FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended: June 30, 1998

OR

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

For the transition period from __________ to___________

Commission File Number 1-4471

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

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

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

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

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

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at July 31, 1998
Common Stock	328,597,847 shares

This document consists of 33 pages.

Forward-Looking Statements

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

The words "anticipate," "believe," "estimate," "expect," "intend," "will," and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Registrant with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Registrant does not intend to update these forward-looking statements.

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

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

Transition to Digital - presently black and white light-lens copiers represent more than 40% of the Registrant's revenues. This segment of the general office is mature with anticipated declining industry revenues as the market transitions to digital technology. Some of the Registrant's new digital products replace or compete with the Registrant's current light-lens equipment. Changes in the mix of products from light-lens to digital, and the pace of that change as well as competitive developments could cause actual results to vary from those expected.

Pricing - the Registrant's ability to succeed is dependent upon its ability to obtain adequate pricing for its products and services which provide a reasonable return to shareholders. Depending on competitive market factors, future prices the Registrant can obtain for its products and services may vary from historical levels.

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

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

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

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

Disengagement from Insurance Business - during the process of disengaging from the insurance business, the Registrant will continue to be subject to all the business risks and rewards of the remaining unit, Crum & Forster Holdings, Inc. (CFI). Until CFI is actually sold, no assurances can be given as to the ultimate impact on the Registrant's total results from operations or whether the proceeds from CFI's sale will equal its carrying value. The insurance business is subject to cyclical competitive conditions, judicial decisions affecting insurers' liabilities, and by volatile and unpredictable developments, including changes in the propensity of courts to grant large awards, fluctuations in interest rates, inflationary pressures that may tend to affect the size of losses and changes in the investment environment that affect market prices of insurance companies' investments. CFI's operating results have historically been influenced by these industry trends, as well as by its exposure to uncollectible reinsurance, which had been greater than for most other insurers.

Restructuring - the Registrant's ability to ultimately reduce pre-tax annual expenditures by approximately $1 billion is dependent upon its ability to successfully implement the 1998 restructuring program including the elimination of 9,000 jobs worldwide, the closing and consolidation of facilities, and the successful implementation of process and systems changes.

Xerox Corporation
Form 10-Q
June 30, 1998

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

PART I - FINANCIAL INFORMATION

Item 1

Xerox Corporation
Consolidated Statements of Income (Unaudited)

(In millions, except per-share data)	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
Revenues				
Sales	$ 2,579	$ 2,283	$ 4,795	$ 4,259
Service and rentals	1,895	1,815	3,717	3,603
Finance income	268	253	534	506
Total Revenues	4,742	4,351	9,046	8,368
Costs and Expenses				
Cost of sales	1,425	1,231	2,667	2,349
Cost of service and rentals	1,019	912	2,003	1,819
Inventory charges	113	-	113	-
Equipment financing interest	137	129	279	258
Research and development expenses	263	278	499	536
Selling, administrative and general expenses	1,293	1,283	2,492	2,457
Restructuring and asset impairments	1,531	-	1,531	-
Other, net	60	21	116	24
Total Costs and Expenses	5,841	3,854	9,700	7,443
Income (Loss) before Income Taxes (Benefits), Equity Income and Minorities' Interests	(1,099)	497	(654)	925
Income taxes (benefits)	(385)	175	(239)	325
Equity in net income of unconsolidated affiliates	(12)	(46)	(26)	(68)
Minorities' interests in earnings of subsidiaries	10	31	21	61
Income (Loss) from Continuing Operations	(712)	337	(410)	607
Discontinued Operations	-	-	(190)	-
Net Income (Loss)	$ (712)	$ 337	$ (600)	$ 607
Basic Earnings (Loss) per Share				
Continuing Operations	$ (2.19)	$ 1.01	$ (1.32)	$ 1.80
Discontinued Operations	-	-	(0.58)	-
Basic Earnings per Share	$ (2.19)	$ 1.01	$ (1.90)	$ 1.80
Diluted Earnings (Loss) per Share				
Continuing Operations	$ (2.19)	$ 0.94	$ (1.32)	$ 1.69
Discontinued Operations	-	-	(0.58)	-
Diluted Earnings per Share	$ (2.19)	$ 0.94	$ (1.90)	$ 1.69

See accompanying notes.

Xerox Corporation
Consolidated Balance Sheets

(In millions, except share data in thousands)	June 30, 1998 (Unaudited)	December 31, 1997
Assets		
Cash	$ 142	$ 75
Accounts receivable, net	2,403	2,145
Finance receivables, net	4,689	4,599
Inventories	3,168	2,792
Deferred taxes and other current assets	1,180	1,155
Total Current Assets	11,582	10,766
Finance receivables due after one year, net	8,011	7,754
Land, buildings and equipment, net	2,247	2,377
Investments in affiliates, at equity	1,221	1,332
Goodwill, net	1,756	1,375
Other assets	1,687	1,103
Investment in discontinued operations	2,433	3,025
Total Assets	$ 28,937	$ 27,732
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,771	$ 3,707
Accounts payable	678	776
Accrued compensation and benefit costs	676	811
Unearned income	212	205
Other current liabilities	3,016	2,193
Total Current Liabilities	8,353	7,692
Long-term debt	10,627	8,779
Postretirement medical benefits	1,090	1,079
Deferred taxes and other liabilities	2,552	2,469
Discontinued operations liabilities - policyholders' deposits and other	1,319	1,693
Deferred ESOP benefits	(434)	(434)
Minorities' interests in equity of subsidiaries	124	127
Company-obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	637	637
Preferred stock	699	705
Common shareholders' equity	3,970	4,985
Total Liabilities and Equity	$ 28,937	$ 27,732
Shares of common stock issued	328,589	326,241
Shares of common stock outstanding	328,217	326,241

See accompanying notes.

Xerox Corporation

Consolidated Statements of Cash Flows (Unaudited)

Six months ended June 30 (In millions)	1998	1997
Cash Flows from Operating Activities		
Income (Loss)from Continuing Operations	$ (410)	$ 607
Adjustments required to reconcile income to cash flows from operating activities:		
Depreciation and amortization	393	334
Provisions for doubtful accounts	111	114
Restructuring and other charges	1,644	-
Provision for postretirement medical benefits, net of payments	21	20
Charges against 1998 restructuring reserve	(133)	-
Minorities' interests in earnings of subsidiaries	21	61
Undistributed equity in income of affiliated companies	(21)	(65)
Increase in inventories	(726)	(568)
Increase in finance receivables	(476)	(247)
Increase in accounts receivable	(224)	(148)
Decrease in accounts payable and accrued compensation and benefit costs	(224)	(204)
Net change in current and deferred income taxes	(561)	71
Other, net	(541)	(184)
Total	(1,126)	(209)
Cash Flows from Investing Activities		
Cost of additions to land, buildings and equipment	(169)	(193)
Proceeds from sales of land, buildings and equipment	25	19
Purchase of additional interest in Rank Xerox	-	(812)
Acquisition of XLConnect, net of cash acquired	(380)	-
Other, net	4	(26)
Total	(520)	(1,012)
Cash Flows from Financing Activities		
Net change in debt	1,904	617
Dividends on common and preferred stock	(265)	(237)
Proceeds from sale of common stock	82	100
Repurchase of common and preferred stock	(47)	(108)
Dividends to minority shareholders	(4)	(3)
Net proceeds from issuance of mandatorily redeemable preferred securities	-	637
Total	1,670	1,006
Effect of Exchange Rate Changes on Cash	15	(8)
Cash Provided (Used) by Continuing Operations	39	(223)
Cash Provided by Discontinued Operations	28	237
Increase in Cash	67	14
Cash at Beginning of Period	75	104
Cash at End of Period	$ 142	$ 118

See accompanying notes.

Xerox Corporation
Notes to Consolidated Financial Statements

1. The unaudited consolidated interim financial statements presented herein have been prepared by Xerox Corporation ("the Company") in accordance with the accounting policies described in its 1997 Annual Report to Shareholders and should be read in conjunction with the notes thereto.

Effective 1998, Fuji Xerox changed its reporting period from a fiscal year ending December 20 to a fiscal year ending December 31. The results of operations during the period between the end of the 1997 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a loss of $6 million. The loss was debited to retained earnings.

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.

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

2. Inventories consist of (in millions):

	June 30, 1998	December 31, 1997
Finished products	$ 1,788	$ 1,549
Work in process	119	97
Raw materials and supplies	572	406
Equipment on operating leases, net	689	740
Total	$ 3,168	$ 2,792

3. On April 7, 1998, we announced a worldwide restructuring program associated with enhancing our competitive position and lowering our overall cost structure. In connection with this program, we recorded a second-quarter, pretax provision of $1,644 million ($1,107 million after taxes including our share, $18 million, of a restructuring charge recorded by Fuji Xerox). The program will include the elimination of approximately 9,000 jobs worldwide, the closing and consolidation of facilities, and the write-down of certain assets to net realizable value. The charges associated with this action include $113 million of inventory charges recorded as cost of revenues, $316 million of asset impairments and $1,215 million for employee termination and other exit costs. Key initiatives will include:

1) Consolidating 56 European customer support centers into one facility and implementing a shared services organization which

will generate order entry, invoicing, and other back-office and sales operations.
2) Streamlining manufacturing, logistics, distribution and service operations. This will include centralizing U.S. parts depots and outsourcing storage and distribution.
3) Overhauling our internal processes and associated resources, including closing one of four geographically-organized U.S. customer administrative centers.

The reductions will occur primarily in administrative functions, but will also impact service, research and manufacturing.

The following table summarizes the anticipated costs associated with the restructuring program (in millions):

	Total Reserve
Severance and related costs	$1,017
Asset impairment	316
Lease cancellation and other costs	198
Inventory charges	113
Total	$1,644

As of June 30, 1998, approximately 1,500 employees have left the Company and termination benefits of $120 million have been charged to the reserve. Asset impairment, inventory charges and other charges of $316 million, $113 million and $13 million, respectively, have also been charged against the restructuring reserve. The restructuring reserve balance at June 30, 1998 amounted to $1,082 million which relates to cash expenditures to be incurred primarily in the remainder of 1998 and in 1999.

4. In May 1998, we acquired XLConnect Solutions, Inc. ("XLConnect"), an information technology services company, and its parent Company, Intelligent Electronics, Inc. ("Intelligent Electronics") for $413 million in cash. The operating results of these companies, which are immaterial, have been included in our consolidated statement of income from the date of acquisition. Based on the allocation of the purchase price, this transaction resulted in goodwill of $395 million (including transaction costs), which is being amortized over 25 years.

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

	June 30, 1998	December 31, 1997
Common stock	$ 330	$ 327
Additional paid-in-capital	1,436	1,303
Retained earnings	3,176	4,060
Net unrealized gain (loss) on investment securities	(1)	(1)
Translation adjustments	(934)	(704)
Treasury stock	(37)	-
Total	$ 3,970	$ 4,985

Effective January 1, 1998, we adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income." This Statement requires that companies disclose comprehensive income, which includes net income, foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on marketable securities classified as available-for-sale.

Comprehensive income is as follows (in millions):

	Three months ended June 30,		Six months ended June 30,	
	1998	1997	1998	1997
Net income (loss)	$ (712)	$ 337	$ (600)	$ 607
Fuji Xerox stub period income(loss)	-	-	(6)	8
Translation adjustments	(159)	17	(230)	(184)
Unrealized appreciation of equity investments	-	-	-	2
Comprehensive Income (loss)	$ (871)	$ 354	$ (836)	$ 433

6. In April 1998, we issued convertible subordinated debentures for net proceeds of $575 million. The proceeds were used to reduce commercial paper. The amount due upon maturity in April 2018 is $1,012 million, resulting in an effective interest rate of 3.625% per annum, including 1.003% payable in cash semiannually, beginning in October 1998. These debentures are convertible at any time at the option of the holder into 3.904 shares of our stock per $1,000 principal amount at maturity of debentures.

7. Interest expense totaled $334 million and $288 million for the six months ended June 30, 1998 and 1997, respectively.

8. Summarized operating results of Insurance follow (in millions):

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six months ended June 30, 1998	Six months ended June 30, 1997
Revenues				
Insurance premiums earned	$ 224	$ 381	$ 455	$ 805
Investment and other income	51	112	100	223
Total Revenues	275	493	555	1,028
Costs and Expenses				
Insurance losses and loss expenses	195	556	391	921
Insurance acquisition costs and other operating expenses	88	129	183	277
Interest expense	27	49	53	98
Administrative and general expenses	4	(2)	8	30
Total Costs and Expenses	314	732	635	1,326
Realized Capital Gains	2	1	5	7
Income (Loss) Before Income Taxes	(37)	(238)	(75)	(291)
Income Tax Benefits	27	85	41	106
Income (Loss) From Insurance *	$ (10)	$ (153)	$ (34)	$ (185)

* The above operating results exclude the gains and losses related to sales of the Insurance subsidiaries and the $190 million after-tax write-off taken in the first quarter of 1998. The loss from Insurance operations as set forth above and the sale-related impacts (excluding the $190 million after-tax write-off), were charged to reserves established for this purpose and, therefore, did not impact our earnings.

The net assets at June 30, 1998 and December 31, 1997 of the Insurance businesses included in our consolidated balance sheets as discontinued operations are as follows (in millions):

	June 30, 1998	December 31, 1997
Insurance Assets		
Investments	$ 3,520	$ 4,597
Reinsurance recoverable	847	1,459
Premiums and other receivables	562	592
Deferred taxes and other assets	896	1,082
Total Insurance assets	$ 5,825	$ 7,730
Insurance Liabilities		
Unpaid losses and loss expenses	$ 3,578	$ 4,999
Unearned income	421	541
Notes payable	115	250
Other liabilities	837	864
Total Insurance liabilities	$ 4,951	$ 6,654
Investment in Insurance, net	$ 874	$ 1,076

On March 11, 1998, we announced an agreement to sell Crum & Forster Holdings, Inc. (CFI) to Fairfax Financial Holdings Limited (Fairfax) of Toronto. Upon closing, the transaction will effectively complete the sale of the Talegen Holdings, Inc. insurance properties.

Under terms of the agreement, Fairfax will acquire the stock of CFI for total consideration of $680 million, including the repayment of $115 million of debt. We will incur approximately $75 million in transaction-related costs. The transaction, expected to close in the third quarter, is subject to customary closing conditions and regulatory approval.

Upon completion of this transaction, we will have effectively completed our exit from insurance and financial services. A write-off of $190 million, after tax, was taken as of March 31, 1998.

9. 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. Subsequently, a single corporate entity, CSU,L.L.C.("CSU") was substituted for the three affiliated companies. CSU claims damages predominately resulting from the Company's alleged refusal to sell parts for high volume copiers and printers to CSU prior to 1994. The Company's policies and practices with respect to the sale of parts to ISOs were at issue in an antitrust class action in Texas, which was settled by the Company during 1994. Claims for individual lost profits of ISOs who were not named parties, such as CSU, were not included in that class action. The Company has asserted counterclaims against CSU alleging patent and copyright infringement relating to the copying of diagnostic software and service manuals. On April 8, 1997, the District Court granted partial summary judgment in favor of the Company on CSU's antitrust claims, ruling that the Company's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. The Court's ruling did not preclude a finding of antitrust liability based upon other allegations of exclusionary conduct, including the refusal to sell unpatented parts. The District Court also granted summary judgment in favor of the Company on its patent infringement claim, leaving open with respect to patent infringement only the issues of willfulness and the amount of damages, and granted partial summary judgment in favor of the Company with respect to some of its claims of copyright infringement. On July 17, 1997 and December 22, 1997 the Court denied CSU's motions for reconsideration. On June 16-17, 1998 a trial was held to establish copyright infringement damages to be awarded to Xerox for the unlawful copying of the Company's diagnostic software. A settlement was reached with regard to the

Company's infringement claims relating to service manuals. The Court has not yet issued a ruling following trial on copyright infringement damages.

On April 11, 1996, an action was commenced by Accuscan Corp. (Accuscan), in the United States District Court for the Southern District of New York, against the Company seeking unspecified damages for infringement of a patent of Accuscan which expired in 1993. The original suit was directed to facsimile products and sought damages for sales between 1990 and 1993. In late January 1998, Accuscan provided to the Company its expert report on the issue of damages seeking $225,000,000 for infringement not only of facsimile machines but other Company hardware. The Company's expert report states that it is believed that the appropriate amount of damages, if liability should be established, is $150,000. The Company (i) denies any liability to plaintiff, (ii) denies that the patent in suit is valid or infringed, and (iii) asserts that the damage calculations used by plaintiff are inconsistent with the facts in numerous respects. The Company intends to vigorously defend the action. On April 1, 1998, the jury entered a verdict in favor of Accuscan against the Company for infringement of a patent which expired in 1993. The verdict in favor of Accuscan was for $40,000,000. The Company believes that the verdict should be set aside and has made appropriate motions to the Court regarding the verdict, is awaiting the Court's decision and will vigorously pursue any appeal required.

Item 2

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

Document Processing

Summary

On April 7, 1998, we announced a worldwide restructuring program associated with enhancing our competitive position and lowering our overall cost structure. In connection with this program, we recorded a second-quarter pretax provision of $1,644 million ($1,107 million after taxes and including our share of the Fuji Xerox restructuring charge).

Income from continuing operations, before restructuring charges, increased 17 percent to $395 million in the 1998 second quarter from $337 million in the 1997 second quarter. Including a $1,107 million after-tax charge in connection with the previously announced worldwide restructuring program, the second quarter net loss was $712 million.

Revenues of $4.7 billion in the quarter represented 10 percent growth on a pre-currency basis, the third consecutive quarter of double-digit revenue growth. The pre-currency revenue growth was driven by 19 percent growth in equipment sales (excluding OEM sales). After the adverse effect of currency, revenue growth was 9 percent.

Diluted earnings per share from continuing operations increased 16 percent to $1.09 in the second quarter excluding the restructuring charge.

For the first six months of the year, diluted earnings per share from continuing operations, before the restructuring charge, increased 14 percent to $1.93 and income from continuing operations increased 15 percent to $697 million. Including the restructuring charge, Xerox reported a first-half net loss of $600 million, or a loss of $1.90 per share.

Revenues in the first half of 1998 were $9 billion, compared with $8.4 billion a year ago.

Pre-Currency Growth

To understand the trends in the business, we believe that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of changes in the translation of foreign currencies into U.S. dollars. We refer to this adjusted growth as "pre-currency growth."

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency. When compared with the average of the major European currencies on a revenue-weighted basis, the U.S. dollar was approximately 3 percent stronger in the 1998 second quarter than in the 1997 second quarter; only the pound sterling was stronger. As a result, currency translation had an unfavorable impact of one percentage point on total revenues in the 1998 second quarter and two percentage points on total revenues in the 1998 first half.

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 pre-currency revenue growth rates are as follows:

	1997					1998	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Revenues	5%	6%	9%	10%	7%	10%	10%
Digital Products	18	24	26	31	25	35	39
Light Lens Copiers	(2)	(3)	1	(2)	(2)	(4)	(8)

Digital product revenue growth accelerated to 39 percent in the 1998 second quarter, reaching 43 percent of total revenues and surpassing light lens revenues in absolute dollars for the first time. In the 1997 second quarter, digital revenues represented 34 percent of total revenues. The expanding black and white Document Centre digital copier family revenues represented 22 percentage points of the year-over-year digital revenue growth. Color copying and printing grew 27 percent in the 1998 second quarter, with continued excellent growth in the DocuColor 40 and excellent installations of the DocuColor Office 6 introduced in April. Production publishing grew 21 percent in the 1998 second quarter and computer printing grew 2 percent following an unusually strong 1997 second quarter. For the first six months of 1998, digital product revenue grew 37 percent with half the growth driven by the Document Centre digital copier family as well as a 34 percent growth in color copying and printing, 19 percent increase in production publishing and a 4 percent increase in computer printing.

Black-and-white light lens copier revenues declined 8 percent in the 1998 second quarter and 6 percent in the first six months of 1998 due to customer transition to the company's new digital products and continued pricing pressures. These revenues were 43 percent of total revenues in the 1998 second quarter compared with 51 percent of total revenues in the 1997 second quarter.

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

	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1997 FY	1998 Q1	1998 Q2
Total Revenues	5%	6%	9%	10%	7%	10%	10%
United States	6	3	7	11	7	7	12
Xerox Limited	3	6	11	10	7	13	10
Other Areas	3	11	11	7	8	11	7
Memo: Fuji Xerox	10	3	3	(2)	3	1	(4)

Second quarter and first half U.S. revenue growth was driven by excellent digital equipment sales and document outsourcing.

Xerox Limited and related companies manufacture and market Xerox products principally in Europe. Xerox Limited growth in the 1998 second quarter and first half was driven by excellent digital equipment sales and document outsourcing growth and strong growth in supplies. Holland, Italy, and Spain had strong revenue growth in the second quarter, the U.K. and Germany had good growth, and France had modest growth.

Other Areas include operations principally in Latin America, Canada and China. Growth in Other Areas during the 1998 second quarter was driven by good equipment sales and strong document outsourcing growth. For the first half, growth in Other Areas was driven by strong equipment sales and document outsourcing growth. Revenue in Brazil declined by single digits in the 1998 second quarter and was essentially flat in the first half of 1998. Brazil's profits declined for the second quarter and first half of 1998, however, we are anticipating modest economic growth in Brazil and on that basis, expect modest profit growth in our Brazilian affiliate in the second half of 1998. Canada, Mexico and a number of the smaller Latin American affiliates including Argentina and Chile had excellent growth in the second quarter.

Fuji Xerox Co., Ltd., an unconsolidated entity, jointly owned by Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan, Australia, New Zealand, and other areas of the Pacific Rim. Fuji Xerox revenue declined modestly in the 1998 second quarter and the first half reflecting a modest decline in Japan and a double digit decline in Fuji Xerox' other Asian territories.

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

	1997					1998	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Revenues	5%	6%	9%	10%	7%	10%	10%
Sales	5	6	12	13	10	15	14
Equipment (Excluding OEM)	10	11	21	16	15	17	19
Supplies	1	2	2	5	2	8	10
Paper	(9)	(1)	8	9	2	15	4
Service/Rentals/ Outsourcing/Other	4	5	6	6	5	4	6
Service	(2)	1	2	1	1	3	1
Rentals	(11)	(8)	(10)	(7)	(9)	(9)	(14)
Document Outsourcing *	41	36	31	33	35	24	25
Finance Income	2	5	-	3	2	8	7
Memo: Revenues Excluding Equipment Sales	2	3	5	5	4	6	6

*Excludes equipment in outsourcing contracts that are accounted for as sales.

Equipment sales in the 1998 first half grew 18 percent and in the 1998 second quarter grew 19 percent which represented the seventh consecutive quarter of double-digit growth. The equipment sales growth was driven by excellent growth in digital product sales. Approximately 50 percent of 1998 second quarter equipment sales was due to products introduced since 1997, including the company's expanding line of black-and-white digital copiers, the DocuTech 6180, the 5750 Empress color copier/printer, the DocuColor Office 6, and network printers sold through indirect channels.

Supplies sales growth accelerated in the 1998 second quarter and first half due to excellent growth in indirect channels and competitive supplies.

Paper sales: Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor. Modest revenue growth in the 1998 second quarter and good growth in the first half of 1998 primarily reflects volume increases in part due to expanding distribution channels, partially offset by moderating prices in Europe.

Combined service, rental, document outsourcing and other revenues grew 6 percent in the 1998 second quarter. Service revenues grew 1 percent in the 1998 second quarter and 2 percent in the first half as the impact of higher machine populations resulting from higher equipment sales was partially offset by competitive price pressures and customer preference for document outsourcing. Rental revenues continued to decline, due primarily to customers' preference for purchase or document outsourcing rather than rental.

Document Outsourcing revenues are split between Equipment Sales and Document Outsourcing. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included as Equipment Sales on the income statement. All other document outsourcing revenue, including service, equipment rental, supplies, paper, and labor, are included in Service/Rentals/Outsourcing/Other on the income statement. This has the effect of diverting some revenues from supplies, paper, service and rental. The excellent Document Outsourcing growth reflects the trend of customers to focus on their core businesses and outsource their document processing requirements to Xerox. The growth rate for total document outsourcing revenue is substantially higher than the growth included in Service/Rentals/Outsourcing/Other, reflecting an increase in the proportion of equipment in outsourcing contracts accounted for as sales.

Finance income: Our strategy for financing equipment sales in the industrialized economies is to charge a spread over our cost of borrowing and to lock in that spread by match funding the finance receivables with borrowings of similar maturities. Good growth in the financing of equipment sales in the U.S., Europe, and Latin America has been partially offset by lower average interest rates.

Key Ratios and Expenses

The trend in key ratios was as follows:

	1997					1998	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Gross Margin	46.4%	47.8%	46.5%	47.0%	46.9%	45.0%	45.6%
SAG % Revenue	29.2	29.5	29.5	27.1	28.7	27.9	27.3

The gross margin declined by 2.2 percentage points in the 1998 second quarter from the 1997 second quarter and 1.8 percentage points in the 1998 first half from the 1997 first half. The second quarter 1998 gross margin decline was primarily due to weaker results in Brazil where there was a significant impact on placements of higher margin products. The impact of Brazil was approximately half the gross margin decline in the second quarter. In addition, margins in the second quarter and first half were impacted by the increasing proportion of revenue from lower margin indirect channels and Document Outsourcing business, continued competitive price pressures and adverse currency, partially offset by productivity. The gross margin for the 1998 second quarter and 1998 first half, including the inventory charges associated with the restructuring program, was 43.2 percent and 44.0 percent, respectively.

Selling, administrative and general expenses (SAG) increased 2 percent in the 1998 second quarter due to increased sales coverage and advertising investments while general and administrative expenses declined. SAG was 27.3 percent of revenue during the 1998 second quarter and 27.6 percent of revenue in the first half, a reduction of 2.2 and 1.9 percentage points, respectively, primarily due to continuing productivity initiatives and expense controls.

Research and development (R&D) expense declined 6 percent in the 1998 second quarter and 7 percent in the 1998 first half. We continue to invest in technological development to maintain our premier position in the rapidly changing document processing market with an added focus on increasing the effectiveness of that investment. We expect R&D spending will grow modestly in the 1998 full year. Xerox R&D is strategically coordinated with that of Fuji Xerox which invested $612 million in R&D in the 1997 full year, for a combined total of $1.7 billion.

Worldwide employment increased by 1,000 in the 1998 second quarter to 93,400 as a result of the acquisition of XLConnect Solutions, Inc. (XLConnect), an information technology services company with 1,700 employees, and the net hiring of 800 employees primarily for the company's fast-growing document outsourcing business, partially offset by 1,500 employees leaving the company under the worldwide restructuring program.

The increase in other expenses, net, during the 1998 second quarter and first half was due to increased non-financing interest expense and goodwill amortization associated with our June 1997 acquisition of The Rank Group's remaining interest in Xerox Limited and our May 1998 acquisition of XLConnect, and a planned increase in year 2000 remediation costs.

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

Income before income taxes and the effects of the restructuring program increased 10 percent to $545 million in the 1998 second quarter from $497 million in the 1997 second quarter.

The effective tax rate before the effect of the restructuring program was 31.2 percent in the 1998 second quarter compared with 35.2 percent in the 1997 second quarter due to the worldwide mix of profits and a tax refund. The effective tax rate for the 1998 first half is 32.0 percent and we now expect the 1998 full year tax rate to be in line with the first half.

Equity in the net income of unconsolidated affiliates is principally the Xerox Limited share of Fuji Xerox income. Total equity in net income decreased in the 1998 second quarter and first half due to our share, $18 million, of a restructuring charge recorded by Fuji Xerox in the 1998 second quarter; lower Fuji Xerox income reflecting difficult economic conditions in Japan and their Asia Pacific operations; and adverse currency translation. We expect the difficult economic conditions and adverse currency to continue to affect Fuji Xerox' operations and that their earnings will be below 1997 for the rest of the year.

The Minorities' Interests reduction in the 1998 second quarter and first half was primarily the result of our June 1997 acquisition of the remaining interest in Xerox Limited.

On April 7, 1998, we announced a worldwide restructuring program associated with enhancing our competitive position and lowering our overall cost structure. In connection with this program, we recorded a second-quarter pretax provision of $1,644 million ($1,107 million after taxes and including our share of the Fuji Xerox restructuring charge). The program will include the elimination of approximately 9,000 jobs worldwide, the closing and consolidation of facilities, and the write-down of certain assets. The pre-tax charges associated with this action include $1,215 million for employee termination and other exit costs, $316 million of asset impairments, and $113 million of inventory charges recorded as cost of revenues. Key initiatives will include:

1) Consolidating 56 European customer support centers into one facility and implementing a shared services organization which will generate order entry, invoicing, and other back-office and sales operations.
2) Streamlining manufacturing, logistics, distribution and service operations. This will include centralizing U.S. parts depots and outsourcing storage and distribution.
3) Overhauling our internal processes and associated resources, including closing one of four geographically-organized U.S. customer administrative centers.

The reductions will occur primarily in administrative functions, but will also impact service, research and manufacturing.

The following table summarizes the anticipated costs associated with the restructuring program (in millions):

	Total Reserve
Severance and related costs	$1,017
Asset impairment	316
Lease cancellation and other costs	198
Inventory Charges	113
Total	$1,644

When fully implemented, the ongoing pre-tax savings from the restructuring initiatives will be approximately $1 billion annually. Initially, more than half of the savings will be reinvested to implement process and systems changes in order to enable the restructuring, and in ongoing efforts to broaden and strengthen marketing programs and distribution channels to enhance revenue growth.

Selling, administrative and general expenses as a percentage of revenue will move from the high 20's to the low 20's over time, driven primarily by large reductions in overhead costs. Manufacturing and service productivity will also improve. These benefits will be somewhat offset by lower gross margins overall due to the increasing proportion of business conducted through indirect sales channels and outsourcing.

As of June 30, 1998, approximately 1,500 employees had left the company under the program, and termination benefits of $120 million have been charged to the reserve. Asset impairment, inventory charges and other charges of $316 million, $113 million and $13 million, respectively, have also been charged against the restructuring reserve. The restructuring reserve balance at June 30, 1998 amounted to $1,082 million which relates to cash expenditures to be incurred primarily during the remainder of 1998 and in 1999.

In April 1998, we announced that we were reactivating our $1 billion stock repurchase program, which was suspended last year when we acquired the remaining financial interest in Rank Xerox, now Xerox Limited. During the second quarter, the company repurchased 470 thousand shares at a cost of $47 million. Since the program inception in 1996, share repurchases total 9 million shares for $468 million.

In May 1998, the company completed the $413 million acquisition of XLConnect, an information technology services company, and its parent company, Intelligent Electronics, Inc. The results of operations for these companies, which are immaterial, have been included in our results of operations since the date of acquisition.

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

Discontinued Operations

The net investment in the discontinued financial services businesses which includes Insurance, Other Financial Services and Third Party Financing and Real Estate totaled $1,114 million at June 30, 1998 compared with $1,332 million at December 31, 1997. The decrease primarily reflects the sale of Westchester Specialty Group, Inc. (WSG) and a reserve increase recorded in the first quarter, somewhat offset by scheduled funding of reinsurance coverage to the present and former Talegen Holdings, Inc. (Talegen) companies and The Resolution Group, Inc. (TRG) by Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt. A discussion of the discontinued businesses follows.

Insurance

In 1995, we recorded a $1,546 million after-tax charge in connection with agreements to sell all of our "Remaining" insurance companies, which included Coregis Group, Inc. (Coregis), Crum & Forster Holdings, Inc. (CFI), Industrial Indemnity Holdings, Inc. (II), WSG, TRG and three insurance-related service companies.

On September 11, 1996, those transactions were terminated. No additional charges were considered necessary as a result of the termination. In September 1996, the Board of Directors of Xerox formally approved a plan of disposal under which we retained investment bankers to assist us in the simultaneous disposition of each of the Remaining insurance and service companies.

Significant progress was made during 1997 and 1998 in the disposition of the remaining companies. Specifically:

- In the first quarter of 1997, we sold certain assets of Apprise Corp., one of Talegen's insurance related service companies. The financial terms of this transaction were not material.

- In the second quarter of 1997, we completed the sale of Coregis for $375 million in cash and the assumption of $75 million in debt.

- In the third quarter of 1997, we completed the sale of II for $365 million in cash and the assumption of $79 million in debt.

- In the fourth quarter of 1997, we completed the sale of TRG for $150 million in cash and a $462 million performance-based instrument to an investor group. Ultimate recovery of the value of this instrument will be dependent on TRG's future cash flows available for dividends.

- - In the first quarter of 1998, we completed the sale of WSG for $338 million in cash, less approximately $70 million in transaction-related costs.

- - On August 13, 1998, we closed on the previously announced sale of CFI to Fairfax Financial Holdings Limited of Toronto for $680 million, including the repayment of $115 million in debt. We incurred approximately $75 million in transaction-related costs.

With the completion of the CFI transaction, we have effectively completed our exit from insurance and financial services. A write-off of $190 million after-tax was recorded in the first quarter of 1998.

Xerox Financial Services, Inc. (XFSI) continues to provide aggregate excess of loss reinsurance coverage to the current and former Talegen and TRG units through Ridge Re, a wholly owned subsidiary. As of July 1998, XFSI is obligated to pay four remaining annual premium installments of $45 million, plus finance charges for coverage totaling $1,109 million (which is net of 15 percent coinsurance). At June 30, 1998, Ridge Re had recognized approximately $658 million of the available coverage.

The net investment in Insurance at June 30, 1998 totaled $874 million compared with a balance of $1,076 million at December 31, 1997. The decrease primarily reflects the sale of WSG and the reserve increase recorded in the first quarter of 1998, somewhat offset by contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the assigned insurance debt.

Other Financial Services

The net investment in Other Financial Services at June 30, 1998 was $128 million compared with $125 million at December 31, 1997.

On June 1, 1995, XFSI completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life). In connection with the transaction, OakRe Life Insurance Company (OakRe), a wholly-owned XFSI subsidiary, has assumed responsibility, via Coinsurance Agreements, for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life. The Coinsurance Agreements include a provision for the assumption (at their election) by the purchaser's 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. Other policies (of Immediate, Whole Life, and Variable annuities as well as a minor amount of SPDAs) were sold and are now the responsibility of the purchaser's companies.

As a result of the Coinsurance Agreements, at June 30, 1998, OakRe retained approximately $1.2 billion of investment portfolio assets (transferred from Xerox Life) 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 through the year 2000 and will be assumed under the Agreements as described above. Xerox Life's 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 June 30, 1998. 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 Financing and Real Estate

Third Party Financing and Real Estate assets at June 30, 1998 totaled $270 million, a $28 million reduction from the December 31, 1997 level.

Capital Resources and Liquidity

Total debt, including ESOP and discontinued operations debt not shown separately in our consolidated balance sheets, was $14,671 million at June 30, 1998 or $1,768 million more than at December 31, 1998. The changes in consolidated indebtedness since year-end and versus the first six months of 1997 are summarized as follows (in millions):

	1998	1997
Total Debt as of January 1	$12,903	$12,448
Non-Financing Businesses:		
Document Processing operations	970	419
Discontinued Businesses	(99)	(151)
Total Non-Financing	871	268
Financing Businesses	220	(201)
Total Operations	1,091	67
Shareholder dividends	265	237
Purchase of The Rank Group's interests in Rank Xerox (now Xerox Limited)	-	1,530
Purchase of XLConnect, net of cash acquired	380	-
Mandatorily redeemable preferred stock	-	(637)
Equity redemption and other changes	32	57
Total Debt as of June 30	$14,671	$13,702

For analytical purposes, total equity includes common equity, ESOP preferred stock, mandatorily redeemable preferred securities and minorities' interests. The following table summarizes the changes in total equity during the first six months of 1998 and 1997 (in millions):

	1998	1997
Total equity as of January 1	$6,454	$5,931
Income (loss)from continuing operations	(410)	607
Loss from discontinued operations	(190)	-
Shareholder dividends paid	(265)	(237)
Exercise of stock options	82	100
Repurchase of common and preferred stock	(47)	(108)
Purchase of minority interest	-	(723)
Mandatorily redeemable preferred securities	-	637
Translation adjustment	(230)	(184)
All other, net	36	45
Balance as of June 30	$5,430	$6,068

Non-Financing Operations

Operational cash flows are highly seasonal. Due primarily to the timing of incentive compensation payments and inventory investments, our operations tend to use cash during the first half of the year and, then, generate significantly greater amounts of cash later in the year.

The following table summarizes Document Processing non-financing operations cash generation and borrowing for the six months ended June 30, 1998 and 1997 (in millions):

	Cash Generated/(Borrowed)	
	June 30, 1998	June 30, 1997
Document Processing Non-Financing:		
Income / (Loss)	$(537)	$ 505
Depreciation and amortization	393	334
Restructuring charges	1,644	-
Charges against 1998 restructuring reserve	(133)	-
Net change in current and deferred income taxes	(561)	71
Increase in inventories	(690)	(516)
Decrease in payables and accrued compensation	(329)	(204)
Capital investment, net	(180)	(226)
All other, net	(577)	(383)
Total	$(970)	$(419)

Cash usage during the first half of 1998 was $970 or $551 million more than first half 1997 usage. The year to date loss in 1998 was more than offset by net non cash charges related to restructuring (even after taking into account its $537 million impact on deferred taxes) and higher depreciation and amortization. However, increased inventory investment in support of accelerated digital product sales growth, the settlement of compensation obligations, and continued capital investment contributed to cash usage on both year to date and period over period bases. All other of $577 million in 1998 was $194 million higher than 1997 due largely to an increase in accounts receivable and the effects of currency.

Financing Businesses

Financing businesses debt growth of $220 million during the first half of 1998 contrasts with a $201 million reduction during the first six months of 1997. The $421 million period over period change reflects improved growth in equipment sales, and currency translation effects due to a significant strengthening of the U.S. dollar against most major European currencies during the first six months of 1997.

Risk Management

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

Currency derivatives are primarily arranged in conjunction with underlying transactions that give rise to foreign currency-denominated payables and receivables; for example, an option to buy foreign currency to settle the importation of goods from suppliers, or a forward exchange contract to fix the U.S. dollar value of a foreign currency-denominated loan. In addition, when cost-effective, currency derivatives may be used to hedge balance sheet exposures.

Revenues denominated in currencies where the local currency is the functional currency are not hedged.

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 adverse changes in the interest rate environment. Conversely, this practice effectively eliminates the opportunity 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 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 obligations. The transactions performed within each of these three categories enable cost-effective management of interest rate exposures. The potential risk attendant to this strategy is the non-performance of a swap counterparty. We address this risk by arranging swaps exclusively with a diverse group of strong-credit counterparties, regularly monitoring their credit ratings, and determining the replacement cost, if any, of existing transactions.

Our currency and interest rate hedging is 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 9 contained in the "Notes to Consolidated Financial Statements" on pages 12-13 of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this item.

Item 2. Changes in Securities

During the quarter ended June 30, 1998, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

(a) Securities Sold: On April 1, 1998, Registrant issued 1,023 shares of Common stock, par value $1 per share.

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

(c) The shares were issued at a deemed purchase price of $106.4375 per share (aggregate price $108,875), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan for Directors.

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

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

The Annual Meeting of Shareholders of Xerox Corporation was duly called and held on May 21, 1998 at the Fairmont Hotel, 200 North Columbus Drive, Chicago, Illinois.

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

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

Proposal 1 - Election of directors for the ensuing year.

Name	For	Withheld Vote
Paul A. Allaire	296,417,748	2,682,274
B. R. Inman	296,385,752	2,708,899
Antonia Ax:son Johnson	259,464,654	39,626,297
Vernon E. Jordan, Jr.	292,989,638	6,164,645
Yotaro Kobayashi	296,562,653	2,525,451
Hilmar Kopper	288,901,083	10,189,762
Ralph S. Larsen	296,561,168	2,525,889
George J. Mitchell	296,263,860	2,830,094
N. J. Nicholas, Jr.	296,544,592	2,544,965
John E. Pepper	296,553,309	2,535,808
Patricia F. Russo	296,463,653	2,625,986
Martha R. Seger	296,452,521	2,636,320
Thomas C. Theobald	296,466,658	2,609,235
G. Richard Thoman	296,484,742	2,597,920

Proposal 2 - To elect KPMG Peat Marwick LLP as independent auditors for the year 1998.

For -	297,959,261
Against -	559,489
Abstain -	430,395

Proposal 3 - To approve the amendments to the 1991 Long-Term Incentive Plan

For -	253,873,349
Against -	16,653,227
Abstain -	1,052,544
Broker Non-vote	27,370,025

Item 6. Exhibits and Reports on Form 8-K

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

Exhibit 3 (b) By-Laws of Registrant, as amended through February 2, 1998. Incorporated by reference to Exhibit 3 (b)to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1997.

Exhibit 11 Computation of Net Income per Common Share.

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.

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

(b) Current reports on Form 8-K dated April 1, 1998, April 7, 1998 and May 20, 1998 reporting Item 5 "Other Events" were filed during the quarter for which this Quarterly Report is filed.

SIGNATURES

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

XEROX CORPORATION
(Registrant)

/s/ Philip D. Fishbach

Date: August 13, 1998

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

Exhibit 11

Xerox Corporation

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

	Three months ended June 30, 1998	Three months ended June 30, 1997	Six Months ended June 30, 1998	Six Months ended June 30, 1997
I. Basic Net Income (Loss) Per Common Share				
Income (loss) from continuing operations	$ (712)	$ 337	$ (410)	$ 607
Accrued dividends on ESOP preferred stock, net	(11)	(11)	(23)	(22)
Adjusted income (loss)from continuing operations	(723)	326	(433)	585
Discontinued operations	-	-	(190)	-
Adjusted net income (loss)	$ (723)	$ 326	$ (623)	$ 585
Average common shares outstanding during the period	328,209	324,091	327,503	324,019
Common shares issuable with respect to exchangeable shares	1,665	1,911	1,665	1,911
Adjusted average shares outstanding for the period	329,874	326,002	329,168	325,930
Basic earnings (loss) per share:				
Continuing operations	$ (2.19)	$ 1.01	$ (1.32)	$ 1.80
Discontinued operations	-	-	(0.58)	-
Basic earnings per share	$ (2.19)	$ 1.01	$ (1.90)	$ 1.80
II. Diluted Net Income (Loss) Per Common Share				
Income (loss) from continuing operations	$ (712)	$ 337	$ (410)	$ 607
ESOP expense adjustment, net of tax	-	(1)	-	-
Interest on convertible debt, net of tax	-	1	-	2
Accrued dividends on ESOP preferred stock, net	(11)	-	(23)	-
Adjusted income (loss) from continuing operations	(723)	337	(433)	609
Discontinued operations	-	-	(190)	-
Adjusted net income (loss)	$ (723)	$ 337	$ (623)	$ 609
Average common shares outstanding during the period	328,209	324,091	327,503	324,019
Stock options, incentive and exchangeable shares	1,665	5,518	1,665	5,518
Convertible debt	-	2,644	-	2,644
ESOP preferred stock	-	27,497	-	27,497
Adjusted average shares outstanding for the period	329,874	359,750	329,168	359,678
Diluted earnings (loss) per share:				
Continuing operations	$ (2.19)	$ 0.94	$ (1.32)	$ 1.69
Discontinued operations	-	-	(0.58)	-
Diluted earnings per share	$ (2.19)	$ 0.94	$ (1.90)	$ 1.69

Exhibit 12

Xerox Corporation
Computation of Ratio of Earnings to Fixed Charges

(In millions)	Six months ended June 30, 1998*	1997	Year ended December 31, 1997	1996	1995	1994	1993**
Fixed charges:							
Interest expense	$ 334	$ 288	$ 617	$ 592	$ 603	$ 520	$ 540
Rental expense	69	60	140	140	142	170	180
Total fixed charges before capitalized interest and preferred stock dividends of subsidiaries	403	348	757	732	745	690	720
Preferred stock dividends of subsidiaries	27	23	50	-	-	-	-
Capitalized interest	-	-	-	-	-	2	5
Total fixed charges	$ 430	$ 371	$ 807	$ 732	$ 745	$ 692	$ 725
Earnings available for fixed charges:							
Earnings***	$ (628)	$ 993	$2,268	$2,067	$1,980	$1,602	$ (193)
Less undistributed income in minority owned companies	(21)	(65)	(84)	(84)	(90)	(54)	(51)
Add fixed charges before capitalized interest and preferred stock dividends of subsidiaries	403	348	757	732	745	690	720
Total earnings available for fixed charges	$ (246)	$1,276	$2,941	$2,715	$2,635	$2,238	$ 476
Ratio of earnings to fixed charges (1)(2)	*	3.44	3.64	3.71	3.54	3.23	0.66

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

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

* Earnings for the six months of 1998 were inadequate to cover fixed charges. The coverage deficiency was $676 million. Excluding the restructuring charge, the ratio of earnings to fixed charges would be 3.25.

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

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

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX
CORPORATION'S JUNE 30, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN
ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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15,581
478
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11,582
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356
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(190)
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(1.90)