarters of 1995, respectively. The results of those units are shown on an after-tax basis under the caption "Dispositioned Companies."

Revenues from Insurance totaled \$545 million in the third quarter of 1996 compared with \$557 million in the third quarter of 1995. A modest decline in earned premiums, which reflects competition and pricing pressure in the industry, was partially offset by an improvement in investment income. Revenues for the first nine months of 1996 totaled \$1.612 billion, a growth of 2 percent from the first nine months of 1995 and included improvements in both earned premiums and investment income.

The decline in 1996 third quarter Insurance pre-tax income compared with 1995 primarily reflects the absence of capital gains from the repositioning of the Talegen portfolio in the third quarter, 1995 and a small deterioration in underwriting results. Partially offsetting these declines are improvements in investment income. Additionally, interest and other expenses, which are primarily XFS holding company costs, were also lower due to reduced debt levels and the absence of disengagement-related provisions recorded in the third quarter, 1995. The improvement in Insurance pre-tax income for the first nine months of 1996 compared with 1995 primarily includes the previously mentioned items plus the absence of the 1995 settlement between Monsanto and Talegen which benefited underwriting results by \$34 million on a year-over-year basis.

The investment at September 30, 1996 totaled \$1.864 billion compared with a restated balance of \$1.678 billion at December 31, 1995. The increase primarily includes contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the insurance debt that will continue until the closing of the sales of the Remaining Talegen units and TRG.

#### 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.

#### Disposal of Insurance Business

During the disposal process, we will continue to be subject to all business risks and rewards of the insurance businesses. We expect our strategy of exiting the insurance business to be either fully completed or substantially completed on or before the end of 1997; however, 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 ultimate impact the remaining insurance businesses

will have on the Company's total results from operations.

Our objective is to continue to obtain appropriate value from the Insurance investments. The ultimate value will depend on the success of the operational improvements, timing, the level of interest rates, and the relative value of insurance properties.

#### Other Financial Services

The net investment in Other Financial Services (OFS) at September 30, 1996 was \$99 million compared with a restated \$114 million at December 31, 1995. The decrease in the investment primarily reflects the sale of the remaining portion of First Quadrant Corp.

On June 1, 1995, Xerox Financial Services, Inc. (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 (OakRe), 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.

As a result of the Coinsurance Agreements, at September 30, 1996, OakRe retained approximately \$2.1 billion of investment portfolio assets (transferred from the Xerox Life Companies) and liabilities related to the reinsured SPDA policies. Interest rates on these policies are fixed and were established upon issuance of the respective policies. Substantially all of these policies will reach their rate reset periods within the next four years and will be assumed under the Agreements as described above. The Xerox Life Companies' portfolio was designed to recognize that policy renewals extended liability "maturities", thereby permitting investments with average duration somewhat beyond the rate reset periods. OakRe's practice is to selectively improve this match over time as market conditions allow.

In connection with the aforementioned sale, XFSI established a \$500 million letter of credit and line of credit with a group of banks to support OakRe's coinsurance obligations. The term of this letter of credit is five years and it is unused and available at September 30, 1996. 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.

#### Third-Party / Real-Estate

Third-party and real-estate assets at September 30, 1996 totaled \$460 million, a \$29 million reduction from the December 31, 1995 level. The asset decrease includes a \$82 million reduction in third-party assets and a \$53 million increase in reported real-estate net assets. Assigned debt decreased to \$222 million at September 30, 1996, a \$9 million decrease from the year-end 1995 level. The third-party asset decline primarily includes sales of assets and run-off activity. The increase in reported real-estate assets includes \$47 million related to the Company's decision to fund the retirement of certain debt of its discontinued real-estate subsidiary with lower cost Company financing. This increased the assets and assigned debt of discontinued operations, but had no effect on the reported net investment in discontinued operations. The \$9 million assigned debt decrease includes the previously mentioned increase in real-estate debt, fully offset by reductions from the sales of third-party sales and run-off activity.

#### Capital Resources and Liquidity

Total debt, including ESOP and Discontinued Operations debt not shown separately in our consolidated balance sheets, increased to \$12,959 million at September 30, 1996, from \$11,794 million at December 31, 1995. The changes in consolidated indebtedness since year end and versus the first nine months of 1995 are summarized as follows:

(In millions)	1996	1995	
Total Debt as of January 1	\$11,794	\$10,955	
Non-Financing Businesses:			
Document Processing Operations	553		515
Increased financial interest in Rank Xerox	-	972	
Discontinued Businesses	132	(421)	
Total Non-Financing	685	1,066	
Financing Businesses	(15)	(140)	
Total Operations	670	926	
Shareholder dividends	330	292	
Exercise of stock options	(97)	(120)	
Repurchase of common and preferred stock	269	65	
Cash balance and other changes, net	(7)	10	
Total Debt as of September 30	\$12,959	\$12,128	

For purposes of capital ratio analysis, total equity includes common equity, preferred stock and minorities' interests in the equity of subsidiaries.

The following table summarizes the changes in total equity during the first nine months of 1996 and 1995:

(In millions)	1996	1995
Total equity as of January 1	\$5,396	\$6,042
Income from Continuing Operations	780	697
Shareholder dividends paid	(330)	(292)
Exercise of stock options	97	120
Repurchase of common and preferred stock	(269)	(65)
Change in unrealized gain on investment securities	3	432
All Other, net	(18)	(219)
Balance as of September 30	\$5,659	\$6,715

On a consolidated basis, inclusive of deferred ESOP benefits, the debt-to-capital ratio at September 30, 1996 was 72 percent compared with 71 percent at December 31, 1995.

#### Non-Financing Operations

The following table summarizes Document Processing non-financing operations cash generation and borrowing for the nine months ended September 30, 1996 and 1995:

(In millions)	Cash Generated/(Borrowed)	
	Nine Months Ended September 30,	
	1996	1995
Document Processing		
Non-Financing:		
Income	\$ 663	\$ 534
Depreciation and Amortization	528	528
Restructuring Payments	(147)	(258)
Capital Expenditures	(340)	(274)
Working Capital/Other	(1,257)	(1,045)
Total	\$ (553)	\$ (515)

Nine-month cash usage of \$553 million was \$38 million greater than in the first nine months of 1995 due primarily to increased growth in capital spending related to facilities infrastructure and new digital products, and lower accounts payable and accrued compensation costs largely offset by higher net income, reduced inventory growth, and lower restructuring payments.

#### Financing Businesses

Financing business debt was reduced by \$15 million and \$140 million during the first nine months of 1996 and 1995, respectively. This smaller decline in 1996 reflects growth in new customer financing contracts driven by higher equipment sales activity.

#### Hedging Instruments

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 swaps, forward foreign exchange contracts and foreign currency swaps. 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 suppliers, or a forward foreign-exchange contract to fix the rate at which a dividend will be paid by a foreign subsidiary. In addition, when cost-effective, currency derivatives may be used to hedge balance sheet exposures in hyperinflationary economies.

We do not hedge foreign currency-denominated revenues of our 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, we "lock 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. 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 resulting from a rising interest rate environment. Conversely, this practice effectively eliminates opportunities to materially increase margins when interest rates are declining.

More specifically, pay fixed-rate and receive variable-rate swaps are typically used in place of more expensive fixed-rate debt. Pay variable-rate and receive variable-rate swaps are used to transform variable-rate medium-term debt into commercial paper or local currency Libor obligations. Additionally, pay variable-rate and receive fixed-rate swaps are used from time to time to transform longer-term fixed-rate debt into commercial paper or Libor-based rate obligations. The transactions performed within each of these three categories enable the cost effective management of interest rate exposures. The potential risk attendant to this strategy is the non-performance of swap counterparties. 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 10 contained in the "Notes to Consolidated Financial Statements" on pages 10-11 of this Quarterly Report, on Form 10-Q, is incorporated by reference in answer to this item.

### 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 (in electronic form only).

Exhibit 3(b) By-Laws of Registrant, as amended through May 29, 1991. Incorporated by reference to Exhibit 3(b)(2) to Registrant's Quarterly Report For the Quarter Ended June 30, 1991.

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 report on Form 8-K dated September 11, 1996 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: November 8, 1996

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



RESTATED CERTIFICATE OF INCORPORATION

of

XEROX CORPORATION

Under Section 807 of the Business Corporation Law

RESTATED CERTIFICATE OF INCORPORATION  
OF  
XEROX CORPORATION

UNDER SECTION 807 OF THE  
BUSINESS CORPORATION LAW

We, the undersigned, PAUL A. ALLAIRE and E. M. FILTER, being respectively the Chairman of the Board and the Secretary of XEROX CORPORATION, DO HEREBY CERTIFY that:

1. The name of the Corporation is "XEROX CORPORATION". The name under which it was formed is "THE HALOID COMPANY".
2. The Certificate of Incorporation was filed in the Office of the Secretary of State of the State of New York on April 18, 1906.
3. This restatement of the Certificate of Incorporation was authorized by a resolution adopted by the Board of Directors of the Corporation at a meeting thereof duly called and held and includes a change in the post office address for service of process authorized by the Board of Directors of the Corporation at the same meeting. The text of the Certificate of Incorporation, as amended heretofore, is hereby restated to read as herein set forth in full:

FIRST: The name of the Corporation is XEROX CORPORATION.

SECOND: The purposes for which it is formed are as follows:

To engage in the invention, development, production, operation, sale or lease of devices, papers and other items, processes, and services, relating to the communications, photographic, printing and image reproduction arts;

To engage in any commercial, mercantile, manufacturing, mining, industrial, importing, exporting or trading business, venture, activity or service or other business, venture, activity or service of a kind or type described in these purposes;

To engage in scientific and technological research and pursuits of every lawful kind and description and to utilize, employ and exploit any and all knowledge resulting therefrom;

To purchase, lease or otherwise acquire, own, hold, sell, mortgage, charge or otherwise dispose of, invest, trade and deal in and with real and personal property of every kind and description.

THIRD: The office of the Corporation is to be located in the City of Rochester, Monroe County, New York.

FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 1,050,000,000 shares of Common Stock, of the par value of \$1.00 each (hereinafter referred to as "Common Stock"), 600,000 shares of Class B Stock of the par value of \$1.00 each (hereinafter referred to as "Class B Stock"), and 22,043,067 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock").

The designations, preferences, privileges and voting powers of each class of stock of the Corporation, and the restrictions and qualifications thereof, shall be as follows:

1. The Cumulative Preferred Stock may be issued from time to time as follows:

(a) The Cumulative Preferred Stock may be issued from time to time as shares of one or more series of Cumulative Preferred Stock and the Board of Directors is expressly authorized, prior to issuance, in the resolution or resolutions providing for the issue of shares in each particular series, to fix the following:

(i) the distinctive serial designation and number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(ii) the annual dividend rate for such series, and the date from which dividends on shares of such series shall be cumulative;

(iii) the redemption provisions and price or prices, if any, for such series, which may consist of a redemption price or scale of redemption prices applicable only to redemption for a sinking fund and the same or a different redemption price or scale of redemption prices applicable to any other redemption;

(iv) the amount or amounts which shall be paid to the holders of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation (but not less than \$1.00 in the case of involuntary liquidation);

(v) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund which shall be applied to the redemption of shares of such series;

(vi) the terms and conditions (with or without limitations), if any, on which shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, including the price or prices or at the rate or rates of conversion or exchange and the terms and conditions of adjustment thereof, if any; and

(vii) the voting rights, if any, in addition to those specified herein, and any other preferences, privileges and restrictions or qualifications of such series.

(b) All shares of Cumulative Preferred Stock, regardless of series, shall be of equal rank with each other and shall be identical with each other in all respects except as provided in or permitted by paragraph (a) of this subdivision 1 and except as provided in paragraph (b) of subdivision 6; and the shares of the Cumulative Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall be cumulative.

(c) In case the stated dividends and the amounts payable on liquidation are not paid in full, the shares of all series of the Cumulative Preferred Stock shall share ratably in the payment of dividends (including accumulations, if any) in accordance with the sums which would be payable on said shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distributions if all sums payable were discharged in full.

2. The holders of the Cumulative Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available for the payment of dividends, cumulative cash dividends at the annual rate for such series (as fixed by the Board of Directors in accordance with subdivision 1 in respect of any series), and no more, payable quarter-yearly, on the first day of January, April, July and October in each year, to shareholders of record on the respective dates, not exceeding forty days preceding such dividend payment dates, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend; provided that if dividends on any shares of the Cumulative Preferred Stock shall be cumulative from a date less than thirty days prior to the first quarter-yearly dividend payment date in respect of such shares, the dividends accrued on such shares to such date shall not be payable on such date but shall be payable on the next following quarter-yearly dividend payment date. The holders of shares of the Cumulative Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision 2.

As provided in paragraph (c) of subdivision 1, no dividend shall be paid upon, or declared or set apart for, any share of Cumulative Preferred Stock of any series for any quarter-yearly dividend period (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) unless at the same time a like proportionate dividend for the same quarter-yearly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Cumulative Preferred Stock of all series then issued and outstanding and entitled to receive the dividend.

3. So long as any shares of the Cumulative Preferred Stock are outstanding, no dividend whatever shall be paid or declared at any time, and no distribution made, on any junior stock (other than in junior stock) nor shall any shares of junior stock be purchased or otherwise acquired for value or redeemed at any time by the Corporation or any subsidiary:

(a) unless all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart; and

(b) unless the Corporation shall have redeemed, retired or purchased all shares of each series of Cumulative Preferred Stock required to have been redeemed, retired or purchased at such time pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1,

provided, however, that the foregoing restrictions in this subdivision 3 shall not apply to the acquisition of any junior stock solely in exchange for, or solely out of the proceeds of sale of, any other junior stock.

Subject to the foregoing provisions of this subdivision 3, and to any further limitations prescribed by the Board of Directors in accordance with subdivision 1, and not otherwise, such dividends (payable in cash, stock or otherwise)

as may be determined by the Board of Directors may be declared and paid on any junior stock from time to time out of any funds of the Corporation legally available therefor, and the Cumulative Preferred Stock shall not be entitled to participate in any such dividends.

4. Subject to the provisions of subdivision 5, the Corporation at its option (expressed by resolution of the Board of Directors) or for the purpose of any sinking fund therefor may (except as otherwise provided by the Board of Directors in accordance with subdivision 1 in respect of any series) redeem the outstanding shares of Cumulative Preferred Stock, or of any one or more series thereof, at any time in whole, or from time to time in part, upon notice duly given as hereinafter specified, at the applicable redemption price or prices for such shares (as fixed in accordance with subdivision 1 in respect of any series), including, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption.

Notice of every such redemption of Cumulative Preferred Stock of any series (a) if all the shares of such series are held of record by not more than ten holders, shall be given by mailing such notice not less than 30 nor more than 60 days prior to the date fixed for such redemption to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation, or (b) if all the shares of such series are held of record by more than ten holders, shall be given by publication at least once in each of two successive calendar weeks in a newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, The City of New York, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for such redemption, and notice of such redemption shall also be mailed not less than 30 nor more than 60 days prior to the date fixed for such redemption, to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation; but, if publication is required, no failure to mail any such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceeding for the redemption of any shares to be redeemed.

In case of redemption of a part only of the Cumulative Preferred Stock of any series at the time outstanding, whether for the sinking fund therefor or otherwise, the redemption may (subject to any provision made by the Board of Directors in accordance with subdivision 1 in respect of any series) be either pro rata or by lot, as determined by the Board of Directors. Subject to the foregoing, the Board of Directors shall have full power and authority to prescribe the manner in which the drawings by lot or the pro rata redemption shall be conducted and, subject to the provisions contained in the Certificate of Incorporation or provided by the Board of Directors in accordance with subdivision 1, the terms and conditions upon which the Cumulative Preferred Stock shall be redeemed from time to time.

If any such notice of redemption shall have been duly given and if, on or before the redemption date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after such redemption date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption thereof without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired.

If any such notice of redemption shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable written

authorization promptly to give or complete such notice, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been deposited by the Corporation with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York, doing business in the Borough of Manhattan, The City of New York, having a capital, surplus, and undivided profits aggregating at least \$5,000,000 according to its last published statement of condition, in trust for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired. Any interest accrued on such funds shall be paid to the Corporation from time to time.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of six years from such redemption date shall be released or repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment thereof; provided that any funds so deposited which shall not be required for redemption because of the exercise of any privilege of conversion or exchange subsequent to the date of deposit shall be repaid to the Corporation forthwith.

None of the shares of Cumulative Preferred Stock of any series redeemed or retired pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1, shall be reissued and all such shares shall, in the manner provided by law, be eliminated from the authorized capital stock of the Corporation. The Corporation shall not be prohibited from reissuing any shares of Cumulative Preferred Stock redeemed or retired (other than for the sinking fund therefor) or converted into or exchanged for stock pursuant to the provisions fixed by the Board of Directors in accordance with subdivision 1, and after such redemption, retirement or conversion of the Corporation may, in the manner provided by law, restore such shares to the status of authorized but unissued shares of Cumulative Preferred Stock undesignated as to series.

5. If and so long as all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall not have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the Corporation shall not redeem (for sinking fund or otherwise) less than all of the Cumulative Preferred Stock at the time outstanding, and neither the Corporation nor any subsidiary shall purchase or otherwise acquire for value (for sinking fund or otherwise) any of the Cumulative Preferred Stock at the time outstanding.

6. Unless the consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least two-thirds of the shares of Cumulative Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Cumulative Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(a) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Cumulative Preferred Stock;

(b) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation which would affect adversely

any right, preference, privilege or voting power of the Cumulative Preferred Stock or of the holders thereof; provided, however, that if any such amendment, alteration or repeal would affect adversely any right, preference, privilege or voting power of one or more, but not all, of the series of Cumulative Preferred Stock at the time outstanding, the consent of the holders of at least two-thirds of the outstanding shares of each such series so affected, similarly given, shall be required in lieu of (or if such consent is required by law, in addition to) the consent of the holders of two-thirds of the shares of the Cumulative Preferred Stock as a class; and

(c) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all the property or business of the Corporation, or the consolidation or merger of the Corporation with or into any other corporation, except any such consolidation or merger wherein none of the rights, preferences, privileges or voting powers of any series of the Cumulative Preferred Stock or the holders thereof are adversely affected.

No consent of the holders of the Cumulative Preferred Stock or of any series thereof which would otherwise be required to permit, effect or validate any action of the Corporation or a subsidiary pursuant to the provisions of this subdivision 6 or pursuant to any provision fixed by the Board of Directors in accordance with subdivision 1 shall be required if, prior to or concurrently with such action, provision shall be made in accordance with the provisions of the fourth paragraph of subdivision 4 for the redemption of all outstanding shares of Cumulative Preferred Stock or all outstanding shares of such series, as the case may be, and all funds necessary for such redemption shall be deposited in trust in accordance with the provisions of such paragraph.

7. Unless and until six quarter-yearly dividends on the Cumulative Preferred Stock of any series shall be in default, in whole or in part, the entire voting power, except as otherwise provided in the Certificate of Incorporation or By-Laws, shall be vested exclusively in the Common Stock in accordance with the provisions of, and except as otherwise expressly provided in, the Certificate of Incorporation. If and whenever six full quarter-yearly dividends (whether or not consecutive) payable on the Cumulative Preferred Stock of any series shall be in arrears, in whole or in part, the number of Directors then constituting the Board of Directors shall be increased by two and the holders of the Cumulative Preferred Stock, voting separately as a class, regardless of series, shall be entitled to elect the two additional directors at any annual meeting of shareholders or special meeting held in place thereof, or at a special meeting of the holders of the Cumulative Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Cumulative Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarter-yearly dividend period shall have been paid or declared and set apart for payment, then the right of the holders of the Cumulative Preferred Stock to elect such additional two Directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends), and the terms of office of all persons elected as Directors by the holders of the Cumulative Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the Cumulative Preferred Stock, the Secretary of the Corporation may, and upon the written request of any holder of the Cumulative Preferred Stock (addressed to the Secretary at the principal office of the Corporation) shall, call a special meeting of the holders of the Cumulative Preferred Stock for the election of the two Directors to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws for a special meeting of the shareholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the Secretary within twenty days after receipt of any such request, then any holder of Cumulative Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Corporation. The Directors elected at any such special

meeting shall hold office until the next annual meeting of the shareholders or special meeting held in place thereof. In case any vacancy shall occur among the Directors elected by the holders of the Cumulative Preferred Stock, a successor shall be elected to serve until the next annual meeting of the shareholders or special meeting held in place thereof by the then remaining Director elected by the holders of the Cumulative Preferred Stock or the successor of such remaining Director.

In any case in which the holders of Cumulative Preferred Stock or any series thereof shall be entitled to vote pursuant to the provisions of the Certificate of Incorporation or pursuant to law, each holder of Cumulative Preferred Stock or of such series, as the case may be, shall be entitled to one vote for each share thereof held.

8. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Cumulative Preferred Stock of each series shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, (i) if such liquidation, dissolution or winding up shall be involuntary, the amount fixed by the Board of Directors in accordance with subdivision 1 but not less than \$1.00, and (ii) if such liquidation, dissolution or winding up shall be voluntary, the amount per share fixed by the Board of Directors in accordance with the provisions of subdivision 1 in the case of any series of Cumulative Preferred Stock, in effect at the time thereof, together with, in each case, all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amounts; and the holders of the junior stock shall be entitled, to the exclusion of the holders of the Cumulative Preferred Stock of any and all series, to share ratably in all the remaining assets of the Corporation in accordance with their respective rights. As provided in paragraph (c) of subdivision 1, if upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the assets available for distribution shall be insufficient to pay the holders of all outstanding shares of Cumulative Preferred Stock the full amounts to which they respectively shall be entitled, the holders of shares of Cumulative Preferred Stock of all series shall share ratably in any distribution of assets in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full. Neither the consolidation or merger of the Corporation with or into any other corporation, nor any sale, lease or conveyance of all or any part of the property or business of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this subdivision 8.

9. Except as otherwise expressly provided in the Certificate of Incorporation and except as otherwise provided by law, voting rights upon any and all matters shall be vested exclusively in the holders of the Common Stock and the Class B Stock (each share of Common Stock and of Class B Stock having one vote).

10. No holder of Common Stock, Cumulative Preferred Stock or Class B Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

11. The holders of Common Stock and of Class B Stock shall possess equal voting rights and rights as to dividends or distributions, and in the event of any liquidation, dissolution or winding up of the Corporation. No dividend, distribution, split-up, combination, reclassification, or other change in the shares of Common Stock shall be made without the same being made with respect to the Class B Stock.

12. For all purposes of the Certificate of Incorporation:

The term "accrued and unpaid dividends" when used with reference to any share of any series of the Cumulative Preferred Stock shall mean an amount computed at the annual

dividend rate for the shares of such series from the date on which dividends on such share became cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid on such share; but no interest shall be payable upon any arrearages.

The term "Certificate of Incorporation" shall mean the certificate of incorporation of the Corporation as amended and supplemented by any certificate heretofore or hereafter filed pursuant to law, including any certificate filed pursuant to law with respect to, and providing for the issue of, any series of Cumulative Preferred Stock.

The term "junior stock", when used with reference to the Cumulative Preferred Stock, shall mean the Common Stock, the Class B Stock and any other stock of the Corporation, now or hereafter authorized, over which the Cumulative Preferred Stock has preference or priority either in the payment of dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation.

The term "sinking fund", as applied to any series of preferred stock, shall mean any fund or requirement for the periodic redemption, retirement or purchase of shares of such series.

The term "stock ranking prior to the Cumulative Preferred Stock" shall mean any stock of the Corporation, now or hereafter authorized, which has preference over the Cumulative Preferred Stock either in the payment of dividends or in any liquidation, dissolution or winding up of the Corporation.

#### THE \$5.45 CUMULATIVE PREFERRED STOCK

13. (a) The distinctive serial designation of the initial series of Cumulative Preferred Stock is "\$5.45 Cumulative Preferred Stock" (the "First Series"); and the aggregate number of shares which shall constitute such series is 8,875,000.

(b) The annual dividend rate for the First Series is \$5.45 per share and the date from and after which dividends on each share of the First Series shall be cumulative is January 11, 1983.

(c) The redemption price for the First Series applicable to redemption for the mandatory and optional sinking fund established by paragraph (e) below shall be \$50 per share and for the voluntary redemptions established by paragraph (f) below as follows for redemptions after the dates indicated:

April 1, 1988	\$52.725
April 1, 1989	\$52.180
April 1, 1990	\$51.635
April 1, 1991	\$51.090
April 1, 1992	\$50.545
April 1, 1993 and thereafter	\$50.000

(d) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the First Series shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, the per share redemption price of \$50 plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amount.

(e) As and for a Sinking Fund for the shares of the First Series, so long as any shares thereof are outstanding, the Corporation shall redeem, on January 1 in each of the years 1993 through 2003, inclusive (hereinafter each called a "Sinking Fund Date"), commencing on January 1, 1993, a number of shares of the First Series equal to, on the Sinking Fund Dates in the years 1993 through 2002, inclusive, 8.18% of the number of shares of the First Series outstanding on January 1, 1993, and, on the Sinking Fund Date in 2003, all shares of the



First Series then remaining outstanding (the Corporation's obligation to redeem such number of shares on any Sinking Fund Date being hereinafter referred to as the "Sinking Fund Obligation" for such date). If the Corporation shall fail to discharge its Sinking Fund Obligation on any Sinking Fund Date for any reason, such Sinking Fund Obligation to the extent not discharged shall become an additional Sinking Fund Obligation on each succeeding Sinking Fund Date until fully discharged, provided that all outstanding shares of the First Series shall be redeemed not later than January 1, 2003. The obligation of the Corporation to redeem shares for the Sinking Fund as aforesaid may, at the election of the Corporation, be reduced and satisfied, in whole or in part, by the number of shares of the First Series theretofore purchased, redeemed or otherwise acquired by the Corporation otherwise than through the operation of the Sinking Fund and not theretofore made the basis for the reduction of a Sinking Fund Obligation.

(f) The Board of Directors of the Corporation at any time and from time to time after April 1, 1988 may redeem all, or any number less than all, of the outstanding shares of the First Series.

(g) The First Series is not convertible into, or exchangeable for, shares of stock of any other class.

#### THE SERIES A CUMULATIVE PREFERRED STOCK

14. (a) The distinctive serial designation of the second series of Cumulative Preferred Stock is "Series A Cumulative Preferred Stock" (hereinafter called "Series A Preferred Stock").

(b) The number of shares constituting the Series A Preferred Stock is 1,500,000 shares.

(c) The quarterly dividend rate for the Series A Preferred Stock is an amount per share (rounded to the nearest cent) equal to the greater of (i) \$10.00 or (ii) subject to the provision for adjustment hereinafter set forth, 100 times the aggregate per share amount of all cash dividends, and 100 times the aggregate per share amount (payable in kind) of all noncash dividends or other distributions other than a dividend payable in shares of Common Stock or Class B Stock or a subdivision of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise), declared on the Common Stock or Class B Stock of the Corporation since the immediately preceding quarterly dividend payment date, or, with respect to the first quarterly dividend payment date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock or Class B Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the amount to which holders of Series A Preferred Stock were entitled immediately prior to such event under clause (ii) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock or Class B Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock or Class B Stock that were outstanding immediately prior to such event.

The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in this paragraph (c) immediately after it declares a dividend or distribution on the Common Stock or Class B Stock; provided that, in the event no dividend or distribution shall have been declared on the Common Stock or Class B Stock during the period between any quarterly dividend payment date and the next subsequent quarterly dividend payment date, a dividend of \$10.00 per share on

the Series A Preferred Stock shall nevertheless be payable on such subsequent quarterly dividend payment date.

Dividends shall begin to accrue and be cumulative on outstanding Series A Preferred Stock from the date of issue of such shares of Series A Preferred Stock.

(d) Except as prescribed by law and in addition to the rights provided for in Section 7 of Article FOURTH of the Certificate of Incorporation of the Corporation and in paragraph (i) of this Section 14, and subject to the provision for adjustment hereinafter set forth, the holders of the Series A Preferred Stock shall be entitled to one vote for each share held and shall be entitled to exercise such voting rights with the holders of Common Stock and Class B Stock, without distinction as to class, at any annual or special meeting of shareholders for the election of directors and on any other matter coming before such meeting.

(e) Any Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued Cumulative Preferred Stock and may be reissued as part of a new series of Cumulative Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

(f) (i) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made to the holders of junior stock unless, prior thereto, the holders of Series A Preferred Stock shall have received the greater of (i) \$100.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, or (ii) an amount per share which shall be determined by (A) dividing (1) the value of the assets of the Corporation available for distribution to shareholders, less the amount to be paid upon liquidation, dissolution, or winding up to the holders of all other series of stock ranking on a parity with the Series A Preferred Stock, by (2) the sum of the number of one-hundredths shares of Series A Preferred Stock outstanding as of the date of such event plus the number of shares of Common Stock and Class B Stock, as adjusted by multiplying such number of shares of Common Stock and Class B Stock outstanding as of the date of such event by the Adjustment Number (as defined below), and (B) multiplying the result obtained in clause (A) by 100, (the "Series A Preferred Stock Liquidation Preference"). Following the payment of the full amount of the Series A Preferred Stock Liquidation Preference, no additional distributions shall be made to the holders of shares of Series A Preferred Stock. Following the payment of the full amount of the Series A Preferred Stock Liquidation Preference in respect of all outstanding shares of Series A Preferred Stock holders of Common Stock and Class B Stock shall receive their ratable and proportionate share of the remaining assets to be distributed, on a per share basis.

(ii) In the event, however, that there are not sufficient assets available to permit payment in full of the Series A Preferred Stock Liquidation Preference and the liquidation preferences of all other series of stock ranking on a parity upon liquidation, dissolution or winding up with the Series A Preferred Stock, then such remaining assets shall be distributed ratably to the holders of the Series A Preferred Stock and such other series of parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon liquidation, dissolution or winding up.

(iii) The Adjustment Number as of the date of this Certificate of Amendment shall be one (1). In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the Adjustment Number in effect immediately prior to such event shall be adjusted by multiplying such Adjustment Number by a fraction, the numerator of which is the number of shares of Common Stock and Class B Stock outstanding immediately prior to such event and the denominator of which is the number of shares of Common Stock and Class B Stock that were outstanding immediately after such event.

(iv) The merger or consolidation of the Corporation with or into any other corporation or the merger or consolidation of any other corporation with or into the Corporation, or the sale, transfer, exchange or conveyance by the Corporation of all or substantially all the assets of the Corporation, as an entirety, shall not be deemed to be a liquidation for purposes of paragraph (f) of this Section 14.

(g) In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock or Class B Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the Series A Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 100 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock or Class B Stock is changed or exchanged. In the event the Corporation shall at any time after April 16, 1987 declare or pay any dividend on Common Stock or Class B Stock payable in shares of Common Stock or Class B Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock or Class B Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock or Class B Stock) into a greater or lesser number of shares of Common Stock or Class B Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock and Class B Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock and Class B Stock that were outstanding immediately prior to such event.

(h) The Series A Preferred Stock shall not be redeemable.

(i) Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in liquidating distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

(j) The Series A Preferred Stock is not convertible into, or exchangeable for, shares of stock of any other class.

#### THE \$4.125 TWENTY-YEAR SINKING FUND PREFERRED STOCK

15. (a) The distinctive serial designation of the third series of Cumulative Preferred Stock is "\$4.125 Twenty-Year Sinking Fund Preferred Stock" (hereinafter called "Twenty-Year Preferred Stock"); and the number of shares constituting the Twenty-Year Preferred Stock is 3,500,000

shares.

(b) The annual dividend rate for the Twenty-Year Preferred Stock is \$4.125 per share. Dividends shall begin to accrue and be cumulative on outstanding Twenty-Year Preferred Stock from the date of original issue of such shares of Twenty-Year Preferred Stock.

(c) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the Twenty-Year Preferred Stock shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, the per share liquidation price of \$50 plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amount.

(d) The Board of Directors of the Corporation at any time and from time to time on or after April 1, 1993 may redeem all, or any number less than all, of the outstanding shares of the Twenty-Year Preferred Stock. The redemption price for the Twenty-Year Preferred Stock applicable to redemption for the voluntary redemptions shall be as follows for redemptions on or after the dates indicated:

April 1, 1993	\$54.125	April 1, 1998	\$52.0625
April 1, 1994	\$53.7125	April 1, 1999	\$51.65
April 1, 1995	\$53.30	April 1, 2000	\$51.2375
April 1, 1996	\$52.8875	April 1, 2001	\$50.825
April 1, 1997	\$52.475	April 1, 2002	\$50.4125
April 1, 2003 and thereafter			\$50.00

(e) As and for a sinking fund for the shares of Twenty-Year Preferred Stock, so long as any shares thereof are outstanding, the Corporation shall redeem, on April 1 in each of the years 1994 through 2008, inclusive (hereinafter each called a "Sinking Fund Date"), commencing on April 1, 1994, a number of shares of the Twenty-Year Preferred Stock equal to, on the Sinking Fund Dates in the years 1994 through 2008, inclusive, 6 2/3% of the number of shares of the Twenty-Year Preferred Stock originally issued prior to April 1, 1993, and, on the Sinking Fund Date in 2008, all shares of the Twenty-Year Preferred Stock remaining outstanding (the Corporation's obligation to redeem such number of shares on any Sinking Fund Date being referred to as the "Sinking Fund Obligation" for such date). The Corporation shall have the option on any Sinking Fund Date to increase any sinking fund payment by an amount not exceeding 100% of such sinking fund payment. If the Corporation shall fail to discharge its Sinking Fund Obligation on any Sinking Fund Date for any reason, such Sinking Fund Obligation to the extent not discharged shall become an additional Sinking Fund Obligation on each succeeding Sinking Fund Date until fully discharged, provided that all outstanding shares of the Twenty-Year Preferred Stock shall be redeemed not later than April 1, 2008. The obligation of the Corporation to redeem shares for the Sinking Fund as aforesaid may, at the election of the Corporation, be reduced and satisfied, in whole or in part, by the number of shares of the Twenty-Year Preferred Stock theretofore purchased, redeemed or otherwise acquired by the Corporation otherwise than through the operation of the Sinking Fund and not theretofore made the basis for the reduction of a Sinking Fund Obligation. The redemption price which shall be applicable for the purposes of this paragraph (e) shall be \$50 per share. No shares of Twenty-Year Preferred Stock shall be issued after March 31, 1993.

(f) The Twenty-Year Preferred Stock is not convertible into, or exchangeable for, shares of stock of any other class.

#### THE \$3.6875 TEN-YEAR SINKING FUND PREFERRED STOCK

16. (a) The distinctive serial designation of the fourth series of Cumulative Preferred Stock is "\$3.6875 Ten-Year Sinking Fund Preferred Stock" (hereinafter called "Ten-

Year Preferred Stock"); and the number of shares constituting the Ten-Year Preferred Stock is 2,500,000 shares.

(b) The annual dividend rate for the Ten-Year Preferred Stock is \$3.6875 per share. Dividends shall begin to accrue and be cumulative on outstanding Ten-Year Preferred Stock from the date of original issue of such shares of Ten-Year Preferred Stock.

(c) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holders of the Ten-Year Preferred Stock shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, the per share liquidation price of \$50 plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amount.

(d) The Ten-Year Preferred Stock is not redeemable at the option of the Corporation, except pursuant to paragraph (e) of this Section 16.

(e) As and for a Sinking Fund for the shares of Ten-Year Preferred Stock, so long as any shares thereof are outstanding, the Corporation shall redeem, on April 1 in each of the years 1994 through 1998, inclusive (hereinafter each called a "Sinking Fund Date"), commencing on April 1, 1994, a number of shares of the Ten-Year Preferred Stock equal to, on the Sinking Fund Dates in the years 1994 through 1998, inclusive, 20% of the number of shares of the Ten-Year Preferred Stock originally issued prior to April 1, 1994 and, on the Sinking Fund Date in 1998, all shares of the Ten-Year Preferred Stock remaining outstanding (the Corporation's obligation to redeem such number of shares on any Sinking Fund Date being referred to as the "Sinking Fund Obligation" for such date). The Corporation shall have the option on any Sinking Fund Date to increase any sinking fund payment by an amount not exceeding 100% of such sinking fund payment. If the Corporation shall fail to discharge its Sinking Fund Obligation on any Sinking Fund Date for any reason, such Sinking Fund Obligation to the extent not discharged shall become an additional Sinking Fund Obligation on each succeeding Sinking Fund Date until fully discharged, provided that all outstanding shares of the Ten-Year Preferred Stock shall be redeemed not later than April 1, 1998. The obligation of the Corporation to redeem shares for the Sinking Fund as aforesaid may, at the election of the Corporation, be reduced and satisfied, in whole or in part, by the number of shares of the Ten-Year Preferred Stock theretofore purchased, redeemed or otherwise acquired by the Corporation otherwise than through the operation of the Sinking Fund and not theretofore made the basis for the reduction of a Sinking Fund Obligation. The redemption price which shall be applicable for the purposes of this paragraph (e) shall be \$50 per share. No shares of Ten-Year Preferred Stock shall be issued after March 31, 1994.

(f) The Ten-Year Preferred Stock is not convertible into, or exchangeable for, shares stock of any other class.

#### THE SERIES B CONVERTIBLE PREFERRED STOCK

17. (a) The distinctive serial designation of the fifth series of Cumulative Preferred Stock is "Series B Convertible Preferred Stock" (hereinafter called "Series B Preferred Stock"); and the number of shares constituting the Series B Preferred Stock is 10,032,000 shares. Each share of Series B Preferred Stock shall have a stated value of \$78.25 per share.

(b) Shares of Series B Preferred Stock shall be issued only to the Trustee of the Employee Stock Ownership Plan of the Corporation, as amended from time to time, or any successor to such plan (the "Plan"). All references to the holder of Series B Preferred Stock shall mean the

Trustee or any company with which or into which the Trustee may merge or any successor trustee under the trust agreement with respect to the Plan. In the event of any transfer of record ownership of Series B Preferred Stock to any person other than any successor trustee under the Plan, the shares of Series B Preferred Stock so transferred, upon such transfer and without any further action by the Corporation or the holder thereof, shall be automatically converted into shares of Common Stock on the terms provided for the conversion of shares of Series B Preferred Stock into shares of Common Stock pursuant to subsection (f) of this subdivision 17 and no such transferee shall have any of the voting powers, preferences and relative, participating, optional or special rights ascribed to the Series B Preferred Stock hereunder but, rather, only the powers and rights pertaining to the Common Stock into which such Series B Preferred Stock shall be so converted. In the event of such a conversion, the transferee of the Series B Preferred Stock shall be treated for all purposes as the record holder of the Common Stock into which such Series B Preferred Stock has been automatically converted as of the date of such transfer. Certificates representing Series B Preferred Stock shall bear a legend to reflect the foregoing provisions. Notwithstanding the foregoing provisions of this subsection, shares of Series B Preferred Stock (i) may be converted into shares of Common Stock as provided herein and the shares of Common Stock issued upon such conversion may be transferred by the holder thereof as permitted by law and (ii) shall be redeemable by the Corporation upon the terms and conditions provided by subsections (g), (h) and (i) of this subdivision 17.

(c) Subject to the provisions for adjustment hereinafter set forth, the annual dividend rate for the Series B Preferred Stock is \$6.25 per share. Dividends on the Series B Preferred Stock shall begin to accrue and be cumulative on outstanding Series B Preferred Stock from the date of original issuance of such shares of Series B Preferred Stock. Series B Preferred Dividends shall accrue on a daily basis whether or not the Corporation shall have earnings or surplus at the time.

(d) Except as prescribed by law and in addition to the rights provided for in subdivision 7 of Article FOURTH of the Certificate of Incorporation, the holder of the Series B Preferred Stock shall be entitled to one vote for each share held and shall be entitled to exercise such voting rights with the holders of Common Stock and Class B Stock, without distinction as to class, at any annual or special meeting of shareholders for the election of directors and on any other matter coming before such meeting.

(e) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, the holder of Series B Preferred Stock shall be entitled to receive out of assets of the Corporation, before any distribution shall be made to the holders of any junior stock the per share liquidation price of \$78.25 plus an amount equal to all accrued and unpaid dividends thereon to the date fixed for payments of such distribution amount. Neither the merger or consolidation of the Corporation with or into any other corporation, nor the merger or consolidation of any other corporation with or into the Corporation, nor the sale, lease, exchange or other transfer of all or any portion of the assets of the Corporation, shall be deemed to be a dissolution, liquidation or winding up of the affairs of the Corporation for purposes of this subsection (e), but the holder of Series B Preferred Stock shall nevertheless be entitled in the event of any such merger or consolidation to the rights provided by subsection (h) hereof.

(f) (i) A holder of shares of Series B Preferred Stock shall be entitled, at any time prior to the close of business on the date fixed for redemption of such shares pursuant to subsections (g), (h) and (i) of this subdivision 17, to cause any or all of such shares to be converted into shares of Common Stock,

initially at a conversion price equal to \$78.25 per share of Common Stock, with each share of Series B Preferred Stock being valued at \$78.25 for such purpose, which price shall be adjusted as hereinafter provided (and, as so adjusted, is hereinafter sometimes referred to as the "Conversion Price"). The conversion rate initially shall be equivalent to one (1) share of Common Stock for each share of Series B Preferred Stock so converted, and shall be subject to adjustment as the Conversion Price is adjusted as hereinafter provided in subsection (i) of this subdivision 17.

(ii) Any holder of shares of Series B Preferred Stock desiring to convert such shares into shares of Common Stock shall surrender the certificate or certificates representing the shares of Series B Preferred Stock being converted, duly assigned or endorsed for transfer to the Corporation (or accompanied by duly executed stock powers relating thereto), and accompanied by written notice of conversion, at the principal executive office of the Corporation or the offices of the transfer agent for the Series B Preferred Stock or such office or offices in the continental United States of an agent for conversion as may from time to time be designated by notice to the holder of the Series B Preferred Stock by the Corporation or the transfer agent for the Series B Preferred Stock. Such notice of conversion shall specify (i) the number of shares of Series B Preferred Stock to be converted and the name or names in which such holder wishes the certificate or certificates for Common Stock and for any shares of Series B Preferred Stock not to be so converted to be issued and (ii) the address to which such holder wishes delivery to be made of such new certificates to be issued upon such conversion.

(iii) Upon surrender of a certificate representing a share or shares of Series B Preferred Stock for conversion, the Corporation shall issue and send by hand delivery or, at its option, by first class mail (postage prepaid) to the holder thereof or to such holder's designee, at the address designated by such holder, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled upon conversion. In the event that there shall have been surrendered a certificate or certificates representing Series B Preferred Stock, only part of which are to be converted, the Corporation shall issue and send to such holder or such holder's designee, in the manner set forth in the preceding sentence, a new certificate or certificates representing the number of shares of Series B Preferred Stock which shall not have been converted.

(iv) The issuance by the Corporation of shares of Common Stock upon a conversion of shares of Series B Preferred Stock into shares of Common Stock made at the option of the holder thereof shall be effective as of the earlier of (1) the delivery to such holder or such holder's designee of the certificates representing the shares of Common Stock issued upon conversion thereof or (2) the commencement of business on the second Business Day after the proper surrender of the certificate or certificates for the Series B Preferred Stock to be converted, as provided in subsection (f)(iii) above. On and after the effective date of conversion, the person or persons entitled to receive the Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock, but no allowance or adjustment shall be made in respect of dividends payable to holders of record of Common Stock in respect of any period prior to such effective date. The Corporation shall not be obligated to pay any dividends which shall have been declared prior to the effective date of conversion and shall be payable to holders of shares of Series B Preferred Stock subsequent to the effective date of

conversion of such shares.

(v) The Corporation shall not be obligated to deliver to holders of Series B Preferred Stock any fractional share of Common Stock issuable upon any conversion of such Series B Preferred Stock, but in lieu thereof may make a cash payment in respect thereof in any manner permitted by law.

(vi) The Corporation shall at all times reserve and keep available out of its authorized and unissued Common Stock, solely for issuance upon the conversion of Series B Preferred Stock as herein provided such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the Series B Preferred Stock then outstanding. Nothing contained herein shall preclude the Corporation from issuing shares of Common Stock held in its treasury upon the conversion of shares of Series B Preferred Stock into Common Stock pursuant to the terms hereof.

(g) (i) The Board of Directors of the Corporation at any time and from time to time on or after July 10, 1994 may redeem all, or any number less than all, of the outstanding shares of the Series B Preferred Stock. The redemption price per share for the Series B Preferred Stock applicable for redemptions on or after the dates indicated below shall be as follows, plus accrued and unpaid dividends to the date fixed for redemption:

July 10, 1994	81.375
July 10, 1995	80.750
July 10, 1996	80.125
July 10, 1997	79.500
July 10, 1998	78.875
July 10, 1999 and thereafter	78.250

Payment of the redemption price shall be made by the Corporation in cash or shares of Common Stock, or a combination thereof, as permitted by subsection (v) of subsection (g) of this subdivision 17.

(ii) In the event of a change in any statute, rule or regulation of the United States of America or any administrative or judicial interpretation thereof which (1) has the effect of limiting or making unavailable to the Corporation all or any of the tax deductions for amounts paid (including dividends) on the Series B Preferred Stock when such amounts are used as provided under Section 404(k)(2) of the Internal Revenue Code of 1986, as amended, (other than for purposes of determining alternative minimum tax) and in effect on the date shares of Series B Preferred Stock are initially issued, or (2) relates to any aspect or qualification of the Plan which increases by 20% or more the Corporation's cost of maintaining the Plan, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in this subsection (g), elect to redeem any or all of such Series B Preferred Stock at a redemption price per share equal to the higher of (1) \$78.25 and (2) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of the shares of Common Stock which would be issuable upon the conversion of the shares of Series B Preferred Stock being redeemed, plus in each case, accrued and unpaid dividends to the date fixed for redemption. The Corporation shall have the right to elect to redeem shares of Series B Preferred Stock pursuant to this subparagraph (ii) at any time prior to the last day of the sixth month following the latest of: (1) the date of the enactment of any such statute, rule, regulation or judicial or administrative interpretation, (2) the effective date of any such statute, rule, regulation or judicial or administrative interpretation, or (3) in the case of any judicial or administrative proceeding in which the Corporation contests in good faith the applicability of any such statute, rule, regulation or interpretation to the Corporation, the date of the



final determination of applicability.

(iii) In the event that shares of Series B Preferred Stock are held by the trustee under an employee benefit plan intended to qualify as an employee stock ownership plan within the meaning of Section 4975 of the Internal Revenue Code of 1986, as amended, and such plan does not so qualify, the Corporation may, in its sole discretion and notwithstanding anything to the contrary in subsection (g), elect to redeem any or all of such shares of Series B Preferred Stock at a redemption price per share equal to the higher of (1) \$78.25 and (2) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of the shares of Common Stock which would be issuable upon the conversion of the shares of Series B Preferred Stock being redeemed, plus in each case, accrued and unpaid dividends to the date fixed for redemption.

(v) The Corporation may make payment of the redemption price upon any redemption hereunder required upon redemption of Series B Preferred Stock in cash or in a combination of one share of Common Stock for each share of Series B Preferred Stock redeemed and cash, any such shares of Common Stock to be valued for such purposes at their Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof).

(vi) Notwithstanding anything to the contrary in this subsection (g), at any time and from time to time upon notice to the Corporation given not less than five (5) Business Days prior to the date fixed by the holder in such notice for such redemption, upon certification by such holder to the Corporation that such redemption is necessary for such holder to provide for distributions required to be made to participants under, or to satisfy an investment election provided to participants in accordance with, the Plan, shares of Series B Preferred Stock shall be redeemed by the Corporation at a redemption price per share equal to the higher of (1) \$78.25 and (2) the Fair Market Value (as defined in subparagraph (viii) of subsection (1) hereof) of the shares of Common Stock which would be issuable upon conversion of the shares of Series B Preferred Stock being redeemed, plus in each case, accrued and unpaid dividends to the date fixed for redemption.

(vii) In the event that the Plan is terminated in accordance with its terms, and notwithstanding anything to the contrary in this subsection (g), any or all shares of Series B Preferred Stock may be redeemed by the Corporation, as soon thereafter as practicable, at a redemption price equal to the greater of: (1) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of the shares of Common Stock which would be issuable upon conversion of the shares of Series B Preferred Stock being redeemed or (2) the following redemption prices per share, plus in each case, accrued and unpaid dividends to the date fixed for redemption:

During the Twelve-Month Period Beginning July 10	Price Per Share
1989	\$84.500
1990	83.875
1991	83.250
1992	82.625
1993	82.000
1994	81.375
1995	80.750
1996	80.125
1997	79.500
1998	78.875
1999 and thereafter	78.250

(h) (i) In the event the Corporation shall enter into any agreement providing for any consolidation or

merger or similar business combination described in subparagraph (iii) of this subsection (h), then the Corporation shall as soon as practicable thereafter (and in any event at least ten (10) Business Days before consummation of such transaction) give notice of such agreement and the material terms thereof to each holder of shares of Series B Preferred Stock and each such holder shall have the right to elect, by written notice to the Corporation, to receive, upon consummation of such transaction (if and when such transaction is consummated), from the Corporation or the successor of the Corporation, in redemption and retirement of such Series B Preferred Stock, a cash payment per share equal to the following amount per share, plus accrued and unpaid dividends to the date fixed for redemption:

During the Twelve-Month Period Beginning July 10	Price Per Share
1989	\$84.500
1990	83.875
1991	83.250
1992	82.625
1993	82.000
1994	81.375
1995	80.750
1996	80.125
1997	79.500
1998	78.875
1999 and thereafter	78.250

No such notice of redemption shall be effective unless given to the Corporation prior to the close of business on the second Business Day prior to consummation of such transaction, unless the Corporation or the successor of the Corporation shall waive such prior notice, but any notice of redemption so given prior to such time may be withdrawn by notice of withdrawal given to the Corporation prior to the close of business on the second Business Day prior to consummation of such transaction.

(ii) In the event that the Corporation shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged solely for or changed, reclassified or converted solely into stock of any successor or resulting corporation (including the Corporation) that constitutes "qualifying employer securities" with respect to a holder of Series B Preferred Stock within the meaning of Section 409(1) of the Internal Revenue Code of 1986, as amended, and Section 407(d)(5) of the Employee Retirement Income Security Act of 1974, as amended, or any successor provisions of law, and, if applicable, for a cash payment in lieu of fractional shares, if any, the shares of Series B Preferred Stock of such holder shall, in connection with such consolidation, merger or similar business combination, be assumed by and shall become preferred stock of such successor or resulting corporation, having in respect of such corporation, insofar as possible, the same powers, preferences and relative, participating, optional or other special rights (including the redemption rights provided by subsections (f), (g) and (h) hereof), and the qualifications, limitations or restrictions thereon, that the Series B Preferred Stock had immediately prior to such transaction, except that after such transaction each share of Series B Preferred Stock shall be convertible, otherwise on the terms and conditions provided by subsection (f) hereof, into the number and kind of qualifying employer securities so receivable by a holder of the number of shares of Common Stock into which such Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that, at the election of the Trustee in lieu of the Series B Preferred Stock becoming preferred stock of such successor or

resulting corporation, if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holder of the Series B Preferred Stock, then the shares of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election to receive any kind or amount of stock, securities, cash or other property (other than such qualifying employer securities and a cash payment, if applicable, in lieu of fractional shares) receivable upon such transaction (provided that, if the kind or amount of qualifying employer securities receivable upon such transaction is not the same for each non-electing share, then the kind and amount so receivable upon such transaction for each share of Series B Preferred Stock shall be the kind and amount so receivable per share by the plurality of the non-electing shares). The rights of the Series B Preferred Stock as preferred stock of such successor or resulting corporation shall successively be subject to adjustments pursuant to subsection (i) hereof after any such transaction as nearly equivalent as practicable to the adjustment provided for by such section prior to such transaction. The Corporation shall not consummate any such merger, consolidation or similar transaction unless all then outstanding Series B Preferred Stock shall be assumed and authorized by the successor or resulting corporation as aforesaid.

(iii) In the event that the Corporation shall consummate any consolidation or merger or similar business combination, pursuant to which the outstanding shares of Common Stock are by operation of law exchanged for or changed, reclassified or converted into other stock or securities or cash or any other property, or any combination thereof, other than any such consideration which is constituted solely of qualifying employer securities (as referred to in subparagraph (ii) of this subsection (h)) and cash payments, if applicable, in lieu of fractional shares, outstanding shares of Series B Preferred Stock shall, without any action on the part of the Corporation or any holder thereof (but subject to subparagraph (i) of this subsection (h)) be automatically converted by virtue of such merger, consolidation or similar transaction into the number of shares of Common Stock into which such Series B Preferred Stock could have been converted immediately prior to such consummation so that each share of Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in like kind) receivable by a holder of the number of shares of Common Stock into which such Series B Preferred Stock could have been converted immediately prior to such transaction; provided, however, that if by virtue of the structure of such transaction, a holder of Common Stock is required to make an election with respect to the nature and kind of consideration to be received in such transaction, which election cannot practicably be made by the holder of the Series B Preferred Stock, then the Series B Preferred Stock shall, by virtue of such transaction and on the same terms as apply to the holders of Common Stock, be converted into or exchanged for the aggregate amount of stock, securities, cash or other property (payable in kind) receivable by a holder of the number of shares of Common Stock into which such shares of

Series B Preferred Stock could have been converted immediately prior to such transaction if such holder of Common Stock failed to exercise any rights of election as to the kind or amount of stock, securities, cash or other property receivable upon such transaction (provided that, if the kind or amount of stock, securities, cash or other property receivable upon such transaction is not the same for each non-electing share, then the kind and amount of stock, securities, cash or other property receivable upon such transaction for each non-electing share of Series B Preferred Stock shall be the kind and amount so receivable per share by a plurality of the non-electing shares).

(i) (i) In the event the Corporation shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, (i) pay a dividend or make a distribution in respect of the Common Stock in shares of Common Stock, (ii) subdivide the outstanding shares of Common Stock, or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, in each case whether by reclassification of shares, recapitalization of the Corporation (including a recapitalization effected by a merger or consolidation to which subsection (h) hereof does not apply) or otherwise, subject to subparagraphs (v) and (vi) of this subsection (i), the Conversion Price in effect immediately prior to such action shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately before such event, and the denominator of which is the number of shares of Common Stock outstanding immediately after such event. An adjustment made pursuant to this subparagraph shall be given effect, upon payment of such a dividend or distribution, as of the record date for the determination of shareholders entitled to receive such dividend or distribution (on a retroactive basis) and in the case of a subdivision or combination shall become effective immediately as of the effective date thereof.

(ii) In the event that the Corporation shall, at any time or from time to time while any of the shares of Series B Preferred Stock are outstanding, issue to holders of shares of Common Stock as a dividend or distribution, including by way of a reclassification of shares or a recapitalization of the Corporation, any right or warrant to purchase shares of Common Stock (but not including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock or any right or warrant, if any are issued to the holder of shares of Series B Preferred Stock as though converted into such Common Stock) at a purchase price per share less than the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock on the date of issuance of such right or warrant, then, subject to the provisions of subparagraphs (v) and (vi) of this subsection (i), the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the number of shares of Common Stock which could be purchased at the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock at the time of such issuance for the maximum aggregate consideration payable upon exercise in full of all such rights or warrants, and the denominator of which shall be the number of shares of Common Stock outstanding immediately before such issuance of rights or warrants plus the maximum number of shares of Common Stock that could be acquired upon exercise in full of all such rights and warrants.

(iii) In the event the Corporation shall, at any time or from time to time while any shares of

Series B Preferred Stock are outstanding, issue, sell or exchange shares of Common Stock (other than pursuant to any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock) and other than pursuant to any employee or director incentive or benefit plan or arrangement, including any employment, severance or consulting agreement, of the Corporation or any subsidiary of the Corporation heretofore or hereafter adopted) for a consideration having a Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof), on the date of such issuance, sale or exchange, less than the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of such shares of Common Stock on the date of issuance, sale or exchange, then, subject to the provisions of subparagraphs (v) and (vi) of this subsection (i), the Conversion Price shall be adjusted by multiplying such Conversion Price by the fraction the numerator of which shall be the sum of (1) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (2) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of the consideration received by the Corporation in respect of such issuance, sale or exchange of shares of Common Stock, and the denominator of which shall be the product of (a) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (b) the sum of the number of shares of Common Stock outstanding on such day plus the number of shares of Common Stock so issued, sold or exchanged by the Corporation. In the event the Corporation shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, issue, sell or exchange any right or warrant to purchase or acquire shares of Common Stock (including as such a right or warrant any security convertible into or exchangeable for shares of Common Stock), other than any such issuance to holders of shares of Common Stock as a dividend or distribution (including by way of a reclassification of shares or a recapitalization of the Corporation) and other than pursuant to any employee or director incentive or benefit plan or arrangement (including any employment, severance or consulting agreement) of the Corporation or any subsidiary of the Corporation heretofore or hereafter adopted, for a consideration having a Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof), on the date of such issuance, sale or exchange, less than the Non-Dilutive Amount (as hereinafter defined), then, subject to the provisions of subparagraphs (v) and (vi) of this subsection (i), the Conversion Price shall be adjusted by multiplying such Conversion Price by a fraction the numerator of which shall be the sum of (I) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of all the shares of Common Stock outstanding on the day immediately preceding the first public announcement of such issuance, sale or exchange plus (II) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of the consideration received by the Corporation in respect of such issuance, sale or exchange of such right or warrant plus (III) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) at the time of such issuance of the consideration which the Corporation would receive upon exercise in full of all such rights or warrants, and the denominator of which shall be the product of (i) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock on the day immediately preceding the first public announcement of such issuance, sale or exchange multiplied by (ii)

the sum of the number of shares of Common Stock outstanding on such day plus the maximum number of shares of Common Stock which could be acquired pursuant to such right or warrant at the time of the issuance, sale or exchange of such right or warrant (assuming shares of Common Stock could be acquired pursuant to such right or warrant at such time).

(iv) (A) In the event the Corporation shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, make an Extraordinary Distribution (as hereinafter defined) in respect of the Common Stock, whether by dividend, distribution, reclassification of shares or recapitalization of the Corporation (including a recapitalization or reclassification effected by a merger or consolidation to which subsection (h) hereof does not apply), the Conversion Price in effect immediately prior to such Extraordinary Distribution shall, subject to subparagraphs (v) and (vi) of this subsection (i), be adjusted by multiplying such Conversion Price by a fraction the numerator of which is the difference between (1) the product of (x) the number of shares of Common Stock outstanding immediately before such Extraordinary Distribution multiplied by (y) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, and (2) the Fair Market Value of the Extraordinary Distribution (as defined in subparagraph (vii) of subsection (i) hereof) minus the aggregate amount of regularly scheduled quarterly dividends declared by the Board of Directors of the Corporation and paid by the Corporation in the twelve months immediately preceding such Extraordinary Distribution, and the denominator of which shall be the product of (a) the number of shares of Common Stock outstanding immediately before such Extraordinary Dividend multiplied by (b) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) a share of Common Stock on the day before the ex-dividend date with respect to an Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash. The Corporation shall send each holder of Series B Preferred Stock notice of its intent to make any such dividend or distribution in each case at the same time as, or as soon as practicable after, such offer is first communicated to holders of Common Stock. Such notice shall indicate the intended record date and the amount and nature of such dividend or distribution, as well as the Conversion Price and the number of shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(B) In the event the Corporation shall, at any time or from time to time while any shares of Series B Preferred Stock are outstanding, effect a Pro Rata Repurchase (as hereinafter defined) of Common Stock, the Conversion Price in effect immediately prior to such Pro Rata Repurchase shall, subject to subparagraphs (v) and (vi) of this subsection (i), be adjusted by multiplying such Conversion Price by a fraction, the numerator of which is the difference between (1) the product of (x) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase multiplied by (y) the Fair Market Value (as defined in subparagraph (vii)

of subsection (i) hereof) of a share of Common Stock on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase, or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer, as the case may be, and (2) the aggregate purchase price of the Pro Rata Repurchase, and the denominator of which shall be the product of (a) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase minus the number of shares of Common Stock repurchased by the Corporation multiplied by (b) the Fair Market Value (as defined in subparagraph (vii) of subsection (i) hereof) of a share of Common Stock on the applicable expiration date (including all extensions thereof) of any tender offer which is a Pro Rata Repurchase or on the date of purchase with respect to any Pro Rata Repurchase which is not a tender offer. The Corporation shall send each holder of Series B Preferred Stock notice of any offer by the Corporation to make a Pro Rata Repurchase at the same time as, or as soon as practicable after, such offer is first communicated to holders of Common Stock. Such notice shall indicate the number of shares subject to such offer for a Pro Rata Repurchase and the purchase price payable by the Corporation pursuant to such offer, as well as the Conversion Price and the number of Shares of Common Stock into which a share of Series B Preferred Stock may be converted at such time.

(v) Notwithstanding any other provisions of this subsection (i), the Corporation shall not be required to make any adjustment to the Conversion Price unless such adjustment would require an increase or decrease of at least one percent (1%) in the Conversion Price. Any lesser adjustment shall be carried forward and shall be made no later than the time of, and together with, the next subsequent adjustment which, together with any adjustment or adjustments so carried forward, shall amount to an increase or decrease of at least one percent (1%) in the Conversion Price.

(vi) If the Corporation shall make any dividend or distribution on the Common Stock or issue any Common Stock, other capital stock or other security of the Corporation or any rights or warrants to purchase or acquire any such security, which transaction does not result in an adjustment to the Conversion Price pursuant to the foregoing provisions of this subsection (i), the Board of Directors of the Corporation shall consider whether such action is of such a nature that an adjustment to the Conversion Price should equitably be made in respect of such transaction. If in such case the Board of Directors of the Corporation determines that an adjustment to the Conversion Price should be made, an adjustment shall be made effective as of such date, as determined by the Board of Directors of the Corporation, which adjustment shall in no event adversely effect the powers, preferences and special rights of the Series B Preferred Stock as set forth herein. The determination of the Board of Directors of the Corporation as to whether an adjustment to the Conversion Price should be made pursuant to the foregoing provisions of this subparagraph (vi), and, if so, as to what adjustment should be made and when, shall be final and binding on the Corporation and all shareholders of the Corporation. The Corporation shall be entitled to make such additional adjustments in the Conversion Price, in addition to those required by the foregoing provisions of this subsection (i), as shall be necessary in order that any dividend or distribution in shares of capital stock of the Corporation, subdivision, reclassification or combination of shares of stock of the Corporation or any recapitalization of the

Corporation shall not be taxable to the holders of the Common Stock.

(vii) For purposes of this subdivision 17, the following definitions shall apply:

"Adjustment Period" shall mean the period of five (5) consecutive trading days ending on the day immediately preceding the date on which the Fair Market Value or Current Market Price of a Security is to be determined.

"Business Day" shall mean each day that is not a Saturday, Sunday or a day on which state or federally chartered banking institutions in New York, New York are not required to be open.

"Current Market Price" of publicly traded shares of Common Stock or any other class of capital stock or other security of the Corporation or any other issuer for any day shall mean (i) for purposes of subsections (f) and (g) hereof, the mean between the highest and lowest reported sales price on such day and (ii) for all other purposes hereof, the last reported sales price, regular way, or, in the event that no sale takes place on such day, the average of the reported closing bid and asked prices, regular way, in either case as reported on the New York Stock Exchange Composite Tape or, if such security is not listed or admitted to trading on the New York Stock Exchange, on the principal national securities exchange on which such security is listed or admitted to trading or, if not listed or admitted to trading on any national securities exchange, on the NASDAQ National Market System or, if such security is not quoted on such National Market System, the average of the closing bid and asked prices on each such day in the over-the-counter market as reported by NASDAQ or, if bid and asked prices for such security on each such day shall not have been reported through NASDAQ, the average of the bid and asked prices for such day as furnished by any New York Stock Exchange member firm regularly making a market in such security selected for such purpose by the Board of Directors of the Corporation or a committee thereof, in each case, on each trading day during the Adjustment Period.

"Extraordinary Distribution" shall mean any dividend or other distribution to holders of Common Stock (effected while any shares of Series B Preferred Stock are outstanding) (i) of cash, where the aggregate amount of such cash dividend or distribution together with the amount of all cash dividends and distributions made during the preceding period of 12 months, when combined with the aggregate amount of all Pro Rata Repurchases (for this purpose, including only that portion of the aggregate purchase price of such Pro Rata Repurchase which is in excess of the Fair Market Value of the Common Stock repurchased as determined on the applicable expiration date (including all extensions thereof) of any tender offer or exchange offer which is a Pro Rata Repurchase, or the date of purchase with respect to any other Pro Rata Repurchase which is not a tender offer or exchange offer made during such period), exceeds twelve percent (12%) of the aggregate Fair Market Value of all shares of Common Stock outstanding on the day before the ex-dividend date with respect to such Extraordinary Distribution which is paid in cash and on the distribution date with respect to an Extraordinary Distribution which is paid other than in cash, and/or (ii) of any shares of capital stock of the Corporation (other than shares of Common Stock), other securities of the Corporation (other than securities of the type referred to in subparagraph (ii) or (iii) of this subsection (i), evidences of indebtedness of the Corporation or any other person or any other property (including shares of any subsidiary of the Corporation) or any combination thereof. The Fair



Market Value of an Extraordinary Distribution for purposes of subparagraph (iv) of this subsection (i) shall be equal to the sum of the Fair Market Value of the dividend or other distribution to holders referred to in (i) and (ii) above, plus the amount of any cash dividends which are not Extraordinary Distributions made during such 12-month period and not previously included in the calculation of an adjustment pursuant to subparagraph (iv) of this subsection (i).

"Fair Market Value" shall mean, as to shares of Common Stock or any other class of capital stock or securities of the Corporation or any other issuer which are publicly traded, (i) for purposes of subsections (f) and (g) hereof, the Current Market Price on the date as of which the Fair Market Value is to be determined, and (ii) for all other purposes hereof, the average of the Current Market Prices of such shares or securities for each day of the Adjustment Period. The "Fair Market Value" of any security which is not publicly traded or of any other property shall mean the fair value thereof as determined by an independent investment banking or appraisal firm experienced in the valuation of such securities or property selected in good faith by the Board of Directors of the Corporation or a committee thereof, or, if no such investment banking or appraisal firm is in the good faith judgment of the Board of Directors or such committee available to make such determination, as determined in good faith by the Board of Directors of the Corporation or such committee.

"Non-Dilutive Amount" in respect of an issuance, sale or exchange by the Corporation of any right or warrant to purchase or acquire shares of Common Stock (including any security convertible into or exchangeable for shares of Common Stock) shall mean the difference between (i) the product of the Fair Market Value of a share of Common Stock on the day preceding the first public announcement of such issuance, sale or exchange multiplied by the maximum number of shares of Common Stock which could be acquired on such date upon the exercise in full of such rights and warrants (including upon the conversion or exchange of all such convertible or exchangeable securities), whether or not exercisable (or convertible or exchangeable) at such date, and (ii) the aggregate amount payable pursuant to such right or warrant to purchase or acquire such maximum number of shares of Common Stock; provided, however, that in no event shall the Non-Dilutive Amount be less than zero. For purposes of the foregoing sentence, in the case of a security convertible into or exchangeable for shares of Common Stock, the amount payable pursuant to a right or warrant to purchase or acquire shares of Common Stock shall be the Fair Market Value of such security on the date of the issuance, sale or exchange of such security by the Corporation.

"Pro Rata Repurchase" shall mean any purchase of shares of Common Stock by the Corporation or any subsidiary thereof, whether for cash, shares of capital stock of the Corporation, other securities of the Corporation, evidences of indebtedness of the Corporation or any other person or any other property (including shares of a subsidiary of the Corporation), or any combination thereof, effected while any shares of Series B Preferred Stock are outstanding, pursuant to any tender offer or exchange offer subject to Section 13(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any successor provision of law, or pursuant to any other offer available to substantially all holders of Common Stock; provided, however, that no purchase of shares by the Corporation or any subsidiary thereof made (1) pursuant to the "Dutch auction" self-tender offer announced by the Corporation on July 10, 1989 or (2) in open market

transactions shall be deemed a Pro Rata Repurchase. For purposes of this subparagraph (vii) shares shall be deemed to have been purchased by the Corporation or any subsidiary thereof "in open market transactions" if they have been purchased substantially in accordance with the requirements of Rule 10b-18 as in effect under the Exchange Act, on the date shares of Series B Preferred Stock are initially issued by the Corporation or on such other terms and conditions as the Board of Directors of the Corporation or a committee thereof shall have determined are reasonably designed to prevent such purchases from having a material effect on the trading market for the Common Stock.

(viii) Whenever an adjustment to the Conversion Price and the related voting rights of the Series B Preferred Stock is required, the Corporation shall forthwith place on file with the transfer agent for the Common Stock and the Series B Preferred Stock, and with the Secretary of the Corporation, a statement signed by two officers of the Corporation stating the adjusted Conversion Price determined as provided herein and the resulting conversion ratio, and the voting rights (as appropriately adjusted), of the Series B Preferred Stock. Such statement shall set forth in reasonable detail such facts as shall be necessary to show the reason and the manner of computing such adjustment, including any determination of Fair Market Value involved in such computation. Promptly after each adjustment to the Conversion Price of the Series B Preferred Stock, the Corporation shall mail a notice thereof and of the then prevailing conversion ratio to each holder of Series B Preferred Stock.

(ix) In the event that, at any time as a result of an adjustment made pursuant to subsection (i) of this subdivision 17, the holder of any shares of Series B Preferred Stock upon thereafter surrendering such shares for conversion, shall become entitled to receive any shares or other securities of the Corporation other than shares of Common Stock, the Conversion Price in respect of such other shares or securities so receivable upon conversion of Series B Preferred Stock shall thereafter be adjusted, and shall be subject to further adjustment from time to time, in a manner and on terms as nearly equivalent as practicable to the provisions with respect to Common Stock contained in subsection (i) hereof, and the provisions of subsections (a) through (h) of this subdivision 17 with respect to the Common Stock shall apply on like or similar terms to any such other shares or securities.

FIFTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against it served on him is:

XEROX CORPORATION  
800 Long Ridge Road  
P.O. Box 1600  
Stamford, CT 06904-1600  
Attention: General Counsel

SIXTH: Its duration is to be perpetual.

SEVENTH: The number of directors shall be not less than five (5) nor more than twenty-one (21) as determined in the manner prescribed by the By-Laws.

EIGHTH: The Corporation may purchase, acquire, hold and dispose of the stocks, bonds and other evidences of indebtedness of any corporation, domestic or foreign, and may issue in exchange therefor, its stock, bonds or other obligations.

NINTH: A person who is or was a director of the Corporation shall not be personally liable to the Corporation

or its shareholders for damages for any breach of duty in such capacity, except to the extent that the Business Corporation Law of the State of New York as in effect from time to time expressly provides that the foregoing provisions shall not eliminate or limit such personal liability. Nothing in this Article shall directly or indirectly increase the liability of any such person based upon acts or omissions occurring before the adoption hereof. No amendment, modification or repeal of this Article shall adversely affect any right or protection of any director that exists at the time of such change.

IN WITNESS WHEREOF, this Certificate has been signed on the 17th day of October, 1996 and the statements contained therein are affirmed as true under penalties of perjury.

/s/ Paul Allaire

Paul A. Allaire  
Chairman of the Board

/s/ Eunice M. Filter

E. M. Filter  
Secretary

## Xerox Corporation

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

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<b>I. Primary Net Income Per Common Share</b>				
Income from continuing operations	\$ 250	\$ 256	\$ 780	\$ 697
Accrued dividends on ESOP preferred stock, net	(11)	(11)	(32)	(32)
Accrued dividends on redeemable preferred stock	-	-	(1)	(2)
Adjusted income from continuing operations	239	245	747	663
Discontinued operations	-	(20)	-	(76)
Adjusted net income	\$ 239	\$ 225	\$ 747	\$ 587
Average common shares outstanding during the period	324,524	323,320	324,578	321,302
Common shares issuable with respect to common stock equivalents for stock options, incentive and exchangeable shares	9,049	9,056	9,049	9,056
Adjusted average shares outstanding for the period	333,573	332,376	333,627	330,358
Primary earnings per share:				
Continuing operations	\$ 0.71	\$ 0.74	\$ 2.24	\$ 2.01
Discontinued operations	-	(.06)	-	(.23)
Primary earnings per share	\$ 0.71	\$ 0.68	\$ 2.24	\$ 1.78
<b>II. Fully Diluted Net Income Per Common Share</b>				
Income from continuing operations	\$ 250	\$ 256	\$ 780	\$ 697
Accrued dividends on redeemable preferred stock	-	-	(1)	(2)
ESOP expense adjustment, net of tax	-	(2)	(1)	(6)
Interest on convertible debt, net of tax	-	1	1	2
Adjusted income from continuing operations	250	255	779	691
Discontinued operations	-	(20)	-	(76)
Adjusted net income	\$ 250	\$ 235	\$ 779	\$ 615
Average common shares outstanding during the period	324,524	323,320	324,578	321,302
Stock options, incentive and exchangeable shares	9,050	9,776	9,050	9,776
Convertible debt	2,644	2,644	2,644	2,644
ESOP preferred stock	28,063	28,754	28,063	28,754
Adjusted average shares outstanding for the period	364,281	364,494	364,335	362,476
Fully diluted earnings per share:				
Continuing operations	\$ 0.68	\$ 0.70	\$ 2.14	\$ 1.91
Discontinued operations	-	(.05)	-	(.21)
Fully diluted earnings per share	\$ 0.68	\$ 0.65	\$ 2.14	\$ 1.70

## Computation of Ratio of Earnings to Fixed Charges

(In millions)	Nine months ended			Year ended			
	September 30, 1996	1995	1995	1994	December 31, 1993*	1992	1991
<b>Fixed charges:</b>							
Interest expense	\$ 446	\$ 452	\$ 605	\$ 520	\$ 540	\$ 627	\$ 596
Rental expense	110	120	142	170	180	187	178
Total fixed charges before capitalized interest	556	572	747	690	720	814	774
Capitalized interest	-	-	-	2	5	17	3
Total fixed charges	\$ 556	\$ 572	\$ 747	\$ 692	\$ 725	\$ 831	\$ 777
<b>Earnings available for fixed charges:</b>							
Earnings**	\$1,318	\$1,296	\$1,979	\$1,602	\$ (193)	\$1,183	\$1,035
Less undistributed income in minority owned companies	(91)	(99)	(90)	(54)	(51)	(52)	(70)
Add fixed charges before capitalized interest	556	572	747	690	720	814	774
Total earnings available for fixed charges	\$1,783	\$1,769	\$2,636	\$2,238	\$ 476	\$1,945	\$1,739
Ratio of earnings to fixed charges (1)(2)	3.21	3.09	3.53	3.23	0.66	2.34	2.24

(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. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations adjusted for subsequent paydowns. The discontinued operations consist of the Company's Insurance and Other Financial Services businesses and its real-estate development and third-party financing 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-financial businesses.

\* 1993 earnings were inadequate to cover fixed charges. The coverage deficiency was \$249 million.

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S QUARTER ENDED SEPTEMBER 30, 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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9-MOS		
	DEC-31-1996	
	SEP-30-1996	136
		0
		13086
		381
		3099
	10467	4925
		2745
		26543
	6571	12959
	0	727
		326
		3783
26543		6289
	12303	3500
		6553
		4524
		164
		446
		1226
		441
	780	0
		0
		0
		780
		2.24
		2.14