

FORM 10-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
(Mark One)

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the fiscal year ended: December 31, 1994  
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

XEROX CORPORATION  
(Exact name of registrant as specified in its charter)

1-4471  
(Commission file number)

New York 16-0468020  
(State of incorporation) (I.R.S. Employer Identification No.)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$1 par value	New York Stock Exchange Chicago Stock Exchange
\$3.6875 Ten-Year Sinking Fund Preferred Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Yes:  No:

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy for information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock of the registrant held by non-affiliates as of February 28, 1995 was: \$12,737,543,642.

(Cover Page Continued)

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

Class	Outstanding at February 28, 1995
Common Stock, \$1 Par Value	106,491,150 Shares
Class B Stock, \$1 Par Value	1,000 Shares

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference:

Document	Part of 10-K in Which Incorporated
Xerox Corporation 1994 Annual Report to Shareholders	I & II
Xerox Corporation Notice of 1995 Annual Meeting of Shareholders and Proxy Statement (to be filed not later than 120 days after the close of the fiscal year covered by this report on Form 10-K).	III

PART I

Item 1. Business

Overview

Xerox Corporation (Xerox or the Company) is a global company serving the worldwide document processing markets. The Company distributes its products in the Western Hemisphere through divisions and wholly-owned subsidiaries, in Europe and Africa through companies in which the Company has an 80 percent financial interest and The Rank Organisation Plc (RO) has a 20 percent financial interest as of February 28, 1995, and in Japan and other areas of the Pacific Rim, Australia and New Zealand by Fuji Xerox Co. Ltd. (Fuji Xerox), an unconsolidated joint venture, which is equally owned by Fuji Photo Film Company, Ltd. of Japan and Rank Xerox Limited (Rank Xerox). On February 28, 1995, Xerox paid RO 620 million pounds sterling, or approximately \$970 million, to increase the Xerox financial interest in Rank Xerox to about 80

percent from 67 percent.

The Company's Document Processing activities encompass developing, manufacturing, marketing, servicing and financing a complete range of document processing products and services designed to make offices around the world more productive. The Company believes that documents will play a central role in business, government and educational organizations far into the future and that efficient processing of documents offers significant opportunities for productivity improvements. The financing of Xerox equipment is generally carried out by Xerox Credit Corporation (XCC) in the United States and internationally by foreign financing subsidiaries and divisions in most countries that the Company operates. Document Processing operations employed 87,600 people worldwide at year-end 1994.

In December 1993, the Company announced a worldwide Document Processing restructuring program with the objectives of continuing to significantly reduce the cost base and to improve productivity. As a result of the program, the Company expects to reduce its worldwide Document Processing work force by more than 10,000 employees by early 1996. In addition, the Company identified specific facilities to be closed, which are publicly announced as local implementation plans are finalized.

During 1994, actual savings of the restructuring program approximated \$350 million. The cost savings resulting from the program are estimated to be approximately \$700 million in 1995 and at higher amounts thereafter. Some of these savings are being reinvested to reengineer various business processes, to support the Company's expansion into emerging markets, and to mitigate anticipated effects of continuing pressure on gross margins.

In January 1993, the Company announced its decision to concentrate on the core Document Processing business and disengage from the Insurance and Other Financial Services (IOFS) businesses. Consistent with this objective, The Van Kampen Merritt Companies, Inc. (VKM), an investment advisory organization, and Furman Selz Holding Corporation (Furman Selz), an institutional brokerage, investment banking and management firm, were sold in 1993. In 1994, Shields Asset Management, Inc. (Shields), a Furman Selz subsidiary, and Regent Investor Services, Incorporated (Regent), a subsidiary of Shields were sold. Contracts were also signed in 1994 to sell Constitution Re Corporation (CRC) and in 1995 to sell Xerox Financial Services Life Insurance Company and related companies (Xerox Life). Both sales will close after regulatory approvals.

The only continuing Financial Services business is the Insurance segment, which includes Talegen Holdings, Inc. (Talegen), a holding company of seven property and casualty insurance operating groups and three insurance related service companies, Ridge Reinsurance Limited (Ridge Re) and that portion of the Xerox Financial Services, Inc. (XFSI) headquarters costs and interest expense associated with the continuing business activities. The Company will continue to implement its strategy for divesting the remaining insurance businesses in an orderly and disciplined way.

The ongoing operations of XCC and the international financing companies that finance the purchase of Xerox equipment are unaffected by the decision to disengage from IOFS.

A detailed discussion of the Company's major businesses follows.

#### Document Processing

##### The Document Processing Strategy

The Company believes that documents represent the knowledge base of an organization and will play a dynamic and central role in business, government, education and other organizations far into the future:

- Increasingly, documents are being created and stored in digital electronic form.
- The use of electronically created paper documents will continue to increase.

The Company's focus is on improving its customers' operational efficiency and creating customer value by providing innovative document technologies, products, systems, services and solutions that allow its customers to:

- Move easily within and between the electronic and paper forms of documents.
- Scan, store, retrieve, view, revise and distribute documents electronically anywhere in an organization.
- Print or publish documents on demand, at the point closest to the need, including those locations of our customers' customers.
- Integrate the currently separate modes of producing documents, such as the data center, production publishing and office environments into a seamless, user-friendly enterprise-wide document systems network - with technology acting as an enabler.

Consistent with this focus, in 1994 the Company launched open document services initiatives for the production publishing and printing industries to provide customers with:

- A single, seamless and user-friendly network that allows people anywhere to print documents on demand, where they are needed, without technology acting as a barrier.
- Open systems that are flexible, scalable, modular and configurable.
- Advanced equipment and software that capture cost and productivity advantages.

The Company has formed alliances to bring together the diverse infrastructures that currently exist and to nurture the development of open standards for production publishing and printing.

#### Market Overview

Based on its extensive research and analysis, the Company believes that the worldwide markets, excluding Japan and the Pacific Rim, for document processing products and services exceeded \$200 billion in 1994. Xerox' worldwide document processing revenues were \$15.1 billion in 1994, of which 52 percent were generated in the United States, 31 percent in Europe, and 17 percent in the remainder of the world (excluding the unconsolidated revenues of Fuji Xerox which operates in Japan and much of the Pacific Rim).

The Company is focused on market segments (Target Markets) which it believes represent about half of the document processing markets. Within the Target Markets, the Company has traditionally had a strong position in the black-and-white copying market, which is expected to grow at a rate approximating real economic growth in North America and Western Europe, and at a faster rate in the developing countries. The remaining market segments, which include digital publishing, electronic printing, and color copying and printing, are expected to grow at a substantially higher rate. With the Company's many new product introductions over the past four years, its participation in the Target Markets has been considerably broadened and is expected to increase. This growth will be driven by the transfer of document production from offset printing to digital publishing, increasing customer requirements for network and distributed printing, and accelerating demand for color documents.

#### Xerox Focus

The Company believes it is well positioned with a broad, competitive product line to participate fully in the anticipated growth in the market segments in which it competes.

#### Black-and-White Copying

The Company estimates that the black-and-white copying market was approximately \$32 billion in 1994.

The Company's future growth in the black-and-white copier market will largely be a function of maintaining a broad, competitive product line which addresses changing customer requirements, offering a consistently high level of service, building new marketing initiatives from its strong relationship with major accounts, expanding sales coverage through indirect channels, and extending its leadership position in the rapidly growing markets for facilities management and in developing countries.

The Company has a strong position with major accounts who demand a consistently high level of service worldwide. The response times to customer calls are uniformly short, the diagnostic equipment is state-of-the-art and twenty-four-hour-a-day, seven-day-a-week service is available.

The Company has extended its successful major account marketing initiatives to major associations, like the American Medical Association, which represent more than two million current and prospective customers. In addition, the Company has significantly increased the number of independent agents selling Xerox equipment to these association accounts.

The market for commercial copiers is expanding rapidly in developing countries in Latin America, Eastern Europe, the Commonwealth of Independent States, Africa, China and India. The Company's 1994 revenues in all of these markets grew faster than the growth in the developed markets.

#### Digital Products

The Company's digital products fall into three broad categories: Digital Publishing, Electronic Printing, and Color Copying and Printing. Each is discussed below:

##### Digital Publishing

In 1990, the era of digital publishing was launched and the Company announced the DocuTech family which represents a transformation in the technical foundation of the Company's traditional copier business.

Digital publishing technology is increasingly replacing older, traditional offset printing as customers seek improved productivity and cost savings, faster turnaround of document preparation, and the ability to print documents "on demand". As electronics costs continue to decline and the technology improves, the Company estimates that the potential industry market for digital publishing will reach \$5 billion by 1997.

##### Electronic Printing

The Company estimates that the electronic printing market was approximately \$20 billion in 1994 and is growing modestly.

This market has largely consisted of high-end host-connected printers and low-end desktop printers. The Company expects significant future growth for robust, fully featured printers serving multiple users on networks. This growth will be driven by the increase in personal computers and workstations on networks, client-server processing, accelerating growth in the demand for enterprise-wide distributed printing, and rapidly declining electronics costs. These faster, more reliable printers will print collated multiple sets on both sides of the paper, insert covers and tabs, and staple or bind; but without the labor-intensive steps of printing an original and manually preparing the documents on high-speed copiers. In addition, documents can be printed on these printers from remote data center computers, enabling the efficiencies of distributing electronically and then printing, rather than printing paper

documents and then distributing them.

The Company has had a strong position in the high-end electronic printing market segment since 1977, particularly in data centers with high-volume printing requirements. The Company is well positioned to capitalize on the growth in the electronic printing market because of both its innovative technologies and its understanding of customer requirements for distributed printing from desktop and host computers.

#### Color Printing and Copying

The Company estimates that the color copying and printing market was \$5 billion in 1994 and is expected to grow to \$11 billion in 1997.

The use of color originals in the office is accelerating. Independent studies have concluded that color documents are more effective in communicating information. The vast majority of industry shipments of workstations and personal computers have color monitors, creating the need for economical, convenient and reliable, high-quality color copying and printing.

#### Facilities Management

Another growth opportunity is the Xerox facilities management business which provides printing, publishing, duplicating and related services to approximately 1,500 customers, including legal firms, financial institutions, insurance agencies and manufacturing companies. The Company's revenues from these services, which are largely in the U.S., had excellent growth in 1994. The Company is also aggressively building this business in Europe, Canada and Latin America.

#### Xerox Products

The Company believes that its success is due to its ability to continually improve the features and performance of its products based on meeting demonstrated customer needs, competitive pricing levels, and its excellent reputation for performance and service.

#### Black-and-White Copying

Xerox markets a broad line of black-and-white office copiers and duplicators. The products range from a three-copy-per-minute personal copier to a 135-copy-per-minute fully-featured duplicator to copiers designed for engineering and architectural drawings up to 3 feet by 4 feet in size. Over the past three years, the Company has introduced 28 new copiers and duplicators across the entire spectrum of its product line. These products have improved ease of use, reliability, copy quality, job recovery and ergonomics. Productivity-enhancing features allow the preparation of completed sets of booklets: printed on both sides of the paper, collated, covers and tabs inserted, and stapled or bound; all accomplished in-line, without manual operations. Many of the higher-volume products are equipped with modems which allow the Company to remotely monitor copy quality and wear and tear, and schedule service calls, frequently before the customers are aware of any deviation in product performance.

#### Digital Publishing

The DocuTech family of digital publishers scans hard copy and converts it to digital documents, or accepts digital documents directly from networked personal computers or workstations. A user-friendly electronic cut-and-paste workstation allows the manipulation of images or the creation of new documents. For example, in only a few minutes, a page of word-processed text, received over a network, can be combined with a photograph which is scanned from hard copy and enhanced electronically: cropped, positioned precisely, rotated, brightened or sharpened. Digital masters can be prepared in a fraction of the time necessary to prepare offset plates, thereby allowing fast turnaround time. DocuTech prints high-resolution (600 dots per inch) pages on both sides of a sheet of paper at up to 135 impressions per minute. The in-line finisher staples completed sets or finishes booklets with covers and thermal-adhesive bindings. Because the finished document can be stored as a digital document, hard copy documents can be printed on demand, or only as required, thus avoiding the long production runs and high storage and obsolescence costs associated with offset printing.

#### Electronic Printing

Xerox pioneered and continues to be a worldwide leader in electronic laser printing, which combines computer, laser, communications and xerographic technologies. The Company markets a broad line of robust printers with speeds that range from eight pages per minute (ppm) to the industry's fastest cut-sheet printer at 135 ppm. Many of these printers have simultaneous interfaces that can be connected to multiple host computers as well as local area networks.

Breakthrough technology allows printing, in a single pass through the Company's highlight color printers, black-and-white plus one customer-changeable color (as well as shades, textures and mixtures of each) at production speeds up to 92 ppm. Other manufacturers' highlight color printers require additional passes to add variable color, which increase cost, reduce speed and reliability and introduce the possibility of color misalignment.

Productivity-enhancing features include printing collated multiple sets on both sides of the paper, inserting covers and tabs, printing checks with magnetic ink character recognition (MICR), and stapling; all on cut sheet plain paper, with sizes up to 11 by 17 inches.

#### Color Copying and Printing

Xerox entered the digital color market in 1991 with the introduction of the Xerox 5775 digital copier which is targeted at the production market segment. The 5775 copies high resolution full color at 7.5 ppm, black-and-white at 30

ppm, and allows the colorizing of black-and-white documents. The Xerox 4700 is a highly cost-efficient, full-color 7.5 ppm electronic printer that also prints black-and-white at 30 ppm. The 4700 prints complete collated documents incorporating both black-and-white and color pages in a single step and at optimum speeds. It offers a broad array of connectivity options for both the office network and host computer environments. The MajestiK color copier series, introduced in 1993, offers benchmark copy quality and price/performance, and prints full color at 6 ppm and black-and-white at 36 ppm. The MajestiK series is targeted at the expanding market for color in the office. In 1994, the Company introduced the Xerox 4900 color laser printer for networked office groups printing at up to 1200 by 300 dpi resolution and three ppm for full color and 12 ppm for black-and-white.

#### Other Products

Xerox also offers a wide range of other document processing products including engineering copiers, ink-jet and electrostatic printers, facsimile products, scanners, personal computer and workstation software, and integrated systems solutions.

The Company also sells cut-sheet paper to its customers for use in their Document Processing products.

#### Summary of Revenues by Product Category

The following table summarizes the Company's revenues by major product category. The revenues for black-and-white copiers, digital products and other products include equipment and supply sales, service and rental revenues, and finance income. These revenues and the revenues from paper sales exclude the impact of foreign currency exchange rate fluctuations which are shown separately.

Year ended December 31 (in billions)	1994	1993	1992
Black-and-white copiers	\$ 9.4	\$ 9.0	\$ 8.9
Digital products	3.3	2.8	2.4
Other products	1.5	1.5	1.4
Paper	0.8	0.7	0.8
Foreign currency translation	0.1	0.2	0.8
Total revenues	\$15.1	\$14.2	\$14.3

#### Xerox Competitive Advantages

Although the document processing industry is highly competitive, the Company believes that it enjoys significant competitive advantages because of its dedication to customer satisfaction, its total quality management processes, its substantial on-going investment in research and development, its large and highly-skilled direct sales and service forces, and the creativity and accountability of its business divisions.

#### Customer Satisfaction

The Company's highest priority is customer satisfaction. The Company's research shows that satisfied customers are far more likely to repurchase products and that the cost of selling a replacement product to a satisfied customer is far less than selling to a "new" customer. The Company regularly surveys customers on their satisfaction, measures the results, analyzes the root causes of dissatisfaction, and takes steps to correct any problems. Based on these surveys, customer satisfaction in the United States was over 90 percent in 1994. Similar results have been achieved in other important markets.

Because of its emphasis on customer satisfaction, the Company offers a Total Satisfaction Guarantee, a breakthrough in the document processing industry and one of the simplest and most comprehensive offered in any industry: "If you are not satisfied with our equipment, we will replace it without charge with an identical model or a machine with comparable features and capabilities." This guarantee applies for three years to equipment acquired from and continuously maintained by Xerox or its authorized agents.

#### Quality

The Company was an early pioneer in total quality management and is the only company to have won all three of the following prestigious quality awards: the Malcolm Baldrige National Quality Award in the United States in 1989, the European Quality Award in 1992 and the Deming Prize in Japan, won by Fuji Xerox in 1980. In addition, the Company has won top quality awards in Australia, Belgium, Brazil, Canada, Colombia, France, Hong Kong, India, Ireland, Mexico, the Netherlands and the United Kingdom. The Company's "Leadership Through Quality" program has enabled the Company to significantly reduce its costs, accelerate the introduction of new products, improve customer satisfaction and increase market share. Xerox products have been consistently rated among the world's best by independent testing organizations.

#### Research and Development

The Xerox research and development (R&D) program is directed toward the development of new products and capabilities in support of the Company's document processing strategy. The Company's research scientists are deeply involved in the formulation of corporate strategy and key business decisions. They regularly meet with customers and have dialogues with the Business Divisions to ensure they understand customer requirements and are focused on products that can be commercialized.

In 1994, R&D expense was \$895 million compared with \$883 million in 1993 and \$922 million in 1992. The Company expects to increase its investment in technological development in 1995 and over the longer term to maintain its premier position in the rapidly changing document processing market. The Company's R&D spending is strategically coordinated with Fuji Xerox. The R&D investment by Fuji Xerox was approximately \$500 million in 1994, bringing the

total to almost \$1.4 billion.

#### Marketing

Xerox document processing products are principally sold directly to users by its worldwide sales force of approximately 13,000 employees. The Company also markets through a network of independent agents, dealers, distributors and value-added resellers and has arrangements with U.S. retail marketing channels, including Sears, Office Depot, Office Max, Service Merchandise, Staples, Wal-Mart, Costco, The Wiz, Price Club and MicroAge, to market low-end products not generally suited for distribution through the Company's direct sales force. These products are now sold through approximately 3,000 retail stores.

In 1991, Xerox International Partners (XIP), a 51 percent-owned partnership, was formed between Xerox and Fuji Xerox to supply printer engines to original equipment manufacturers. XIP has also contracted to supply printer engines to resellers.

#### Service

The Company has a worldwide service force of approximately 28,000 employees. In the opinion of the Company, this direct service force is a significant competitive advantage: the response times to customer calls are uniformly low, the service force is continually trained on the Company's new products, and the diagnostic equipment is state-of-the-art. Many of the Company's products are equipped with modems which allow the Company to remotely monitor copy quality and wear and tear, and schedule service calls, frequently before the customers are aware of any deviation in product performance. Twenty-four-hour-a-day, seven-day-a-week service is available in most metropolitan areas in the United States. The Company is able to guarantee a consistent level of service nationwide and worldwide because its service force is not focused exclusively on metropolitan areas and it does not rely on independent local dealers for service.

#### Organization

In 1992, the Company implemented a major change in the way it manages the Document Processing business by establishing business divisions which work in partnership with the geographically-based customer operations divisions: United States Customer Operations, Rank Xerox in Europe, Americas Customer Operations in Latin America, and Xerox of Canada.

The Company's business divisions have end-to-end responsibility for designing, engineering, and marketing their products and services.

The customer operations divisions are responsible for all of the activities relating to the customer, including sales, service, administration and support for most of the Xerox products and services.

The Company believes that this organizational architecture combines the speed, creativity, accountability and flexibility of a small company with the economies of scale, resources and strategic vision of a large corporation.

#### Non-equipment Revenues

Non-equipment revenues from supplies, paper, service, rentals, facilities management and other revenues, and income from customer financing, which represented 65 percent of total revenues in 1994, are less volatile than equipment sales revenues, and therefore provide significant stability to overall revenues. Growth in these revenues is primarily a function of the growth in the Company's installed population of equipment, usage and pricing. The balance of the Company's revenues is derived from equipment sales. These sales, which drive the non-equipment revenues, depend on the flow of new products and are more affected by economic cycles.

Most Xerox customers have their equipment serviced by and use supplies sold by the Company. The market for cut-sheet paper is highly competitive and revenue growth is significantly affected by pricing. The Company's strategy is to charge a spread over mill wholesale prices. Rental revenues have declined for a number of years, reflecting customer trends toward outright purchase of equipment, in part due to the attractive financing options offered by the Company.

The Company offers its document processing customers financing of their purchases of Xerox equipment primarily through XCC in the United States, largely by wholly-owned financing subsidiaries in Europe, and through divisions in Canada and Latin America. The Company's financing operations have expanded over the past several years in recognition of customer demand and the associated profit opportunities.

While competition for this business from banks and other finance companies remains extensive, the Company actively markets its equipment financing services on the basis of customer service, convenience and competitive rates. Approximately 80 percent of U.S. equipment sales and 70 percent of European equipment sales are financed through the Company. Over time, the growth rate of financing income is expected to correspond to the growth rate of equipment sales and trends in interest rates.

#### International Operations

The Company's international operations account for 48 percent of Document Processing revenues. Xerox' largest interest outside the United States is the "Rank Xerox Companies" in which the Company has an 80 percent financial interest and The Rank Organisation Plc (RO) has a 20 percent financial interest as of February 28, 1995. On February 28, 1995, Xerox paid RO 620 million pounds sterling, or approximately \$970 million, to increase the Xerox financial interest in Rank Xerox to about 80 percent from 67 percent. Marketing and manufacturing operations are also conducted through joint ventures in India and China. Marketing and manufacturing in the Americas

Customer Operations organization are conducted through subsidiaries or distributors in 40 countries. Marketing and manufacturing in Japan and other areas of the Pacific Rim, Australia and New Zealand are conducted by Fuji Xerox.

Xerox' financial results by geographical area for 1994, 1993 and 1992, which are presented on pages 34 and 62 of the Company's 1994 Annual Report to Shareholders, are incorporated by reference in this document.

#### Insurance and Other Financial Services

In January 1993, the Company announced its decision to concentrate its resources on its core document processing business and to disengage from IOFS, which at that time included Talegen Holdings, Inc.(Talegen),Ridge Reinsurance Limited (Ridge Re), The Van Kampen Merritt Companies, Inc. (VKM), Xerox Financial Services Life Insurance Company (Xerox Life) and Furman Selz Holding Corporation (Furman Selz). As the disengagement plan developed in 1993, Other Financial Services (OFS) which included VKM, Xerox Life and Furman Selz qualified as discontinued operations and are accounted for as such.

Contracts were signed to sell Constitution Re Corporation (CRC) to EXOR America Inc. in 1994 and Xerox Financial Services Life Insurance Company (Xerox Life) to a subsidiary of General American Life Insurance Company in 1995. Both sales will close after regulatory approvals. The Company will continue to implement its strategy for divesting the remaining insurance businesses in an orderly and disciplined way.

At December 1994, the Company's investment in Insurance amounted to \$3,645 million, which excludes the effect of unrealized losses on investment securities. The ultimate exit from the insurance businesses and the recovery of the investment could take several years. During the disengagement process, the Company will continue to be exposed to all the business risks of its insurance businesses. The Company anticipates that future income or losses from its insurance businesses may vary widely as the disengagement strategy is implemented, due to, among other reasons, the recognition of proceeds of sales or other forms of disengagement and the results from operations of the remaining insurance businesses. No assurances can be given as to the timing of the disengagement process, the amount and timing of proceeds of sales or other forms of disengagement from insurance units or the impact the remaining insurance businesses will have on the Company's total results from operations during the disengagement process.

#### Status of Insurance

The Insurance segment includes Talegen, a holding company of seven property and casualty insurance operating groups and three insurance related service companies, Ridge Re and that portion of the Xerox Financial Services, Inc. (XFSI) headquarters costs and interest expense associated with the continuing business activities. In 1993, Talegen established and capitalized seven insurance operating groups, each of which includes one or more legal insurance entities (the "Insurance Companies"). Each of the Insurance Companies maintains its own investment portfolio, loss reserves and capital. The insurance department in every state was sent information and given the opportunity to comment on the plan of recapitalization and legal restructuring. Additionally, the recapitalization and legal restructuring was approved by the insurance departments of all states in which Talegen's Insurance Companies are domiciled. The objective of the Talegen restructuring was to strengthen the insurance operating groups and facilitate the realization of shareholder value.

The seven insurance operating groups and their areas of specialization are:

- Constitution Reinsurance is a New York-based treaty and facultative reinsurer and had gross written premiums in 1994 of \$545 million.
- Coregis is a Chicago based writer of tailored professional liability and other property/casualty programs, programs for non-profit organizations and public officials, and specialty coverages for schools and industry groups. This insurance operating group has 1994 gross written premiums of \$371 million.
- Crum & Forster Insurance is New Jersey based and is a national writer of commercial property and casualty insurance through a select retail network of independent custom agents. Gross written premiums in 1994 were \$1,022 million.
- Industrial Indemnity is based in San Francisco and focuses on workers compensation coverage and services primarily in western states. Gross written premiums in 1994 were \$370 million.
- The Resolution Group is based in Chicago and manages those Talegen operations that no longer write new business and provides reinsurance collection services.
- Viking is a non-standard personal automobile insurer with gross written premiums of \$152 million in 1994.
- Westchester Specialty Group, a wholesale commercial umbrella, excess casualty and specialty property company based in Atlanta, had 1994 gross written premiums of \$334 million.

In connection with the 1993 restructuring and the regulatory approvals, XFSI agreed to provide various forms of capital support to ensure that statutory capital requirements of the newly established legal entities were met. The capital contributions consisted of \$235 million in cash, which was used to purchase portfolio investments, and \$100 million of XFSI promissory notes (guaranteed by the Company). In connection with actions taken to strengthen the Talegen balance sheet at the end of 1992, XFSI also provided support in the form of \$200 million in notes guaranteed by the Company.

XFSI also agreed that support would be provided in the form of excess of loss reinsurance protection issued by Ridge Re, XFSI's wholly-owned Bermuda reinsurance company established in 1992. XFSI is obligated to pay annual premium installments of \$49 million in the aggregate each year, plus finance charges, payable for up to ten years, for coverage totaling \$1,245 million, which is net of 15 percent coinsurance. A total of eight years annual premium installments remain to be paid as of December 31, 1994. The Company has guaranteed the payment by XFSI of all such premiums.

In addition to XFSI's original contribution of \$25 million to the capitalization of Ridge Re, XFSI may be required, under certain circumstances, to purchase over time additional redeemable preferred shares up to a maximum of \$301 million.

XFSI has guaranteed to the Talegen insurance companies that Ridge Re will meet all of its financial obligations under all of the foregoing excess of loss reinsurance issued to them.

In December 1994, a stock purchase agreement was signed with EXOR America Inc. for its purchase of Constitution Re Corporation, a Talegen subsidiary, for approximately \$410 million subject to closing adjustments, which is approximately the same as book value. The closing of the sale is subject to customary closing conditions and regulatory approvals and is expected to close during the first half of 1995.

## Property and Casualty Reserves

### Overview

Losses from claims and related loss adjustment expenses comprise the majority of costs from providing insurance products and, therefore, reserves for unpaid losses and loss expenses are the largest liabilities on a property and casualty insurer's balance sheet. However, because insurance coverage is provided for situations in which the certainty of loss cannot be predicted, ultimate losses which will be incurred on policies issued are difficult to estimate and are subject to constant reevaluation as new information becomes available. Insurance companies utilize a variety of loss trending and analysis techniques to estimate anticipated ultimate losses and the time frames when claims are likely to be reported and paid. These patterns vary significantly by type of insurance coverage and are affected by the economic, social, judicial and weather-related/geological conditions in different geographic areas.

In order to moderate the potential impact of unusually severe or frequent losses, insurers often cede (i.e., transfer) a portion of their gross policy premiums to reinsurers in exchange for the reinsurer's agreement to share covered losses with the insurer. Although the ceding of insurance risk does not discharge the original insurer from its primary liability to its policyholder, the reinsurance company that accepts the risk assumes an obligation to the original insurer. A contingent liability exists, however, with respect to reinsurance ceded to the extent that any reinsuring company might not be able to meet its obligations.

The net liability retained on individual risks varies by product and by the nature of the risk. Insured liabilities in excess of retained limits are reinsured either by treaty, wherein reinsurers agree in advance to provide coverage above retained limits for specific products, or by facultative arrangements, wherein reinsurance is provided for the individual risks based on individual negotiations.

Over the policy period, as premiums are earned, a portion of the premiums are set aside as gross reserves and charged to income for incurred but not reported ("IBNR") losses in anticipation of claims which will be incurred, net of anticipated salvage and subrogation. IBNR reserves also include amounts to supplement case reserves, when established, to provide for potential further loss development. In addition, gross reserves are also established for internal and external loss adjustment expenses ("LAE") associated with handling the claims inventory. These expenses are characterized as "allocated LAE" when they are attributable to a specific claim or series of claims and "unallocated LAE" when not similarly attributable. When a claim is reported, case reserves are established on the basis of claim adjusters' evaluations and other pertinent information available at the time. Legal defense costs that can be assigned to a related claim file and can be included as part of the loss under the contract are generally established as part of the gross case reserve. Reinsurance recoverables on gross reserves are recorded for amounts that are anticipated to be recovered from reinsurers and are determined in a manner consistent with the liabilities associated with the reinsured policies. Net reserves are gross reserves less anticipated reinsurance recoverables on those reserves.

The effect of inflation on gross reserves is considered implicitly when estimating the liability for unpaid losses and loss expenses. The effect of inflation on individual case basis reserves implicitly reflects the direction of economic price levels as they affect the individual claims being reserved.

Estimates of the ultimate value of unpaid claims are based in part on historical data that reflect past inflation, as well as management's assessment of severity and frequency, industry trends and related costs.

### Ridge Re Coverage

Under the terms of the Ridge Re reinsurance coverage and subject to the limits established for each insurance operating group, Ridge Re will reimburse the Insurance Companies within their respective insurance operating group for 85% of net increases, if any, to ultimate net unpaid loss and loss expenses and uncollectible reinsurance reserves which may develop on its 1992 and prior accident years as carried at December 31, 1992 (net of all salvage, subrogation and other recoverables). The Ridge Re coverage is guaranteed by XFSI, and, subject to certain commutation provisions, remains in effect until all 1992 and prior accident year claims are paid. The following table

identifies the retention amount (i.e., the amount of carried net unpaid loss and loss expenses and uncollectible reinsurance reserves at December 31, 1992 retained by the Insurance Companies within the insurance operating groups) and the remaining reinsurance coverage at December 31, 1994 under the respective Ridge Re contract. Cessions to Ridge Re, while beneficial to Talegen, do not result in a benefit to the Insurance segment or consolidated Xerox accounts.

#### Ridge Re Information

December 31, 1994 (in millions)	Retention Amount[1]	Contractual Coverage[2]	Cumulative Ceded Losses[2]	Remaining Coverage[2]
Constitution Reinsurance	\$ 591	\$ 43	\$ -	\$ 43
Coregis	\$ 585	\$ 119	\$ -	\$ 119
Crum & Forster Insurance	\$2,263	\$ 234	\$ 5	\$ 229
Industrial Indemnity	\$1,157	\$ 127	\$ -	\$ 127
The Resolution Group	\$1,199	\$ 578	\$ 28	\$ 550
Viking	\$ 134	\$ 17	\$ -	\$ 17
Westchester Specialty Group	\$ 755	\$ 127	\$ 20	\$ 107

[1] Retention amounts equal the carried net unpaid losses and loss expenses and uncollectible reinsurance reserves as of December 31, 1992.

[2] Coverage and ceded amounts are net of 15% insurance operating group coinsurance amounts (i.e., for every dollar of covered loss in excess of the retention amount, the affected insurance company will be able to cede (recover) eighty-five cents from Ridge Re)

The following sections of this discussion provide further details related to the reserving practices and the specific reserve levels of the Insurance Companies within Talegen's insurance operating groups. Due to the unique complexities and uncertainties related to asbestos-related, hazardous waste and other latent or long-tail claims, information regarding these claim categories is separately discussed, although it is the policy of Talegen not to disclose established case reserves on specific claims.

#### Overall Reserves

The following table sets forth gross unpaid losses and loss expenses, reinsurance recoverables on unpaid losses and loss expenses and the resultant net unpaid losses and loss expenses for the Insurance Companies included in each insurance operating group at December 31, 1994 and 1993:

#### Unpaid Losses and Loss Expenses

(in millions)	1994			1993		
	Gross Reserves	Reinsurance Recoverable	Net Reserves	Gross Reserves	Reinsurance Recoverable	Net Reserves
Constitution Reinsurance	\$ 881	\$ 200	\$ 681	\$ 883	\$ 202	\$ 681
Coregis	995	271	724	992	330	662
Crum & Forster Insurance	2,941	768	2,173	3,171	872	2,299
Industrial Indemnity	1,445	188	1,257	1,586	213	1,373
The Resolution Group	1,680	983	697	2,576	1,720	856
Viking	97	-	97	124	6	118
Westchester Specialty Group	1,225	485	740	1,272	512	760
Ceded balances to affiliates	(451)	(451)	-	(920)	(920)	-
Total	\$8,813[1]	\$2,444	\$6,369[1]	\$9,684	\$2,935	\$6,749

[1] Balance excludes cessions to Ridge Re of \$53 million.

The overall decrease in gross reserves is primarily the result of actions taken over the past several years to reduce exposures in underperforming and non-strategic business segments. Reinsurance recoverables have decreased due to the underlying reduction in gross reserves, increased collection of recoverable balances and an increase in business retained by the Insurance Companies. Gross and net reserves at December 31, 1992 were \$10,657 million and \$6,869 million, respectively. Due to its mission of managing run-off business, the most significant decrease in overall gross and net reserves has occurred within The Resolution Group. In 1994, Insurance Companies within the Westchester Specialty Group, The Resolution Group and the Crum & Forster Insurance operating groups strengthened net reserves by approximately \$40 million, \$33 million and \$8 million, respectively, for development on 1993 and prior accident year reserves. Of these amounts, \$20 million, \$28 million and \$5 million, respectively, were ceded to Ridge Re. No material adjustments were made to net reserves in 1993.

#### Monitoring of Insurance Reserves

The insurance operating groups continually monitor the gross and net reserves of their Insurance Companies for business written in both current and prior years, and Talegen senior management reviews these reserves on a periodic basis. In addition, these reserves are reviewed and certified on an annual basis by an outside actuary appointed by the Insurance Companies. Overall reserve levels are impacted primarily by the types and amounts of insurance coverage currently being written and the trends developing from newly reported claims and claims which have been paid and closed. Adjustments are made to reserves in the period they can be reasonably estimated to reflect evolving changes in loss development patterns and various other factors that affect ultimate claim settlement costs. Such factors include increased damage awards by the courts, changes in judicial interpretations of legal liability for asbestos-related, hazardous waste and other latent or long-tail claims, changes in judicial interpretation of the scope of coverage provided by general liability and umbrella policies for "advertising injury," particularly in the area of "unfair competition," and other recently advanced new theories

of liability. Many of these judicial interpretations are still evolving. Generally, the greater the projected time to settlement, the greater the complexity of estimating ultimate claim costs and the more likely that such estimates will change as new information becomes available.

#### Use of Reinsurance and Management of Reinsurance Collection

Most of the Insurance Companies made significant use of reinsurance during the 1970's and early 1980's. Since that time, the Insurance Companies have generally increased the portion of business they retain while reducing the number of reinsurers used for their reinsurance contracts. Accordingly, in the aggregate, net reserves as a percent of gross reserves increased from 65% at December 31, 1992 to 72% at December 31, 1994, and the percent of written premiums ceded to reinsurers to gross written premiums decreased from 21% in 1992 to 16% in 1994. Additionally, at December 31, 1994 the Insurance Companies had current and future reinsurance recoverables due from approximately 700 reinsurers for all policy years. However, in 1994 more than 70% of premiums ceded were placed with approximately 30 reinsurers.

Talegen has a reinsurance security committee composed of senior management who approve those reinsurers with whom Talegen will do business. Based upon the review of financial condition and assessment of other available information, the Insurance Companies maintain an allowance for uncollectible amounts due from troubled reinsurers as reported in Note 13 on page 68 of the Company's 1994 Annual Report to Shareholders. The balance of reinsurance recoverable is considered to be valid and collectible.

The potential uncollectibility of ceded reinsurance is an industry-wide issue. With respect to the management of recoveries due from reinsurers, the Insurance Companies operate within common guidelines on the early identification of potential collection problems and assign these cases to a specialized unit with The Resolution Group staffed by "work-out" experts. This unit aggressively pursues collection of reinsurance recoverables through mediation, arbitration and, where necessary, litigation to enforce a contractual right against reinsurers. Nevertheless, periodically, it becomes necessary for management to adjust reserves for potential losses to reflect their ongoing evaluation of developments which affect recoverability, including increased damage awards and the severe financial difficulties that some reinsurers are experiencing.

#### Effects of Restructuring on Reserves

In 1992, as part of the announced Talegen restructuring plan and related balance sheet strengthening actions, reserves were strengthened by \$880 million on a pre-tax basis. Talegen, after completing a detailed review of its outstanding reinsurance recoverables, in the fourth quarter of 1992 wrote-off \$516 million in reinsurance recoverables due from approximately 600 reinsurers against the allowance for doubtful reinsurance accounts (including \$174 million for paid reinsurance recoverables). Adjustments to the reserves in 1993 pursuant to the restructuring were not material.

#### Statutory and GAAP Reporting of Net Unpaid Losses and Loss Expenses

The liability for loss and loss expense reserves required by generally accepted accounting principles ("GAAP") includes various adjustments from the liability reported in accordance with Statutory Accounting Practices ("SAP"). Because not all GAAP adjustments can be associated with subsequent developments of the liabilities on other than an arbitrary basis, developments on the loss and loss expense reserve development table are prepared in accordance with SAP.

#### Loss Development Data

In Note 13 on page 68 of the Company's 1994 Annual Report to Shareholders, the net liability for unpaid losses and loss expenses is reconciled for each of the years in the three-year period ended December 31, 1994. Included therein are current year and prior year development data.

As a result of claim activity during 1994 and after reflection of prior experience, it is management's judgment that the total liability for unpaid losses and loss expenses at December 31, 1994 is reasonably stated.

The loss and loss expense reserve development table illustrates the development of statutory balance sheet liabilities for 1984 through 1994. The first line of the table is the estimated liability for unpaid losses and loss expenses, net of reinsurance recoverable on unpaid losses, recorded at the balance sheet date for each year. The lower section of the table shows the updated amount of the previously recorded liability based on experience as of the close of each succeeding year. The estimate is increased or decreased as more information becomes known about the claims until all claims are settled. Deficiencies or redundancies represent aggregate changes in estimates for all prior calendar years. The effect on income for the latest three years is shown in Note 13 on page 68 of the Company's 1994 Annual Report to Shareholders. These changes in estimates have been reflected in Talegen's calendar year operating results. As the Insurance Companies recognize adjustments to reserves for changes in loss development patterns and various other factors, such as social and economic trends and known changes in judicial interpretation of legal liability, in the period in which they become known, it is not appropriate to extrapolate future redundancies or deficiencies based solely on this table.

#### Talegen Holdings, Inc.

##### Loss and Loss Expense Reserve Development

Year ended December 31 (in millions)	1984	1985	1986	1987
Liability for unpaid losses and loss expenses - GAAP (net of reinsurance)	\$ 2,729	\$ 3,589	\$ 4,276	\$ 5,139
Increase (decrease) for GAAP adj.	8	(148)	(256)	(241)

Liability for unpaid losses and loss expense - SAP (net of reinsurance)	2,737	3,441	4,020	4,898
Paid (cumulative) as of:				
End of year	-	-	-	-
One year later	931	1,133	1,132	1,365
Two years later	1,611	1,946	2,039	2,483
Three years later	2,182	2,594	2,854	3,258
Four years later	2,598	3,197	3,391	3,824
Five years later	2,979	3,601	3,798	4,493
Six years later	3,238	3,892	4,360	4,659
Seven years later	3,391	4,380	4,470	4,927
Eight years later	3,793	4,450	4,675	
Nine years later	3,828	4,624		
Ten years later	3,987			
Liability estimated as of:				
End of year	2,737	3,441	4,020	4,898
One year later	3,072	3,798	4,383	4,974
Two years later	3,387	4,158	4,416	5,365
Three years later	3,582	4,125	4,797	5,670
Four years later	3,555	4,515	5,207	5,577
Five years later	3,828	4,896	5,087	6,332
Six years later	4,125	4,863	5,786	6,357
Seven years later	4,055	5,490	5,841	6,476
Eight years later	4,550	5,587	5,991	
Nine years later	4,687	5,772		
Ten years later	4,872			
(Deficiency) redundancy	\$(2,135)	\$(2,331)	\$(1,971)	\$(1,578)

Gross liability - end of year  
Reinsurance recoverable  
Net liability - end of year

Gross re-estimated liability - one year later  
Re-estimated recoverable - one year later  
Net re-estimated liability - one year later

Gross re-estimated liability - two years later  
Re-estimated recoverable - two years later  
Net re-estimated liability - two years later

Gross cumulative deficiency

1988	1989	1990	1991	1992	1993	1994
\$ 5,613	\$ 6,119	\$ 6,429	\$ 6,379	\$ 6,874	\$ 6,753	\$ 6,369
(208)	(215)	(287)	(299)	(370)	(254)	(190)
5,405	5,904	6,142	6,080	6,504	6,499	6,179
-	-	-	-	-	-	-
1,588	1,675	1,707	1,830	1,294	1,542	
2,667	2,827	3,085	2,730	2,488		
3,484	3,879	3,663	3,657			
4,284	4,228	4,354				
4,486	4,746					
4,885						
5,405	5,904	6,142	6,080	6,504	6,499	6,179
5,709	6,110	6,255	6,972	6,492	6,491	
5,908	6,090	7,082	6,904	6,528		
5,830	6,903	6,968	6,954			
6,604	6,825	7,022				
6,556	6,910					
6,684						

\$(1,279)	\$(1,006)	\$ (880)	\$ (874)	\$ (24)	\$ 8	\$ -
				\$10,475	\$ 9,515	\$ 8,828
				3,971	3,016	2,649
				6,504	6,499	6,179
				10,454	9,569	
				3,962	3,078	

10,483

3,955

6,528

\$ (8) \$ (54) \$ -

## Asbestos-Related, Hazardous Waste and Other Latent or Long-Tail Claims

Claims resulting from asbestos-related, hazardous waste and other latent or long-tail losses have provided unique challenges to the insurance industry. The possibility that these claims would emerge was often not recognized or contemplated at the time the policies were written, and traditional actuarial reserving methodologies have not always been useful in accurately estimating ultimate losses. Asbestos-related claims were the first type of such exposures to cause significant losses to the insurance industry. Because case law for asbestos-related injuries is now reasonably developed and the number of open claims has been declining, the remaining exposure and related uncertainty to the Insurance Companies are also decreasing. Hazardous waste claims have been the second major type of such claims to emerge and significantly impact the insurance industry. Inconsistent Federal and State case law related to hazardous waste claims has compounded the industry's difficulties in adequately understanding and reserving for these complex exposures. Other latent or long-tail exposures such as repetitive stress, lead paint and surgical breast implants are the latest type of such liability to emerge. These claim types also are not suitable for traditional actuarial reserving techniques due to significant uncertainties as to how legal issues will develop. As judicial patterns emerge through the appellate process and remove uncertainties related to asbestos-related, hazardous waste and other latent or long-tail claims, additional liabilities and reinsurance recoverables could arise. In the aggregate, reserves for asbestos-related, hazardous waste and other latent or long-tail claims comprise 10% and 5% of total gross and net reserves, respectively, of the Insurance Companies at December 31, 1994.

Total reserves for asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims at December 31, 1994 are as follows:

## Total Reserves[1] by Claim Category

(in millions)	Asbestos Bodily Injury		Asbestos -in- Building		Hazardous Waste		Other Latent or Long-Tail		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Constitution Reinsurance	\$ 66	\$ 20	\$ -	\$ -	\$ 79	\$ 32	\$ -	\$ -	\$145	\$ 52
Crum & Forster Insurance	58	40	-	-	79	61	110	57	247	158
Coregis	-	-	-	-	2	2	-	-	2	2
Industrial Indemnity	-	-	-	-	-	-	-	-	-	-
The Resolution Group	170	17	21	2	101	36	48	2	340	57
Viking	-	-	-	-	-	-	-	-	-	-
Westchester Specialty Group	38	11	45	1	34	21	9	1	126	34
Total	\$332	\$ 88	\$ 66	\$ 3	\$295	\$152	\$167	\$ 60	\$860	\$303

[1] Included are case, IBNR and allocated loss adjustment expense reserves.

The vast majority of claims in the above areas have resulted from policies covering corporate property and casualty insurance, thus insurance operating groups whose Insurance Companies have not underwritten (or reinsured) this type of business generally do not have these types of claims. Although Insurance Companies within Coregis are currently underwriting certain commercial property and casualty business, these companies did not underwrite any significant volume of business prior to 1986 and thus have not had many asbestos bodily injury or hazardous waste claims as most such claims for the insurance industry have originated from accident years prior to 1986.

In 1985, Talegen established a stand-alone unit to centrally handle asbestos-related, hazardous waste and certain other latent or long-tail claims. This unit was established as a separate service company of Talegen and has been recently named Envision Claims Management Corporation ("Envision"). Envision is currently engaged in working on claims for the Insurance Companies within the Crum & Forster Insurance, Coregis, The Resolution Group and Westchester Specialty Group insurance operating groups. The objectives of Envision are to bring expertise to this highly specialized area, promote consistency in claim administration and reserving practices and judiciously work through and close such claims on behalf of the Insurance Companies. Since January 1, 1993, nearly twice as many claims have been closed by Envision as have been opened, causing an overall 33% reduction in total applicable claims outstanding for the Insurance Companies during that period.

Following is an expanded discussion of historical reserve development with respect to asbestos-related, hazardous waste and other latent or long-tail claims. Included in the discussion of hazardous waste and other latent or long-tail claims is information pertaining to policy limits on open claims, or the theoretical aggregate of potential indemnity loss on all policies where the Insurance Company has been notified of a possible claim. However, policy limit information has not been, and management of Talegen and the Insurance Companies does not believe it will be, a useful predictor of future claim payments for asbestos-related, hazardous waste and other latent or long tail claims.

Generally, a claim is reported to the Insurance Company after the insured has been notified by a third party of a potential loss situation. For hazardous waste claims, many of the reported claims are from insureds who have been

notified of a possible loss, no matter how minor a role the insured played in the act leading to the loss. It has been the experience of the Insurance Companies (and industry experience in general) that in such instances the insured will often pay only minimal losses or no loss.

Assuming that the insured has paid a loss, the Insurance Company then makes the determination as to whether the loss is covered. If there is a dispute on the loss coverage, the Insurance Companies or policyholder generally seeks a declaratory judgment ruling, asking a court to determine whether or not the policy covers the loss in question. From a historical perspective, only a relatively small percentage of declaratory judgment actions have resulted in the Insurance Companies being required to pay the claim, although this pattern is not meant to be representative of past or future aggregate payment amounts resulting from declaratory judgments.

Assuming that the claimed loss is covered, any payment is generally only a small amount of the total available policy limits because many of the related policies written by the Insurance Companies are high excess policies where the loss needs to exceed a high dollar amount before their respective "layer" of coverage is impacted.

#### Asbestos Bodily Injury Claims

Claims began to emerge alleging bodily injury due to asbestos exposure in the 1970's, and the insurance industry became involved in litigation over insurance coverage issues with manufacturers, distributors, suppliers, and indirect users of asbestos containing products at that time. The judicial and legislative interpretations of coverage tended to expand the definition of covered losses beyond what insurers commonly believed to be the intent of the policies. However, over time, case law in this area has become fairly well established. The Insurance Companies believe that most of the litigation over asbestos bodily injury coverage issues has now been resolved and appropriate reserves have been established for these known exposures. Although it is difficult to estimate when the pending asbestos bodily injury claims will be paid and closed, the overall inventory of such claims has been declining. From a historical perspective, of the total open claims at the end of 1991, approximately 48% had been closed at December 31, 1994.

The following table sets forth gross and net unpaid losses and allocated LAE related to asbestos bodily injury claims of the Insurance Companies:

#### Asbestos Bodily Injury Reserve Information

Year ended December 31 (in millions)	1994		1993	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 250	\$ 40	\$ 485	\$ (128)
Claim payments (recoveries) - Owens Corning Fiberglass ("OCF" claims)	-	-	183	(133)[1]
Other claim payments (recoveries)	47	-	61	(2)
Case incurred losses	21	1	9	33 [1]
Ending case reserves	224	41	\$ 250	\$ 40 [1]
1994 IBNR/Allocated LAE reserves [2]	108	47	N/A	N/A
1994 total reserves [2]	\$ 332	\$ 88	N/A	N/A
Allocated LAE payments (recoveries)	\$ 10	\$ 19	\$ (6)	\$ (29)

  

	1992		1991 and Prior Periods	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 741	\$ 21	\$ -	\$ -
Claim payments (recoveries) - Owens Corning Fiberglass ("OCF" claims)	243	139	288	4
Other claim payments (recoveries)	34	8	160	42
Case incurred losses	21	(2)[1]	1,189	67
Ending case reserves	\$ 485	\$ (128)[1]	\$ 741	\$ 21
1994 IBNR/Allocated LAE reserves [2]	N/A	N/A	N/A	N/A
1994 total reserves [2]	N/A	N/A	N/A	N/A
Allocated LAE payments (recoveries)	\$ 52	\$ (9)	\$ 324	\$ 81

[1] Loss and reserve data for 1992 reflects a reserving practice specific to the Owens Corning Fiberglass ("OCF") claims (discussed subsequently) where case reserves were reduced by reinsurance receivables on paid losses. Normally, reinsurance receivables are shown on a "gross" basis, that is, separately stated on the balance sheet. This practice for the OCF claims resulted in an offsetting understatement of case reserves and reinsurance recoverables. This practice was reversed in 1993.

[2] Beginning in 1994, IBNR/Allocated LAE reserves have been allocated to certain claim categories; prior to 1994, similar allocations were not made, thus the data for 1993 and prior years has been marked as not available ("N/A") in the table.

The largest asbestos bodily injury claims have originated from policies issued to Owens Corning Fiberglass ("OCF") who manufactured and distributed insulation containing asbestos. These policies were issued or assumed by an Insurance Company within The Resolution Group. Numerous claims alleging bodily injury through exposure to asbestos were filed against OCF during the past two decades. Included in the preceding table are cumulative paid losses from these policies of approximately \$714 million and \$10 million and allocated LAE of approximately \$310 million and \$14 million on a gross and net basis, respectively, for 1994 and prior years resulting in a total paid amount of \$1,024 million and \$24 million on a gross and net basis, respectively. Management of The Resolution Group and Talegen believe that all significant losses have been paid on this coverage. Of the approximately \$1 billion in reinsurance believed to be appropriately recoverable from these claims, \$682 million has been collected and \$168 million has either been written off or reserved through the allowance for uncollectible reinsurance, resulting in a remaining net recoverable balance of \$150 million at December 31, 1994. See discussion of the status of two separate lawsuits pertaining to reinsurance recoverable on OCF claims, of which one has been substantially settled, in Note 18 on Page 79 of the Company's 1994 Annual Report to Shareholders.

## Asbestos-In-Buildings Claims

In addition to bodily injury claims, asbestos-in-building claims have been brought against certain Insurance Companies of the Talegen insurance operating groups seeking reimbursement for the expense of replacing insulation material and other building components made of asbestos. The Insurance Companies have generally contested coverage to the extent that product liability insurance does not cover replacement costs unless there has been property damage, as defined in the policies, to the buildings in which asbestos containing products were installed. Sufficient case law has not yet been established to determine the extent to which the courts will interpret the policies consistently with this position, and the theories put forth by the courts have varied considerably to support the few payments made by insurers to date for asbestos-in-buildings property damage claims. Although it is difficult to estimate when the pending asbestos-in-buildings claims will be resolved and closed, the claims inventory has been declining, similar to asbestos bodily injury claims. Of the total open claims at the end of 1991, approximately 48% had been closed at December 31, 1994.

The following table sets forth gross and net unpaid losses and allocated LAE related to asbestos-in-buildings claims of the Insurance Companies:

### Asbestos-In-Buildings Reserve Information

Year ended December 31 (in millions)	1994		1993	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 61	\$ 4	\$ 59	\$ 4
Claim payments (recoveries) - Celotex	-	-	-	-
Other claim payments (recoveries)	3	-	1	1
Case incurred losses	8	(1)	3	1
Ending case reserves	66	3	\$ 61	\$ 4
1994 IBNR/Allocated LAE reserves [1]	-	-	N/A	N/A
1994 total reserves [1]	\$ 66	\$ 3	N/A	N/A
Allocated LAE payments	\$ -	\$ -	\$ -	\$ -

  

	1992		1991 and Prior Periods	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 64	\$ 7	\$ -	\$ -
Claim payments (recoveries) - Celotex	5	3	-	-
Other claim payments (recoveries)	-	-	-	-
Case incurred losses	-	-	64	7
Ending case reserves	\$ 59	\$ 4	\$ 64	\$ 7
1994 IBNR/Allocated LAE reserves [1]	N/A	N/A	N/A	N/A
1994 total reserves [1]	N/A	N/A	N/A	N/A
Allocated LAE payments	\$ -	\$ -	\$ -	\$ -

[1] Beginning in 1994, IBNR/Allocated LAE reserves have been allocated to certain claim categories, prior to 1994, similar allocations were not made, thus the data for 1993 and prior years has been marked as not available ("N/A") in the table.

The most significant reported asbestos-in-building claims relate to two umbrella contracts issued by Westchester Fire Insurance Company ("Westchester Fire"), an Insurance Company within the Westchester Specialty Group, to Celotex, et al. covering the 1982 and 1983 policy years, with a combined gross and net limit of \$50 million and \$2 million, respectively. Since December 1990, the Celotex Companies have been involved in bankruptcy reorganization litigation in the U.S. Bankruptcy Court in Tampa, Florida. The court has temporarily stayed proceedings in all of the underlying asbestos bodily injury and asbestos-in-buildings claims. Westchester Fire and Talegen believe that adequate reserves have been established for this exposure.

### Hazardous Waste Claims

Hazardous waste claims encompass costs for pollution clean-up, bodily injury and property damage. Significant uncertainties exist with respect to estimating the Insurance Companies' exposure to hazardous waste claims. The uncertainty primarily results from lack of historical data, long delays in reporting claims, difficulty in identifying potential claimants and complex legal and coverage issues that have been further complicated by inconsistent conclusions reached by the courts. Due to the above, it is very difficult to estimate when existing hazardous waste claims will close. However, from a historical perspective, of the total open claims at the end of 1991, approximately 66% had been closed at December 31, 1994.

The following table sets forth gross and net unpaid losses and allocated LAE related to hazardous waste claims of the Insurance Companies:

### Hazardous Waste Reserve Information

Year ended December 31 (in millions)	1994		1993	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 43	\$ 22	\$ 22	\$ 14
Claim payments (recoveries)	28	17	21	12
Case incurred losses	35	20	42	20
Ending case reserves	50	25	\$ 43	\$ 22
1994 IBNR/Allocated LAE reserves [1],[2]	243	125	N/A	N/A
1994 total reserves [1],[2]	\$ 293	\$ 150	N/A	N/A
Allocated LAE payments	\$ 20	\$ 17	\$ 20	\$ 17

  

	1992		1991 and Prior Periods	
	Gross	Net	Gross	Net
Beginning case reserves	\$ 23	\$ 14	\$ -	\$ -
Claim payments (recoveries)	9	4	52	24
Case incurred losses	8	4	75	38
Ending case reserves	\$ 22	\$ 14	\$ 23	\$ 14
1994 IBNR/Allocated LAE reserves [1],[2]	N/A	N/A	N/A	N/A
1994 total reserves [1],[2]	N/A	N/A	N/A	N/A

- [1] Totals exclude \$2 million of reserves for Mt. Airy Insurance Company, a subsidiary within the Coregis insurance operating group. Hazardous waste exposures for Coregis are not significant primarily because 1986 was the first year significant business volume was written by Insurance Companies within the Coregis insurance operating group.
- [2] Beginning in 1994, IBNR/Allocated LAE reserves have been allocated to certain claim categories, prior to 1994, similar allocations were not made, thus the data for 1993 and priors has been marked as not available ("N/A") in the table.

The principal federal statute that requires cleanup of environmental damage is the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), passed in 1980. It imposes liabilities on "Potentially Responsible Parties," subjecting them to liability for clean-up costs regardless of fault, time period and relative contribution of pollutants. Superfund is subject to funding authorization that expires in December 1995. The current administration has put forth a proposal to reform Superfund that would create a government fund (estimated at \$8.1 billion) used to clean up "National Priority Listed" ("NPL") sites.

The last draft of the proposed law issued by the Senate Finance Committee (dated September 27, 1994), if it had been adopted, would have raised the fund through a combination of retrospective and prospective taxes for primary insurers and a retrospective tax for reinsurers. The 103rd Congress did not pass the reform bill. Because there is new legislative leadership in both the House and the Senate, among other reasons, management of Talegen does not believe the proposed law will pass the 104th Congress as last drafted. Accordingly, it is not possible to predict what effect the future legislative changes or reauthorization of Superfund will have on Talegen's future results.

Although it is not likely the law will be passed as last drafted, the Insurance Companies continue to receive requests from insurance company rating agencies and other interested parties regarding the percentage of hazardous waste claims and reserves involving NPL sites as well as estimates of taxes under the proposed law. Because of these requests, the following table provides the Insurance Companies estimate of such information at December 31, 1994:

#### NPL Information

Percentages of Total Applicable Hazardous Waste Amounts that Include NPL Sites; Aggregate Tax Amounts and Average Attachment Points in millions.

	Open Claims	Gross Case Reserves	Policy Limits on Primary Policies[3]	Excess Policy Limits[3]	Average Attachment Point[4]
Constitution Reinsurance [1]	N/A	N/A	N/A	N/A	N/A
Coregis [2]	N/M	N/M	N/M	N/M	N/M
Crum & Forster Insurance	25%	47%	53%	38%	\$ 38
Westchester Specialty Group	48%	20%	19%	46%	\$ 16
The Resolution Group	55%	70%	50%	71%	\$ 42

	Estimates of Aggregate Proposed Superfund Tax	
	Retrospective[6]	Prospective[7]
Constitution Reinsurance [1]	\$ 19	N/A[5]
Coregis [2]	\$ 1	\$ 15
Crum & Forster Insurance	\$ 59	\$ 67
Westchester Specialty Group	\$ 4	\$ 23
The Resolution Group	\$ 5	\$ 2

- [1] Specific NPL information has generally not been submitted by primary insurers to Constitution Reinsurance thus the information has been marked as not available ("N/A") in the table.
- [2] Due to the relatively insignificant number of reported hazardous waste claims and resultant case reserves, this information is not meaningful ("N/M") to Coregis.
- [3] Exposed limits are defined as total policy limits on open claims less losses paid-to-date at December 31, 1994.
- [4] The attachment point on an excess of loss insurance policy represents the loss dollar amount at which point the insurance policy would respond in accordance with the terms of coverage granted. For example, if the attachment point on an excess of loss policy is \$30 million, insurance coverage on that policy would not be exposed to a loss unless the total loss related to the insured event for that year of coverage exceeds \$30 million. This information has been estimated based on a sample of policies from open applicable claims.
- [5] Reinsurers are not subject to a prospective tax in the proposed law.
- [6] The retrospective tax for primary insurers under the law would have been based on the insurers proportionate share of commercial multiple peril and other liability lines of business written between 1968 and 1985 and, for reinsurers, would have been based on their net premiums written between 1968 and 1985. This information has been estimated based on a sample of policies from open applicable claims.
- [7] The prospective tax for primary insurers would have been based on primary insurers' proportionate share of premiums written for the next ten years.

#### Other Latent or Long-Tail Claims

A diversity of claims have been filed that assert injury or loss due to exposure to a substance or device from a prolonged period. The following table sets forth gross and net losses and allocated LAE related to other latent or long-tail claims of the Insurance Companies:

#### Other Latent or Long-Tail Claims Reserve Information



Crum & Forster Insurance	20	40	-	3	10	70	40	80	70	193	158
The Resolution Group	10	20	2	4	2	80	-	5	14	109	57
Westchester Specialty Group	5	15	1	3	2	35	-	6	8	59	34
Total	\$ 40	\$ 95	\$ 3	\$ 10	\$ 24	\$ 215	\$ 40	\$ 91	\$ 107	\$ 411	\$ 301

[1] Included are case, IBNR and allocated loss adjustment expense reserves. Total excludes \$2 million of reserves for Mt. Airy Insurance Company, an Insurance Company within the Coregis insurance operating group. Hazardous waste exposures for Coregis are not significant primarily because 1986 was the first year significant business volume was written by Insurance Companies within the Coregis insurance operating group.

Because the above ranges have been estimated on a net basis, they do not allow for uncollectible reinsurance. See discussion of the allowance for doubtful reinsurance in Note 13 on Page 68 of the Company's 1994 Annual Report to Shareholders. Additionally, the above ranges exclude consideration of potential Ridge Re contract recoveries, which, as previously described, provides aggregate excess of loss protection for adverse development on all loss and loss expense reserves and uncollectible reinsurance reserves for 1992 and prior accident years. Cessions to Ridge Re, while beneficial to Talegen, do not result in a benefit to the Insurance segment or consolidated Xerox accounts. Based on the information available to them at December 31, 1994, the insurance operating groups and Talegen do not expect that liabilities associated with incurred asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or other long-tail liability claims will have a material adverse affect on any of the above insurance operating group's future liquidity or financial position. However, given the complexity and lack of precision in estimating the exposure, no assurance can be made as to the future potential impact of such claims.

#### Discontinued Operations

Other Financial Services, which were discontinued in 1993, had no after-tax income in 1994, \$63 million income in 1993, and a \$39 million loss in 1992. Included in the 1993 income was a \$62 million after-tax gain from the completion of two sales. The 1992 loss includes \$90 million of adjustments, primarily for the partial write-down of goodwill. The net investment in OFS was \$232 million at December 31, 1994. The Company believes that the liquidation of the remaining OFS units will not result in a net loss. On February 17, 1993, the Company completed the sale of VKM to an entity formed by Clayton, Dubilier & Rice, Inc. for approximately \$360 million. On October 25, 1993, the Company completed the sale of Furman Selz to a group of Furman Selz employees. The purchase price was \$99 million in cash and junior subordinated debt. As part of the transaction, an affiliate of XFSI acquired nine percent of the equity of the newly constituted Furman Selz. The \$99 million price does not include the proceeds from the sale of Shields, a Furman Selz subsidiary, and Regent, a subsidiary of Shields. The business and assets of Shields and Regent were sold to Alliance Capital Management L.P. in a sale that closed in the first quarter of 1994. The terms of the Furman Selz sales agreement resulted in additional sales proceeds yielding approximately \$60 million before settlement of related liabilities.

General American Life Insurance Company and XFSI signed a definitive agreement in January 1995 for a wholly-owned subsidiary of General American (New Owner) to acquire Xerox Life and related companies. Closing of the sale is subject to the customary closing conditions and regulatory approvals, and is targeted for the first half 1995. At closing, New Owner will rename the Xerox Life Companies. OakRe Life Insurance Company, an XFSI subsidiary formed in 1994, will assume responsibility for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life's Missouri and California companies (Life Companies) via a reinsurance agreement (Agreement). The Agreement includes a provision for the assumption (at their election) by the Life Companies, of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with a New Owner affiliate provides for the assumption of the liability under the Coinsurance Agreement for any SPDA policies not so assumed by the Life 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 New Owner.

During 1990, the Company decided to withdraw from its real-estate development and financing operations and third-party financing businesses. Since that time, these operations have been in an orderly liquidation and assets were reduced to \$547 million at the end of 1994 from \$3,749 million at the end of 1989, with assigned debt correspondingly reduced to \$231 million from \$2,781 million. Management believes that the combination of existing reserves together with run-off profits should adequately provide for any credit losses or losses on disposition.

#### Item 2. Properties

Within the Business Equipment industry segment, the Company owns a total of ten principal manufacturing and engineering facilities and leases an additional two such facilities. The domestic facilities are located in California, New York and Oklahoma, while the international facilities are located in Brazil, Canada, England, France, Holland and Mexico. The Company also has four principal research facilities; two are owned facilities in New York and Canada, and two are leased facilities in California and France.

In addition, within the Document Processing segment, there are numerous facilities which encompass general offices, sales offices, service locations and distribution centers. The principal owned facilities are located in New York, England, Italy and Mexico. The principal leased facilities are located in California, Virginia, Brazil, Canada, England, France, Germany and Italy.

As part of the Worldwide Document Processing restructuring program announced in December 1993, the Company identified specific facilities to be closed or consolidated over the next two years. Details of the facilities to be closed

are announced periodically as local implementation plans are finalized.

Within the Insurance industry segment, there are numerous facilities, primarily within the United States, which encompass general, sales and administrative offices. The principal facilities, almost all of which are leased, are located in California, Illinois, New Jersey, New York and Washington.

The Company's Corporate Headquarters facility, located in Connecticut, is leased; a training facility, located in Virginia, is owned by the Company. In the opinion of Xerox management, its properties have been well maintained, are in sound operating condition and contain all the necessary equipment and facilities to perform the Company's functions.

#### Item 3. Legal Proceedings

The information set forth under Note 18 "Litigation" on pages 79 through 81 of the Company's 1994 Annual Report to Shareholders is incorporated by reference in this document in answer to this item.

On July 21, 1993, the Company was notified that it had been named as a respondent by the United States Environmental Protection Agency ("EPA") in a unilateral Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") section 106 (a) Administrative Order regarding the Metcoa Radiation Site in Pulaski, PA. The Order directs the Company and 21 other companies to perform remedial work at the Site. The order alleges that these parties are jointly and severally liable to perform the work. Under CERCLA, a respondent that does not comply with the Order could be subject to a civil penalty of \$25,000 for each day of noncompliance and be liable for punitive damages at least equal to treble the EPA's cost of cleaning up the Site. The Company denies that it is liable to perform the work described in the Order.

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

None.

### PART II

#### Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The information set forth under the following captions on the indicated pages of the Company's 1994 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item:

Caption	Page No.
Stock Listed and Traded	92
Dividends and Stock Prices	89
Nine Years in Review - Common Shareholders of Record at Year-End	88 and 89

#### Item 6. Selected Financial Data

The following information, as of and for the five years ended December 31, 1994, as set forth and included under the caption "Nine Years in Review" on pages 88 and 89 of the Company's 1994 Annual Report to Shareholders, is hereby incorporated by reference in this document in answer to this Item:

Revenues - Document Processing  
Revenues - Insurance  
Total revenues  
Income (loss) from continuing operations  
Primary earnings (loss) per common share from continuing operations  
Total assets  
Long-term debt  
Preferred stock  
Dividends declared per common share

#### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information set forth under the caption "Financial Review" on pages 29-37, 39, and 42-57 of the Company's 1994 Annual Report to Shareholders is hereby incorporated by reference in this document in answer to this Item.

#### Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of Xerox Corporation and subsidiaries and the notes thereto and the report thereon of KPMG Peat Marwick LLP, independent auditors, which appear on pages 28, 38, 40-41, 58-85, and 87 of the Company's 1994 Annual Report to Shareholders, are hereby incorporated by reference in this document in answer to this Item. In addition, also included is the quarterly financial data included under the caption "Quarterly Results of Operations (Unaudited)" on page 86 of the Company's 1994 Annual Report to Shareholders.

The other financial statements and schedules required herein are filed as "Financial Statement Schedules" pursuant to Item 14 of this Report on Form 10-K.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

### PART III

The information set forth in "Proposal 1--Election of Directors" in the Company's Notice of the 1995 Annual Meeting of Shareholders and Proxy

Statement, to be filed pursuant to Regulation 14A not later than 120 days after the close of the fiscal year covered by this report on Form 10-K, is hereby incorporated by reference in this document in answer to this Part III.

#### Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. There are no family relationships between any of the executive officers named.

Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

Name	Age	Present Position	Year Appointed to Present Position	Officer Since
Paul A. Allaire*	56	Chairman of the Board, Chief Executive Officer and Chairman of the Executive Committee	1991	1983
A. Barry Rand	50	Executive Vice President, Operations	1992	1986
Barry D. Romeril	51	Executive Vice President and Chief Financial Officer	1993	1993
Stuart B. Ross	57	Executive Vice President; Chairman and Chief Executive Officer, Xerox Financial Services, Inc.	1990	1979
Peter van Cuylenburg	47	Executive Vice President, Operations	1993	1993
William F. Buehler	55	Senior Vice President and Chief Staff Officer	1993	1991
Allan E. Dugan	54	Senior Vice President, Corporate Strategic Services	1992	1990
Mark B. Myers	56	Senior Vice President, Corporate Research and Technology	1992	1989
Richard S. Paul	53	Senior Vice President and General Counsel	1992	1989

\* Member of Xerox Board of Directors.

#### Executive Officers of Xerox, Continued

Name	Age	Present Position	Year Appointed to Present Position	Officer Since
Richard S. Barton	46	Vice President; President, U.S. Customer Operations	1993	1993
Eunice M. Filter	54	Vice President, Treasurer and Secretary	1990	1984
Philip D. Fishbach	53	Vice President and Controller	1995	1990
John A. Lopiano	56	Vice President; President, Xerox Production Systems	1995	1993
Patrick J. Martin	54	Vice President; President, Office Document Products	1993	1992

Each officer named above, with the exceptions of William F. Buehler, Barry D. Romeril and Peter van Cuylenburg, has been an officer or an executive of Xerox or its subsidiaries for at least the past five years.

Prior to joining Xerox in 1991, Mr. Buehler was Vice President, Network Systems Sales at the American Telephone & Telegraph Company (AT&T). Mr. Buehler had been affiliated with AT&T since 1964.

Prior to joining Xerox in 1993, Mr. Romeril had been Group Finance Director at British Telecommunications Plc since 1988. From 1987 to 1988 he was Finance Director at BTR, Incorporated.

Prior to joining Xerox in 1993, Mr. van Cuylenburg had been President and Chief Operating Officer of NeXT Computer Inc. since 1992. From 1989 to 1992 he was with Cable & Wireless Plc as a group director and as Chief Executive of Mercury Communications Ltd., a subsidiary.

#### PART IV

##### Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a) (1) and (2) The financial statements, independent auditors' reports and financial statement schedules being filed are listed or otherwise included in the attachment.

(3) The exhibits filed herewith or incorporated herein by reference are set forth on the Index of Exhibits included herein.

- (b) No Current Reports on Form 8-K were filed during the last quarter of the period covered by this Report.
- (c) The management contracts or compensatory plans or arrangements listed in the Index of Exhibits that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 1995 Proxy Statement are preceded by an asterisk (\*).

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ Barry D. Romeril  
Executive Vice President and  
Chief Financial Officer

March 30, 1995

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

March 30, 1995

Signature	Title
Principal Executive Officer:	
Paul A. Allaire	/s/ Paul A. Allaire Chairman, Chief Executive Officer and Director
Principal Financial Officer:	
Barry D. Romeril	/s/ Barry D. Romeril Executive Vice President and Chief Financial Officer
Principal Accounting Officer:	
Philip D. Fishbach	/s/ Philip D. Fishbach Vice President and Controller
Directors:	
/s/ Robert A. Beck	Director
/s/ Joan Ganz Cooney	Director
/s/ B. R. Inman	Director
/s/ Vernon E. Jordan, Jr.	Director
/s/ Yotaro Kobayashi	Director
/s/ Ralph S. Larsen	Director
/s/ John D. Macomber	Director
/s/ N. J. Nicholas, Jr.	Director
/s/ John E. Pepper	Director
/s/ Martha R. Seger	Director
/s/ Thomas C. Theobald	Director

Report of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

Under date of January 31, 1995, we reported on the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1994 and 1993 and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1994, as contained in the Xerox Corporation 1994 Annual Report to Shareholders on pages 28, 38, 40-41, and 58-85. These consolidated financial statements and our report thereon are incorporated by reference in the 1994 Annual Report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also have audited the related financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 2, the Company changed its methods of accounting for income taxes and postretirement benefits other than pensions in 1992.

KPMG PEAT MARWICK LLP

Stamford, Connecticut  
January 31, 1995, except as to Notes 18 and 22,  
which are as of March 2, 1995

Index to Financial Statements and Schedules

Financial Statements:

Consolidated statements of income of Xerox Corporation and subsidiaries for each of the years in the three-year period ended December 31, 1994

Consolidated balance sheets of Xerox Corporation and subsidiaries as of December 31, 1994 and 1993

Consolidated statements of cash flows of Xerox Corporation and subsidiaries for each of the years in the three-year period ended December 31, 1994

Notes to consolidated financial statements

The above consolidated financial statements and related notes which appear on pages 28, 38, 40-41, and 58-85 of the Company's 1994 Annual Report to Shareholders are hereby incorporated by reference in this document.

Commercial and Industrial (Article 5) Schedules:

I - Condensed financial information of registrant

II - Valuation and qualifying accounts

Insurance (Article 7) Schedules:

None

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

SCHEDULE I

Xerox Corporation - Parent Company  
Condensed Statements of Income

Year ended December 31 (in millions, except per-share data)	1994	1993	1992
<b>Revenues</b>			
Sales	\$ 3,582	\$ 3,336	\$ 3,270
Service and rentals	3,399	3,162	3,033
Sales to unconsolidated companies	1,090	902	1,093
Other income	51	63	58
<b>Total Revenues</b>	<b>8,122</b>	<b>7,463</b>	<b>7,454</b>
<b>Costs and Expenses</b>			
Cost of sales	2,066	1,824	1,769
Cost of service and rentals	1,633	1,614	1,556
Cost of sales to unconsolidated companies	987	825	878
Research and development expenses	832	814	838
Selling, administrative and general expenses	2,342	2,311	2,298
Interest expense	213	210	199
Special charges, net	-	887	-
Other, net	(303)	(302)	(326)
<b>Total Costs and Expenses</b>	<b>7,770</b>	<b>8,183</b>	<b>7,212</b>
<b>Income (Loss) before Income Taxes and Equity Income</b>	<b>352</b>	<b>(720)</b>	<b>242</b>
<b>Income Taxes (Benefits)</b>	<b>173</b>	<b>(262)</b>	<b>160</b>

Equity in Net Income (Loss) of Unconsolidated Companies' Continuing Operations	615	269	(299)
Income (Loss) from Continuing Operations	794	(189)	(217)
Equity in Net Income (Loss) of Unconsolidated Companies' Discontinued Operations	-	63	(39)
Cumulative Effect of Changes in Accounting Principles	-	-	(764)
Net Income (Loss)	\$ 794	\$ (126)	\$(1,020)
Primary Earnings (Loss) per Share			
Continuing Operations	\$ 6.73	\$ (2.46)	\$ (2.91)
Discontinued Operations	-	.62	(.41)
Cumulative Effect of Changes in Accounting Principles	-	-	(7.97)
Primary Earnings (Loss) per Share	\$ 6.73	\$ (1.84)	\$(11.29)
Fully Diluted Earnings (Loss) per Share			
Continuing Operations	\$ 6.44	\$ (2.46)	\$ (2.91)
Discontinued Operations	-	.62	(.41)
Cumulative Effect of Changes in Accounting Principles	-	-	(7.97)
Fully Diluted Earnings (Loss) per Share	\$ 6.44	\$ (1.84)	\$(11.29)

See notes to condensed financial statements.

#### SCHEDULE I

##### Xerox Corporation - Parent Company Condensed Balance Sheets

December 31 (in millions)	1994	1993
Assets		
Cash	\$ 29	\$ 23
Accounts Receivable, net	673	670
Finance Receivables, net	1,170	1,079
Inventories	1,068	995
Land, Buildings and Equipment, net	1,232	1,301
Investments in and Advances to Unconsolidated Companies' Continuing Operations	5,783	5,218
Deferred Income Taxes	694	828
Investments in Discontinued Operations, net	779	1,063
Other Assets	368	411
Total Assets	\$11,796	\$11,588
Liabilities and Equity		
Accounts Payable	\$ 251	\$ 252
Accrued Compensation and Benefit Costs	585	451
Unearned Income	99	132
Other Liabilities	1,787	2,033
Short-Term Debt and Current Portion of Long-Term Debt	480	327
Long-Term Debt	3,201	3,023
Liability for Postretirement Medical Benefits	980	973
Deferred ESOP Benefits	(596)	(641)
Preferred Stock	832	1,066
Common Shareholders' Equity*	4,177	3,972
Total Liabilities and Equity	\$11,796	\$11,588

See notes to condensed financial statements.

\* Shares of common stock issued and outstanding at December 31, 1994 and 1993 were (in thousands) 105,993 and 104,122, respectively.

#### SCHEDULE I

##### Xerox Corporation - Parent Company Condensed Statements of Cash Flows

Year ended December 31 (in millions)	1994	1993	1992
Net Cash Flows from Operating Activities			
Income (Loss) from Continuing Operations	\$ 794	\$(189)	\$(217)
Adjustments required to reconcile income (loss) from continuing operations to cash flows from operating activities:			

Depreciation and amortization	356	317	293
Document Processing provision for special charges	-	887	-
Provisions for doubtful accounts	57	56	85
Provision for postretirement medical benefits	53	65	58
Charges against 1993 restructuring reserve	(226)	-	-
Equity in (income) loss of unconsolidated companies' continuing operations, net of dividends	(540)	(231)	394
Net increase in inventories	(274)	(175)	(255)
Net increase in other operating assets and liabilities	(31)	(100)	(355)
Other, net	170	(324)	414
<b>Total</b>	<b>359</b>	<b>306</b>	<b>417</b>

#### Cash Flows from Investing Activities

Additions to land, buildings and equipment	(203)	(271)	(282)
Proceeds from sales of land, buildings and equipment	115	12	10
Investments in and advances to unconsolidated companies	(110)	(79)	(135)
Return of capital from unconsolidated companies	13	20	-
Other, net	7	4	7
<b>Total</b>	<b>(178)</b>	<b>(314)</b>	<b>(400)</b>

#### Cash Flows from Financing Activities

Decrease in short-term debt, net	-	-	(98)
Proceeds from long-term debt	679	150	484
Principal payments on long-term debt	(304)	(324)	(168)
<b>Subtotal</b>	<b>375</b>	<b>(174)</b>	<b>218</b>
Dividends on common and preferred stock	(395)	(389)	(373)
Proceeds from sale of common stock	90	665	113
Redemption of preferred stock	(245)	(6)	(6)
Other, net	-	(1)	(1)
<b>Total</b>	<b>(175)</b>	<b>95</b>	<b>(49)</b>

Change in Cash (Bank Overdraft) During the Year	6	87	(32)
Cash (Bank Overdraft) at Beginning of Year	23	(64)	(32)
Cash (Bank Overdraft) at End of Year	\$ 29	\$ 23	\$ (64)

See notes to condensed financial statements.

#### SCHEDULE I

#### Xerox Corporation - Parent Company Notes To Condensed Financial Statements

##### Note 1. Financial Statement Presentation

Certain prior year balances have been reclassified to conform to the 1994 presentation.

##### Note 2. Long-Term Debt

A summary of long-term debt at December 31, 1994 and 1993 follows:

(in millions)	Weighted average interest rates at December 31, 1994	1994	1993
Guaranteed ESOP notes due 1999-2004	7.69%	\$ 596	\$ 641
Notes due 1994	-	-	200
Notes due 1995	8.75	150	150
Notes due 1996	8.38	100	100
Notes due 1997	9.63	200	200
Notes due 1999	6.93	738	250
Notes due 2000	9.75	200	200
Notes due 2001	7.39	62	-
Notes due 2002	8.13	200	200
Notes due 2004	7.17	225	200
Notes due 2006	8.09	45	-
Debentures due 1995	9.25	200	200
Debentures due 2000	9.63	100	100
Commercial paper	6.03	761	701
Other debt due 1994-2014	8.51	97	201
Capital lease obligations	5.48	7	7
<b>Subtotal</b>		<b>3,681</b>	<b>3,350</b>
Less current maturities		480	327
<b>Total long-term debt</b>		<b>\$3,201</b>	<b>\$3,023</b>

Debt Maturities - Scheduled payments due on long-term debt for the next five years are (in millions): 1995-\$480; 1996-\$161; 1997-\$266; 1998-\$71; 1999-\$813 and thereafter \$1,890.

Payment subsequent to 1999 include domestic commercial paper which has been classified as long-term debt because the Company has the intention and the ability under the revolving credit agreements to affect refinancing on a long-term basis.

##### Note 3. Dividends from Unconsolidated Companies

Dividends received from unconsolidated companies were (in millions): 1994-\$75; 1993-\$38; and 1992-\$95.

SCHEDULE II

Valuation and Qualifying Accounts  
Year ended December 31, 1994, 1993 and 1992

(in millions)	Balance at beginning of period	Additions charged to costs and expenses	Deductions, net of recoveries	Balance at end of period
<b>1994</b>				
Allowance for Losses on:				
Accounts Receivable	\$ 62	\$ 70	\$ 53	\$ 79
Finance Receivables	300	182	163	319
Reinsurance Receivables	5	12	10	7
Premiums Receivable	16	-	1	15
Deferred Tax Valuation Allowance*	134	152	-	286
	\$517	\$416	\$227	\$706
<b>1993</b>				
Allowance for Losses on:				
Accounts Receivable	\$ 68	\$ 51	\$ 57	\$ 62
Finance Receivables	275	199	174	300
Reinsurance Receivables	30	5	30	5
Premiums Receivable	9	2	(5)	16
Deferred Tax Valuation Allowance	100	34	-	134
	\$482	\$291	\$256	\$517
<b>1992</b>				
Allowance for Losses on:				
Accounts Receivable	\$ 68	\$ 67	\$ 67	\$ 68
Finance Receivables	212	200	137	275
Reinsurance Receivables	103	205	278	30
Premiums Receivable	7	5	3	9
Deferred Tax Valuation Allowance	100	-	-	100
	\$490	\$477	\$485	\$482

\* The 1994 increase in deferred tax valuation allowance was charged to net unrealized gain (loss) on investment securities in the Company's consolidated balance sheet.

Index of Exhibits

Document and Location

- (3) (a) (1) Restated Certificate of Incorporation of Registrant filed by the Department of State of New York on June 10, 1988.  
Incorporated by reference to Exhibit 3(a) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1988.
- (2) Certificate of Amendment dated July 7, 1989 to the Restated Certificate of Incorporation.  
Incorporated by reference to Exhibit 3(a) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1989.
- (3) Certificate of Amendment dated October 10, 1994 to the Restated Certificate of Incorporation.
- (b) By-Laws of Registrant, as amended through May 29, 1991.  
Incorporated by reference to Exhibit 3(b)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1991.
- (4) (a) Indenture dated as of July 1, 1986 between Registrant and Bankers Trust Company relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.  
Incorporated by reference to Exhibit 4(a) to Registration No. 33-7415.
- (b) Indenture dated as of February 1, 1989 between Registrant and Chemical Bank relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.  
Incorporated by reference to Exhibit 4(a) to Registration No. 33-27188.
- (c) Indenture dated as of January 15, 1990 between Registrant and BankAmerica National Trust Company (as successor in interest to Security Pacific National Trust Company (New York)) relating

to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration No. 33-33150.

- (d) Indenture dated as of December 1, 1991 between Registrant and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors.

Incorporated by reference to Exhibit 4(a) to Registration No. 33-44597.

- (e) Indenture dated as of February 1, 1987 between Xerox Credit Corporation (XCC) and Continental Illinois National Bank and Trust Company of Chicago relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by the XCC's Board of Directors or the Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit (4)(a) to XCC's Registration Statement No. 33-12160.

- (f) Indenture dated as of March 1, 1988, as supplemented by the First Supplemental Indenture dated as of July 1, 1988, between XCC and The First National Bank of Chicago relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or the Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-20640 and to Exhibit 4(a)(2) to XCC's Current Report on Form 8-K dated July 13, 1988.

- (g) Indenture dated as of March 1, 1989, as supplemented by the First Supplemental Indenture dated as of October 1, 1989, between XCC and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-27525 and to Exhibit 4(a)(2) to XCC's Registration Statement No. 33-31367.

- (h) Indenture dated as of August 1, 1991, as supplemented by the First Supplemental Indenture dated as of December 31, 1991, between XCC and Bank of Montreal Trust Company relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-39838.

- (i) Indenture dated as of October 1, 1991, as supplemented by the First Supplemental Indenture dated as of May 1, 1992, between XCC and Citibank, N.A. relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-43470.

- (j) Indenture dated as of May 1, 1994, between XCC and The First National Bank of Boston relating to unlimited amounts of debt securities which may be issued from time to time by XCC when and as authorized by XCC's Board of Directors or Executive Committee of the Board of Directors.

Incorporated by reference to Exhibit 4(a) to XCC's Registration Statement No. 33-53533 and to Exhibits 4(a)(1) and 4(a)(2) to XCC's Registration Statement No. 33-43470.

- (k) Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10% of the total assets of the Registrant and its subsidiaries on a consolidated basis have not been filed. The Registrant agrees to furnish to the Commission a copy of each such instrument upon request.

- (10) The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 1995 Proxy Statement are preceded by an asterisk (\*).

- \*(a) Registrant's 1976 Executive Long-Term Incentive Plan, as amended through February 4, 1991.

Incorporated by reference to Exhibit (10)(a) to the Registrant's Annual Report on Form 10-K for the Year Ended December 31, 1991.

- \*(b) Registrant's 1991 Long-Term Incentive Plan, as amended through July 15, 1991.

Incorporated by reference to Exhibit 10(b) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30,

1991.

- (c) Registrant's Retirement Income Plan for Directors, as amended through October 2, 1989.  
  
Incorporated by reference to Exhibit 10(n) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended September 30, 1989.
- \*(d) Description of Registrant's Annual Performance Incentive Plan.  
  
Incorporated by reference to Exhibit 10(d) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- \*(e) Registrant's 1993 Restatement of Unfunded Retirement Income Guarantee Plan.  
  
Incorporated by reference to Exhibit 10(e) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- (f) Consent Order To Cease and Desist. In the Matter of Xerox Corporation, Before the Federal Trade Commission, Docket No. 8909 dated 3/29/75.  
  
Incorporated by reference to Exhibit I to Registrant's Report on Form 8-K for July 1975.
- \*(g) 1993 Restatement of Registrant's Unfunded Supplemental Retirement Plan.  
  
Incorporated by reference to Exhibit 10(g) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- (h) Registrant's 1981 Deferred Compensation Plan, 1985 Restatement, as amended through April 2, 1990.  
  
Incorporated by reference to Exhibit 10(h) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended March 31, 1990.
- (i) Registrant's Restricted Stock Plan for Directors, as amended through February 7, 1994.  
  
Incorporated by reference to Exhibit 10(i) to Registrant's Annual Report on Form 10-K for the Year Ended December 31, 1993.
- \*(j) Form of severance agreement entered into and to be entered into with various executive officers.  
  
Incorporated by reference to Exhibit 10(j) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1989.
- \*(k) Registrant's Contributory Life Insurance Plan.  
  
Incorporated by reference to Exhibit 10(s) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 1989.
- (l) 1993 Amendment and Restatement of Registrant's 1989 Deferred Compensation Plan for Directors.  
  
Incorporated by reference to Exhibit 10(l) to Registrant's Annual Report on Form 10-K for the year ended December 31.
- \*(m) 1993 Amendment and Restatement of Registrant's 1989 Deferred Compensation Plan for Executives.  
  
Incorporated by reference to Exhibit 10(m) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993.
- (11) Statement re computation of per share earnings.
- (12) Computation of Ratio of Earnings to Fixed charges.
- (13) Pages 28 through 92 of Registrant's 1994 Annual Report to Shareholders.
- (21) Subsidiaries of the Registrant.
- (23) Consent of KPMG Peat Marwick LLP.
- (28) P Schedule P of Annual Statements to State Regulatory Authorities.  
  
Incorporated by reference to Exhibit (28) on the Form SE of Registrant dated March 27, 1995.

Certificate of Amendment  
of the  
Certificate of Incorporation  
of  
Xerox Corporation  
Under Section 805 of the Business Corporation Law

We, the undersigned, Eunice M. Filter, Vice President and Martin S. Wagner, Assistant Secretary of Xerox Corporation (the "Corporation") hereby certify that:

1. The name of the Corporation is "XEROX CORPORATION". The name under which the Corporation was formed is "THE HALOID COMPANY".
2. The Certificate of Incorporation was filed by the Department of State on April 18, 1906 under the name The Haloid Company.
3. The Certificate of Incorporation of the Corporation is hereby being amended pursuant to Section 805 of the BCL to (a) reduce the number of authorized shares of Cumulative Preferred Stock, par value \$1.00 per share, of the Corporation ("Cumulative Preferred Stock") and (b) reduce the stated capital of the Corporation resulting from (i) the cancellation, pursuant to Section 515(d) of the BCL, of 2,970,153 shares of the Corporation's \$4.125 Twenty-Year Sinking Fund Preferred Stock (the "Twenty-Year Preferred Stock"), a series of Cumulative Preferred Stock, heretofore acquired by the Corporation by optional redemption other than for a sinking fund and (ii) the elimination, pursuant to Section 515(e) of the BCL and subdivision 4 of Article FOURTH of the Certificate of Incorporation of the Corporation, of 1,456,933 shares of Cumulative Preferred Stock (consisting of 456,933 shares of the Twenty-Year Preferred Stock and 1,000,000 shares of the Corporation's \$3.6875 Ten-Year Sinking Fund Preferred Stock, a series of Cumulative Preferred Stock) heretofore acquired by the Corporation by sinking fund redemptions. Subdivision 4 of Article FOURTH of the Certificate of Incorporation of the Corporation prohibits the reissue of any shares of Cumulative Preferred Stock of any series redeemed or retired pursuant to a sinking fund and requires that such shares be eliminated in the manner provided by law from the authorized capital stock of the Corporation.

4. The lead-in paragraph of Article FOURTH of the Certificate of Incorporation of the Corporation reads as follows:

"FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 350,000,000 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 25,000,000 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock")."

5. The lead-in paragraph of Article FOURTH of the Certificate of Incorporation of the Corporation is hereby amended to read as follows:

"FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 350,000,000 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 23,543,067 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock")."

6. The stated capital of the Corporation is hereby reduced by \$4,427,086, the amount represented by the shares of Cumulative Preferred Stock heretofore acquired by the Corporation by optional and sinking fund redemptions and thereafter cancelled or eliminated.

7. The foregoing amendment of the Certificate of Incorporation of the Corporation was authorized by the Board of Directors of the Corporation at a meeting duly called and held on October 10, 1994.

IN WITNESS WHEREOF, we have subscribed this document on the date set forth below and do hereby affirm, under the penalties of perjury, that the statements contained therein have been examined by us and are true and correct.

Date: October 10, 1994

/s/ Eunice M. Filter  
Name: Eunice M. Filter  
Title: Vice President

/s/ Martin S. Wagner  
Name: Martin S. Wagner  
Title: Assistant Secretary

Computation of Net Income Per Common Share

(Dollars in millions, except per-share data; shares in thousands)

I. Primary Net Income (Loss) Per Common Share

Income (loss) from continuing operations  
 Accrued dividends on ESOP preferred stock, net  
 Accrued dividends on redeemable preferred stock  
 Call premium on redeemable preferred stock  
 Adjusted income (loss) from continuing operations  
 Discontinued operations  
 Change in accounting principles  
 Adjusted net income (loss)

Average common shares outstanding during the period  
 Common shares issuable with respect to common  
 stock equivalents for stock options, incentive and  
 exchangeable shares  
 Adjusted average shares outstanding for the period

Primary earnings (loss) per share:  
 Continuing operations  
 Discontinued operations  
 Change in accounting principles  
 Primary earnings (loss) per share

II. Fully Diluted Net Income (Loss) Per Common Share

Income (loss) from continuing operations  
 Accrued dividends on ESOP preferred stock, net  
 Accrued dividends on redeemable preferred stock  
 Call premium on redeemable preferred stock  
 ESOP expense adjustment, net of tax  
 Interest on convertible debt, net of tax  
 Adjusted income (loss) from continuing operations  
 Discontinued operations  
 Change in accounting principles  
 Anti-dilution adjustment, net  
 Adjusted net income (loss)

Average common shares outstanding during the period  
 Common shares issuable with respect to:  
 Stock options, incentive and exchangeable shares  
 Convertible debt  
 ESOP preferred stock  
 Adjusted average shares outstanding for the period

Fully diluted earnings (loss) per share:  
 Continuing operations  
 Discontinued operations  
 Change in accounting principles  
 Fully diluted earnings (loss) per share \*

\* Fully diluted net income per share for the year ended December 31, 1990 is computed by dividing adjusted net income of \$157 by the adjusted average shares outstanding for the period of 94,220 used in the computation of primary net income per common share. This computation is necessitated by the anti-dilutive nature of convertible debt and ESOP preferred stock which would otherwise increase fully diluted net income per share for this period.

EXHIBIT 11

	1994	1993	1992	1991	1990
\$	794	\$ (189)	\$ (217)	\$ 438	\$ 610
	(41)	(38)	(39)	(60)	(63)
	(12)	(23)	(23)	(23)	(23)
	(11)	-	-	-	-
	730	(250)	(279)	355	524
	-	63	(39)	16	(367)
	-	-	(764)	-	-
\$	730	\$ (187)	\$(1,082)	\$ 371	\$ 157
	105,425	100,047	94,424	92,447	92,196
	3,001	1,354	1,484	2,479	2,024
	108,426	101,401	95,908	94,926	94,220
\$	6.73	\$ (2.46)	\$ (2.91)	\$ 3.74	\$ 5.56
	-	.62	(.41)	.17	(3.90)
	-	-	(7.97)	-	-
\$	6.73	\$ (1.84)	\$(11.29)	\$ 3.91	\$ 1.66
\$	794	\$ (189)	\$ (217)	\$ 438	\$ 610
	-	(38)	(39)	-	-
	(12)	(23)	(23)	(23)	(23)
	(11)	-	-	-	-
	(7)	-	-	(25)	(33)
	3	-	-	1	4
	767	(250)	(279)	391	558
	-	63	(39)	16	(367)
	-	-	(764)	-	-
	-	-	-	-	(34)
\$	767	\$ (187)	\$(1,082)	\$ 407	\$ 157

105,425	100,047	94,424	92,447	92,196
3,001	1,354	1,484	2,791	2,024
881	-	-	217	881
9,770	-	-	10,007	10,028
119,077	101,401	95,908	105,462	105,129
\$ 6.44	\$ (2.46)	\$ (2.91)	\$ 3.71	\$ 5.31
-	.62	(.41)	.15	(3.65)
-	-	(7.97)	-	-
\$ 6.44	\$ (1.84)	\$(11.29)	\$ 3.86	\$ 1.66

## Computation of Ratio of Earnings to Fixed Charges

Year ended December 31 (in millions)	1994	1993*	1992**	1991***	1990
<b>Fixed Charges:</b>					
Interest expense	\$ 732	\$ 755	\$ 845	\$ 818	\$ 855
Rental expense	190	201	213	211	196
Total fixed charges before capitalized interest	922	956	1,058	1,029	1,051
Capitalized interest	2	5	17	3	-
Total fixed charges	\$ 924	\$ 961	\$1,075	\$1,032	\$1,051
<b>Earnings available for fixed charges:</b>					
Earnings****	\$1,602	\$ (227)	\$ 171	\$ 963	\$1,103
Less undistributed income in minority owned companies	(54)	(51)	(52)	(70)	(60)
Add fixed charges before capitalized interest	922	956	1,058	1,029	1,051
Total earnings available for fixed charges	\$2,470	\$ 678	\$ 1,177	\$1,922	\$2,094
Ratio of earnings to fixed charges (1)(2)	2.67	0.71	1.09	1.86	1.99

(1) The ratio of earnings to fixed charges has been computed based on the Company's continuing operations by dividing total earnings available for fixed charges, excluding capitalized interest, by total fixed charges. Fixed charges consist of interest, including capitalized interest, and one-third of rent expense as representative of the interest portion of rentals. Interest expense has been assigned to discontinued operations principally on the basis of the relative amount of gross assets of the discontinued operations. Management believes that this allocation method is reasonable in light of the debt specifically assigned to discontinued operations. The discontinued operations consist of the Company's real estate development and related financing operations and its third-party financing and leasing businesses, and Other Financial Services businesses.

(2) The Company's ratio of earnings to fixed charges includes the effect of the Company's finance subsidiaries, which primarily finance Xerox equipment. Financing businesses, due to their nature, traditionally operate at lower earnings to fixed charges ratio levels than do non-financial companies.

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

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

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

\*\*\*\* Sum of income before income taxes and income in minority owned companies.

Consolidated Statements of Income

Year ended December 31 (in millions, except per-share data)

	1994	1993	1992
-----			
Document Processing			
-----			
Revenues			
Sales	\$ 7,853	\$ 7,211	\$ 7,292
Service and rentals	6,229	5,954	5,948
Finance income	1,006	1,064	1,058
Total Revenues	15,088	14,229	14,298
-----			
Costs and Expenses			
Cost of sales	4,653	4,098	3,898
Cost of service and rentals	3,016	2,986	3,080
Equipment financing interest	502	537	547
Research and development expenses	895	883	922
Selling, administrative and general expenses	4,394	4,477	4,664
Special charges, net	-	1,373	-
Other, net	114	155	64
Total Costs and Expenses	13,574	14,509	13,175
-----			
Income (Loss) before Income Taxes, Equity Income and Minorities' Interests	1,514	(280)	1,123
Income Taxes (Benefits)	595	(78)	493
Equity in Net Income of Unconsolidated Affiliates	88	87	81
Minorities' Interests in Earnings of Subsidiaries	213	78	149
Income (Loss) from Document Processing	794	(193)	562
-----			
-----			
Insurance			
-----			
Revenues			
Insurance premiums earned	2,312	2,408	2,326
Investment and other income	437	401	552
Total Revenues	2,749	2,809	2,878
-----			
Costs and Expenses			
Insurance losses and loss expenses	1,769	1,836	2,725
Insurance acquisition costs and other insurance operating expenses	777	785	957
Interest expense	212	215	218
Administrative and general expenses	47	95	106
Goodwill write-down	-	-	400
Total Costs and Expenses	2,805	2,931	4,406
-----			
Realized Capital Gains	12	88	516
-----			
Income (Loss) before Income Taxes	(44)	(34)	(1,012)
Income Taxes (Benefits)	(44)	(38)	(233)
Income (Loss) from Insurance	-	4	(779)
-----			
-----			
Total Company			
-----			
Income (Loss) from Continuing Operations	794	(189)	(217)
Discontinued Operations	-	63	(39)
Cumulative Effect of Changes in Accounting Principles	-	-	(764)
Net Income (Loss)	\$ 794	\$ (126)	\$ (1,020)
=====			
-----			
Primary Earnings (Loss) per Share			
-----			
Continuing Operations	\$ 6.73	\$ (2.46)	\$ (2.91)
Discontinued Operations	-	.62	(.41)
Cumulative Effect of Changes in Accounting Principles	-	-	(7.97)
Primary Earnings per Share	\$ 6.73	\$ (1.84)	\$ (11.29)
=====			
-----			
Fully Diluted Earnings (Loss) per Share			
-----			
Continuing Operations	\$ 6.44	\$ (2.46)	\$ (2.91)
Discontinued Operations	-	.62	(.41)
Cumulative Effect of Changes in Accounting Principles	-	-	(7.97)
Fully Diluted Earnings per Share	\$ 6.44	\$ (1.84)	\$ (11.29)
=====			

The accompanying notes are an integral part of the consolidated financial statements.

Financial Review:

Document Processing and Total Company

SUMMARY OF TOTAL COMPANY RESULTS

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

Document Processing revenues increased 6 percent to \$15.1 billion in 1994, following a slight decline in revenues to \$14.2 billion in 1993 from \$14.3 billion in 1992. Insurance revenues declined 2 percent to \$2.7 billion in 1994, following a decline of 2 percent to \$2.8 billion in 1993 from \$2.9 billion in 1992.

Document Processing income in 1994 increased 37 percent to \$794 million, compared with \$580 million in 1993 before special items. On the same basis, income increased 3 percent in 1993 from \$562 million in 1992. The 1993 special items were charges of \$813 million after taxes to provide for the costs of restructuring the Document Processing business and lawsuit settlements, and \$40 million in one-time tax benefits. After special items, Document Processing reported a \$193 million loss in 1993.

Insurance income was zero in 1994, compared with income of \$4 million in 1993, and a loss of \$779 million in 1992. In 1992, in connection with the restructuring of the Company's property and casualty insurance unit, Talegen Holdings, Inc., the Company recognized after-tax charges of \$981 million, which were partially offset by associated realized capital gains of \$293 million after taxes.

The Company's discontinued operations had zero income in 1994 compared with income of \$63 million in 1993, and a loss of \$39 million in 1992. The 1993 results included a \$62 million after-tax gain on the sale of Van Kampen Merritt (VKM). The 1992 results included \$90 million of adjustments, primarily for the partial write-down of goodwill.

In 1992, the Company recognized a charge of \$764 million associated with the cumulative effect of the adoption of two accounting standards related to postretirement medical benefits and income taxes.

The Company's net income in 1994 of \$794 million compared with a net loss of \$126 million in 1993 after special items, and a net loss of \$1,020 million in 1992 after special charges and the cumulative effect of the adoption of the two accounting standards. On a comparable basis, the Company had net income of \$6.73 per primary share in 1994 compared with a net loss of \$1.84 per share in 1993 and a net loss of \$11.29 per share in 1992. Fully diluted earnings per share were \$6.44 in 1994 compared with a net loss of \$1.84 per share in 1993 and a net loss of \$11.29 per share in 1992.

Pictured here was a bar chart depicting Document Processing Earnings per Share of \$6.73 for 1994, \$5.07 for 1993 before special items and \$5.15 for 1992.

Although the presentation of separate Document Processing and Insurance Earnings Per Share is not in accordance with generally accepted accounting principles, the Company believes that, for analytical purposes, the separate reporting of Earnings Per Share represents the contributions of the Company's two businesses to the consolidated results of operations.

Primary earnings per share for Document Processing increased 33 percent to \$6.73 in 1994 from \$5.07 in 1993 before special items, which was a 2 percent decrease from \$5.15 in 1992. Fully diluted earnings per share for Document Processing increased 33 percent to \$6.44 in 1994 from \$4.86 in 1993 before special items, which was a 1 percent decrease from \$4.93 in 1992. 1993 Document Processing earnings per share reflect the impact of the additional 8.1 million shares issued in connection with the Company's equity offering in June 1993.

Primary and fully diluted earnings per share for Insurance were zero in 1994 compared with income of \$.04 in 1993 and a loss of \$8.06 in 1992.

#### DOCUMENT PROCESSING

#### UNDERLYING GROWTH

To understand the trends in the business, the Company believes that it is helpful to adjust revenue and expense growth (except for ratios) to exclude the impact of the translation of foreign currencies into U.S. dollars and special one-time items that distort the trends. This adjusted growth is referred to as "underlying growth." The items that have been excluded from the discussion of underlying growth are the 1993 charges from the Document Processing restructuring program and the lawsuit settlements, and one-time tax benefits.

When compared with the major European currencies, the U.S. dollar was approximately 2 percent stronger in 1994 and 11 percent stronger in 1993. As a result, foreign currency translation had an unfavorable impact of 1 percentage point on revenues in 1994 and 4 percentage points on revenues in 1993.

The Company does not hedge foreign-currency denominated revenues.

#### REVENUES

The estimated components of underlying growth were as follows:

	Underlying Growth		
	1994	1993	1992
Total Revenues	7%	3%	5%
Equipment Sales	10	1	6
Non-equipment revenues	5	5	6
Supplies	10	11	12
Paper	6	(4)	(3)
Service	4	6	6
Rentals	(1)	(6)	(6)
Facilities Management/Other	20	5	10
Finance Income	(4)	4	11

The changes in the growth rates of total revenues are principally driven by changes in the growth rates of equipment sales.

The improved growth in equipment sales in 1994 reflected good growth in black-and-white copiers, excellent growth in the DocuTech family of digital publishers and a near doubling of color copier and printer equipment sales. OEM printer sales also had strong growth. The 1993 reduction in the growth rate was principally the result of several weak economic environments, particularly in Western Europe.

Pictured here was a graphic depicting Equipment Sales Growth of 10% in 1994, 1% in 1993 and 6% in 1992.

Non-equipment revenues from supplies, paper, service, rentals, facilities management and other revenues, and income from customer financing, which represented 65 percent of total revenues in 1994, are less volatile than equipment sales revenues, and therefore provide significant stability to overall revenues. Growth in these revenues is primarily a function of the growth in the Company's installed population of equipment, usage and pricing.

Pictured here was George Roth, Treasury, Xerox Corporation.

. Supplies sales: The strong growth over the last several years is principally due to cartridge sales for personal and convenience copiers and to new OEM customers.

. Paper sales: The improvement in the growth rate in 1994 is primarily due to higher prices after several years of declining wholesale prices. The Company's strategy is to charge a spread over mill wholesale prices.

. Service revenues: The decline in growth in 1994 reflected the weak equipment sales growth in 1993.

. Rental revenues: After a number of years of decline, reflecting a customer preference for outright purchase of equipment, the rate of decline was arrested by an increasing, but still relatively small, trend toward cost-per-copy rental plans. During the 1994 fourth quarter, rental revenues grew modestly for the first time in several years.

. Facilities management, copy centers and other revenues: The growth in 1994 and 1993 reflected the trend of customers focusing on their core businesses and outsourcing their document processing requirements to Xerox.

. Finance income: The decline in 1994 reflects lower interest rates on financing contracts and a stabilization in the percent of customers who finance purchases through the Company at approximately 80 percent of equipment sales in the U.S. and 70 percent in Western Europe. Over time, the growth rate of finance income is expected to reflect the growth rate of equipment sales and trends in interest rates. The Company's strategy is to charge a spread over its cost of borrowing.

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

	Underlying Growth		
	1994	1993	1992
Total Revenues	7%	3%	5%
United States	7	4	6
Rank Xerox	7	2	6
Other Areas	7	4	5

United States revenues were 52 percent of total revenues. Revenues of Rank Xerox Limited and related companies (Rank Xerox), which manufactures and markets Xerox products in eastern hemisphere countries, were 31 percent of total revenues. Revenues of Other Areas, which includes operations principally in Latin America and Canada, were 17 percent of total revenues. The improved revenue growth in all areas in 1994 reflected good growth in black-and-white copiers, excellent growth in the DocuTech family of digital publishers and a near doubling of color copier and printer revenues, attributable, in part, to improved sales productivity and economic environments. The decline in U.S. revenue growth in 1993 was primarily due to the disruptions early in the year from the realignment of the U.S. sales force. The decline in Rank Xerox revenue growth in 1993 was primarily the result of the weak economic environment in Western Europe.

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

	Underlying Growth		
	1994	1993	1992
Total Revenues	7%	3%	5%
Digital Products	20	18	32
Black & White Copiers	4	-	1
Paper and Other Products	3	(5)	(5)

Revenues from digital products, comprised of digital publishing, electronic printing, and color copying and printing, represented 22 percent of total document processing revenues in 1994,

19 percent in 1993 and 17 percent in 1992. Total revenues from the DocuTech family of digital publishing products reflected excellent growth to \$1 billion in 1994, revenues from color products almost doubled to \$400 million, and revenues from black-and-white electronic printers had good growth in both 1994 and 1993.

The improved growth in revenues from black-and-white copiers in 1994 results from customer acceptance of the Company's broad product line, excellent growth in facilities management, strong growth in the emerging markets in Latin America, Africa, Eastern Europe and the former Soviet Union, and stronger economic environments in Europe and Brazil. Revenues from black-and-white copying represented 63 percent of total document processing revenues in 1994, 65 percent in 1993 and 66 percent in 1992.

The 1994 growth in revenues from paper and other products, which represented 15 percent of total revenues in 1994, and the declines in 1993 and 1992 are principally due to paper pricing.

#### PRODUCTIVITY INITIATIVES

In December 1993, the Company announced a restructuring program with the objectives of continuing to significantly reduce the cost base and to improve productivity. The Company expects to reduce its worldwide work force by more than 10,000 employees and to close or consolidate a number of facilities by early 1996. The Company estimated that this program would result in pre-tax cost reductions of approximately \$350 million in 1994, approximately \$700 million in 1995 and higher amounts thereafter. The Company stated, however, that it expected a portion of these savings to be reinvested to reengineer business processes, to support expansion in emerging markets, and to mitigate anticipated continued pressure on gross margins.

Employment declined by 9,400 from year-end 1993 to 87,600 employees at the end of 1994; 7,600 of the reductions were due to restructuring program initiatives, 500 were due to net attrition and 1,300 employees were transferred to Electronic Data Systems Corp. (EDS).

In June 1994, the Company awarded a 10-year, \$3.2 billion contract to EDS to operate its worldwide computer and telecommunications network, including data center operations, telecommunications systems, desktop systems support, and business applications support. Information management strategy and architecture, and the development of systems for reengineered business processes were not outsourced.

Also in June 1994, the Company signed a labor agreement that enables productivity and competitive advantages, provides a seven-year job guarantee and provides cost-of-living wage protection at the Company's primary manufacturing operation in Webster, New York. Other provisions of the agreement include: new starting and entry-level wage rates, modifications of benefit programs, greater latitude in hiring temporary workers, flexibility in promotions and transfers, and studies to reduce cost in low value-added positions. The Company believes that the contract will enable significant progress towards achieving benchmark unit manufacturing costs.

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

Pictured here was Dave Edwards, Xerox Graphic Systems.

COSTS AND EXPENSES

The gross margins by revenue stream were as follows:

	Gross Margins		
	1994	1993	1992
Total	45.8%	46.4%	47.4%
Sales	40.7	43.2	46.5
Service and Rentals	51.6	49.9	48.2
Finance Income	50.1	49.5	48.3

The declines in sales gross margins were principally due to adverse currency, competitive equipment pricing, unfavorable product and channel mix, and inventory adjustments in 1994, partially offset by improved productivity. The improvements in service and rentals gross margins were principally due to improved productivity and price increases, partially offset by economic cost increases and adverse currency. The improvements in finance income gross margins were principally due to country mix.

Research and development (R&D) expense increased 1 percent in 1994 after a decline of 3 percent in 1993. The Company expects to increase its investment in technological development in 1995 and over the longer term to maintain its premier position in the rapidly changing document processing market. The Company's R&D is strategically coordinated with Fuji Xerox. The R&D investment by Fuji Xerox was approximately \$500 million in 1994, bringing the total to almost \$1.4 billion.

Selling, administrative and general expenses (SAG) declined 1 percent in 1994 on an underlying basis and were essentially unchanged in 1993 from 1992. SAG as a percent of revenues was 29.1 percent in 1994 compared with 31.5 percent in 1993 and 32.6 percent in 1992. The improvement in the ratios is primarily due to improved productivity.

Pictured here was a graphic depicting Selling, Administrative and General Expenses (percent of revenues) of 29.1% in 1994, 31.5% in 1993 and 32.6% in 1992.

Other expenses, net, were \$114 million in 1994, \$155 million in 1993, and \$64 million in 1992. The largest component of other expenses is aggregate foreign currency exchange gains and losses. The Company's South American operations in general, and Brazil in particular, are subject to hyper-inflation, government-imposed price controls and currency devaluation. The aggregate foreign currency losses which amounted to \$136 million in 1994, \$174 million in 1993 and \$67 million in 1992, were substantially all in Brazil where the rate of inflation and devaluation, after increasing in 1993 and the first half of 1994, declined in the second half of 1994 following implementation by the Brazilian government on July 1, 1994 of a new economic plan. It should be noted, however, that the reduced aggregate exchange loss in 1994 was more than offset by lower prices and other adverse impacts related to the new economic plan. Nevertheless, South American operations continued to have good profit growth in 1994.

INCOME TAXES, EQUITY IN NET INCOME OF UNCONSOLIDATED AFFILIATES, AND  
MINORITIES' INTERESTS IN EARNINGS OF SUBSIDIARIES BEFORE SPECIAL ITEMS

Income before special items and income taxes was \$1,514 million in 1994 compared with \$1,093 million in 1993 and \$1,123 million in 1992.

The effective tax rate was 39 percent in 1994 compared with 37 percent in 1993 and 44 percent in 1992. The changes in tax rates are primarily due to the mix of operations and ESOP dividends, and, in 1993, due to favorable revaluations of deferred tax provisions resulting from changes in statutory income tax rates.

Equity in Net Income of Unconsolidated Affiliates was essentially unchanged at \$88 million in 1994 after increasing 7 percent in 1993 from 1992. The equity in the income of Fuji Xerox, the principal unconsolidated affiliate, was also essentially unchanged in 1994, with improved results from operations offset by a provision for an early retirement program. The 1993 increase was primarily due to the strengthening of the Japanese yen against the U.S. dollar.

Minorities' Interests in Earnings of Subsidiaries was \$213 million in 1994 compared with \$152 million, before the effect of special items, in 1993 and \$149 million in 1992. The 1994 increase was due to excellent growth in Rank Xerox income, reflecting strong revenue growth as well as benefits from productivity. The 1993 increase was primarily due to productivity improvements partially offset by currency. The restructuring provision reduced 1993 Minorities' Interests in the Earnings of Subsidiaries by \$74 million.

Pictured here was Jane Moyer, Xerox Business Services.

INCOME

In 1994, Document Processing income of \$794 million grew 37 percent before 1993 special items. 1993 income of \$580 million, before special charges and one-time tax benefits of \$40 million, grew 3 percent from \$562 million in 1992.

GEOGRAPHIC INCOME

The following table shows 1992 through 1994 Document Processing income, excluding the special items, by geographic area (in millions):

	Income after Minorities' Interests and before Special Items		
	1994	1993	1992
United States	\$329	\$248	\$301
Rank Xerox	215	100	74
Other Areas	250	232	187
<b>Total</b>	<b>\$794</b>	<b>\$580</b>	<b>\$562</b>

In addition to adjusting the 1993 income by geographic area for 1993 special items, 1994 income has been adjusted to exclude certain intercompany transfers for comparability purposes.

The improvement in 1994 income in the U.S. and Rank Xerox was primarily due to strong equipment sales growth and improved productivity. The decline in the United States income in 1993 was driven primarily by lower gross margins principally due to competitive pricing, adverse currency and a shift in mix toward the low end/lower margin products partially offset by improved productivity. The increase in the Company's 1993 share of Rank Xerox income was principally attributable to aggressive productivity actions partially offset by currency. Other Areas income continued to have good growth in spite of a decline in income in Mexico because of the weak 1994 economic environment.

RETURN ON ASSETS

Improving Return on Assets (ROA) is a key priority throughout all levels of the Document Processing organization. ROA is used as a surrogate for return on equity since asset and asset-related return targets can be more clearly assigned to operating managers. The Company's 1994 ROA was 16.1 percent compared with 12.6 percent in 1993 excluding special items, and 13.6 percent in 1992.

The Company's internal measurement for ROA is defined as Document Processing before-tax profits plus equity in the net income of unconsolidated affiliates divided by average ROA assets. These assets are Document Processing assets less investments in affiliates and Xerox equipment financing debt.

Pictured here was a bar chart depicting Document Processing Return on Assets of 16.1% in 1994, 12.6% in 1993 before special items and 13.6% in 1992.

QUARTERLY ANALYTICAL EARNINGS PER SHARE

The presentation of separate Document Processing and Insurance earnings per share (EPS) amounts is not in accordance with generally accepted accounting principles.

The Company believes, however, that for analytical purposes, these EPS amounts represent the contributions of the Company's two businesses to the consolidated results of operations and that the Document Processing results are an appropriate basis for comparison with future financial results from Document Processing.

The following schedule summarizes the 1994 Document Processing revenues, income and EPS computations on a quarterly basis.

(In millions, except per-share data, unaudited)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Revenues	\$3,271	\$3,584	\$3,636	\$4,597	\$15,088
Income	\$ 131	\$ 167	\$ 185	\$ 311	\$ 794
Primary Earnings Per Share					
Preferred dividends net of tax benefit	\$ (15)	\$ (26)	\$ (12)	\$ (11)	\$ (64)
Income available for common shareholders	116	141	173	300	730
Adjusted average shares outstanding	107.9	108.6	108.8	108.9	108.4
Primary Earnings Per Share	\$ 1.07	\$ 1.30	\$ 1.60	\$ 2.76	\$ 6.73
Fully Diluted Earnings Per Share					
Preferred dividends net of tax benefit	\$ (7)	\$ (16)	\$ (3)	\$ (1)	\$ (27)
Income available for common shareholders	124	151	182	310	767
Adjusted average shares outstanding	118.6	119.3	119.5	119.5	119.1
Fully Diluted Earnings Per Share	\$ 1.04	\$ 1.27	\$ 1.53	\$ 2.60	\$ 6.44

## SPECIAL ITEMS

In the fourth quarter of 1993, the Company provided \$813 million after income taxes and minorities' interests in earnings of subsidiaries for the costs of a restructuring program and lawsuit settlements.

The Company reached agreement to settle a 1992 antitrust class action lawsuit involving selling spare parts for high-volume copiers and printers to independent service organizations, and a lawsuit involving the termination of a contract to purchase laptop computers. Under the antitrust settlement, the Company has provided \$225 million of discount certificates to members of the plaintiff class for use as partial payment on future purchases of Xerox products, and has agreed to sell service parts to independent service organizations in the U.S., similar to the existing policy in Europe.

Pictured here was Noel Jackson, Production Systems Division, Rank Xerox.

This change in policy is not expected to have any material ongoing impact on future service revenues because of the Xerox total satisfaction guarantee and the sophisticated service support that the Company provides to ensure high levels of customer satisfaction. The discount certificates are available for use over a three-year period which commenced in September 1994 and may be applied against the payment of future purchases by the Company's customers. The settlement will have no impact on future revenues or income. Through 1994, \$42 million of discount certificates were applied against purchases.

In 1993, the Company benefited from a total of \$40 million of favorable revaluations of deferred tax provisions due to changes in the U.S. and Brazilian statutory income tax rates.

## ADDITIONAL FINANCIAL INTEREST IN RANK XEROX

On February 28, 1995, Xerox paid The Rank Organisation Plc (RO) (Pounds)620 million, or approximately \$970 million, for a 40 percent interest in RO's financial interest in Rank Xerox. The transaction increased the Xerox financial interest in Rank Xerox to about 80 percent from 67 percent. The transaction was funded with commercial paper. The Company may retire a portion of the commercial paper with proceeds from the announced sales of Constitution Re Corporation (Constitution Re) and Xerox Financial Services Life Insurance Company (Xerox Life) and/or fund out a portion with longer-term debt. The transaction resulted in goodwill of approximately \$570 million and a decline in minorities' interests in equity of subsidiaries of approximately \$400 million.

The Company estimates that the transaction will increase its earnings per share, will have a neutral to slightly positive cash flow impact in 1995, and will have a positive impact on earnings per share and cash flow going forward. Minorities' interests in earnings of subsidiaries will decline by approximately 40 percent. The resultant increase in interest expense will depend on the method of funding. The goodwill will be amortized over 40 years, resulting in an annual impact of \$14 million, before and after taxes.

## RANK XEROX AND LATIN AMERICAN FISCAL-YEAR CHANGE IN 1995

Effective January 1, 1995, the Company changed Rank Xerox and Latin American operations to calendar-year financial reporting. The 1994 fiscal year ended on October 31 for Rank Xerox and on November 30 for Latin American operations. The results of these non-U.S. operations that occur between the 1994 and 1995 fiscal years (the stub period) will be accounted for as a direct charge or credit to equity.

## MEXICAN ECONOMIC ENVIRONMENT

Because of the change in fiscal years, the impact of the December devaluation of the Mexican currency and related economic dislocations, net of the benefit of a currency hedge, will be reported in the stub period.

It is too early to determine the impact of the Mexican economic problems on Xerox operations, revenues and income in 1995. The Company's 1994 Mexican revenues were approximately 2 percent of total revenues.

## BRAZILIAN TAX RATE

In January, the Brazilian Congress approved an increase in the statutory tax rate. The impact of this rate increase, if the enactment is for more than one year, on Xerox of Brazil will be a one-time charge to deferred tax expense of approximately \$30 million in the 1995 first quarter.

Pictured here were Val Tanigawa, Louise Pardyjak, Dennis Coyne and Chris Debski, Personal Document Products; and the 5305 Personal Copier, introduced in 1994.

## CAPITAL RESOURCES AND LIQUIDITY

### CAPITAL

Total equity increased to \$6,030 million at December 31, 1994, compared with \$5,882 million in 1993 and \$5,832 million in 1992. The \$148 million increase in 1994 was primarily due to strong earnings of \$794 million, an increase of \$177 million in Minorities' Interests, favorable currency of \$145 million, and \$92 million from the exercise of employee stock options, partially offset by unrealized insurance investment portfolio losses of \$439 million, \$395 million of shareholder dividends and preferred stock redemptions of \$245 million. In 1993, the impact of the Company's net loss of \$126 million (after special items of \$813 million) and \$389 million of shareholder dividends was more than offset by \$580 million of proceeds generated by the issuance of 8.1 million common shares and \$58 million of new equity associated with the exercise of employee stock options.

Total debt, excluding debt of the Company's ESOP, which is guaranteed by Xerox, increased to \$10,343 million at December 31, 1994, from \$9,443 million in 1993 and \$9,957 million in 1992. ESOP debt in 1994, 1993 and 1992 was \$596 million, \$641 million and \$681 million, respectively.

On a consolidated basis, the debt-to-capital ratio at December 31, 1994 was 67 percent, including the debt associated with the Company's ESOP, and 63 percent excluding ESOP debt. Both these ratios were up 1 percentage point from 1993 due to the growth in debt associated with the Company's financing of equipment sales, and were unchanged from 1992.

Consolidated Balance Sheets

December 31 (in millions)	1994	1993
	=====	=====
<b>Assets</b>		
-----		
Document Processing		
Cash	\$ 35	\$ 68
Accounts Receivable, net	1,811	1,613
Finance Receivables, net	3,910	3,358
Inventories	2,294	2,162
Deferred Taxes and Other Current Assets	1,199	1,167
	-----	-----
Total Current Assets	9,249	8,368
Finance Receivables Due after One Year, net	6,038	5,594
Land, Buildings and Equipment, net	2,108	2,219
Investments in Affiliates, at Equity	1,278	1,094
Other Assets	701	883
	-----	-----
Total Document Processing Assets	19,374	18,158
	-----	-----
Insurance		
Cash	21	18
Investments Available-for-Sale	8,384	8,344
Reinsurance Recoverable	3,116	3,835
Premiums and Other Receivables	1,276	1,443
Goodwill	284	291
Deferred Taxes and Other Assets	1,438	1,487
	-----	-----
Total Insurance Assets	14,519	15,418
	-----	-----
Investment in Discontinued Operations	4,692	5,174
	-----	-----
<b>Total Assets</b>	<b>\$38,585</b>	<b>\$38,750</b>
	=====	=====
<b>Liabilities and Equity</b>		
Document Processing		
Short-Term Debt and Current Portion of Long-Term Debt	\$ 3,159	\$ 2,698
Accounts Payable	562	541
Accrued Compensation and Benefit Costs	709	511
Unearned Income	298	335
Other Current Liabilities	2,110	1,926
	-----	-----
Total Current Liabilities	6,838	6,011
Long-Term Debt	5,494	5,157
Liability for Postretirement Medical Benefits	1,006	997
Deferred Taxes and Other Liabilities	2,210	2,608
	-----	-----
Total Document Processing Liabilities	15,548	14,773
	-----	-----
Insurance		
Unpaid Losses and Loss Expenses	8,862	9,684
Unearned Income	1,066	1,077
Notes Payable	425	-
Other Liabilities	954	990
	-----	-----
Total Insurance Operating Liabilities	11,307	11,751
	-----	-----
Discontinued Operations Liabilities - Policyholders' Deposits and Other	4,194	4,585
Other Long-Term Debt and Obligations	2,102	2,400
Deferred ESOP Benefits	(596)	(641)
Minorities' Interests in Equity of Subsidiaries	1,021	844
Preferred Stock	832	1,066
Common Shareholders' Equity	4,177	3,972
	-----	-----
<b>Total Liabilities and Equity</b>	<b>\$38,585</b>	<b>\$38,750</b>
	=====	=====

Shares of common stock issued and outstanding at December 31, 1994 and 1993 (in thousands) were 105,993 and 104,122, respectively.

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The accompanying notes are an integral part of the consolidated financial statements.

The Company manages the capital structure of its non-financing operations separately from that of its more highly leveraged activities. The following table summarizes the debt, equity, and total capital for the Company's non-financing and financing activities for the three-year period ended December 31, 1994.

(Dollars in millions)	1994	1993	1992
<b>Non-Financing:</b>			
Debt*	\$2,055	\$1,805	\$2,522
Equity	4,730	4,679	4,682
<b>Total Capital</b>	<b>\$6,785</b>	<b>\$6,484</b>	<b>\$7,204</b>
<b>Debt-to-Capital Ratio</b>	<b>30.3%</b>	<b>27.8%</b>	<b>35.0%</b>
<b>Financing:</b>			
Xerox Equipment Financing Debt	\$8,057	\$7,214	\$6,812
Third-Party Financing Debt	231	424	623
<b>Total Debt</b>	<b>8,288</b>	<b>7,638</b>	<b>7,435</b>
Equity	1,300	1,203	1,150
<b>Total Capital</b>	<b>\$9,588</b>	<b>\$8,841</b>	<b>\$8,585</b>
<b>Debt-to-Equity Ratio</b>	<b>6.4x</b>	<b>6.4x</b>	<b>6.5x</b>

\*Primarily related to investments in disengaged IOFS businesses. Excludes ESOP debt of \$596 million, \$641 million, and \$681 million for 1994, 1993 and 1992, respectively.

The Company's 1994 debt-to-total-capital ratio for its non-financing operations (excluding ESOP debt) was 30.3 percent, up from 27.8 percent in 1993 as strong Document Processing funds generation was offset by the impact of Talegen business unit borrowings, unrealized insurance investment portfolio losses and the redemption of preferred stock. The 1993 ratio declined from 35.0 percent in 1992 due to strong Document Processing funds generation and the proceeds from the common stock offering, partially offset by the reduction in equity associated with the restructuring and lawsuit settlement provisions.

With respect to its financing activities, the Company match funds by arranging fixed-rate liabilities with similar maturities as the underlying customer financing assets. The Company's target debt-to-equity ratio for the financing activities is 6.5 to 1. In 1994, this ratio was 6.4 to 1 compared with 6.4 to 1 in 1993 and 6.5 to 1 in 1992.

The following table summarizes funds generation and usage for the three-year period ended December 31, 1994 and the related impacts on cash and debt balances. These data exclude restricted cash flows of the insurance businesses.

(In millions)	Funds Generation (Use)		
	1994	1993	1992
<b>Non-Financing:</b>			
Document Processing	\$ 989	\$ 496	\$ 354
Yen/\$ Financing repayment	(116)	-	-
IOFS-related/other	(605)	15	(180)
<b>Non-Financing</b>	<b>268</b>	<b>511</b>	<b>174</b>
<b>Financing:</b>			
Xerox Equipment Financing	(844)	(409)	(1,128)
Third-Party Financing	193	199	392
<b>Financing</b>	<b>(651)</b>	<b>(210)</b>	<b>(736)</b>
Operations generation (use)	(383)	301	(562)
Shareholder dividends	(395)	(389)	(374)
Equity issuance (redemption) and changes in cash	(122)	602	121
<b>Debt (increase) decrease</b>	<b>\$(900)</b>	<b>\$ 514</b>	<b>\$ (815)</b>

Pictured here were Ping Mei and Jason Wu, Palo Alto Research Center.

Consolidated Statements of Cash Flows

Year ended December 31 (in millions)	1994	1993	1992
Cash at Beginning of Year			
-----			
Document Processing	\$ 68	\$ 2	\$ 10
Insurance	18	41	35
	-----	-----	-----
Total	86	43	45
-----			
Document Processing			
-----			
Cash Flows from Operating Activities	477	526	(353)
-----			
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(389)	(470)	(582)
Proceeds from sales of land, buildings and equipment	220	41	43
Net change in payables to Insurance	(124)	19	395
Net transactions with Insurance	215	164	(411)
Net transactions with Discontinued Operations	66	(206)	263
	-----	-----	-----
Total	(12)	(452)	(292)
-----			
Cash Flows from Financing Activities			
Net change in debt	375	(151)	1,014
Yen financing repayment	(116)	-	-
Dividends on common and preferred stock	(395)	(389)	(373)
Proceeds from sale of common stock	90	665	113
Redemption of preferred stock	(245)	(6)	(6)
Dividends to minority shareholders	(97)	(105)	(121)
Proceeds received from (returned to) minority shareholders	(32)	12	31
	-----	-----	-----
Total	(420)	26	658
-----			
Effect of Exchange Rate Changes on Cash	(78)	(34)	(21)
-----			
Net Cash Flows from Document Processing	(33)	66	(8)
-----			
Insurance			
-----			
Cash Flows from Operating Activities	(53)	(167)	(595)
-----			
Cash Flows from Investing Activities			
Purchase of portfolio investments	(2,053)	(5,143)	(14,481)
Proceeds from sales and maturities of portfolio investments	879	6,077	14,592
Decrease (increase) in short-term investments	707	(1,212)	181
	-----	-----	-----
Subtotal	(467)	(278)	292
Other, net	126	(181)	(201)
Net transactions with Discontinued Operations	12	401	(31)
	-----	-----	-----
Total	(329)	(58)	60
-----			
Cash Flows from Financing Activities			
Net change in debt	600	366	130
Net transactions with Document Processing	(215)	(164)	411
	-----	-----	-----
Total	385	202	541
-----			
Net Cash Flows from Insurance	3	(23)	6
-----			
Discontinued Operations			
-----			
Income (Loss) from Discontinued Operations	-	63	(39)
Collections and changes in assets, net	469	418	236
Net change in debt	(193)	(584)	(378)
Net change in operating liabilities	(198)	211	413
Settlement of tax benefits with Document Processing	-	87	-
Net transactions with Document Processing	(66)	206	(263)
Net transactions with Insurance	(12)	(401)	31
	-----	-----	-----
Net Cash Flows from Discontinued Operations	-	-	-
-----			
Cash at End of Year			
-----			
Document Processing	35	68	2
Insurance	21	18	41
	-----	-----	-----
Total	\$ 56	\$ 86	\$ 43
	=====	=====	=====

The Supplemental Cash Flows Information and accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows  
 Supplemental Cash Flows Information

A reconciliation of income (loss) to cash flows from operating activities for the last three years follows:

Year ended December 31 (in millions)	1994	1993	1992
<b>Document Processing</b>			
Income (Loss) from Document Processing	\$ 794	\$ (193)	\$ 562
Adjustments required to reconcile income (loss) to cash flows from operating activities:			
Depreciation and amortization	649	629	672
Provision for special charges	-	1,373	-
Provisions for doubtful accounts	252	250	267
Provision for postretirement medical benefits	54	70	61
Charges against 1993 restructuring reserve	(423)	-	-
Minorities' interests in earnings of subsidiaries	213	78	149
Undistributed equity in income of affiliated companies	(54)	(51)	(52)
Increase in inventory	(472)	(228)	(524)
Increase in finance receivables	(937)	(993)	(1,389)
(Increase) decrease in accounts receivable	(266)	134	(34)
Increase (decrease) in accounts payable and accrued compensation and benefit costs	205	(65)	(14)
Net change in current and deferred income taxes	258	(359)	41
Settlement of Discontinued Operations tax benefits	-	(87)	-
Other, net	204	(32)	(92)
<b>Cash Flows from Operating Activities</b>	<b>\$ 477</b>	<b>\$ 526</b>	<b>\$ (353)</b>
<b>Insurance</b>			
Income (Loss) from Insurance	\$ -	\$ 4	\$ (779)
Adjustments required to reconcile income (loss) to cash flows from operating activities:			
Depreciation and amortization	32	26	55
Provisions for doubtful accounts	12	7	19
Talegen reserve strengthening actions	-	-	880
Goodwill write-down	-	-	400
Realized capital gains	(12)	(88)	(516)
Decrease in receivables	730	457	163
Increase in accounts payable and accrued compensation and benefit costs	69	126	114
Increase (decrease) in unearned income	(11)	4	(37)
Decrease in unpaid losses and loss expenses	(809)	(955)	(498)
Other, net	(64)	252	(396)
<b>Cash Flows from Operating Activities</b>	<b>\$ (53)</b>	<b>\$ (167)</b>	<b>\$ (595)</b>

See accompanying Consolidated Statements of Cash Flows.

NON-FINANCING OPERATIONS

The following table summarizes 1994 and 1993 Document Processing non-financing operations funds generation and usage, after investments in the business.

(In millions)	Funds Generation (Use)	
	1994	1993
Document Processing Non-Financing:		
Income	\$ 565	\$ 379
Depreciation and Amortization	649	629
Restructuring Payments	(423)	-
Capital Expenditures	(389)	(470)
Assets Sold	220	41
Working Capital/Other	367	(83)
	\$ 989	\$ 496

The improvement in year-over-year 1994 funds generation was largely due to higher income, increased sales of fixed assets primarily related to the information management outsourcing and lower working capital and other requirements, partially offset by restructuring payments.

IOFS-related/other funds usage of \$605 million in 1994 compares with funds generation of \$15 million in 1993 and was mainly due to Talegen business unit borrowings totaling \$425 million to retire intercompany debt and fund investment activity. The decrease in IOFS-related/other usage in 1993, versus the prior year, was mainly due to cash proceeds from the 1993 sales of VKM and Furman Selz Holding Corporation, partially offset by the requirements to restructure Talegen and to initiate scheduled funding for Ridge Reinsurance Limited.

Pictured here were Abdul Terry, Office Document Products; Tomoko Lane, Planning and Spare Parts; Negin Naghib, Middle East and Africa; Richard Sullivan, Nordic Entity; all from Rank Xerox.

FINANCING ACTIVITIES

Incremental debt required to fund the growth of Xerox equipment financing in 1994 was \$843 million, an increase of \$441 million from 1993, due to accelerated growth in equipment sales revenues and the effects of translating foreign currencies into U.S. dollars. Xerox equipment financing debt growth of \$402 million in 1993 was \$709 million lower than in 1992 due to less rapid sales growth and the effects of currency translation.

Debt related to discontinued third-party financing activities declined by \$193 million in 1994, reflecting asset sales and portfolio run-off. This decrease was in line with 1993 experience and less than the reduction in 1992 due to the declining asset base and the long-duration contractual maturities and unique tax attributes of most of the remaining assets.

The total increase in debt required to fund the growth of financing activities in 1994, therefore, was \$650 million compared with increases of \$203 million in 1993 and \$719 million in 1992.

## FUNDING PLANS FOR 1995

Non-financing debt levels will be significantly affected by the Company's recently completed acquisition of 40 percent of The Rank Organisation Plc's financial interest in Rank Xerox for (Pounds)620 million, or approximately \$970 million. The transaction was funded with commercial paper. The Company may retire a portion of the commercial paper with proceeds from the announced sales of Constitution Re and Xerox Life and/or fund out a portion with longer-term debt. Any further disposition of the Talegen business units could also significantly impact 1995 funding levels since proceeds from the sales will be used to pay down debt.

In 1995, debt levels associated with the financing of customer purchases of Xerox equipment are planned to increase in line with sales activity. Ongoing run-off and opportunistic sales of third-party financing assets are not expected to significantly impact the Company's overall financing debt level.

Management believes that the Company has adequate short-term credit facilities available to fund its day-to-day operations and has readily available access to the capital markets to meet any longer-term financing requirements. To provide added funding flexibility during 1994, the Company increased the revolving credit agreements of its domestic operations from \$3 billion to \$5 billion. In addition, Rank Xerox had \$2 billion of revolving credit facilities. At December 31, 1994, the Company and XCC had domestic shelf capacity of \$940 million and \$980 million, respectively. In 1995, the Company intends to establish a \$1 billion Euro-debt facility that will be available to both Xerox and XCC. Depending upon the status of Talegen disengagement, term debt financing may be required in 1995 to refinance maturing and callable securities and to enable the matched funding of the Xerox equipment financing activities.

Pictured here was Peter Boden, Jr., U.S. Customer Operations.

## LIQUIDITY

The Company's primary sources of liquidity are funds generated from operations and borrowings.

Document Processing operations used net cash of \$33 million in 1994, compared with \$66 million generated in 1993 and \$8 million usage in 1992. The significant changes in the components of Document Processing cash flows follow:

- . Non-financing operations generated \$989 million in 1994, \$496 million in 1993 and \$354 million in 1992, as shown on Page 39. Xerox equipment financing activities used \$844 million in 1994, \$409 million in 1993 and \$1,128 million in 1992.

- . During 1994, a 1984 yen-denominated financing was repaid for \$116 million.

- . During 1993, \$580 million of net proceeds was received from the sale of 8.1 million shares of common stock via a public offering.

- . During 1994, the Company redeemed shares of its preferred stock for \$245 million, including an \$11 million call premium.

Insurance operations generated \$3 million of cash in 1994 compared with net cash usage of \$23 million in 1993 and net cash generation of \$6 million in 1992. The significant changes in cash flows follow:

- . A net decrease in receivables of \$730 million in 1994 compared with decreases of \$457 million in 1993 and \$163 million in 1992 reflects a decline in reinsurance recoverables due to collections on balances established in prior periods and less dependence on reinsurance in recent years. The reduction also reflects a premium decline caused primarily by a continued focus on profitability versus maintaining market share, particularly in the non-standard automobile, casualty and workers' compensation lines.

- . A net decrease in unpaid losses and loss expense of \$809 million in 1994 compared with decreases of \$955 million in 1993 and \$498 million in 1992 reflects continued operational trends where claims payments are in excess of new reserves established.

- . A net increase in aggregate investments of \$467 million in 1994 compared with an increase of \$278 million in 1993 and a decrease of \$292 million in 1992 reflects investment activities supported by cash flow from operations and debt proceeds.

- . A net increase in Talegen debt of \$425 million in 1994, the proceeds of which were used to retire intercompany debt and fund investment activity.

Discontinued operations net cash flows were zero during 1994, 1993 and 1992, as cash generated by collection and sales activities and tax benefits was used to reduce assigned debt.

Pictured here were Andrius Buldygerovas and Marysia Mycielska, Eastern Export Operations.

## HEDGING INSTRUMENTS

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

Currency derivatives are only arranged in conjunction with underlying transactions 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.

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

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

Pictured here was Liz Blythers, Office Document Systems; and the Xerox 4510 Desktop laser printer with bi-directional communications software.

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

On an overall worldwide basis, weighted average interest rates for 1994, 1993 and 1992 approximated 7.2 percent, 8.3 percent and 9.2 percent, respectively, which include the impact of the Company's hedging activities.

The Company's currency and interest rate hedging are typically not affected by changes in market conditions as forward contracts, options and swaps are normally held to maturity in order to lock in currency rates and interest rate spreads on the underlying transactions.

Financial Review:

Insurance and Other Financial Services (IOFS)

In January 1993, the Company announced its decision to concentrate on the core Document Processing business and disengage from the financial services businesses. Consistent with this objective, the Van Kampen Merritt Companies, Inc. (VKM), an investment advisory organization, and Furman Selz Holding Corporation (Furman Selz), an institutional brokerage, investment banking and management firm, were sold in 1993. In 1994, Shields Asset Management, Inc. (Shields), a Furman Selz subsidiary, and Regent Investor Services Incorporated (Regent), a subsidiary of Shields, were sold. Contracts were also signed to sell Constitution Re Corporation (CRC) to EXOR America Inc. in 1994 and Xerox Financial Services Life Insurance Company (Xerox Life) to a subsidiary of General American Life Insurance Company in 1995. Both sales will close after regulatory approvals. The Company will continue to implement its strategy for divesting the remaining insurance businesses in an orderly and disciplined way.

The ongoing operations of Xerox Credit Corporation and the international financing companies that finance customer purchases of Xerox equipment remain unaffected by the Company's decision to disengage from financial services.

STATUS OF INSURANCE

The Insurance segment includes Talegen Holdings, Inc. (Talegen), a holding company of seven property and casualty insurance operating groups and three insurance related service companies, Ridge Reinsurance Limited (Ridge Re) and that portion of the Xerox Financial Services, Inc. (XFSI) headquarters costs and interest expense associated with the continuing business activities. In 1993, Talegen established and capitalized seven insurance operating groups, each of which includes one or more legal insurance entities (the "Insurance Companies"). Each of the Insurance Companies maintains its own investment portfolio, loss reserves and capital. This recapitalization and legal restructuring was approved by the insurance departments of all states in which Talegen's Insurance Companies are domiciled. The objective of the Talegen restructuring was to strengthen the insurance operating groups and facilitate the realization of shareholder value.

The seven insurance operating groups and their areas of specialization are:

- . Constitution Reinsurance - treaty and facultative reinsurance
- . Coregis - professional liability, public entity and other property and casualty programs
- . Crum & Forster Insurance - commercial property and casualty insurance through a select network of independent agents
- . Industrial Indemnity - workers compensation coverage and services
- . The Resolution Group - reinsurance collection services and management of run-off businesses
- . Viking - non-standard personal automobile insurance
- . Westchester Specialty Group - umbrella, excess casualty and specialty property business

In connection with the 1993 restructuring and the regulatory approvals, XFSI agreed to provide various forms of capital support to ensure that statutory capital requirements of the newly established legal entities were met. The capital contributions consisted of \$235 million in cash, which was used to purchase portfolio investments, and \$100 million of XFSI promissory notes (guaranteed by the Company). In connection with actions taken to strengthen the Talegen balance sheet at the end of 1992, XFSI also provided support in the form of \$200 million in notes guaranteed by the Company.

XFSI also agreed that support would be provided in the form of aggregate excess of loss reinsurance protection issued by Ridge Re, XFSI's wholly-owned Bermuda reinsurance company established in 1992. XFSI is obligated to pay annual premium installments of \$49 million in the aggregate, plus finance charges, payable for up to ten years, for coverage

totaling \$1,245 million, which is net of 15 percent coinsurance. A total of eight years annual premium installments remain to be paid as of December 31, 1994. The Company has guaranteed the payment by XFSI of all such premiums.

In addition to XFSI's original contribution of \$25 million to the capitalization of Ridge Re, XFSI may be required, under certain circumstances, to purchase over time additional redeemable preferred shares up to a maximum of \$301 million.

XFSI has guaranteed to the Talegen insurance companies that Ridge Re will meet all of its financial obligations under all of the foregoing excess of loss reinsurance issued to them.

In December 1994, a stock purchase agreement was signed with EXOR America Inc. for its purchase of Constitution Re Corporation, a Talegen subsidiary, for approximately \$410 million subject to closing adjustments, which is approximately the same as book value. The closing of the sale is subject to customary closing conditions and regulatory approvals and is expected to close during the first half of 1995.

At December 31, 1994, the Company's investment in Insurance amounted to \$3,645 million, which excludes the effect of unrealized losses on investment securities. The ultimate exit from the insurance businesses and the recovery of the investment could take several years. During the disengagement process, the Company will continue to be exposed to all the business risks of its insurance businesses. The Company anticipates that future income or losses from its insurance businesses may vary widely as the disengagement strategy is implemented, due to, among other reasons, the recognition of proceeds of sales or other forms of disengagement and the results from operations of the remaining insurance businesses. No assurances can be given as to the timing of the disengagement process, the amount and timing of proceeds of sales or other forms of disengagement from insurance units or the impact the remaining insurance businesses will have on the Company's total results from operations during the disengagement process.

#### OPERATING RESULTS

The results of IOFS are separated into the continuing Insurance segment and discontinued operations, which include Other Financial Services (discontinued in 1993) and third-party financing and real-estate development (discontinued in 1990). The Insurance segment includes Talegen, Ridge Re and that portion of XFSI interest expense and other costs associated with the continuing business activities.

Income from the Insurance segment was break-even in 1994 compared with \$4 million in 1993 and a \$779 million loss in 1992 as summarized in the following table.

(In millions)	Insurance Income Summary		
	1994	1993	1992
Talegen			
Underwriting	\$(168)	\$(213)	\$(479)
Investment Income	421	380	525
Taxes/Other	(75)	(54)	(36)
Operations Before Capital			
Gains/Other	178	113	10
Capital Gains After Tax	8	57	48
One-Time Items	-	(21)	(704)
Cessions to Ridge Re	(35)	-	-
Interest/Other	(151)	(145)	(133)
Total Insurance	\$ -	\$ 4	\$(779)

In connection with the operational and legal restructuring of Talegen, the Company recognized net pre-tax charges of \$58 million and \$836 million in 1993 and 1992, respectively. The 1992 charges included strengthening of loss reserves and reinsurance recoverable provisions of \$880 million, and \$400 million related to the partial write-down of goodwill, offset by \$444 million in capital gains realized as Talegen repositioned its investment portfolio in anticipation of restructuring. The 1993 charge was largely made up of relocation, severance and leasehold expenses as a result of the decentralization and downsizing of support functions to the

new stand alone units. The after-tax restructuring charges amounted to \$38 million and \$688 million in 1993 and 1992, respectively. These amounts are included in the "one-time" items category on the preceding chart, which totals \$21 million in 1993 and \$704 million in 1992. The balance relates to one-time SFAS No. 109 impacts.

On an analytical basis, excluding the restructuring and tax-related impacts for adoption of SFAS No.109 in 1993 and 1992, and after-tax realized capital gains in the 1992-94 period, management estimates Talegen's operating income grew 58 percent to \$178 million in 1994, compared with \$113 million in 1993 and \$10 million in 1992.

Revenues from the insurance businesses were \$2.7 billion in 1994, a decline of 2 percent from 1993, which in turn had declined by 2 percent from 1992. The lower revenues in 1994 reflect a 4 percent decrease in earned premiums, partially offset by a 9 percent increase in investment and other income. The 1993 revenue decline reflects a lower level of investment income, as described later, partially offset by a 4 percent growth in earned premiums. Further details on premium levels are included in the individual Talegen insurance operating group results.

Excluding the unusual charges in 1993 and 1992 noted previously, the overall underwriting loss in 1994 for Talegen's seven insurance operating groups improved by \$45 million to \$168 million, compared with \$213 million in 1993 and \$479 million in 1992. The overall decreases in 1994 and 1993 reflect improvements in both losses and expenses as the insurance operating groups continued to tighten their strategic focus on more profitable business segments, maintain price disciplines and increase productivity. Underwriting results for 1994 exclude \$53 million of adverse development on loss and reinsurance recoverable reserves ceded to Ridge Re for 1992 and prior accident years (as discussed in the Ridge Re Related/Other section).

Net catastrophe losses were \$27 million in 1994, \$25 million in 1993 and \$52 million in 1992. The 1994 catastrophe losses primarily reflect the California earthquake and Northeast winter storms in the first quarter. In 1993, catastrophe losses were largely attributable to the World Trade Center bombing and East Coast storms in the first quarter. The 1992 catastrophe losses primarily relate to Hurricanes Andrew and Iniki.

Excluding the unusual charges, underwriting results for each of Talegen's six ongoing insurance operating groups are expressed on the next page in terms of annual gross written premiums and combined ratios. Underwriting results for The Resolution Group are not meaningful on this basis since that unit has only run-off premiums and, therefore, are excluded.

(Dollars in millions)	Gross Written Premiums			Combined Ratio		
	1994	1993	1992	1994	1993	1992
Constitution Reinsurance	\$ 545	\$ 532	\$505	100.7	102.4	110.0
Coregis	371	373	379	103.7	105.2	106.2
Crum & Forster Insurance	1,022	1,021	972	106.9	109.8	120.0
Industrial Indemnity	370	492	486	105.2	112.4	118.8
Viking	152	170	212	97.3	100.2	102.6
Westchester Specialty Group	334	356	357	115.7	102.5	91.6

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

The following are the key reasons for the year-over-year performance changes for each of these insurance operating groups.

Constitution Reinsurance's combined ratio improved 1.7 points for the year reflecting a continuing shift toward more profitable pro-rata business and decreased emphasis on per risk business. This improvement was moderated by higher catastrophe losses in 1994 than in the prior year. The combined ratio in 1993 was 7.6 points lower than 1992 which included significant losses related to Hurricanes Andrew and Iniki. Constitution's gross premium volume in 1994 increased 3 percent due to continuing strong overall production and retention levels, as well as improved pricing, the benefits of which were moderated by a timing change in premium recognition for certain treaties in 1994. In 1993, Constitution's gross premiums increased 5 percent reflecting continued expansion in the company's non-standard automobile segment.

At Coregis the combined ratio decreased 1.5 points and 1.0 point in 1994 and 1993, respectively. These declines resulted from improvements in both overall loss experience and expenses in both periods. Gross premium volume in 1994 was even with 1993 as strong renewal retentions and new business growth in selected programs were offset by the effects of reunderwriting initiatives taken in 1993 and early 1994. Gross premiums in 1993 declined 2 percent from 1992 caused by competitive pressure primarily in one major program.

Crum & Forster Insurance had combined ratio improvement of 2.9 points for 1994 reflecting better management of underwriting and claims handling expenses. The combined ratio decline of 10.2 points in 1993 resulted from better loss experience including lower catastrophe losses. Gross written premiums in 1994 were approximately equal to 1993, which showed a 5 percent increase over 1992. These volumes reflect continuing strong renewal retentions and expansion in the company's custom agent segment. In 1994 the effects of this strategic penetration were offset by reduced volumes resulting from the company's withdrawal from non-voluntary business and from a large account.

At Industrial Indemnity the combined ratio dropped 7.2 points in 1994 and 6.4 points in 1993 reflecting significantly improved loss experience in the company's workers compensation business. Gross premium volume declined 25 percent in 1994 and increased a modest 1 percent in 1993. In California, the company's largest market, loss costs

have declined 30 percent in the past two years. This trend resulted in state mandated rate reductions of a similar magnitude and a corresponding downward pressure on premiums, although pricing margins remained adequate in 1993 and 1994. Volume in 1994 was also impacted by increased competition in the California market in anticipation of the new open rating environment effective January 1, 1995.

Viking's combined ratio improved 2.9 points in 1994 and 2.4 points in 1993 reflecting the benefits of corrective pricing and agency management actions taken in 1992. Gross written premiums declined 11 percent and 20 percent in 1994 and 1993, respectively, as a result of the company's continuing focus on improving profitability versus maintaining market share. This focus has resulted in significant improvement in loss experience, the benefits of which were somewhat moderated by increases in the expense ratio due to the lower premium volume.

At Westchester Specialty Group gross premium volume declined 6 percent in 1994 and 1 percent in 1993 as the effects of continuing intense competitive pressure on casualty prices and related exposure reductions were partially offset by growth in profitable property business. Reflecting the deteriorating market conditions for casualty business, the company has increased its loss funding for these exposures to much more conservative levels causing the combined ratio to increase 13.2 points in 1994 and 10.9 points in 1993.

Investment income for Talegen was \$421 million in 1994 compared with \$380 million in 1993 and \$525 million in 1992. The increase in 1994 primarily reflects a higher level of invested assets. The decrease in 1993 resulted from the initial repositioning of the portfolio in 1992 in anticipation of the Talegen restructuring and from a decline in interest rates. The 1992 repositioning and reinvestment in U. S. Treasuries shortened the duration of fixed income securities to an average of approximately 3 years from 13 years.

Realized pre-tax capital gains in 1994 for Talegen totaled \$13 million compared with \$88 million in 1993 and \$516 million in 1992. The level of capital gains in 1994 reflects normal investment activities coupled with fewer opportunities to realize gains due to the impact of high interest rates on bond portfolio values. The 1993 capital gains primarily resulted from the Talegen insurance operating groups progress in realigning their investments with the liabilities of each dedicated company following completion of the restructuring. The 1992 level included \$444 million associated with the initial repositioning of the portfolio, as previously discussed. On an after-tax basis, Talegen capital gains totaled \$8 million in 1994, \$57 million in 1993 and \$48 million in 1992, excluding the impact of the initial repositioning of the portfolio.

#### 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 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.

TALEGEN RESERVES

OVERVIEW

Losses from claims and related loss adjustment expenses comprise the majority of costs from providing insurance products and, therefore, unpaid losses and loss expenses are the largest liabilities on a property and casualty insurer's balance sheet. Insurance companies utilize a variety of loss trending and analysis techniques to estimate anticipated ultimate losses and the timeframes when claims are likely to be reported and paid. In order to moderate the potential impact of unusually severe or frequent losses, insurers often cede (i.e., transfer) a portion of their gross policy premiums to reinsurers in exchange for the reinsurer's agreement to share a portion of the covered losses with the insurer. Although the ceding of insurance does not discharge the original insurer from its primary liability to its policyholder, the reinsurance company that accepts the risk assumes an obligation to the original insurer. A contingent liability exists, however, with respect to reinsurance ceded to the extent that any reinsuring company might not be able to meet its obligations.

Over the policy period, as premiums are earned, a portion of the premiums are set aside as gross reserves for incurred but not reported (IBNR) losses in anticipation of claims which will be incurred. IBNR reserves also include amounts to supplement case reserves, when established, to provide for potential further loss development. In addition, gross reserves are also established for internal and external loss adjustment expenses associated with handling the claims inventory. When a claim is reported, case reserves are established on the basis of all pertinent information available at the time. Reinsurance recoverables on gross reserves are recorded for amounts that are anticipated to be recovered from reinsurers and are determined in a manner consistent with the liabilities associated with the reinsured policies. Net reserves are gross reserves less anticipated reinsurance recoverables on those reserves.

The following sections of the Talegen Reserves discussion provide further details related to the reserving practices and the specific reserve levels of the Insurance Companies within Talegen's insurance operating groups. Due to the unique complexities and uncertainties related to asbestos-related, hazardous waste and other latent or long-tail claims, additional information regarding these claim categories is provided, although it is the policy of Talegen not to disclose established case reserves on specific claims.

OVERALL RESERVES

The following table sets forth gross unpaid losses and loss expenses, reinsurance recoverables on unpaid losses and loss expenses and the resultant net unpaid losses and loss expenses for the Insurance Companies included in each insurance operating group as of December 31, 1994 and 1993:

Unpaid Losses and Loss Expenses

(In millions)	Gross Reserves	Reinsurance Recoverable	Net Reserves
-----			
December 31, 1994			
Constitution Reinsurance	\$ 881	\$ 200	\$ 681
Coregis	995	271	724
Crum & Forster Insurance	2,941	768	2,173
Industrial Indemnity	1,445	188	1,257
The Resolution Group	1,680	983	697
Viking	97	-	97
Westchester Specialty Group	1,225	485	740
Ceded balances to affiliates	(451)	(451)	-
-----			
Total	\$8,813/1/	\$2,444	\$6,369/1/
=====			
December 31, 1993			
Constitution Reinsurance	\$ 883	\$ 202	\$ 681
Coregis	992	330	662
Crum & Forster Insurance	3,171	872	2,299
Industrial Indemnity	1,586	213	1,373
The Resolution Group	2,576	1,720	856
Viking	124	6	118
Westchester Specialty Group	1,272	512	760
Ceded balances to affiliates	(920)	(920)	-
-----			
Total	\$9,684	\$2,935	\$6,749
=====			

/1/Balance excludes \$53 million cessions to Ridge Re.

The overall decrease in gross reserves is primarily the result of actions taken over the past several years to reduce exposures in underperforming and non-strategic business segments. Reinsurance recoverables have decreased due to the underlying reduction in gross reserves, increased collection of

recoverable balances and an increase in business retained by the Insurance Companies. Gross and net reserves as of December 31, 1992 were \$10,657 million and \$6,869 million, respectively. Due to its mission of managing run-off business, The Resolution Group had the most significant decrease in overall gross and net reserves. In 1994, Insurance Companies within the Westchester Specialty Group, The Resolution Group and the Crum & Forster Insurance operating group strengthened net reserves by approximately \$40 million, \$33 million and \$8 million, respectively, for development on 1993 and prior accident year reserves. Of these amounts, \$20 million, \$28 million and \$5 million, respectively, were ceded to Ridge Re. No material adjustments were made to net reserves in 1993.

#### MONITORING OF INSURANCE

The insurance operating groups continually monitor the gross and net reserves of their Insurance Companies for business written in both current and prior years, and Talegen senior management reviews these reserves on a periodic basis. In addition, these reserves are reviewed and certified on an annual basis by an outside actuary appointed by the Insurance Companies. Overall reserve levels are impacted primarily by the types and amounts of insurance coverage currently being written and the trends developing from newly reported claims and claims which have been paid and closed. Adjustments are made to reserves in the period they can be reasonably estimated to reflect evolving changes in loss development patterns and various other factors, such as social and economic trends and known changes in judicial interpretation of legal liability.

#### USE OF REINSURANCE AND MANAGEMENT OF REINSURANCE COLLECTION

Most of the Insurance Companies made significant use of reinsurance during the 1970s and the early 1980s. Since that time, the Insurance Companies have generally increased the portion of business they retain while reducing the number of reinsurers used for their reinsurance contracts. Accordingly, in the aggregate, net reserves as a percent of gross reserves increased from 65 percent as of December 31, 1992 to 72 percent as of December 31, 1994, and the percent of written premiums ceded to reinsurers to gross written premiums decreased from 21 percent in 1992 to 16 percent in 1994. Additionally, as of December 31, 1994 the Insurance Companies had current and future reinsurance recoverables due from approximately 700 reinsurers for all policy years. However, in 1994 more than 70 percent of premiums ceded were placed with approximately 30 reinsurers.

Talegen has a reinsurance security committee composed of senior management who approve those reinsurers with whom Talegen will do business. Based upon the review of financial condition and assessment of other available information, the Insurance Companies maintain an allowance for uncollectible amounts due from troubled reinsurers as reported in Note 13 to the consolidated financial statements on Page 69. The balance of reinsurance recoverable is considered to be valid and collectible.

The potential uncollectibility of ceded reinsurance is an industry-wide issue. With respect to the management of recoveries due from reinsurers, the Insurance Companies operate within common guidelines on the early identification of potential collection problems and assign these cases to a specialized unit with The Resolution Group staffed by "work-out" experts. This unit aggressively pursues collection of reinsurance recoverables through mediation, arbitration and, where necessary, litigation to enforce a contractual right against reinsurers. Nevertheless, periodically, it becomes necessary for management to adjust reserves for potential losses to reflect their ongoing evaluation of developments which affect recoverability, including increased damage awards and the severe financial difficulties that some reinsurers are experiencing.

## EFFECTS OF RESTRUCTURING ON RESERVES

In 1992, as part of the announced Talegen restructuring plan and related balance sheet strengthening actions, reserves were strengthened by \$880 million on a pre-tax basis. Talegen, after completing a detailed review of its outstanding reinsurance recoverables, in the fourth quarter of 1992 wrote-off \$516 million in reinsurance recoverables due from approximately 600 reinsurers against the allowance for doubtful reinsurance accounts (including \$174 million for paid reinsurance recoverables). Additionally, in conjunction with obtaining the necessary regulatory approvals to consummate the restructuring, XFSI agreed to provide excess of loss reinsurance protection issued by Ridge Re, XFSI's wholly-owned, single purpose Bermuda reinsurance company, which was established in 1992. Adjustments to the reserves in 1993 pursuant to the restructuring were not material.

## ASBESTOS-RELATED, HAZARDOUS WASTE AND OTHER LATENT OR LONG-TAIL CLAIMS

Claims resulting from asbestos-related, hazardous waste, other latent and other long-tail losses have provided unique challenges to the insurance industry. The possibility that these claims would emerge was often not recognized or contemplated at the time the policies were written, and traditional actuarial reserving methodologies have not always been useful in accurately estimating ultimate losses. Asbestos bodily injury claims were the first type of such exposures to cause significant losses to the insurance industry. Because case law for asbestos-related injuries is now reasonably developed and the number of open claims has been declining, the remaining exposure and related uncertainty to the Insurance Companies are also decreasing. In addition to bodily injury claims, asbestos-in-building claims have been brought against certain Insurance Companies of the Talegen insurance operating groups seeking reimbursement for the expense of replacing insulation material and other building components made of asbestos. The Insurance Companies have generally contested coverage to the extent that the product liability insurance does not cover replacement costs unless there has been property damage, as defined in the policies, to the buildings in which asbestos containing products were installed. Sufficient case law has not yet been established to determine the extent to which the courts will interpret the policies consistently with this position, and the theories put forth by the courts have varied considerably to support the few payments made by insurers to date for asbestos-in-building property damage claims.

Hazardous waste claims have been the second major type of such claims to emerge and significantly impact the insurance industry. Hazardous waste claims encompass costs for pollution clean-up, bodily injury and property damage. Significant uncertainties exist with respect to estimating the Insurance Companies' exposure to hazardous waste claims. The uncertainty primarily results from lack of historical data, long delays in reporting claims, difficulty in identifying potential claimants and complex legal and coverage issues that have been further complicated by inconsistent conclusions reached by the courts.

Other latent or long-tail exposures such as repetitive stress, lead paint and surgical breast implants are the latest type of such liability to emerge. These claim types also are not suitable for traditional actuarial reserving techniques due to significant uncertainties as to how legal issues will develop.

As judicial patterns emerge through the appellate process and remove uncertainties related to asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims, additional liabilities and reinsurance recoverables could arise.

Total reserves for asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims as of December 31, 1994 are as follows:

Reserves/1/ by Claim Category as of December 31, 1994										
(In millions)	Asbestos Bodily Injury		Asbestos-in-Building		Hazardous Waste		Other Latent or Long-Tail		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Constitution Reinsurance	\$ 66	\$20	\$ -	\$-	\$ 79	\$ 32	\$ -	\$ -	\$145	\$ 52
Crum & Forster Insurance	58	40	-	-	79	61	110	57	247	158
Coregis	-	-	-	-	2	2	-	-	2	2
Industrial Indemnity	-	-	-	-	-	-	-	-	-	-
The Resolution Group	170	17	21	2	101	36	48	2	340	57
Viking	-	-	-	-	-	-	-	-	-	-
Westchester Specialty Group	38	11	45	1	34	21	9	1	126	34
<b>Total</b>	<b>\$332</b>	<b>\$88</b>	<b>\$66</b>	<b>\$3</b>	<b>\$295</b>	<b>\$152</b>	<b>\$167</b>	<b>\$60</b>	<b>\$860</b>	<b>\$303</b>

/1/Included are case, IBNR and allocated loss adjustment expense reserves.

The vast majority of claims in the above areas have resulted from policies covering corporate property and casualty insurance, thus insurance operating groups whose Insurance Companies have not underwritten (or reinsured) this type of business generally do not have these types of claims. Although Insurance Companies within Coregis are currently underwriting certain commercial property and casualty business, these companies did not underwrite any significant volume of business prior to 1986 and thus have not had many asbestos bodily injury or hazardous waste claims as most such claims for the insurance industry have originated from accident years prior to 1986.

In 1985, Talegen established a stand-alone unit to centrally handle asbestos-related, hazardous waste and certain other latent or long-tail claims. The unit was established as a separate service company of Talegen in January, 1993 and named Envision Claims Management Corporation (Envision). Envision is currently engaged in working on claims for the Insurance Companies within the Crum & Forster Insurance, Coregis, The Resolution Group and Westchester Specialty Group insurance operating groups. The objectives of Envision are to bring expertise to this highly specialized area, promote consistency in claim administration and reserving practices, and judiciously work through and close such claims on behalf of the Insurance Companies. Since January 1, 1993, nearly twice as many claims have been closed by Envision as have been opened, causing an overall 33 percent reduction in total applicable claims outstanding during that period.

## SIGNIFICANT MATTERS

The largest asbestos bodily injury claims have originated from policies issued to Owens-Corning Fiberglas (OCF), who manufactured and distributed insulation containing asbestos. Numerous claims alleging bodily injury through exposure to asbestos were filed against OCF during the past two decades. Over the past several years, loss and loss expense payments on policies within The Resolution Group have aggregated \$1,024 million and \$24 million on a gross and net basis, respectively. Management of The Resolution Group and Talegen believe that all significant losses have been paid on this coverage. Of the approximately \$1 billion in reinsurance believed to be appropriately recoverable from these claims, \$682 million has been collected and \$168 million has either been written-off or reserved through the allowance for uncollectible reinsurance, resulting in a remaining net recoverable balance of \$150 million as of December 31, 1994. See discussion of status of two separate lawsuits pertaining to reinsurance recoverable on OCF claims, of which one has been substantially settled, in Note 18 of the consolidated financial statements beginning on Page 79.

With respect to hazardous waste claims, the principal federal statute that requires cleanup of environmental damage is the Comprehensive Environmental Response, Compensation and Liability Act ("Superfund"), passed in 1980. It imposes liabilities on "Potentially Responsible Parties," subjecting them to liability for clean-up costs regardless of fault, time period and relative contribution of pollutants. Superfund is subject to funding authorization that expires in December 1995. The current administration has put forth a proposal to reform Superfund that would create a government fund used to clean up "National Priority Listed" sites that would be paid for through a combination of retrospective and prospective taxes for primary insurers and a retrospective tax for reinsurers. Because the 103rd Congress did not pass the reform bill, and because there is new legislative leadership in both the House and the Senate, it is not possible to predict what effect the future legislative changes or reauthorization of Superfund will have on Talegen's future results.

## RANGE OF REASONABLY POSSIBLE LOSSES ON KNOWN CLAIMS

The following table compares the internal estimates of the range of ultimate net losses that are considered reasonably possible for known asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims to total net reserves for these claim categories as of December 31, 1994:

(In millions)	Range of Net Unpaid Loss and Allocated Loss Adjustment Expense Reserves Compared to Total Net Reserves/1/ as of December 31, 1994										
	Range of Net Unpaid Loss and Allocated Loss Adjustment Expenses on Known Claims										
	Asbestos Bodily Injury		Asbestos-in- Building		Hazardous Waste		Other Latent or Long-Tail		Total		Total Net Reserves/1/
	Low	High	Low	High	Low	High	Low	High	Low	High	
Constitution Reinsurance	\$ 5	\$20	\$-	\$ -	\$10	\$ 30	\$ -	\$ -	\$ 15	\$ 50	\$ 52
Crum & Forster Insurance	20	40	-	3	10	70	40	80	70	193	158
The Resolution Group	10	20	2	4	2	80	-	5	14	109	57
Westchester Specialty Group	5	15	1	3	2	35	-	6	8	59	34
<b>Total</b>	<b>\$40</b>	<b>\$95</b>	<b>\$3</b>	<b>\$10</b>	<b>\$24</b>	<b>\$215</b>	<b>\$40</b>	<b>\$91</b>	<b>\$107</b>	<b>\$411</b>	<b>\$301</b>

/1/Included are case, IBNR and allocated loss adjustment expense reserves. Total excludes \$2 million of reserves for hazardous waste claims for Coregis Insurance Company, a subsidiary of the Coregis insurance operating group. Hazardous waste exposures to Coregis are not significant primarily because 1986 was the first year significant business volume was written in the Coregis Insurance Companies.

Because the above ranges have been estimated on a net basis, they do not allow for uncollectible reinsurance. See discussion of the allowance for doubtful reinsurance in Note 13 of the consolidated financial statements on Page 69. Additionally, the above ranges exclude consideration of potential Ridge Re contract recoveries, which provides aggregate excess of loss protection over all loss and loss expense reserves and uncollectible reinsurance reserves for 1992 and prior accident years. Cessions to Ridge Re, while beneficial to Talegen, do not result in a benefit to the Insurance segment or consolidated Xerox accounts. Based on information available to them as of December 31, 1994, the insurance operating groups and Talegen do not expect that liabilities associated with incurred asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims will have a material adverse affect on their future liquidity or financial position. However, given the complexity and lack of precision in estimating the exposure, no assurance can be made as to the future potential impact of such claims.

#### REGULATORY RESTRICTION

The assets of the Insurance Companies are highly regulated and are generally restricted by regulatory authorities for use within the Insurance Company. Accordingly, they are generally not available for general corporate purposes. Restricted net assets of the Insurance Companies were \$3.1 billion at December 31, 1994, \$3.2 billion at December 31, 1993 and \$2.6 billion at December 31, 1992.

#### RIDGE RE RELATED/OTHER

Operating results related to Ridge Re were insignificant in 1993 because the Talegen insurers did not experience adverse reserve development during that period. Accordingly, no losses were recorded in 1993 under Ridge Re's excess of loss reinsurance contracts.

The Ridge Re related 1994 pre-tax underwriting loss was \$53 million, based upon loss cessions from three of the Talegen insurance operating groups (The Resolution Group - \$28 million, Westchester Specialty Group - \$20 million, and Crum & Forster Insurance - \$5 million). The after-tax impact totaled \$35 million in 1994.

Interest/Other charges on an after-tax basis were \$151 million in 1994, \$145 million in 1993 and \$133 million in 1992. These charges primarily include net interest expense.

#### DISCONTINUED OPERATIONS

Other Financial Services (OFS), which were discontinued in the fourth quarter of 1993, had no after-tax income in 1994, \$63 million in 1993, and a \$39 million loss in 1992. Included in the 1993 income was a \$62 million after-tax gain from the completion of two sales. The 1992 loss includes \$90 million of adjustments, primarily for the partial write-down of goodwill. The net investment in OFS was \$232 million at December 31, 1994. The Company believes that the liquidation of the remaining OFS units will not result in a net loss.

In February 1993, the Company completed the sale of VKM for approximately \$360 million, which resulted in before- and after-tax gains of \$101 million and \$62 million, respectively. In October 1993, the Company completed the sale of Furman Selz for \$99 million. The gain on the sale was immaterial. The proceeds of the above sales were used to retire debt.

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

General American Life Insurance Company and XFSI signed a definitive agreement in January, 1995 for a wholly-owned subsidiary of General American (New Owner) to acquire Xerox Life and related companies. Closing of the sale is subject to the customary closing conditions and regulatory approvals, and is targeted for the first half 1995. At closing, New Owner will rename the Xerox Life companies. OakRe Life Insurance Company, an XFSI subsidiary formed in 1994, will assume responsibility for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life's Missouri and California companies (Life Companies) via a reinsurance agreement (Agreement). The Agreement includes a provision for the assumption (at their election) by the Life Companies, of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with a New Owner affiliate provides for the assumption of the liability under the Coinsurance Agreement for any SPDA policies not so assumed by the Life 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 New Owner. See Note 11 to the consolidated financial statements on Page 64 for additional information.

The third-party financing and real-estate development and financing operations that were discontinued in 1990 were unaffected by the IOFS disengagement decisions. During 1994, several favorable developments occurred including sales of real-estate and third-party assets and sale and run-off activity, which reduced assets associated with these businesses by \$272 million to a total of \$547 million. Assigned debt was correspondingly reduced by \$193 million to \$231 million. Management believes that the combination of existing reserves together with run-off profits should adequately provide for any credit losses or losses on disposition.

#### CONSOLIDATED DEFERRED TAX ASSET POSITION

As is common for companies with large property and casualty insurance operations, the Company's domestic operations are in a net deferred tax asset position. In recent years, domestic profitability has been adversely affected by several non-recurring charges including the 1993 Document Processing restructuring charge and litigation settlements; the 1992 IOFS restructuring charges; the 1991 Document Processing work-force reduction provision; a smaller 1991 provision associated with the closing of certain Talegen locations; and, in 1990, by the charge associated with discontinuing the Company's real-estate operations. These charges were incurred in conjunction with the Company's ongoing efforts to exit from non-core businesses and to position the Company for future profitable growth. In addition, the 1992 adoption of the new accounting standards for postretirement medical benefits has also significantly contributed to the Company's domestic deferred tax asset position. The Company has scheduled the timing of the reversal of its deferred tax assets and, as further discussed in Note 17 to the consolidated financial statements on Page 79, expects to realize the majority of these in the ordinary course of future operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of Consolidation.** The consolidated financial statements include the accounts of Xerox Corporation and all majority-owned subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated.

Rank Xerox Limited, Rank Xerox Holding BV, Rank Xerox Investment Limited, R-X Holdings Limited and their respective subsidiaries, and the other subsidiaries jointly owned by the Company and The Rank Organisation Plc are referred to as the Rank Xerox Companies. The accounts of the Rank Xerox Companies are included for their fiscal years ended October 31. The accounts of the Latin American subsidiaries are included for their fiscal years ended November 30.

Investments in which the Company has a 20 to 50 percent ownership interest are accounted for on the equity method.

**Earnings Per Share.** Primary earnings per share are based on net income less preferred stock dividend requirements divided by the average common shares outstanding during the period and common equivalent shares related to dilutive stock options, Xerox Canada Inc. exchangeable Class B stock and incentive shares. Fully diluted earnings per share assume full conversion of convertible debt and convertible preferred stock into common stock at the beginning of the year or date of issuance, unless they are antidilutive.

**Goodwill.** Goodwill represents the cost of acquired businesses in excess of the net assets purchased and is amortized on a straight-line basis, generally over 40 years. Goodwill is reported net of accumulated amortization and the recoverability of the carrying value is evaluated on a periodic basis. During 1992, the Company recorded a \$470 million write-down of goodwill in connection with the restructuring of Insurance and Other Financial Services.

**Significant Accounting Policies of Document Processing:**

**Revenue Recognition.** Revenues from the sale of equipment under installment contracts and from sales-type leases are recognized at the time of sale or at the inception of the lease, respectively. Associated finance income is earned on an accrual basis under an effective annual yield method. Revenues from equipment under other leases are accounted for by the operating lease method and are recognized over the lease term. Service revenues are derived primarily from maintenance contracts on the Company's equipment sold to customers and recognized ratably over the term of the contracts. Sales of equipment subject to the Company's operating leases to third-party lease finance companies are recorded as sales at the time the equipment is accepted by the third party.

**Provisions for Losses on Uncollectible Receivables.** The provisions for losses on uncollectible trade and finance receivables are determined principally on the basis of past collection experience.

**Inventories.** Inventories are carried at the lower of average cost or market.

**Buildings and Equipment.** Buildings and equipment are depreciated over their estimated useful lives. Depreciation is computed using principally the straight-line method. Significant improvements are capitalized; maintenance and repairs are expensed.

**Classification of Commercial Paper and Bank Notes Payable.** It is the Company's policy to classify as long-term debt that portion of commercial paper and bank notes payable that is intended to match fund finance receivables due after one year to the extent that it has the ability under its revolving credit agreements to refinance such commercial paper and notes payable on a long-term basis. See Note 15 on Page 72.

**Reclassifications.** Certain prior year balances have been reclassified to conform to the 1994 presentation.

**Foreign Currency Translation.** The functional currency for most foreign operations is the local currency. Net assets are translated at current rates of exchange and income and expense items are translated at the average exchange rate for the year. The resulting translation adjustments are recorded as a separate component of shareholders' equity. The U.S. dollar is used as the functional currency for the Company's subsidiaries, such as in South America, which conduct their business in U.S. dollars or operate in hyper-inflationary economies. A combination of current and historical exchange rates are used in remeasuring the local currency transactions of these subsidiaries and the resulting exchange adjustments are included in income. Aggregate foreign currency losses were (in millions) \$136, \$174 and \$67 in 1994, 1993 and 1992, respectively, and are included in Other, net in the consolidated statements of income.

## Significant Accounting Policies of Insurance:

**Revenue Recognition.** Insurance premiums are generally earned pro rata over the period the coverage is provided.

**Deferred Policy Acquisition Costs.** Property and casualty insurance policy acquisition costs are deferred and recognized over the periods the related premiums are earned. Anticipated investment income is considered in the determination of the recovery of deferred policy acquisition costs.

**Reinsurance.** Reinsurance recoverable includes the balance due from reinsurance companies for paid losses and loss expenses and the estimates of the amount of unpaid losses and loss expenses that will be recovered from reinsurers determined in a manner consistent with the liabilities associated with the reinsured policies. The provision for uncollectible reinsurance is determined based upon the review of the financial condition of the reinsurers and assessment of other available information, as is further discussed in Note 13 on Page 69.

**Insurance Losses and Loss Expenses.** Property and casualty insurance losses and loss expenses are charged to expense as incurred. The reserve for unpaid losses and loss expenses is determined on the basis of claim adjusters' evaluations and other estimates, including those for incurred but not reported (IBNR) losses and for salvage and subrogation recoveries. Overall reserve levels are impacted primarily by the types and amounts of insurance coverage currently being written, trends developing from newly reported claims and claims which have been paid and closed. Talegen's insurance operating groups continually monitor gross and net losses and loss expense reserves of their insurance companies for business written in both the current and prior years, and Talegen senior management reviews these reserves on a periodic basis. Adjustments are made to reserves in the period in which they can be reasonably estimated to reflect evolving changes in loss development patterns and various other factors, such as social and economic trends and judicial interpretation of legal liability. These reserves are not recorded on a discounted basis.

**Investments.** The fixed maturity investments of Insurance operations are considered to be investments available-for-sale because substantial portions of these portfolios may be sold prior to maturity. Fixed maturity investments and equity securities are valued at market. Unrealized gains and losses from the revaluation of these securities are credited or charged to shareholders' equity.

Realized gains and losses on the sale of investments are determined on a specific identification basis. A provision in the consolidated statement of income is made only when the decline in the fair value of debt and equity securities is other than temporary. Investment income is recorded when earned.

## 2. ACCOUNTING CHANGES

Commencing in 1994, Statement of Financial Accounting Standards (SFAS) No. 112 - "Employers' Accounting for Postemployment Benefits" - requires accrual accounting for employee benefits that are paid between the termination of active employment and retirement. SFAS No. 112 did not have an impact on operating results as the applicable benefits are either routinely accrued or are types of benefits not currently offered by the Company.

Effective January 1, 1994, the Company adopted SFAS No. 115 - "Accounting for Certain Investments in Debt and Equity Securities," which is more fully discussed in Note 12 on Page 66.

Effective December 31, 1994, the Company adopted SFAS No. 119 - "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments." See Note 21 on Pages 83 through 85 for disclosures relating to derivative financial instruments.

In 1992, the Company recorded an after-tax charge of \$764 million for the cumulative effect of accounting changes consisting of \$606 million for SFAS No. 106 - "Employers' Accounting for Postretirement Benefits Other Than Pensions," and \$158 million for SFAS No. 109 - "Accounting for Income Taxes."

3. 1993 SPECIAL CHARGES, NET

In 1993, the Company recorded special charges which aggregated \$1,373 million and included the following pre-tax amounts: \$1,195 million related to a restructuring of Document Processing operations and \$278 million related to litigation settlements. As a result of these charges, the Company's Document Processing operations generated a net loss for 1993; accordingly, these provisions had been partially offset by \$100 million in reduced performance-based employee profit sharing which had previously been accrued and would have been paid based on profit before the special charges. As a consequence, these special charges resulted in an after-tax charge of \$813 million or \$7.96 per share. The restructuring program and litigation settlements are discussed below:

**Document Processing Restructuring Program.** The Document Processing restructuring program announced in December 1993 is a worldwide action aimed at significantly reducing the Company's cost base and at improving productivity.

The \$1,195 million provision consisted of the following: \$843 million related to severance pay and other employee separation benefits; \$258 million related to lease cancellation and other facilities rationalization and site consolidation costs; and \$94 million for the write-off or write-down of various assets in certain non-strategic businesses the Company will exit and other costs directly related to the restructuring program. Approximately 70 percent of this provision relates to the Company's domestic operations.

The \$1,195 million pre-tax provision resulted in the Company recognizing \$416 million in deferred tax benefits and reducing minorities' interests in earnings of subsidiary companies by approximately \$74 million. As a consequence, the restructuring program resulted in an after-tax charge in 1993 of \$705 million or \$6.91 per share.

The Company anticipated, as a result of this restructuring program, to reduce its worldwide Document Processing work force by more than 10,000 employees by early 1996. In addition, the Company identified specific facilities to be closed, which are publicly announced as local implementation plans are finalized.

As of December 31, 1994, the activities associated with the restructuring program are on track towards achieving the Company's objectives. The progress of the restructuring program is included in the accompanying Financial Review on Page 32.

During 1994, \$430 million of net pre-tax charges were charged against the restructuring reserve. Management believes the aggregate reserve balance of \$765 million at December 31, 1994 is adequate for the completion of the restructuring program.

The consolidated balance sheets at December 31, 1994 and 1993 include \$429 million and \$395 million, respectively, of current liabilities and \$260 million and \$717 million, respectively, of non-current liabilities relating to the pre-tax cash obligations associated with the restructuring action.

During 1994, actual savings approximated \$350 million. The cost savings resulting from this action are estimated to be approximately \$700 million in 1995 and at higher amounts thereafter (These cost savings amounts are unaudited). These savings are primarily the result of reduced compensation expenses and occupancy costs. Partially offsetting these savings will be expenses incurred in future years to reengineer various business processes, such as the expansion of the use of technology in the customer order entry and sales processing functions; investments in hardware and software and related training to improve the efficiency of the Company's field service and sales organizations; and training to expand the local capabilities of technical service personnel. Additionally, some of these savings will be reinvested in support of the Company's expansion into emerging markets and to mitigate anticipated effects of continuing pressure on gross margins.

**Litigation Settlements.** In December 1993, the Company recorded a pre-tax charge of \$278 million towards the settlement of two outstanding lawsuits in Texas. Of this charge, \$256 million related to the settlement of an antitrust suit against the Company and \$22 million related to the settlement of claims in connection with an alleged breach of contract. Net of income taxes, these settlements reduced the Company's 1993 net income by \$167 million or \$1.63 per share.

#### 4. FINANCE RECEIVABLES, NET

Finance receivables represent installment sales and sales-type leases resulting from the marketing of the Company's business equipment products. These receivables generally mature over two to five years and are generally collateralized by a security interest in the underlying assets. The components of finance receivables, net at December 31, 1994, 1993 and 1992 follow:

(In millions)	1994	1993	1992
Gross receivables	\$12,135	\$11,119	\$10,826
Unearned income	(2,074)	(2,032)	(2,194)
Unguaranteed residual values	206	165	142
Allowance for doubtful accounts	(319)	(300)	(275)
Finance receivables, net	9,948	8,952	8,499
Less current portion	3,910	3,358	3,162
Amounts due after one year, net	\$ 6,038	\$ 5,594	\$ 5,337

Contractual maturities of the Company's gross finance receivables subsequent to December 31, 1994 follow (in millions):

1995	1996	1997	1998	1999	Thereafter
\$4,939	\$3,242	\$2,229	\$1,207	\$453	\$65

Experience has shown that a portion of these finance receivables will be prepaid prior to maturity. Accordingly, the preceding schedule of contractual maturities should not be considered a forecast of future cash collections.

#### 5. INVENTORIES

The components of inventories at December 31, 1994, 1993 and 1992 follow:

(In millions)	1994	1993	1992
Finished goods	\$1,458	\$1,421	\$1,508
Work in process	88	80	83
Raw materials	268	297	292
Equipment on operating leases, net	480	364	374
Inventories	\$2,294	\$2,162	\$2,257

Equipment on operating leases consists of the Company's business equipment products which are rented to customers and are depreciated to estimated residual value. Depreciable lives vary from two to four years. The Company's business equipment operating lease terms vary, generally from one to 36 months. Accumulated depreciation on equipment on operating leases for the three years ended December 31, 1994 amounted to (in millions) \$794, \$692 and \$697, respectively. Minimum future rental revenues on the remaining non-cancelable operating leases with original terms of one year or longer are (in millions):

1995	1996	1997	Thereafter
\$335	\$214	\$122	\$99

Total contingent rentals, principally usage charges in excess of minimum rentals for operating leases, for the three years ended December 31, 1994, amounted to (in millions) \$246, \$274 and \$290, respectively.

#### 6. LAND, BUILDINGS AND EQUIPMENT, NET

The components of land, buildings and equipment at December 31, 1994, 1993 and 1992 follow:

(In millions)	Estimated Useful Lives (Years)	1994	1993	1992
Land		\$ 87	\$ 83	\$ 69
Buildings and building equipment	20 to 40	876	824	788

Leasehold improvements	Lease term	339	322	336
Plant machinery	4 to 12	1,843	1,732	1,558
Office furniture and equipment	3 to 10	1,245	1,576	1,509
Other	3 to 20	139	171	172
Construction in progress		227	277	368
-----				
Subtotal		4,756	4,985	4,800
Accumulated depreciation		2,648	2,766	2,650
-----				
Land, buildings and equipment, net		\$2,108	\$2,219	\$2,150
=====				

The Company leases certain land, buildings and equipment. Substantially all such leases are accounted for as operating leases. Total rent expense under operating leases for the three years ended December 31, 1994 amounted to (in millions) \$502, \$538 and \$554, respectively. Future minimum operating lease commitments that have remaining non-cancelable lease terms in excess of one year at December 31, 1994 are as follows (in millions):

1995	1996	1997	1998	1999	Thereafter
-----					
\$329	\$219	\$172	\$145	\$122	\$567
=====					

In certain circumstances, the Company subleases space not currently required in operations. Future minimum sublease income under leases with non-cancelable terms in excess of one year amounted to \$45 million at December 31, 1994.

## 7. INVESTMENTS IN AFFILIATES, AT EQUITY

Investments in corporate joint ventures and other companies in which the Company has a 20 to 50 percent ownership interest at December 31, 1994, 1993 and 1992 follow:

(In millions)	1994	1993	1992
Fuji Xerox	\$1,183	\$1,004	\$868
Other investments	95	90	89
Investments in affiliates, at equity	\$1,278	\$1,094	\$957

Rank Xerox Limited, a consolidated subsidiary of the Company, owns 50 percent of the outstanding stock of Fuji Xerox, a corporate joint venture with Fuji Photo Co., Ltd. Fuji Xerox is headquartered in Tokyo and operates throughout the Far East (except China) in the Document Processing business. Condensed financial data of Fuji Xerox for its last three fiscal years follow:

(In millions)	1994	1993	1992
Summary of Operations			
Revenues	\$7,235	\$6,259	\$5,348
Costs and expenses	6,829	5,915	5,043
Income before income taxes	406	344	305
Income taxes	235	195	183
Net income	\$ 171	\$ 149	\$ 122
Rank Xerox' equity in net income	\$ 86	\$ 75	\$ 61
Xerox' equity in net income	\$ 57	\$ 50	\$ 41

### Balance Sheet Data

Assets			
Current assets	\$3,428	\$3,175	\$2,760
Non-current assets	3,038	2,573	2,355
Total assets	\$6,466	\$5,748	\$5,115

### Liabilities and shareholders' equity

Current liabilities	\$2,567	\$2,276	\$2,100
Long-term debt	658	794	742
Other non-current liabilities	871	668	477
Shareholders' equity	2,370	2,010	1,796
Total liabilities and shareholders' equity	\$6,466	\$5,748	\$5,115

## 8. GEOGRAPHIC AREA DATA

Revenues and assets of the Rank Xerox Companies are substantially attributable to European operations; their consolidated operations in Africa, Asia and the Middle East together comprise less than one percent of the Company's consolidated amounts. The Other Areas classification includes operations principally in Latin America and Canada.

Intercompany revenues are generally based on manufacturing cost plus a markup to recover other operating costs and to provide a profit margin to the selling company.

The Insurance business conducts substantially all of its operations in the United States. The revenues, net income and assets of the Company's Insurance businesses are included in the accompanying consolidated statements of income and consolidated balance sheets on Pages 28 and 38, respectively.

Geographic area data for the Company's Document Processing business follows:

(In millions)	Year ended December 31,		
	1994	1993	1992
Revenues from unrelated entities:			
United States	\$ 7,822	\$ 7,238	\$ 6,942
Rank Xerox Companies	4,633	4,479	4,911
Other Areas	2,633	2,512	2,445
Total	\$15,088	\$14,229	\$14,298
Intercompany revenues:			
United States	\$ 1,291	\$ 1,104	\$ 1,292

Rank Xerox Companies	262	216	264
Other Areas	362	353	353
-----			
Total	\$ 1,915	\$ 1,673	\$ 1,909
=====			
Total revenues:			
United States	\$ 9,113	\$ 8,342	\$ 8,234
Rank Xerox Companies	4,895	4,695	5,175
Other Areas	2,995	2,865	2,798
Less intercompany revenues	(1,915)	(1,673)	(1,909)
-----			
Total	\$15,088	\$14,229	\$14,298
=====			
Net income (before intercompany eliminations):			
United States	\$ 379	\$ (371)	\$ 302
Rank Xerox Companies	218	(43)	72
Other Areas	250	190	185
-----			
Total*	\$ 847	\$ (224)	\$ 559
=====			
Net income (after intercompany eliminations):			
United States	\$ 386	\$ (334)	\$ 301
Rank Xerox Companies	215	(47)	74
Other Areas	193	188	187
-----			
Total*	\$ 794	\$ (193)	\$ 562
=====			
Assets:			
United States	\$ 9,133	\$ 8,966	\$ 8,095
Rank Xerox Companies	7,171	6,349	6,367
Other Areas	3,070	2,843	2,678
-----			
Total	\$19,374	\$18,158	\$17,140
=====			

\*The 1993 special charges reduced net income by \$813 million. On a geographic basis, this charge was incurred as follows (in millions): \$605-United States; \$147-Rank Xerox Companies; and \$61-Other Areas.

## 9. CONTRACT WITH ELECTRONIC DATA SYSTEMS

In June 1994, the Company awarded a contract to Electronic Data Systems Corp. (EDS) to operate the Company's worldwide data processing and telecommunications network. EDS has assumed responsibility for virtually all of the Company's mainframe data processing, its computer network services and telecommunications, and will provide maintenance and other support services to the Company's active computer applications that support current internal Xerox processes. The contract does not transfer to EDS responsibility for the development of new data processing applications. As part of the contract, EDS purchased, at approximately book value, substantially all of the Company's information management assets for \$150 million. Approximately 1,300 Xerox employees have become employees of EDS during the second half of 1994.

The contract is for ten years and is valued at \$3.2 billion. Minimum payments due EDS under the contract for each of the next five years are as follows (in millions):

1995	1996	1997	1998	1999
\$362	\$349	\$325	\$289	\$250

These minimum payments will be amended over time to reflect the transfer to EDS of responsibility for the management of any new data processing applications, certain inflationary effects and other changing business conditions.

## INSURANCE AND OTHER FINANCIAL SERVICES (IOFS) DISCLOSURES

### 10. RESTRUCTURING OF IOFS

In January 1993, the Company announced its intent to sell or otherwise disengage from its IOFS businesses. Following the Company's decision to disengage from IOFS, an after-tax charge of \$778 million was recorded during 1992 of which \$688 million related to Insurance and \$90 million related to Other Financial Services. The January 1993 announcement to exit the financial services businesses is consistent with the strategy that began in 1990. As more fully discussed in Note 11 on Page 65, in 1990 the Company discontinued its real-estate development and third-party financing businesses.

**Restructuring of Insurance Operations.** As the initial step in the legal restructuring of Talegen, its investment portfolio was repositioned during 1992 by shortening the duration of fixed income securities and reinvesting in U.S. treasuries. As a result, realized capital gains of \$444 million were recognized during 1992 which were offset by a pre-tax restructuring provision of the same amount. Also during 1992, an after-tax charge of \$688 million was recorded, which included \$400 million for the partial write-down of goodwill and \$288 million for reserve strengthening. On a pre-tax basis the reserve strengthening was \$436 million. The combined effects of these charges resulted in \$880 million in pre-tax reserve strengthening at Talegen.

In connection with the 1992 charges, Xerox Financial Services, Inc. (XFSl), a wholly-owned subsidiary of the Company, provided support to Talegen in the form of \$200 million in notes guaranteed by the Company.

During 1993, the insurance departments of all states in which the Talegen insurance companies are domiciled approved the legal restructuring and recapitalization of Talegen's insurance companies. With this approval, in September 1993, Talegen established seven insurance operating groups as independent legal entities that, in turn, own one or more independent insurance companies. Each insurance company within the insurance operating group maintains its own investment portfolio, loss reserves and capital.

In connection with the regulatory approvals, the Company, through XFSI, provided additional capital support to Talegen. The capital consists of \$235 million in cash and \$100 million of XFSI promissory notes which are guaranteed by the Company.

At December 31, 1994 and 1993, intercompany transactions aggregating approximately \$522 million and \$645 million, respectively, have been included as Insurance assets on the Company's consolidated balance sheet. The corresponding obligations are included in Other Long-Term Debt and Obligations in the consolidated balance sheets and represent funding commitments by XFSI guaranteed by the Company.

XFSI has also agreed that support would be provided to Talegen in the form of excess of loss reinsurance protection. Commencing in 1993, XFSI is obligated to pay annual premium installments of \$49 million each year, plus financing charges thereon, for up to ten years, for coverage totaling \$1,245 million, net of 15 percent coinsurance. This reinsurance protection is provided to Talegen through XFSI's single purpose, wholly-owned reinsurance company Ridge Reinsurance Limited (Ridge Re), which was established in 1992. The XFSI premium payments have been guaranteed by the Company.

XFSI may also be required, under certain circumstances, to purchase up to \$301 million in redeemable preferred stock of Ridge Re. XFSI has guaranteed Ridge Re's obligations to Talegen.

The Talegen insurance companies and Ridge Re remain consolidated entities of the Company's continuing operations.

Sale of Constitution Re Corporation. In December 1994, a definitive agreement was reached for the sale of Constitution Re Corporation (CRC), one of the seven insurance operating groups of Talegen, for approximately \$410 million subject to closing adjustments, which is approximately the same as book value. The sale is expected to close during the first half of 1995 and is subject to regulatory approvals. Revenues for CRC during the years 1994, 1993 and 1992 were (in millions) \$519, \$496 and \$375, respectively.

#### 11. DISCONTINUED OPERATIONS

Other Financial Services. In 1993, the Company discontinued, for financial reporting purposes, its Other Financial Services (OFS) segment, which was composed of The Van Kampen Merritt Companies, Inc. (VKM), Furman Selz Holding Corporation (Furman Selz) and Xerox Financial Services Life Insurance Company (Xerox Life).

In February 1993, the Company sold VKM for approximately \$360 million, which resulted in pre- and after-tax gains of approximately \$101 million and \$62 million, respectively. The proceeds were used to retire debt.

In October 1993, the Company sold Furman Selz for \$99 million and such proceeds were also used to retire debt. The gain on the sale was immaterial. The sales price did not include the proceeds from the sale of Shields Asset Management, Inc., a former Furman Selz subsidiary, and Regent Investor Services Incorporated, a subsidiary of Shields. This sale was completed in March 1994 and resulted in additional cash of approximately \$60 million before settlement of related liabilities.

The disposition of Xerox Life will be accomplished through the sale of stock and run-off. In January 1995, the Company executed a stock purchase agreement with General American Life Insurance Company (General American) whereby a subsidiary of General American will acquire the capital stock of the Xerox Life operations and the Company's immediate, whole life and variable annuity businesses. The purchase price is equal to \$46 million plus an amount equal to the capital and surplus transferred to the buyer. The sale is expected to be consummated in the first half of 1995 and is subject to regulatory approval.

OakRe Life Insurance Company, an XFSI subsidiary formed in 1994, will assume responsibility for existing Xerox Life single premium deferred annuity (SPDA) policies via a reinsurance agreement (Agreement). At December 31, 1994, such policies approximated \$3 billion of customer deposit contracts outstanding. The Agreement includes a provision for the assumption (at its election) by Xerox Life, which will be renamed under General American ownership (New Owner), of all the SPDA policies at the end of their current reset periods, which run for approximately five years. A Novation Agreement with a New Owner affiliate provides for the assumption of the liability under the Agreement for any SPDA policies not so assumed by

Xerox Life. New Owner will pay additional consideration upon renewal of the SPDA policies.

OFS revenues for the three years ended December 31, 1994 were (in millions): 1994-\$302; 1993-\$544; and 1992-\$702. Revenues include amounts of the businesses through their effective sales dates. The net investment in OFS at December 31, 1994 and 1993 is approximately \$232 million and \$244 million, respectively. The Company believes that the liquidation of the remaining OFS assets will not result in a net loss.

Real-Estate and Third-Party Financing. During the last four years, the Company made substantial progress in disengaging from the real-estate and third-party financing businesses that were discontinued in 1990. During the three years ended December 31, 1994, the Company received net cash proceeds of \$1,191 million (\$259 million in 1994, \$291 million in 1993 and \$641 million in 1992) from the sale of individual assets or of business units, from several asset securitizations and from run-off collection activities. The amounts received were consistent with the Company's estimates in the disposal plan and were used primarily to retire debt.

In 1992, incremental tax benefits of \$122 million were realized by the Company. Rather than recording these tax benefits in income, the Company increased pre-tax reserves related to discontinued businesses in view of weak market conditions and continuing uncertainties in the domestic real-estate and credit markets.

Substantially all of the remaining assets represent direct financing leases, approximately \$330 million (60 percent) represent passive lease receivables, many with long-duration contractual maturities and unique tax attributes. Accordingly, the Company expects that the wind-down of the portfolio will be slower during 1995 and in future years, compared with prior years. The Company believes that the liquidation of the remaining assets will not result in a net loss.

Total Discontinued Operations. The consolidated financial statements have been restated, as appropriate, to isolate the effect of the discontinued operations. Assigned debt represents debt included in the Company's consolidated balance sheets that has been assigned to the discontinued businesses based on the relative amount of gross assets of the discontinued operations. Proceeds from disposition of these businesses, along with their results of operations during the phase-out period, are expected to be used to repay such consolidated indebtedness. Assigned interest expense for the three years ended December 31, 1994 was (in millions) \$34, \$76 and \$133, respectively.

Summarized information of discontinued operations for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
Summary of Operations			
Real-Estate and Third-Party Financing			
Loss before income taxes	\$ -	\$ -	\$ (122)
Income tax benefits	-	-	122
Net income	-	-	-
Other Financial Services			
Income (loss) before income taxes	-	106	(21)
Income (taxes) benefits	-	(43)	(18)
Net income (loss)	-	63	(39)
Net income (loss) from discontinued operations	\$ -	\$ 63	\$ (39)

#### Balance Sheet Data

##### Assets

Real-Estate and Third-Party Financing			
Gross finance receivables	\$ 538	\$ 841	\$1,203
Unearned income and other	9	(22)	(32)
Investment, net	547	819	1,171
Other Financial Services			
Investments	3,604	3,832	3,766
Other assets, net	541	523	715
OFS assets	4,145	4,355	4,481
Investment in discontinued operations	\$4,692	\$5,174	\$5,652

##### Liabilities

Other Financial Services			
Policyholders' deposits	\$3,576	\$3,716	\$3,682
Other OFS liabilities	337	395	218

Assigned debt	281	474	1,058
-----			
Discontinued operations liabilities	\$4,194	\$4,585	\$4,958
=====			

The investments caption primarily includes the fixed maturity securities owned by Xerox Life. These investments had net unrealized losses of approximately \$290 million at December 31, 1994. These investments are primarily composed of mortgage-backed securities which do not, per se, have contractual maturities.

Contractual maturities of the gross finance receivables at December 31, 1994 follow (in millions):

1995	1996	1997	1998	1999	Thereafter
-----					
\$64	\$70	\$42	\$30	\$30	\$302
=====					

12. INVESTMENTS AND INVESTMENT INCOME

Effective January 1, 1994, the Company adopted SFAS No. 115 - "Accounting for Certain Investments in Debt and Equity Securities." The effect of this statement on the Company is to require fair value accounting for investments in debt securities, which the Company does not plan to hold to maturity. Any adjustments are charged or credited to common shareholders' equity. At adoption, there was no effect on common shareholders' equity. In 1993, the fixed maturity investments were accounted for on a lower of cost or market basis, whereby any aggregate excess of cost over fair value was directly charged to common shareholders' equity and any market value appreciation was only recognized to the extent it did not exceed aggregate cost.

Equity securities were, and continue to be, valued at fair value, with unrealized gains and losses from the revaluation credited or charged to common shareholders' equity. Short-term investments are carried at cost, which approximates market.

The components of Insurance's investment portfolios at December 31, 1994 follow:

(In millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
-----				
Fixed maturities				
Bonds				
United States Government and government agencies and authorities	\$5,655	\$ 3	\$332	\$5,326
States, municipalities and political subdivisions	1,277	3	61	1,219
Public utilities	20	-	3	17
All other corporate bonds	307	-	24	283
Mortgage-backed securities	389	-	20	369
-----				
Total fixed maturities	7,648	6	440	7,214
-----				
Equity securities				
Common stocks				
Public utilities	24	-	2	22
Banks, trusts and insurance companies	19	1	1	19
Industrial, miscellaneous and all other	124	10	7	127
-----				
Total equity securities	167	11	10	168
-----				
Short-term investments	1,002	-	-	1,002
-----				
Investments available-for-sale	\$8,817	\$17	\$450	\$8,384
=====				

The components of Insurance's investment portfolios at December 31, 1993 follow:

Fixed maturities				
Bonds				
United States Government and government agencies and authorities	\$5,421	\$18	\$ 34	\$5,405
States, municipalities and political subdivisions	656	19	10	665
All other corporate bonds	291	4	2	293
Mortgage-backed securities	118	-	-	118
-----				
Total fixed maturities	6,486	41	46	6,481
-----				
Equity securities				
Common stocks				
Public utilities	20	8	6	22
Banks, trusts and insurance companies	16	2	1	17
Industrial, miscellaneous and all other	103	15	4	114
-----				
Total equity securities	139	25	11	153
-----				
Short-term investments	1,710	-	-	1,710
-----				
Investments available-for-sale	\$8,335	\$66	\$ 57	\$8,344
=====				

In general, these investments are limited by state insurance regulations for use within the Company's insurance operations, and therefore are not available to the Company for general corporate purposes. The Company is not exposed to any significant concentration of credit risk within the portfolio. At December 31, 1994, approximately 98 percent of the fixed maturity investments are investment grade securities.

Securities carried at (in millions) \$1,207, \$1,275 and \$1,279 at December 31, 1994, 1993 and 1992, respectively, were deposited with governmental authorities or designated custodial banks as required by laws affecting insurers.

The amortized cost and fair value of the fixed maturity investments at December 31, 1994, by contractual maturity, follow:

(In millions)	Amortized Cost	Fair Value
Contractual maturity		
Within one year	\$1,161	\$1,143
After one year but within five	4,676	4,354
After five years but within ten	685	646
After ten years	737	702
Subtotal	7,259	6,845
Mortgage-backed securities	389	369
Total fixed maturities	\$7,648	\$7,214

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties, and changing interest rates, tax considerations and other factors may result in portfolio sales prior to maturity.

The components of investment and other income for the three years ended December 31, 1994 follow:

(In millions)	1994	1993	1992
Interest on fixed maturities	\$370	\$352	\$491
Dividends on equity securities	5	4	10
Interest on short-term investments	48	26	38
Investment income	423	382	539
Other	14	19	13
Investment and other income	\$437	\$401	\$552

The components of net pre-tax realized capital gains for the three years ended December 31, 1994 follow:

(In millions)	1994	1993	1992
Fixed maturities:			
Gross gains	\$ 7	\$122	\$536
Gross losses	(5)	(46)	(34)
Equity securities	9	13	37
Real-estate	1	(1)	(23)
Net realized capital gains	\$ 12	\$ 88	\$516

The Company's financial statements include unrealized gains (losses), net of applicable income taxes, of investment securities as a separate component of common shareholders' equity; changes for the three years ended December 31, 1994 follow:

(In millions)	1994	1993	1992
Change in gross unrealized gains (losses)	\$(442)	\$ 4	\$(33)
Deferred income taxes (benefits)	(3)	4	(7)
Change in net unrealized gains (losses) of investment securities	\$(439)	\$ -	\$(26)

See Note 17 on Page 79 for a discussion of the deferred tax associated with the 1994 unrealized losses.



### 13. INSURANCE OPERATIONS

Information related to earned and unearned revenues of the Company's insurance operations for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
-----			
Premiums Written			
Direct	\$2,179	\$2,370	\$2,395
Assumed	611	645	604
Ceded	(445)	(558)	(652)
-----			
Net premiums written	\$2,345	\$2,457	\$2,347
=====			
Premiums Earned			
Direct	\$2,156	\$2,366	\$2,465
Assumed	630	636	568
Ceded	(474)	(594)	(707)
-----			
Net premiums earned	\$2,312	\$2,408	\$2,326
=====			
Unearned Income			
Unearned premiums	\$1,033	\$1,024	\$1,011
Unearned other	33	53	62
-----			
Unearned income	\$1,066	\$1,077	\$1,073
=====			

Premiums written represent new or renewal insurance business originated in each respective year. Approximately 26 percent of net premiums written annually represent insurance assumed from other insurance companies under various reinsurance arrangements. Premiums earned represents that portion of premiums written which are recognized as revenue in the respective reporting periods. Unearned premiums represent the portion of premiums written that is applicable to the unexpired terms of policies in force.

Activity related to unpaid losses and loss expenses for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
-----			
Unpaid Losses and Loss Expenses			
Gross unpaid losses and loss expenses, January 1	\$9,684	\$10,657	\$10,481
Reinsurance recoverable	2,935	3,788	4,102
-----			
Net unpaid losses and loss expenses, January 1	6,749	6,869	6,379
Incurred related to:			
Current year accident losses	1,748	1,795	1,838
Prior years accident losses	11	(12)	892
Other adjustments, net	10	53	(5)
-----			
Total incurred	1,769	1,836	2,725
-----			
Paid related to:			
Current year accident losses	486	495	477
Prior years accident losses	1,541	1,294	1,830
Other adjustments, net	36	23	11
-----			
Total paid	2,063	1,812	2,318
-----			
Other adjustments	(37)	(144)	83
-----			
Net unpaid losses and loss expenses, December 31	6,418	6,749	6,869
Reinsurance recoverable	2,444	2,935	3,788
-----			
Gross unpaid losses and loss expenses, December 31	\$8,862	\$9,684	\$10,657
=====			
Ceded losses and loss expenses	\$ (441)	\$ (283)	\$ (695)
=====			

As more fully discussed in Note 10 on Page 63, in 1992, \$880 million of incurred losses related to prior accident years pertained to balance sheet strengthening actions undertaken as part of the IOFS restructuring.

Estimation of reserves for asbestos-related, hazardous waste and other latent or long-tail related claims provides unique challenges to the insurance industry and the Company. The possibility that these claims would emerge was often not recognized or contemplated at the time the policies were written, and traditional actuarial reserving methodologies have not always been useful in accurately estimating ultimate losses. Asbestos-related claims were the first type of such exposures to cause significant losses to the insurance industry. Because case law for asbestos-related injuries is now reasonably

developed and the number of open claims has been declining, the remaining exposure and related uncertainty to the Company are also decreasing. Hazardous waste claims have been the second major class of such claims to emerge and significantly impact the insurance industry. Hazardous waste claims

encompass costs for pollution clean up, bodily injury and property damage. Significant uncertainties exist with respect to estimating the insurance companies' exposure to hazardous waste claims. The uncertainty primarily results from lack of historical data, long delays in reporting claims, difficulty in identifying potential claimants and complex legal and coverage issues that have been further complicated by inconsistent conclusions reached by the courts. Other latent or long-tail exposures such as repetitive stress, lead paint and breast implants are the latest type of such liability to emerge. These claim types are also not suitable for traditional actuarial reserving techniques due to significant uncertainties as to how legal issues will develop. As judicial patterns emerge through the appellate process and remove uncertainties related to asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims, additional liabilities and reinsurance recoverables could arise.

At December 31, 1994, total gross and net unpaid losses and loss expense reserves related to these claims included in the preceding table were \$860 million and \$303 million, respectively. Discussion of the activity in the unpaid losses and loss expenses associated with these claims as well as their potential effect on the future liquidity and financial position of the Insurance operating groups is more fully discussed in the Financial Review beginning on Page 53.

A summary of information related to acquisition costs and other expenses of insurance underwriting operations for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
Insurance Acquisition Costs and Other Insurance Operating Expenses			
Amortization of deferred policy acquisition costs	\$471	\$527	\$559
Other acquisition costs	264	216	213
Other operating expenses	42	42	185
-----			
Insurance acquisition costs and other insurance operating expenses	\$777	\$785	\$957
=====			
Deferred Policy Acquisition Costs	\$197	\$191	\$182
=====			

Reinsurance Ceded. The Company reinsures, in the ordinary course of business, certain risks with other insurance companies. These arrangements provide the means for greater diversification of business and serve to limit the net loss potential on unusually severe or frequent losses. Although the ceding of insurance risk does not discharge the original insurer from its primary liability to its policyholder, the reinsurance company that accepted the risk assumes an obligation to the original insurer. A contingent liability exists, however, with respect to reinsurance ceded to the extent that any reinsuring company might not be able to meet the obligations assumed under reinsurance agreements.

In 1993, the Company adopted SFAS No. 113 - "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts." This new standard eliminated the prior practice by insurance companies of reporting assets and liabilities relating to reinsured contracts net of the effects of reinsurance. The Company's consolidated balance sheets include all amounts on a gross basis with regard to ceded reinsurance. As permitted by SFAS No. 113, the Company will continue to record insurance premiums earned net of ceded premiums, and insurance losses and loss expenses net of reinsurance recoveries.

The components of the Company's reinsurance recoverable and prepaid reinsurance premiums at December 31, 1994, 1993 and 1992 follow:

(In millions)	1994	1993	1992
Reinsurance Recoverable			
Reinsurance receivable on paid losses	\$ 674	\$ 905	\$ 475
Allowance for doubtful reinsurance accounts on paid losses	(2)	(5)	(30)
-----			
Net reinsurance receivable on paid losses	672	900	445
Reinsurance recoverable on unpaid losses and loss expenses	2,444	2,935	3,788
-----			
Total reinsurance recoverable	\$3,116	\$3,835	\$4,233
=====			
Prepaid reinsurance premiums	\$ 163	\$ 187	\$ 223
=====			

In addition, the Company has provided reserves for doubtful reinsurance on ceded unpaid losses, which is included in the unpaid losses and loss expenses, of (in millions) \$228, \$245 and \$342 at December 31, 1994, 1993 and



The Company actively monitors and evaluates the financial condition of its reinsurers and prepares estimates of the uncollectible amounts due from troubled reinsurers. These estimates focus upon financial data and other available information such as ongoing rehabilitation and liquidation proceedings. In addition to the reinsurers' ability to pay claims, from time to time disputes arise over amounts and reinsurance coverage. The Company pursues its remedies in these cases and recognizes the impact of developments in these situations in its consolidated financial statements. The balance of reinsurance recoverable is considered to be valid and collectible. The Company also has a reinsurance security committee composed of senior officers who approve those reinsurers with whom the Company will do business. Based upon the review of financial condition and assessment of other available information, an allowance for doubtful reinsurance accounts is established.

Talegen made significant use of reinsurance during the 1970s and early 1980s. Since that time, Talegen has generally increased the portion of business they retain while reducing the number of reinsurers used for their reinsurance contracts. Accordingly, in the aggregate, net reserves as a percent of gross reserves increased to 72 percent as of December 31, 1994, from 65 percent as of December 31, 1992, and the percent of ceded premiums written to gross premiums written decreased to 16 percent in 1994 from 21 percent in 1992. Additionally, as of December 31, 1994, Talegen had current and future reinsurance recoverables due from approximately 700 reinsurers on all paid and unpaid losses. However, in 1994, 70 percent of premiums ceded were placed with approximately 30 reinsurers. The reinsurance placed in the 1970s and early 1980s has reduced the current net unpaid losses and loss expenses related to hazardous waste and asbestos-related claims, since the majority of such open claims have been made against policies issued in those years.

Statutory Information. Statutory information for the Company's insurance subsidiaries for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
Restricted net assets	\$3,064	\$3,215	\$2,634
Statutory net income (loss)	\$ 266	\$ 243	\$ (477)
Statutory policyholders' surplus	\$2,310	\$2,232	\$1,622

The Company's insurance subsidiaries are restricted by insurance laws as to the amount of dividends they may pay without the approval of regulatory authorities. There are additional restrictions regarding the amount of loans and advances that Talegen's subsidiaries may make to Talegen. These restrictions indirectly limit the payment of dividends and the making of loans and advances by Talegen, through XFSI, to the Company.

Generally accepted accounting principles differ in certain respects from the statutory accounting practices prescribed or permitted by insurance regulatory authorities for the Company's insurance subsidiaries. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. The effect on statutory policyholders' surplus of permitted practices is not significant.

The principal differences between statutory policyholders' surplus and shareholders' equity, determined in accordance with generally accepted accounting principles, relate to deferred federal income taxes, certain reinsurance recoverables and provisions, goodwill and deferred policy acquisition costs that are not considered assets for statutory purposes.

Resolution Credit Services Corporation (RCSC). In 1985, the Company discontinued the operations of RCSC (formerly Industrial Indemnity Financial Corporation), a unit of Talegen that was in the financial guarantee and contract surety businesses. The phase-out period will be lengthy due to the long-term nature of the outstanding financial guarantees. At December 31, 1994, there were contingent liabilities of approximately \$381 million, which represents the aggregate par value, net of reinsurance of \$216 million, of the guarantee contracts in force, but before consideration of approximately \$247 million of collateral that was pledged under the contracts; at December 31, 1993, these amounts were (in millions) \$598 and \$455. Approximately 75 percent of these contingent liabilities expire prior to the year 2000. Reserves for anticipated future losses, loss expenses and other costs of disposition are approximately \$52 million at December 31, 1994.

CONSOLIDATED DISCLOSURES

14. INDUSTRY SEGMENT DATA

The consolidated industry segment data portrays the operating results and assets for the Company's two industry segments.

Document Processing consists of the worldwide development, manufacturing, marketing, financing and servicing of document processing products and services. This segment also includes Xerox corporate headquarters. The Document Processing business is unitary from both a company and a customer perspective in that the marketing, financing and servicing of the Company's products represent an integrated document services solution. The Company's Insurance business includes Talegen, Ridge Re and Insurance headquarters. Income from continuing operations for the Insurance segment includes assigned interest expense.

General expenses include all costs not directly associated with segment revenues. For Document Processing, general expenses primarily include corporate overhead, foreign currency exchange losses and interest expense not associated with the financing of the Company's products. For Insurance, general expenses primarily represent interest and Insurance headquarters costs. Interest expense is assigned based on the amount of underlying debt incurred in connection with the acquisition and financing of the Insurance entities.

A reconciliation of assets to the consolidated balance sheet follows:

(In millions)	1994	1993	1992
Assets of continuing operations	\$33,893	\$33,576	\$32,619
Assets of discontinued operations	4,692	5,174	5,652
Total consolidated assets	\$38,585	\$38,750	\$38,271

Due to allocation methodologies and other operating conditions, the industry segment data may not be representative of operating profits or assets if the segments were independent companies. Data for segment capital expenditures, depreciation and amortization are included in the consolidated statements of cash flows on Pages 40 and 41.

(In millions)	Document Processing	Insurance	Consolidated Continuing Operations
1994 Revenues from unaffiliated customers	\$15,088	\$ 2,749	\$17,837
Operating profit	\$ 1,811	\$ 153	\$ 1,964
General expenses, net	297	197	494
Income (loss) before income taxes, equity income and minorities' interests	1,514	(44)	1,470
Income taxes (benefits)	595	(44)	551
Equity in net income of unconsolidated affiliates	88	-	88
Minorities' interests in earnings of subsidiaries	213	-	213
Income from continuing operations	\$ 794	\$ -	\$ 794
Assets	\$19,374	\$14,519	\$33,893
1993 Revenues from unaffiliated customers	\$14,229	\$ 2,809	\$17,038
Operating profit	\$ 23	\$ 179	\$ 202
General expenses, net	303	213	516
Income (loss) before income taxes, equity income and minorities' interests	(280)	(34)	(314)
Income taxes (benefits)	(78)	(38)	(116)
Equity in net income of unconsolidated affiliates	87	-	87
Minorities' interests in earnings of subsidiaries	78	-	78
Income (loss) from continuing operations	\$ (193)	\$ 4	\$ (189)
Assets	\$18,158	\$15,418	\$33,576
1992 Revenues from unaffiliated customers	\$14,298	\$ 2,878	\$17,176
Operating profit (loss)	\$ 1,393	\$ (797)	\$ 596
General expenses, net	270	215	485
Income (loss) before income taxes, equity income and minorities' interests	1,123	(1,012)	111
Income taxes (benefits)	493	(233)	260
Equity in net income of unconsolidated affiliates	81	-	81
Minorities' interests in earnings of subsidiaries	149	-	149

Income (loss) from continuing operations	\$ 562	\$ (779)	\$ (217)
	=====	=====	=====
Assets	\$17,140	\$15,479	\$32,619
	=====	=====	=====

---

## 15. DEBT

Short-Term Debt. Short-term borrowings data of the Company at December 31, 1994 and 1993 follow:

(In millions)	Weighted average interest rates at December 31, 1994	1994	1993
Bank notes payable	6.29%	\$ 235	\$ 399
Foreign commercial paper	5.90	1,024	708
Total short-term debt		1,259	1,107
Current maturities of long-term debt		1,900	1,591
Total		\$3,159	\$2,698

Bank notes payable generally represent foreign currency denominated borrowings of non-U.S. subsidiaries.

Long-Term Debt. A summary of long-term debt, by final maturity date, at December 31, 1994 and 1993 follows:

(In millions)	Weighted average interest rates at December 31, 1994	1994	1993
U.S. Operations:			
Xerox Corporation (parent company)			
Guaranteed ESOP notes			
due 1999-2004	7.69%	\$ 596	\$ 641
Notes due 1994	-	-	200
Notes due 1995	8.75	150	150
Notes due 1996	8.38	100	100
Notes due 1997	9.63	200	200
Notes due 1999	6.93	738	250
Notes due 2000	9.75	200	200
Notes due 2001	7.39	62	-
Notes due 2002	8.13	200	200
Notes due 2004	7.17	225	200
Notes due 2006	8.09	45	-
Debentures due 1995	9.25	200	200
Debentures due 2000	9.63	100	100
Other debt due 1994-2014	8.51	97	201
Capital lease obligations	5.48	7	7
Subtotal		2,920	2,649
Xerox Financial Services, Inc. (XFSI)			
Xerox Credit Corporation			
Notes due 1994	-	-	439
Notes due 1995	6.83	400	400
Notes due 1996	6.73	670	250
Notes due 1997	6.08	347	50
Notes due 1999	10.00	150	400
Floating rate notes due 2048	5.86	61	61
Other debt due 1996-1997	10.00	19	18
Subtotal		1,647	1,618
Other XFSI debt			
XFSI Notes due 1994-1996	8.25	310	470
Talegen Notes due 1995-2010	6.94	425	-
Subtotal		2,382	2,088
Total U.S. operations		\$5,302	\$4,737

(In millions)	Weighted average interest rates at December 31, 1994	1994	1993
International Operations:			
International marketing subsidiaries			
Various obligations, payable in:			
Pounds sterling due 1994-1999	7.02%	\$ 314	\$ 293
U.S. dollars due 1994-1999	7.73	220	32
Other currencies due 1994-1999	6.78	60	147
Capital lease obligations	8.97	14	25
Subtotal		608	497
International finance subsidiaries			

Various obligations, payable in:			
Canadian dollars due 1995-2007	10.71	265	273
Dutch guilders due 1994-1999	8.00	187	133
French francs due 1994-1998	8.00	76	82
German marks due 1995-1999	7.00	297	260
Pounds sterling due 1994-1997	8.00	39	11
Swiss francs due 1997-1998	6.00	96	79
Italian lira due 1995	9.00	81	-
Other currencies due 1994-1998	8.00	254	297
-----			
Subtotal		1,295	1,135
-----			
Total international operations		1,903	1,632
-----			
Other borrowings deemed long-term		2,475	2,608
-----			
Subtotal		9,680	8,977
Less current maturities		1,900	1,591
-----			
Total long-term debt		\$7,780	\$7,386
=====			

Consolidated Long-Term Debt Maturities. Payments due on long-term debt for the next five years are (in millions):

1995	1996	1997	1998	1999	Thereafter
\$1,900	\$1,447	\$1,048	\$317	\$1,085	\$1,408
=====					

These payments do not include amounts relating to domestic commercial paper and foreign bank notes payable which have been classified as long-term debt under the caption Other borrowings deemed long-term. These borrowings are classified as long-term because the Company has the intent to refinance them on a long-term basis, and the ability to do so under its revolving credit agreements.

Certain of the Company's debt agreements allow the Company to redeem outstanding debt prior to scheduled maturity. Outstanding debt issues with these call features are classified in the preceding five-year maturity table in accordance with management's current expectations. The actual decision as to early redemption will be made at the time the early redemption option becomes exercisable and will be based on prevailing economic and business conditions.

Lines of Credit. The Company's domestic operations have three revolving credit agreements totaling \$5.0 billion with groups of banks, of which \$1.3 billion expires in December 1995 and the remainder in 1999. These agreements are unused and are available to back the Company's domestic commercial paper borrowings, which amounted to \$2.4 billion and \$2.3 billion at December 31, 1994 and 1993, respectively. In addition, the Company's foreign subsidiaries had unused committed long-term lines of credit aggregating \$2.0 billion in various currencies at prevailing interest rates.

Matched Funding of Finance Receivables and Indebtedness. The Company employs a matched funding policy for customer financing assets and related liabilities. Under this policy, the interest and currency characteristics of the indebtedness are matched to the interest and currency characteristics of the finance receivables. At December 31, 1994, these operations had approximately \$10.2 billion of net finance receivables, which will service approximately \$8.3 billion of assigned short- and long-term debt, including \$0.3 billion of debt assigned to discontinued third-party financing businesses.

Interest. Including amounts relating to debt assigned to discontinued operations, interest paid by the Company on its short- and long-term debt amounted to (in millions) \$757, \$860 and \$945, respectively, for each of the three years ended December 31, 1994.

Total Short- and Long-Term Debt. The Company's short- and long-term debt at December 31, 1994, 1993 and 1992 is reflected in the consolidated balance sheets as follows:

(In millions)	1994	1993	1992
Short-term debt and current portion of long-term debt	\$ 3,159	\$ 2,698	\$ 2,533
Long-term debt	5,494	5,157	4,950
Notes payable	425	-	-
Discontinued operations liabilities - policyholders' deposits and other	281	474	1,058
Other long-term debt and obligations	1,580	1,755	2,097
Total debt	\$10,939	\$10,084	\$10,638

A summary of changes in consolidated indebtedness for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
Increase (decrease) in short-term debt, net	\$ (146)	\$ (451)	\$ 154
Proceeds from long-term debt	2,483	1,866	2,184
Principal payments on long-term debt	(1,555)	(1,784)	(1,572)
Total	\$ 782	\$ (369)	\$ 766

16. EMPLOYEE BENEFIT PLANS

Retirement Income Guarantee Plan (RIGP). Approximately 48,000 salaried and union employees participate in the Company's RIGP plans. The RIGP plans are defined benefit plans, which provide employees with the greater of (i) the benefit calculated under a highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life, or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Accounts or TRA).

At December 31, 1994, these domestic plans accounted for approximately 63 percent of the Company's total pension assets and were invested primarily as follows: domestic and international equity securities - 64 percent; fixed-income investments - 32 percent; and real estate - 4 percent. No plan assets are invested in the stock of the Company.

The RIGP plans are in compliance with the minimum funding standards of the Employee Retirement Income Security Act of 1974 (ERISA).

The transition asset and prior service cost are amortized over 15 years. Pension costs are determined using assumptions as of the beginning of the year while the funded status is determined using assumptions as of the end of the year. The assumptions used in the accounting for the U.S. defined benefit plans were as follows:

	1994	1993	1992
Assumed discount rates	8.75%	7.75%	8.50%
Assumed rates for compensation increases	5.75%	5.25%	6.00%
Expected return on plan assets	9.50%	9.50%	9.50%

The Company's discount rate considers, among other items, the aggregate effects of a relatively young work force and, because pension benefits are settled at retirement, the absence of retirees receiving pension benefits from plan assets. Accordingly, the duration of the Company's pension obligation tends to be relatively longer in comparison to other companies.

Other Plans. Several U.S. subsidiaries, including Talegen, have separate tax-qualified pension plans that are funded in accordance with ERISA. The Company also maintains various supplemental executive retirement plans (SERPs) that are not tax-qualified and are unfunded.

The Company sponsors numerous pension plans for its international operating units in Europe, Canada and Latin America, which generally provide pay- and service-related benefits. Plan benefits are provided through a combination of funded trustee arrangements or through book reserves. Rank Xerox' pension plan in the United Kingdom is the largest international plan and accounts for approximately 23 percent of the Company's total pension assets at December 31, 1994. It is primarily invested in marketable equity securities.

A reconciliation of the funded status of the Company's retirement plans to the amounts accrued in the Company's consolidated balance sheets at December 31, 1994 and 1993 follows:

(In millions)	1994				1993			
	Over-funded	Under-funded	Non-funded	Total	Over-funded	Under-funded	Non-funded	Total
Accumulated benefit obligation	\$4,545	\$103	\$ 210	\$4,858	\$4,541	\$103	\$ 181	\$4,825
Effect of projected compensation increases	396	28	40	464	358	33	59	450
Projected benefit obligation (PBO)	4,941	131	250	5,322	4,899	136	240	5,275
Plan assets at fair value	5,241	90	-	5,331	5,226	85	-	5,311
Excess (deficit) of plan assets over PBO	300	(41)	(250)	9	327	(51)	(240)	36
Items not yet reflected in the financial statements:								
Unamortized transition obligations (assets)	(172)	28	14	(130)	(184)	26	16	(142)
Unrecognized prior service cost	54	-	(12)	42	67	-	2	69
Unrecognized net (gain) loss	86	(25)	18	79	1	(12)	23	12
Prepaid (accrued) pension cost recognized in the consolidated balance sheets at December 31	\$ 268	\$(38)	\$(230)	\$ -	\$ 211	\$(37)	\$(199)	\$ (25)

Financial Information. The Company's disclosures about the funded status and components of pension cost are in accordance with U.S. accounting principles. Such principles recognize the long-term nature of pension plan obligations and the need to make assumptions about events many years into the future. In any year there may be significant differences between a plan's actual experience and its actuarially assumed experience. Such differences are deferred and do not generally affect current net pension cost. The objective of deferring such differences is to allow actuarial gains and losses an opportunity to offset over time. These deferrals are included in the captions unrecognized net loss and net amortization and deferrals in the accompanying tables. Due to variations in investment results, the effect of revising actuarial assumptions and actual plan experience which differs from assumed experience, certain of the Company's plans may be classified as overfunded in one year and underfunded in another year. Under ERISA and other laws, the excess assets of overfunded plans are not available to fund deficits in other plans.

The non-funded plans are the SERPs and the Rank Xerox pension plans in Germany and Austria. For tax reasons, these plans are most efficiently and customarily funded on a pay-as-you-go basis.

The components of pension cost for the three years ended December 31, 1994 follow:

(In millions)	1994	1993	1992
Defined benefit plans			
Service cost	\$ 150	\$ 153	\$ 156
Interest cost - change in PBO due to:			
Passage of time	177	165	149
Net investment income (loss) allocated to TRA accounts	(45)	538	245
Subtotal	132	703	394
Net investment (income) loss on:			
TRA assets	45	(538)	(245)
Other plan assets	(101)	(420)	(70)
Subtotal	(56)	(958)	(315)
Net amortization and deferrals	(144)	209	(143)
Settlement and curtailment gains	(12)	(8)	(4)
Defined benefit plans - net pension cost	70	99	88
Defined contribution plan - pension cost	16	22	21
Total pension cost	\$ 86	\$ 121	\$ 109

Pension cost in 1994 was lower than in prior years because of the reduction of the Document Processing work force in connection with the restructuring actions announced in December 1993. Plan assets consist of both defined benefit plan assets and assets legally allocated to the TRA accounts. The combined investment results of the assets are shown above in the net investment income caption. To the extent investment results relate to TRA, such results are credited to these accounts as a component of interest cost. The TRA account assets were \$3.0 billion and \$3.2 billion at December 31, 1994 and 1993, respectively. Because a substantial portion of plan assets are TRA-related and therefore are equal to TRA-related liabilities, the Company's pension plans' funding surplus tends to be less than that of comparable companies.

Other Postretirement Benefits. The primary plan for U.S. Document Processing salaried employees retiring on or after January 1, 1995 provides retirees an annual allowance that can be used to purchase medical and other benefits. The allowance available to each eligible employee is partially service related and, for financial accounting purposes, is projected to increase at an annual rate of 7.5 percent until it reaches the plan's annual coverage of approximately 2.5 times the 1992 level, the inception year of this plan.

The Company's Document Processing operations also have other postretirement benefit plans that cover employees retiring prior to January 1, 1995, certain grandfathered employees and certain union employees. These other plans are generally indemnity arrangements that provide varying levels of benefit coverage. The medical inflation assumption for these plans is 10.5 percent in 1994 and declines to 6.75 percent in 2002 and thereafter. A one percentage point increase in the medical inflation assumptions would increase the service and interest cost for these plans by \$5 million and the accumulated postretirement benefit obligation by \$58 million.

The discount rate used to determine the funded status was 8.75 percent at December 31, 1994, 7.5 percent at December 31, 1993, and 8.5 percent at December 31, 1992.

A reconciliation of the financial status of the plans as of December 31, 1994 follows:

(In millions)	1994	1993	1992
Accumulated Postretirement Benefit Obligation:			
Retirees	\$ 490	\$ 507	\$ 502
Fully eligible employees	209	256	266
Other employees	252	350	339
Total	951	1,113	1,107
Unrecognized net gain (loss)	104	(48)	(70)
Unrecognized prior service cost	61	46	-
Accrued cost recognized in the consolidated balance sheets	\$1,116	\$1,111	\$1,037
Document Processing	\$1,006	\$ 997	\$ 927
Insurance	\$ 110	\$ 114	\$ 110

The components of postretirement benefit cost for the three years ended December 31, 1994 follow:

(In millions)	1994	1993	1992
Service cost	\$ 27	\$ 33	\$ 28
Interest cost	69	81	74
Net amortization	(4)	(2)	-
Settlement gain	(25)	-	-
Total	\$ 67	\$ 112	\$ 102

These plans are most efficiently and customarily funded on a pay-as-you-go basis.

Employee Stock Ownership Plan (ESOP) Benefits. In 1989, the Company established an ESOP and sold to it ten million shares of Series B Convertible Preferred Stock, (Convertible Preferred) of the Company for a purchase price of \$785 million. The Convertible Preferred has a \$1 par value, a guaranteed minimum value of \$78.25 per share and accrues annual dividends of \$6.25 per share. The ESOP borrowed the purchase price from a group of lenders. Because the ESOP borrowings are guaranteed by the Company, they are included in debt on the Company's consolidated balance sheets. A corresponding amount classified as Deferred ESOP Benefits represents the Company's commitment to future compensation expense related to the ESOP benefits.

The ESOP will repay its borrowings from dividends on the Convertible Preferred and from Company contributions. The ESOP's debt service is structured such that the Company's annual contributions (in excess of dividends) essentially correspond to a specified level percentage of participant compensation. As the borrowings are repaid, the Convertible Preferred is allocated to ESOP participants and Deferred ESOP Benefits are reduced by principal payments on the borrowings. Most of the Company's Document Processing employees are eligible to participate in the ESOP.

Information relating to the ESOP and the Company for the three years ended December 31, 1994 follows:

(In millions)	1994	1993	1992
Interest on ESOP borrowings	\$ 49	\$ 52	\$ 55
Dividends declared on Convertible Preferred Stock	\$ 61	\$ 62	\$ 62
Cash contribution to the ESOP	\$ 32	\$ 30	\$ 32
Compensation expense	\$ 32	\$ 31	\$ 33

ESOP costs are recognized by the Company based on the amount committed to be contributed to the ESOP plus related trustee, finance and other charges.

17. INCOME TAXES

The parent Company and its domestic subsidiaries file consolidated U.S. income tax returns. Generally, pursuant to tax allocation arrangements, domestic subsidiaries record their tax provisions and make payments to the parent Company for taxes due or receive payments from the parent Company for tax benefits utilized.

Income before income taxes from continuing operations for the three years ended December 31, 1994 consists of the following:

(In millions)	Consolidated			Document Processing			Insurance		
	1994	1993	1992	1994	1993	1992	1994	1993	1992
Domestic income (loss)	\$ 669	\$(533)	\$(405)	\$ 713	\$(499)	\$ 607	\$(44)	\$(34)	\$(1,012)
Foreign income	801	219	516	801	219	516	-	-	-
Income (loss) before income taxes	\$1,470	\$(314)	\$ 111	\$1,514	\$(280)	\$1,123	\$(44)	\$(34)	\$(1,012)

Provisions for income taxes from continuing operations for the three years ended December 31, 1994 consist of the following:

(In millions)	Consolidated			Document Processing			Insurance		
	1994	1993	1992	1994	1993	1992	1994	1993	1992
Federal income taxes									
Current	\$ 90	\$ 133	\$ 38	\$ 160	\$ 182	\$ 175	\$(70)	\$(49)	\$ (137)
Deferred	141	(313)	(9)	100	(337)	73	41	24	(82)
Foreign income taxes									
Current	88	87	99	88	87	99	-	-	-
Deferred	182	(3)	84	182	(3)	84	-	-	-
State income taxes									
Current	31	29	34	46	42	48	(15)	(13)	(14)
Deferred	19	(49)	14	19	(49)	14	-	-	-
Income taxes (benefits)	\$ 551	\$(116)	\$ 260	\$ 595	\$( 78)	\$ 493	\$(44)	\$(38)	\$ (233)

Deferred provisions for income tax expense (benefit) from continuing operations for the three years ended December 31, 1994 result from the following items:

(In millions)	Consolidated			Document Processing			Insurance		
	1994	1993	1992	1994	1993	1992	1994	1993	1992
Installment sales and leases	\$ 118	\$ 18	\$ 59	\$ 118	\$ 18	\$ 59	\$ -	\$ -	\$ -
Depreciation	9	73	38	9	73	38	-	-	-
Discount on unpaid losses	27	4	(38)	-	-	-	27	4	(38)
Restructuring, litigation settlements and reorganization reserves	211	(515)	34	211	(515)	34	-	-	-
Effect of tax rate changes on deferred tax assets and liabilities	-	(58)	-	-	(40)	-	-	(18)	-
Postretirement medical benefits	(2)	(23)	(26)	(4)	(25)	(23)	2	2	(3)
Tax credit carryforwards	(56)	53	(53)	(56)	-	-	-	53	(53)
Unrecoverable reinsurance	(9)	(4)	12	-	-	-	(9)	(4)	12
Pension	(9)	7	4	(9)	7	4	-	-	-
Other	53	80	59	32	93	59	21	(13)	-
Total	\$ 342	\$(365)	\$ 89	\$ 301	\$(389)	\$ 171	\$ 41	\$ 24	\$ (82)

A reconciliation from the U.S. Federal statutory income tax rate to the effective income tax rate for continuing operations for the three years ended December 31, 1994 follows:

(In millions)	Consolidated			Document Processing			Insurance		
	1994	1993	1992	1994	1993	1992	1994	1993	1992
U.S. Federal statutory income tax rate	35.0%	(35.0)%	34.0%	35.0%	(35.0)%	34.0%	(35.0)%	(35.0)%	(34.0)%
Foreign earnings and dividends taxed at different rates	2.2	15.6	29.3	2.1	17.5	2.9	-	-	-
Amortization and write-down of intangibles	.2	2.3	151.3	-	-	-	8.0	21.4	14.2
Tax-exempt income	(1.8)	(4.7)	(33.7)	(.7)	(3.8)	(.7)	(40.0)	(12.9)	(2.8)
Effect of tax rate changes on deferred tax assets and liabilities	-	(18.5)	-	-	(14.3)	-	-	(53.1)	-
State taxes	2.1	(4.1)	36.8	2.7	(1.6)	3.6	(22.6)	(25.2)	(.9)
Other	(.2)	7.5	16.5	.2	9.3	4.1	(11.0)	(7.0)	.5
Effective income tax rate	37.5%	(36.9)%	234.2%	39.3%	(27.9)%	43.9%	(100.6)%	(111.8)%	(23.0)%

The Document Processing 1994 effective tax rate of 39.3 percent is 2 percentage points higher than the 1993 Document Processing tax rate before considering the effects of the 1993 restructuring charge and litigation settlements. This higher 1994 rate is primarily caused by the deferred tax rate benefits which only occurred in 1993 and which is partially offset by the increased tax benefits in 1994 associated with the mix of operations and ESOP dividends.

The 1994 consolidated effective tax rate of 37.5 percent is 2.6 percentage points higher than the 1993 consolidated effective tax rate before considering the 1993 restructuring charge and litigation settlements. This higher 1994 rate is primarily caused by the Document Processing and Insurance deferred tax rate benefits which only occurred in 1993 and which is partially offset by the increased Document Processing tax benefits in 1994 associated with the mix of operations, ESOP dividends and tax benefits associated with Insurance tax-exempt investment income.

The 1993 Document Processing restructuring charge and the deferred tax rate benefits principally contributed to the 271.1 percentage point decrease in the consolidated effective tax rate for 1993.

On a consolidated basis, including the effects of discontinued operations, the Company paid a total of (in millions) \$163, \$197 and \$157 in income taxes to federal, foreign and state income-taxing authorities in 1994, 1993 and 1992, respectively.

Total income tax expense (benefit) for the three years ended December 31, 1994 was allocated as follows:

(In millions)	1994	1993	1992
Income from Document Processing continuing operations	\$595	\$ (78)	\$ 493
Income from Insurance continuing operations	(44)	(38)	(233)
Discontinued operations	(91)	43	(17)
Common shareholders' equity*	(19)	(33)	(33)
Total	\$441	\$(106)	\$ 210

\*For dividends paid on shares held by the ESOP; cumulative translation adjustments; and unrealized gains and losses on investment securities.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries and other foreign investments carried at equity. The amount of such earnings included in consolidated retained earnings at December 31, 1994 was approximately \$3.3 billion. These earnings have been substantially reinvested and the Company does not plan to initiate any action that would precipitate the payment of income taxes thereon. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings.

The tax effects of temporary differences that give rise to significant portions of the deferred taxes at December 31, 1994 and 1993 follows:

(In millions)	1994	1993
Tax effect of future tax deductions:		
Document Processing:		
Depreciation	\$ 469	\$ 532
Postretirement medical benefits	388	385
Restructuring reserves	342	556
Other operating reserves	290	258
Deferred intercompany profit	116	96
Allowance for doubtful accounts	83	79
Deferred compensation	134	142
Tax credit carryforwards	56	-
Other	118	144
Insurance:		
Tax basis discount on unpaid losses	483	510
Unrealized investment losses	152	4
Unearned premiums	50	49
Postretirement medical benefits	34	35
Unrecoverable reinsurance	45	36
Severance and leasehold provisions	16	20
Other	119	97
Subtotal	2,895	2,943
Less: Valuation allowance	(286)	(134)
Total	\$ 2,609	\$ 2,809
Tax effect of future taxable income:		
Document Processing:		
Installment sales and leases	\$(1,262)	\$(1,214)
Leverage leases	(41)	(80)
Deferred income	(155)	(97)
Other	(117)	(126)
Insurance:		
Deferred policy acquisition costs	(78)	(76)
Other	(67)	(51)
Total	\$(1,720)	\$(1,644)

The above Document Processing amounts are classified in the balance sheets in accordance with the asset or liability to which they relate. Document Processing current deferred tax assets at December 31, 1994, 1993 and 1992 amounted to (in millions) \$709, \$711 and \$477, respectively.

The \$286 million valuation allowance at December 31, 1994 applies to deferred tax assets that may expire unused before the Company can utilize them. The \$152 million increase in the valuation allowance during 1994 relates to net unrealized losses on investment securities recorded in common shareholders' equity.

After consideration of the valuation allowance, the Company concludes that it is more likely than not that the deferred tax assets will be realized in the ordinary course of operations based on scheduling of deferred tax liabilities and income from operating activities.

At December 31, 1994, Document Processing has tax credit carryforwards for federal income tax purposes of \$56 million which are available to offset future federal taxable income indefinitely.

#### 18. LITIGATION

Document Processing. On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. On April 15, 1994, another case was filed in the United States District Court for the Northern District of California by 21 different ISOs from 12 states. Plaintiffs in these actions claim damages (to be trebled) to their individual businesses resulting from essentially the same alleged violations of law at issue in the antitrust class action in Texas, which was settled by the Company during 1994. In one of the cases damages are unspecified and in the other damages in excess of \$10 million are sought. In addition, injunctive relief is sought in both actions. Claims for individual lost profits of ISOs who were not named parties were not included in the class action. The two actions have been consolidated for pretrial proceedings in the District of Kansas. The Company has since filed a motion for leave to assert numerous counterclaims against the plaintiffs alleging patent and copyright infringement. Discovery is in its early stages. The Company denies any wrongdoing and intends to vigorously defend these actions.

Insurance. On September 15, 1992, International Surplus Lines Insurance Company, which has since been merged into International Insurance Company (International Insurance), a subsidiary of Talegen, filed a complaint in the United States District Court for the Southern District of Ohio, Eastern District, in Columbus, Ohio against certain underwriting syndicates at Lloyd's of London and other foreign reinsurance companies. The complaint seeks a declaratory judgment that the defendants are obligated to reimburse International Insurance under

various reinsurance contracts for approximately \$255 million in payments made or to be made to Owens-Corning Fiberglas (OCF) for asbestos-related losses. In an Opinion and Order dated September 27, 1994, International Insurance's motion for summary judgment was granted. The court ruled that International Insurance's payment of OCF's losses, based on the determination that the manufacture, sale and distribution of products containing asbestos constituted a single occurrence, was reasonable and therefore binding on International Insurance's reinsurers. The defendants filed motions for reconsideration of the September 27 order. In order to avoid the expense of further litigation and possible appeals, International Insurance has executed settlement agreements with most of the defendants in the action. The recovery pursuant to the settlement agreements approximates the recorded reinsurance recoverable balance after consideration for amounts written-off for uncollectible reinsurance in prior years. Settlement discussions with the remaining defendants are continuing and are expected to result in additional executed settlement agreements with some or all defendants. As of January 30, 1995, approximately \$29.5 million is outstanding with these remaining reinsurers. The litigation is currently stayed by agreement of the parties pending the current discussions to settle the litigation in its entirety.

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

On June 20, 1991, an amended complaint was filed in an action brought by Monsanto Company pending in the 71st District Court of Harrison County, Texas, against Crum and Forster, Inc., which has since been renamed Talegen Holdings, Inc. and four of its insurance subsidiaries. The action was commenced in November 1989. The amended complaint alleged breach of the duty of good faith and fair dealing and violations of the Texas Insurance Code. Plaintiff sought approximately \$16.4 million in actual damages plus interest and attorneys' fees, subject to trebling, and punitive damages of \$300 million. In early 1992, a verdict was rendered against Talegen and its subsidiaries by the jury. The Court of Appeals of the Sixth Appellate District of Texas affirmed the judgment. As of December 31, 1994, the judgment against Talegen and its subsidiaries amounted to approximately \$91 million, including accrued interest. On March 2, 1995, the parties entered into settlement agreements pursuant to which Talegen and its subsidiaries have made a cash payment to Monsanto in the amount of \$34 million.

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

substances within Southbend emanating from the Brio site. Farm & Home alleges that the Indemnification Agreement covers claims for injuries arising elsewhere than Southbend. The Insurance Companies deny any liability to Farm & Home and intend to continue to vigorously contest coverage under the Indemnification Agreement for injuries not related to Southbend. Cross motions for summary judgment in the action are pending.

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

#### 19. PREFERRED STOCK

The Company has 23.5 million authorized shares of cumulative preferred stock, \$1 par value. Two series of preferred stock are currently outstanding and are described below.

**Redeemable Preferred Stock.** The Company's series of Ten-Year Preferred Stock has an annual dividend rate of \$3.6875 and is subject to redemption by the Company through a sinking fund. The mandatory sinking fund for this series is designed to retire 20 percent of the issue in each of the five years beginning on April 1, 1994. Also, the Company has the non-cumulative option to increase the annual sinking fund payments by an amount up to 100 percent of the mandatory payment. During 1994, 1 million shares were redeemed at the sinking fund redemption price of \$50 per share. A total of 1.5 million shares of this series, with a recorded value of \$75 million, is outstanding. Dividends amounted to \$7 million in 1994 and \$9 million in 1993 and 1992.

Shares issued under this series are non-voting, have cumulative dividends, a sinking fund redemption price of \$50 per share and a \$50 per share liquidation preference over the Company's common stock.

The Company's former series of Twenty-Year Preferred Stock was redeemed in 1994 for \$184 million, including a premium of \$11 million. Dividends amounted to \$5 million in 1994 and \$14 million in 1993 and 1992.

**Convertible Preferred Stock.** As more fully described in Note 16 on Page 76, the Company sold, for \$785 million, 10 million shares of its new Series B Convertible Preferred Stock (ESOP shares) in 1989 in connection with the establishment of its ESOP. At December 31, 1994, 9.7 million of these shares remain outstanding. As employees with vested ESOP shares leave the Company, these shares are redeemed by the Company. The Company has the option to settle such redemptions with either shares of common stock or cash.

**Preferred Stock Purchase Rights.** The Company has a shareholder rights plan designed to deter coercive or unfair takeover tactics and to prevent a person or persons from gaining control of the Company without offering a fair price to all shareholders.

Under the terms of the plan, one preferred stock purchase right (Right) accompanies each share of outstanding common stock. Each Right entitles the holder to purchase from the Company one one-hundredth of a new series of preferred stock at an exercise price of \$225.

Within the time limits and under the circumstances specified in the plan, the Rights entitle the holder to acquire common stock of the Company, the surviving company in a business combination or the purchaser of the Company's assets, having a value of two times the exercise price.

The Rights may be redeemed prior to becoming exercisable by action of the Board of Directors at a redemption price of \$.05 per right. The Rights expire in April 1997.

The Rights are non-voting and, until they become exercisable, have no dilutive effect on the earnings per share or book value per share of the Company's common stock.

20. COMMON SHAREHOLDERS' EQUITY

The components of common shareholders' equity and the changes therein for the three years ended December 31, 1994 follow:

(Dollars in millions, except per-share data. Shares in thousands.)	Common Stock		Additional Paid-In Capital	Retained Earnings	Net Unrealized Gain (Loss) on Investment Securities	Translation Adjustments	Total
	Shares	Amount					
Balance at December 31, 1991	92,846	\$ 94	\$ 539	\$4,605	\$ 32	\$(130)	\$ 5,140
Stock option and incentive plans	1,885	2	111				113
Xerox Canada Inc. exchangeable stock	266						
Convertible securities	69						
Net loss				(1,020)			(1,020)
Cash dividends declared							
Common stock (\$3.00 per share)				(288)			(288)
Preferred stock (See Note 19 on Page 81)				(85)			(85)
Tax benefits on ESOP dividends				70			70
Net unrealized loss on investment securities					(26)		(26)
Translation adjustments - net of minority shareholders' interests of \$9						(29)	(29)
Balance at December 31, 1992	95,066	96	650	3,282	6	(159)	3,875
Issuance of common stock, net of issuance costs	8,050	8	571				579
Stock option and incentive plans	861	1	57				58
Xerox Canada Inc. exchangeable stock	65	1	34	3			38
Convertible securities	80						
Net loss				(126)			(126)
Cash dividends declared							
Common stock (\$3.00 per share)				(304)			(304)
Preferred stock (See Note 19 on Page 81)				(85)			(85)
Tax benefits on ESOP dividends				23			23
Translation adjustments - net of minority shareholders' interests of \$(24)						(86)	(86)
Balance at December 31, 1993	104,122	106	1,312	2,793	6	(245)	3,972
Stock option and incentive plans	1,056	1	94	(3)			92
Xerox Canada Inc. exchangeable stock	653						
Convertible securities	162						
Net income				794			794
Cash dividends declared							
Common stock (\$3.00 per share)				(322)			(322)
Preferred stock (See Note 19 on Page 81)				(73)			(73)
Tax benefits on ESOP dividends				19			19
Call premium on preferred stock (See Note 19 on Page 81)				(11)			(11)
Net unrealized loss on investment securities					(439)		(439)
Translation adjustments - net of minority shareholders' interests of \$93						145	145
Balance at December 31, 1994	105,993	\$107	\$1,406	\$3,197	\$(433)	\$(100)	\$4,177

Common Stock. The Company has 350 million authorized shares of common stock, \$1 par value. At December 31, 1994 and 1993, 3.9 and 5.0 million shares, respectively, were reserved for issuance of common stock under the Company's incentive compensation plan. In addition, at December 31, 1994, 0.9 million common shares were reserved for the conversion of \$53 million of convertible debt and 9.7 million common shares were reserved for conversion of ESOP-related Convertible Preferred Stock.

In June 1993, the Company completed a public offering of 8.05 million shares of its common stock in the U.S. and abroad, at a price of \$74.25 per share. The proceeds of the offering, after deducting underwriting commissions, were approximately \$580 million or \$72.10 per newly issued share, and were used to retire commercial paper.

Stock Option and Long-Term Incentive Plans. The Company has a long-term incentive plan whereby eligible employees may be granted incentive stock options, nonqualified stock options, incentive stock rights, stock appreciation rights (SARs) and performance unit rights. Subject to vesting and other requirements, SARs and performance unit rights are typically paid in cash, and stock options and incentive stock rights are settled with newly issued shares of the

Company's common stock. Substantially all long-term incentive compensation plan awards in recent years have been in the form of nonqualified stock options, performance units and incentive stock rights. Eligible employees typically receive equal amounts of options and performance units. Stock options normally vest in two years and normally expire five years from the date of grant. Because the exercise price of the options is equal to the market value of the Company's common stock on the date of grant, option awards do not result in a charge to expense. The value of each performance unit is typically based upon the Document Processing level of return on assets during the year in which granted. Performance units ratably vest in the three years after the year awarded. At December 31, 1994 and 1993, 2.8 million shares were available for grant of options or rights. The following table provides information relating to the status of, and changes in, options granted during the current or prior years:

(Options in thousands)	1994		1993	
	Stock Options	Average Option Price	Stock Options	Average Option Price
Outstanding at January 1	3,210	\$75	3,116	\$66
Granted	1,168	98	1,087	82
Canceled	(51)	87	(25)	81
Exercised	(1,032)	72	(756)	55
Surrendered for SARs	(53)	51	(212)	55
Outstanding at December 31	3,242	\$84	3,210	\$75
Exercisable at December 31, 1994	1,319			
Becoming exercisable in 1995	1,486			

Xerox Canada Inc. Exchangeable Class B Stock. In 1989 the shareholders of Xerox Canada Inc. (XCI), a then 79 percent-owned subsidiary of the Company, approved a restructuring plan which, among other provisions, amended the provisions of XCI's Common Shares. The XCI Common Shares had previously been owned by public shareholders and represented the 21 percent of XCI not owned by the Company. As a result of the approved restructuring plan, in 1989 a majority of the XCI public shareholders became owners of XCI's new Non-Voting Exchangeable Class B Shares (Exchangeable Shares) with a right to exchange three Exchangeable Shares for one share of the common stock of the Company. In 1993, the remaining XCI public shareholder entered into the restructuring plan. As a result, the Company's shareholders' equity was increased by \$38 million. The Company has reserved 0.6 million shares of the Company's common stock for purposes of this exchange.

## 21. FINANCIAL INSTRUMENTS

**Derivative Financial Instruments.** Certain financial instruments with off-balance-sheet risk have been entered into by the Company to manage its interest rate and foreign currency exposures. These instruments are held solely for hedging purposes and include interest rate swap agreements, forward-foreign exchange contracts and foreign currency swap agreements. The Company does not enter into derivative instrument transactions for trading or other speculative purposes.

The Company typically enters into simple, unleveraged derivative transactions which, by their nature, have low credit and market risk. The Company's policies on the use of derivative instruments prescribe an investment grade counterparty credit floor and at least quarterly monitoring of market risk on a counterparty-by-counterparty basis. Based upon its ongoing evaluation of the replacement cost of its derivatives transactions and counterparty creditworthiness, the Company considers the risk of credit default significantly affecting its financial position or results of operations to be remote.

The Company utilizes numerous counterparties to ensure that there are no significant concentrations of credit risk with any individual counterparty or groups of counterparties.

The Company employs the use of hedges to reduce the risks that rapidly changing market conditions may have on the underlying transactions. Typically, the Company's currency and interest rate hedging activities are not affected by changes in market conditions as forward contracts and swaps are arranged and normally held to maturity in order to lock in currency rates and interest spreads related to underlying transactions.

None of the Company's hedging activities involve exchange traded instruments.

**Interest Rate Swaps.** The Company enters into interest rate swap agreements to manage interest rate exposure. An interest rate swap is an agreement to exchange interest rate payment streams based on a notional principal amount. The Company follows settlement accounting principles for interest rate swaps whereby the net interest rate differentials to be paid or received are recorded currently as adjustments to interest expense.

Virtually all customer financing assets earn fixed rates of interest. Accordingly, through the use of interest rate swaps in conjunction with the contractual

maturity terms of outstanding debt, the Company "locks in" an interest spread by arranging fixed-rate interest obligations with similar maturities as the underlying assets. Additionally, customer financing assets are consistently funded with liabilities denominated in the same currency. The Company refers to the effect of these conservative practices as "match funding" its customer financing assets.

More specifically, pay fixed/receive variable interest rate swaps are often used in place of more expensive fixed rate debt for the purpose of match funding fixed rate, customer contracts. Pay variable/receive variable interest rate swaps ("basis swaps") are used to transform variable rate, medium-term debt into commercial paper or local currency LIBOR rate obligations. Occasionally, pay variable/receive fixed interest rate swaps are used to transform term fixed rate debt into variable rate obligations. The transactions performed within each of these three categories enable the Company to cost-effectively manage its interest rate exposures. During 1994, the average notional amount of an interest rate swap agreement was \$20 million.

At December 31, 1994 and 1993, the total notional amounts of these transactions are summarized, based on contract maturity, as follows:

(In millions)	1994	1993
Commercial paper/bank borrowings	\$1,171	\$1,627
Medium-term debt	2,193	2,294
Long-term debt	1,615	1,374
Total	\$4,979	\$5,295

For the three years ended December 31, 1994, no interest rate swap agreements had been terminated prior to maturity.

The aggregate amounts of interest rate swaps by maturity date and type at December 31, 1994 and 1993 are as follows:

(Dollars in millions)	1994	1995	1996-1998	1999-2006	Total
1994					
Pay fixed/receive variable	\$ -	\$ 1,071	\$ 1,802	\$ 925	\$ 3,798
Pay variable/receive variable	-	100	325	274	699
Pay variable/receive fixed	-	-	66	416	482
	\$ -	\$ 1,171	\$ 2,193	\$ 1,615	\$ 4,979
Memo:					
Interest rate paid	-	6.41%	6.58%	7.61%	6.72%
Interest rate received	-	5.44%	5.69%	6.93%	6.02%
1993					
Pay fixed/receive variable	\$ 1,402	\$ 1,002	\$ 1,085	\$ 758	\$ 4,247
Pay variable/receive variable	225	100	50	-	375
Pay variable/receive fixed	-	-	87	586	673
	\$ 1,627	\$ 1,102	\$ 1,222	\$ 1,344	\$ 5,295
Memo:					
Interest rate paid	6.80%	6.12%	6.59%	7.03%	6.65%
Interest rate received	4.10%	4.51%	5.22%	5.33%	4.75%

Forward-Foreign Exchange Contracts. The Company utilizes forward-foreign exchange contracts to hedge against the potentially adverse impacts of foreign currency fluctuations on foreign currency denominated receivables and payables and firm foreign currency commitments. Firm foreign currency commitments generally represent committed purchase orders for foreign sourced inventory. These contracts generally mature in six months or less. At December 31, 1994 and 1993, the Company had outstanding (in millions) \$1,476 and \$1,185, respectively, of forward-foreign exchange contracts. Of the outstanding contracts at December 31, 1994, the largest single currency represented was the Japanese yen. Contracts denominated in Japanese yen, French francs, Mexican pesos, Swiss francs, U.S. dollars, Italian lira and Austrian schillings accounted for over 75 percent of the Company's forward-foreign exchange contracts. Gains and losses on contracts that hedge foreign currency denominated receivables and payables are reported currently in income and are included in Other, net in the consolidated statements of income. Gains and losses on contracts that hedge firm commitments are deferred and subsequently recognized as part of the cost of the underlying transaction, such as inventory. At December 31, 1994, deferred gains and deferred losses amounted to \$5 million and \$9 million, respectively.

During 1994, the average notional amount of a forward-foreign exchange contract amounted to \$5 million.

Foreign Currency Swap Agreements. The Company has in the past also entered into several foreign currency and related interest rate swap agreements, whereby the Company issues foreign currency denominated debt and swaps the proceeds with a counterparty. In return, the Company receives either U.S. dollars or a second foreign currency. This effectively denominates the debt of the Company in the currency received from the counterparty. Currency swaps are utilized as hedges of the underlying foreign currency borrowings, and exchange gains or losses are recognized currently in Other, net in the consolidated statements of income. At December 31, 1993, \$216 million of foreign currency swap agreements was outstanding. No foreign currency swap agreements were outstanding at December 31, 1994.

Guarantees. Although the Company has earnings support agreements with certain subsidiaries, the Company generally does not guarantee the debt of subsidiary companies. The primary exceptions relate to XFSI-related indebtedness to Talegen and Ridge Re which is more fully discussed in Note 10 on Page 63 and the guarantee of \$181 million of indebtedness of the Company's Latin American subsidiaries. The Company has guaranteed and effectively assumed the borrowings of its ESOP.

Fair Value of Financial Instruments. The estimated fair values of the Company's financial instruments at December 31, 1994 and 1993 were as follows:

(In millions)	1994		1993	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash	\$ 56	\$ 56	\$ 86	\$ 86
Accounts receivable, net	1,811	1,811	1,613	1,613
Investments				
available-for-sale	8,384	8,384	8,344	8,344
Short-term debt	1,259	1,259	1,107	1,107
Long-term debt	9,680	9,872	8,977	9,390
Interest rate swap agreements	-	(10)	-	(63)
Forward-foreign exchange contracts	-	(7)	-	10

The fair value amounts for cash, accounts receivables, net, short-term investments and short-term debt approximate carrying amounts due to the short maturities of these instruments. The fair value of longer-term investments is based on closing bid prices for exchange traded securities or on bid quotations received from securities dealers.

The fair value of long-term debt was estimated based on quoted market prices for these or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The difference between the fair value and the carrying value represents the theoretical net premium the Company would have to pay to retire all debt at such date. The Company has no plans to retire significant portions of its long-term debt prior to scheduled maturity. Under SFAS No. 107, the Company is not required to determine the fair value of its finance receivables, the match funding of which is the source of much of the Company's interest rate swap activity.

The fair values for interest rate swap agreements and forward-foreign exchange contracts were based on quotes from brokers, and represent amounts the Company would receive (pay) to terminate/replace these contracts. The Company has no present plans to terminate/replace significant portions of these contracts.

## 22. SUBSEQUENT EVENT

On February 28, 1995, the Company paid The Rank Organisation Plc (RO) (Pounds)620 million, or approximately \$970 million, for a 40 percent interest in RO's financial interest in the Rank Xerox Companies. The transaction increased the Company's financial interest in the Rank Xerox Companies to approximately 80 percent from 67 percent. The transaction will result in goodwill of approximately \$570 million and a decline in minorities' interests in equity of subsidiaries of approximately \$400 million.

Quarterly Results of Operations  
(Unaudited)

(In millions, except per-share data)

1994

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Document Processing revenues	\$3,271	\$3,584	\$3,636	\$4,597	\$15,088
Insurance revenues	683	704	662	700	2,749
Total revenues	3,954	4,288	4,298	5,297	17,837
Total costs and expenses	3,710	3,984	3,963	4,722	16,379
Realized capital gains (losses)	7	2	4	(1)	12
Income before income taxes, equity income and minorities' interests	251	306	339	574	1,470
Income taxes	95	116	128	212	551
Equity in net income of unconsolidated affiliates	5	33	25	25	88
Minorities' interests in earnings of subsidiaries	32	55	50	76	213
Income from continuing operations	129	168	186	311	794
Discontinued operations	-	-	-	-	-
Net income	\$ 129	\$ 168	\$ 186	\$ 311	\$ 794
Primary earnings per share/1/ Continuing operations	\$ 1.05	\$ 1.31	\$ 1.61	\$ 2.76	\$ 6.73
Discontinued operations	-	-	-	-	-
Primary earnings per share	\$ 1.05	\$ 1.31	\$ 1.61	\$ 2.76	\$ 6.73
Fully diluted earnings per share/1/ Continuing operations	\$ 1.03	\$ 1.28	\$ 1.53	\$ 2.60	\$ 6.44
Discontinued operations	-	-	-	-	-
Fully diluted earnings per share	\$ 1.03	\$ 1.28	\$ 1.53	\$ 2.60	\$ 6.44

1993

Document Processing revenues	\$3,225	\$3,434	\$3,493	\$4,077	\$14,229
Insurance revenues	678	688	722	721	2,809
Total revenues	3,903	4,122	4,215	4,798	17,038
Total costs and expenses	3,708	3,957	4,028	5,747	17,440
Realized capital gains	5	16	50	17	88
Income (loss) before income taxes, equity income and minorities' interests	200	181	237	(932)	(314)
Income taxes (benefits)	67	75	54	(312)	(116)
Equity in net income of unconsolidated affiliates	3	33	27	24	87
Minorities' interests in earnings (losses) of subsidiaries	24	37	37	(20)	78
Income (loss) from continuing operations	112	102	173	(576)	(189)
Discontinued operations	77	10	(23)	(1)	63
Net income (loss)/2/	\$ 189	\$ 112	\$ 150	\$ (577)	\$ (126)
Primary earnings (loss) per share/1/ Continuing operations	\$ .99	\$ .86	\$ 1.50	\$(5.62)	\$ (2.46)
Discontinued operations	.78	.10	(.22)	(.01)	.62
Primary earnings per share	\$ 1.77	\$ .96	\$ 1.28	\$(5.63)	\$ (1.84)
Fully diluted earnings (loss) per share/1/ Continuing operations	\$ .96	\$ .86	\$ 1.43	\$(5.85)	\$ (2.46)
Discontinued operations	.71	.08	(.20)	(.01)	.62
Fully diluted earnings per share	\$ 1.67	\$ .94	\$ 1.23	\$(5.86)	\$ (1.84)

/1/ Quarterly primary and fully diluted earnings per share may differ from full year amounts because of changes in the number of shares outstanding during the year.

/2/ Net income for the 1993 fourth quarter includes \$813 million in after-tax special charges related to restructuring actions and litigation settlements which are more fully described in Note 3 on Page 60.

Reports of Management and Independent Auditors

REPORT OF MANAGEMENT

Xerox Corporation management is responsible for the integrity and objectivity of the financial data presented in this annual report. The consolidated financial statements were prepared in conformity with generally accepted accounting principles and include amounts based on management's best estimates and judgments.

The Company maintains an internal control structure designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that financial records are adequate and can be relied upon to produce financial statements in accordance with generally accepted accounting principles. This structure includes the hiring and training of qualified people, written accounting and control policies and procedures, clearly drawn lines of accountability and delegations of authority. In a business ethics policy that is communicated annually to all employees, the Company has established its intent to adhere to the highest standards of ethical conduct in all of its business activities.

The Company monitors its internal control structure with direct management reviews and a comprehensive program of internal audits. In addition, KPMG Peat Marwick LLP, independent auditors, have audited the consolidated financial statements and have reviewed the internal control structure to the extent they considered necessary to support their report, which follows.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets regularly with the independent auditors, the internal auditors and representatives of management to review audits, financial reporting and internal control matters, as well as the nature and extent of the audit effort. The Audit Committee also recommends the engagement of independent auditors, subject to shareholder approval. The independent auditors and internal auditors have free access to the Audit Committee.

/s/ Paul A. Allaire

Paul A. Allaire  
Chairman of the Board and  
Chief Executive Officer

/s/ Barry D. Romeril

Barry D. Romeril  
Executive Vice President and  
Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Xerox Corporation

We have audited the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income and cash flows for each of the years in the three-year period ended December 31, 1994. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements appearing on Pages 28, 38, 40, 41, and 58-85 present fairly, in all material respects, the financial position of Xerox Corporation and consolidated subsidiaries as of December 31, 1994 and 1993, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 2, the Company changed its methods of accounting for income taxes and postretirement benefits other than pensions in 1992.

/s/ KPMG Peat Marwick LLP

KPMG Peat Marwick LLP

Stamford, Connecticut  
January 31, 1995, except as to Notes 18 and 22,  
which are as of March 2, 1995

Nine Years in Review

(Dollars in millions, except per-share data)

	1994	1993	1992	1991	1990
<b>Per-Share Data</b>					
-----					
Earnings (loss) from continuing operations					
Primary	\$ 6.73	\$ (2.46)	\$ (2.91)	\$ 3.74	\$ 5.56
Fully diluted	6.44	(2.46)	(2.91)	3.71	5.31
Dividends declared	3.00	3.00	3.00	3.00	3.00
-----					
<b>Operations</b>					
-----					
<b>Revenues</b>					
Document Processing	\$15,088	\$14,229	\$14,298	\$ 13,438	\$13,210
Insurance	2,749	2,809	2,878	3,299	3,890
Total Revenues	17,837	17,038	17,176	16,737	17,100
Research and development expenses	895	883	922	890	848
Income (loss) from Document Processing operations	794	(193)	562	436	599
Income (loss) from Insurance operations	-	4	(779)	2	11
Income (loss) from continuing operations	794	(189)	(217)	438	610
Net income (loss)	794	(126)	(1,020)	454	243
-----					
<b>Financial Position</b>					
-----					
Accounts and finance receivables, net	\$11,759	\$10,565	\$10,250	\$ 8,952	\$ 8,016
Inventories	2,294	2,162	2,257	2,091	2,148
Land, buildings and equipment, net	2,108	2,219	2,150	1,950	1,851
Total Document Processing assets	19,374	18,158	17,140	15,178	14,421
Total Insurance assets	14,519	15,418	15,479	15,552	14,579
Investment in Discontinued Operations	4,692	5,174	5,652	5,972	6,664
Total assets	38,585	38,750	38,271	36,702	35,664
Consolidated capitalization					
Short-term debt	3,159	2,698	2,533	2,038	1,828
Long-term debt	7,780	7,386	8,105	7,825	8,726
Total debt	10,939	10,084	10,638	9,863	10,554
Deferred ESOP benefits	(596)	(641)	(681)	(720)	(756)
Minorities' interests in equity of subsidiaries	1,021	844	885	818	832
Preferred stock	832	1,066	1,072	1,078	1,081
Common shareholders' equity	4,177	3,972	3,875	5,140	5,051
Total capitalization	16,373	15,325	15,789	16,179	16,762
-----					
<b>Selected Data and Ratios</b>					
-----					
Common shareholders of record at year-end	56,414	65,820	68,877	71,213	74,994
Book value per common share/1/	\$ 38.86	\$ 37.69	\$ 40.19	\$ 54.43	\$ 53.73
Year-end common share market price	\$ 99.00	\$ 88.13	\$ 79.25	\$ 68.50	\$ 35.50
<b>Document Processing Information</b>					
Employees at year-end	87,600	97,000	99,300	100,900	99,000
Working capital	\$ 2,411	\$ 2,357	\$ 2,578	\$ 2,282	\$ 2,537
Current ratio	1.4	1.4	1.5	1.5	1.6
Additions to land, buildings and equipment	\$ 389	\$ 470	\$ 582	\$ 467	\$ 405
Depreciation on land, buildings and equipment	\$ 446	\$ 437	\$ 418	\$ 397	\$ 372
-----					

\* Data that conforms with the 1994 basis of presentation were not available.

/1/Book value per common share is computed by dividing common shareholders' equity by outstanding common shares plus common shares reserved for the conversion of the Xerox Canada Inc. Exchangeable Class B stock.

Nine Years in Review

(Dollars in millions, except per-share data)

	1989	1988	1987	1986
<b>Per-Share Data</b>				
Earnings (loss) from continuing operations				
Primary	\$ 5.94	\$ 2.91	\$ 4.93	\$ 4.04
Fully diluted	5.82	2.91	4.89	4.02
Dividends declared	3.00	3.00	3.00	3.00
<b>Operations</b>				
Revenues				
Document Processing	\$ 12,095	\$11,354	\$10,537	\$ 9,493
Insurance	4,033	4,060	3,758	3,136
Total Revenues	16,128	15,414	14,295	12,629
Research and development expenses	809	794	722	650
Income (loss) from Document Processing operations	488	148	353	316
Income (loss) from Insurance operations	154	181	188	129
Income (loss) from continuing operations	642	329	541	445
Net income (loss)	704	388	578	465
<b>Financial Position</b>				
Accounts and finance receivables, net	\$ 7,272	\$ 6,109	\$ 4,948	\$ 3,887
Inventories	2,413	2,558	2,286	2,459
Land, buildings and equipment, net	1,781	1,803	1,639	1,491
Total Document Processing assets	13,488	12,415	*	*
Total Insurance assets	14,864	13,036	*	*
Investment in Discontinued Operations	6,063	4,406	*	*
Total assets	34,415	29,857	*	*
Consolidated capitalization				
Short-term debt	1,482	1,174	*	*
Long-term debt	9,247	6,675	*	*
Total debt	10,729	7,849	5,771	4,343
Deferred ESOP benefits	(785)	-	-	-
Minorities' interests in equity of subsidiaries	157	806	655	565
Preferred stock	1,081	296	442	442
Common shareholders' equity	5,035	5,371	5,105	4,687
Total capitalization	16,775	14,322	11,973	10,037
<b>Selected Data and Ratios</b>				
Common shareholders of record at year-end	78,876	84,864	86,388	90,437
Book value per common share/1/	\$ 53.59	\$ 52.22	\$ 51.00	\$ 48.00
Year-end common share market price	\$ 57.25	\$ 58.38	\$ 56.63	\$ 60.00
Document Processing Information				
Employees at year-end	99,000	100,00	99,200	100,400
Working capital	*	*	*	*
Current ratio	*	*	*	*
Additions to land, buildings and equipment	\$ 390	\$ 418	\$ 347	\$ 328
Depreciation on land, buildings and equipment	\$ 370	\$ 369	\$ 320	\$ 283

Dividends and Stock Prices  
(Unaudited)

CONSECUTIVE DIVIDENDS PAID TO SHAREHOLDERS

During 1994, dividends paid to the Company's common stock shareholders totalled \$3.00 per share, unchanged from 1993 and 1992. Xerox has declared dividends to its shareholders for 65 consecutive years and has paid consecutive quarterly dividends since 1948.

The Company's Board of Directors, at its February 6, 1995 meeting, declared dividends on Xerox common stock and two issues of preferred stock, all unchanged from previous quarterly payments. They are payable April 1 to shareholders of record March 3. The common stock dividend is 75 cents per share. Payments on the \$3.6875 Ten-Year Sinking Fund Preferred are \$0.921875 per share. Payments on the Series B Convertible Preferred, which was issued in July 1989 in connection with the formation of a Xerox Employee Stock Ownership Plan, are \$1.5625 per share.

XEROX COMMON STOCK PRICES AND DIVIDENDS

New York Stock Exchange Composite Prices	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1994 High	\$103 1/4	\$104 3/4	\$109 3/8	\$112 3/4
Low	87 3/4	93 7/8	97	91 1/2
Dividends Paid	.75	.75	.75	.75
1993 High	\$ 88 7/8	\$ 83 1/2	\$ 80 1/8	\$ 90
Low	79 1/4	71 1/2	70 1/8	69 7/8
Dividends Paid	.75	.75	.75	.75

XEROX \$3.6875 TEN-YEAR SINKING FUND  
 PREFERRED STOCK PRICES AND DIVIDENDS

New York Stock Exchange Composite Prices		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1994	High	\$54	\$55 1/2	\$ 55	\$ 54
	Low	50 1/2	50 1/2	50	50
	Dividends Paid	.921875	.921875	.921875	.921875
1993	High	\$ 56	\$ 56	\$ 54	\$ 54
	Low	50	52	52	51
	Dividends Paid	.921875	.921875	.921875	.921875

Officers

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PAUL A. ALLAIRE  
Chairman of the Board and  
Chief Executive Officer  
Chairman of the Executive  
Committee

A. BARRY RAND  
Executive Vice President,  
Operations

BARRY D. ROMERIL  
Executive Vice President  
and Chief Financial Officer

STUART B. ROSS  
Executive Vice President  
Chairman and Chief Executive  
Officer, Xerox Financial  
Services, Inc.

PETER VAN CUYLENBURG  
Executive Vice President,  
Operations

WILLIAM F. BUEHLER  
Senior Vice President and  
Chief Staff Officer

ALLAN E. DUGAN  
Senior Vice President,  
Corporate Strategic Services

JULIUS L. MARCUS  
Senior Vice President,  
Strategic Relationships

MARK B. MYERS  
Senior Vice President,  
Corporate Research and  
Technology

DAVID R. MYERSCOUGH  
Senior Vice President,  
Corporate Business Strategy

RICHARD S. PAUL  
Senior Vice President and  
General Counsel

LEONARD VICKERS  
Senior Vice President,  
Corporate Strategic Development  
and Communications

PATRICIA C. BARRON  
Vice President  
President, Xerox Engineering  
Systems

RICHARD S. BARTON  
Vice President  
President, U.S. Customer  
Operations

JOHN SEELY BROWN  
Vice President and Chief Scientist

CHARLES E. BUCHHEIT  
Vice President  
Vice President, Business Integration,  
Xerox Production Systems

RONALD B. CAMPBELL, JR.  
Vice President,  
Special Programs

DAVID T. ERWIN  
Vice President  
Vice President, Strategy  
and Integration,  
Office Document Products

J. MICHAEL FARREN\*  
Vice President,  
External Affairs

EUNICE M. FILTER  
Vice President, Treasurer  
and Secretary

PHILIP D. FISHBACH  
Vice President and Controller

Directors

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VERNON E. JORDAN, JR. /3/, /5/  
Partner Akin, Gump, Strauss, Hauer & Feld, L.L.P. Attorneys-at-Law  
Washington, D.C.

RALPH S. LARSEN /2/, /3/  
Chairman and Chief Executive Officer Johnson & Johnson  
New Brunswick, New Jersey

PAUL A. ALLAIRE /1/  
Chairman of the Board and Chief Executive Officer  
Chairman, Executive Committee Xerox Corporation  
Stamford, Connecticut

THOMAS C. THEOBALD /1/, /3/, /4/  
Partner  
William Blair  
Capital Management  
Chicago, Illinois

YOTARO KOBAYASHI  
Chairman and Chief Executive Officer Fuji Xerox Co., Ltd.  
Tokyo, Japan

N.J. NICHOLAS, JR. /1/, /2/, /4/  
Investor  
New York, New York

- /1/ Member of the Executive Committee
- /2/ Member of the Audit Committee
- /3/ Member of the Executive Compensation and Benefits Committee
- /4/ Member of the Finance Committee
- /5/ Member of the Nominating Committee

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MAURICE F. HOLMES  
Vice President and Chief Engineer

CHARLES P. HOLT  
Vice President,  
Joseph C. Wilson Center for Research and Technology

JAMES H. LESKO  
Vice President  
President, Office Document  
Systems

ROGER E. LEVIEN  
Vice President,  
Technology and Market  
Development

JOHN A. LOPIANO  
Vice President  
President, Xerox Production Systems

PATRICK J. MARTIN  
Vice President  
President, Office Document  
Products

ALAN R. MONAHAN  
Vice President,  
Manufacturing Support

HECTOR J. MOTRONI  
Vice President,  
Quality and Organizational Effectiveness

ANNE M. MULCAHY  
Vice President,  
Human Resources

COLIN J. O'BRIEN  
Vice President,  
Systems Strategy and  
Business Development

RUSSELL Y. OKASAKO  
Vice President, Taxes

CARLOS PASCUAL\*  
Vice President  
President, Americas  
Customer Operations

WILBUR I. PITTMAN  
Vice President,  
Marketing Business Process

NORMAN E. RICKARD, JR.  
Vice President  
President, Xerox Business  
Services

RONALD E. RIDER  
Vice President,  
Digital Imaging Technology  
Center

BRIAN E. STERN  
Vice President  
President, Personal Document Products

PATRICIA M. WALLINGTON  
Vice President and  
Chief Information Officer

MYRA R. DRUCKER  
Assistant Treasurer

DANIEL S. MARCHIBRODA  
Assistant Controller

GEORGE R. ROTH  
Assistant Treasurer

MARTIN S. WAGNER  
Assistant Secretary

\*New officer since last report

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HILMAR KOPPER /4/, /5/  
Spokesman of the Board of Managing Directors Deutsche Bank AG  
Frankfurt, Germany

MARTHA R. SEGER /2/, /4/  
Distinguished Visiting Professor of Finance Central Michigan University

Mount Pleasant, Michigan

B. R. INMAN /2/, /5/  
Investor  
Austin, Texas

JOHN D. MACOMBER /2/, /3/  
Principal JDM Investment Group  
Washington, D.C.

JOAN GANZ COONEY /2/, /5/  
Chairman, Executive Committee  
Children's Television Workshop  
New York, New York

JOHN E. PEPPER /3/, /5/  
President Procter & Gamble Company  
Cincinnati, Ohio

(Not Pictured)  
ROBERT A. BECK /3/, /4/  
Chairman Emeritus  
The Prudential Insurance  
Company of America  
Newark, New Jersey

/1/ Member of the Executive Committee  
/2/ Member of the Audit Committee  
/3/ Member of the Executive Compensation and Benefits Committee  
/4/ Member of the Finance Committee  
/5/ Member of the Nominating Committee

General Information

COMMON AND PREFERRED STOCK

TRANSFER AGENT AND REGISTRAR  
The First National Bank of Boston  
P.O. Box 9156  
Boston, MA 02205-9156  
(800) 828-6396

STOCKS LISTED AND TRADED

Xerox common stock (XRJ) was listed on the New York Stock Exchange in 1961 and on the Chicago Stock Exchange in 1990. It is also traded on the Boston, Cincinnati, Pacific Coast and Philadelphia exchanges and in London, Basel, Berne, Geneva, Lausanne and Zurich.

The \$3.6875 Ten-Year Sinking Fund Preferred stock was issued in February 1988 in conjunction with the redemption of the \$5.45 Cumulative Preferred stock. It is listed on the New York Stock Exchange.

DIVIDEND PAYMENT DATES

Traditionally paid on the first of January, April, July and October to shareholders of record on the first Friday of December, March, June and September.

DIVIDEND REINVESTMENT PLAN

The Automatic Dividend Reinvestment and Stock Purchase Plan affords any shareholder of record of Xerox common or preferred stock the opportunity to buy Xerox common shares automatically at the current market price with cash dividends and without service fees or brokerage commissions. Plan participants can also purchase additional common shares at the market price through voluntary cash payments. A Plan brochure is available from The First National Bank of Boston, P.O. Box 9156, Boston, MA 02205-9156, (800) 828-6396.

INVESTOR SERVICES

Questions about stock certificates, address changes, or other shareholder matters should be addressed to: The First National Bank of Boston, Investor Services, P.O. Box 9155, Boston, MA 02205-9155, (800) 828-6396.

Other information concerning notes and debentures issued by the Company is available from Corporate Treasury at (203) 968-4596.

NOTES AND DEBENTURES

TRUSTEE, REGISTRAR AND PAYING AGENT FOR  
9.20% NOTES DUE 1999  
8 3/4% NOTES DUE 1995

Trustee:  
Chemical Bank  
55 Water Street  
New York, NY 10041  
(212) 820-5164

Registrar and Paying Agent:  
The First National Bank of Boston  
P.O. Box 9156 (Registrar)  
P.O. Box 9155 (Paying Agent)  
Boston, MA 02205  
(800) 828-6396

TRUSTEE, REGISTRAR AND PAYING AGENT FOR  
9 1/4% DEBENTURES DUE 2000  
9 5/8% DEBENTURES DUE 2000  
PAYING AGENT FOR 8 3/8% NOTES DUE 1996

Bankers Trust Company  
280 Park Avenue  
New York, NY 10015  
(212) 250-6000

TRUSTEE, REGISTRAR AND PAYING AGENT FOR  
9 3/4% NOTES DUE 2000  
9 5/8% NOTES DUE 1997

Trustee:  
BankAmerica National Trust Company  
2 Rector Street  
New York, NY 10006  
(212) 978-5033

Registrar and Paying Agent:  
The First National Bank of Boston  
P.O. Box 9156 (Registrar)  
P.O. Box 9155 (Paying Agent)  
Boston, MA 02205  
(800) 828-6396

TRUSTEE, REGISTRAR AND PAYING AGENT FOR  
8 1/8% NOTES DUE 2002  
7.15% NOTES DUE 2004

Trustee:

Citibank, N.A.  
111 Wall Street  
New York, NY 10043  
(800) 422-2066

Registrar and Paying Agent:  
The First National Bank of Boston  
P.O. Box 9156 (Registrar)  
P.O. Box 9155 (Paying Agent)  
Boston, MA 02205  
(800) 828-6396

#### OTHER INFORMATION

#### ANNUAL MEETING

Shareholders are invited to attend our annual meeting, which will be held at 10:00 a.m. Thursday, May 18, 1995 at The Rittenhouse, 210 West Rittenhouse Square, Philadelphia, Pennsylvania. By April 6, 1995, proxy material will be sent to Xerox shareholders of record as of March 29, 1995.

#### INVESTOR INFORMATION

Annual Reports and Forms 10-K and 10-Q, which are filed with the Securities and Exchange Commission, are available from Investor Services, (800) 828-6396.

Quarterly earnings are expected to be announced on April 27, July 31, and October 26, 1995. On the day of the earnings release, a comprehensive report, including the press release, financial summaries and the income statements are available through any of the following options: by Internet (use Mosaic or a worldwide web client to access <http://www.xerox.com/> and select "Financial Information for Investors"); by fax (call 800-463-6840 and follow instructions to key in your fax number from your touch-tone phone); or by mail (call Investor Services at 800-828-6396).

#### ADDITIONAL INFORMATION

The Company can also provide information that may be of general interest to investors. Information on The Xerox Foundation and the Community Involvement Program is available from The Xerox Foundation information line, (203) 968-3333. Information on affirmative action, equal employment opportunity activities and balanced work force is available from Marcia Matthews, Manager, Corporate Work Force Diversity, (716) 423-2039. Copies of the Company's Environment, Health and Safety Progress Report are available from Xerox Safety Services at (800) 828-6571.

Students and teachers requesting information are invited to call the Company's Public Information line, (716) 423-4828.

Convention Blanks for Talegen Holdings, Inc., can be obtained directly from Talegen, (206) 654-2636.

#### Investor Relations

Members of the financial community and institutional investors seeking additional information on the Company are invited to contact Clark K. Robson, Director of Investor Relations (Internet address: [CKR.sthq@xerox.com](mailto:CKR.sthq@xerox.com)) or Charles K. Wessendorf, Manager of Investor Relations (Internet address: [CKW.sthq@xerox.com](mailto:CKW.sthq@xerox.com)), at (203) 968-4406.

#### Auditors

KPMG Peat Marwick LLP  
Certified Public Accountants  
Stamford Square, 3001 Summer Street  
Stamford, CT 06905  
(203) 356-9800

## Subsidiaries of Xerox Corporation

## A. Xerox Corporation

The following companies are subsidiaries of Xerox Corporation as of February 1, 1995. The names of a number of other subsidiaries have been omitted as they would not, if considered in the aggregate as a single subsidiary, constitute a significant subsidiary:

Name of Subsidiary	Incorporated In	Ownership %
Xerox Canada Inc.	Ontario, Canada	87
Xerox Canada Acceptance Inc.	Ontario, Canada	100
Xerox Canada Finance Inc.	Ontario, Canada	100
Xerox Canada Ltd.	Ontario, Canada	65
Lyell Holdings Limited	Delaware	100
Triton Business Finance Limited	United Kingdom	100
Xerox Business Equipment Limited	United Kingdom	100
Xerox Research (UK) Limited	United Kingdom	100
Xerox Business Equipment, Inc.	Delaware	100
Xerox Financial Services, Inc.	Delaware	100
Xerox Credit Corporation	Delaware	100
MultiLease, Ltd.	Delaware	100
XCC Investment Corporation	Delaware	100
XCC (Bermuda), Ltd.	Bermuda	100
Talegen Holdings, Inc.	Delaware	100
Xerox Life Management Company	Delaware	100
Ridge Reinsurance Limited	Bermuda	100
Xerox Foreign Sales Corporation	Barbados	100
Xerox Imaging Systems, Inc.	Delaware	100
Xerox Realty Corporation	Delaware	100
Xerox do Brasil, Ltda.	Brazil	100
Xerox do Amazonas S.A.	Brazil	99.29
Xerox Comercio Exterior S.A.	Brazil	100
Xerox do Nordeste S.A.	Brazil	97.72
Palma Servicos e Participacoes Ltda.	Brazil	100
Xerox Argentina, I.C.S.A.	Argentina	100
Xerox de Chile S.A.	Chile	100
Xerox de Colombia S.A.	Colombia	75
Xerox del Ecuador, S.A.	Ecuador	100
Xerox Mexicana, S.A. de C.V.	Mexico	100
Xerox del Peru, S.A.	Peru	89.31
Xerox de Venezuela, C.A.	Venezuela	41
Rank Xerox Investments Limited	Bermuda	66.7
Xerox Egypt S.A.E	Egypt	75
Xerox Maroc S.A.	Morocco	99.9
Rank Xerox Limited	United Kingdom	51.2
Rank Xerox Holding B.V.	Netherlands	51.2
Rank Xerox Manufacturing (Nederland) B.V.	Netherlands	100
R-X Holdings Limited	Bermuda	66.7
Xerox Limited	Bermuda	100
Xerox de Panama, S.A.	Panama	75
Xerox Uruguay S.A.	Uruguay	100

## B. Rank Xerox Limited

Subsidiaries of Rank Xerox Limited include:

Name of Subsidiary	Incorporated In	Ownership %
Bessemer Trust Limited	United Kingdom	100
Fuji Xerox Co., Ltd.	Japan	50
Fuji Xerox Finance Limited	New Zealand	100
Fuji Xerox (Finance) Limited	Australia	100
Fuji Xerox New Zealand Limited	New Zealand	100
Fuji Xerox (Australia) Pty. Limited	Australia	100
Modi Xerox Limited	India	35.9
Rank Xerox (U.K.) Limited	United Kingdom	100
Rank Xerox (Ireland) Limited	United Kingdom	100
Rank Xerox Espanola S.A.	Spain	100
Rank Xerox de Financiacion S.A.	Spain	100
Rank Xerox Finance (Nederland) BV	Netherlands	100
Rank Xerox Greece S.A.	Greece	100
NV Rank Xerox Credit S.A.	Belgium	100
Rank Xerox Finance AG	Switzerland	100
Rank Xerox Finance Limited	United Kingdom	100
Rank Xerox Leasing GmbH	Germany	100
Rank Xerox Leasing International Finance BV	Netherlands	100
Rank Xerox - The Document Company S.A.	France	100
Burofinance S.A.	France	66
Rank Xerox Exports Limited	United Kingdom	100
N.V. Rank Xerox S.A.	Belgium	100
Rank Xerox Austria GmbH	Austria	100
Rank Xerox A/S	Denmark	100
Rank Xerox Finans A/S	Denmark	100
Rank Xerox Oy	Finland	100
Rank Xerox GmbH	Germany	100
Rank Xerox S.p.A.	Italy	100
Rank Xerox AG	Switzerland	100
Rank Xerox AS	Norway	100
Rank Xerox Bulgaria	Bulgaria	100
Rank Xerox Management Services S.A.	Belgium	100
RX Pension Limited	United Kingdom	100

Rank Xerox A.B.	Sweden	100
Rank Xerox (Nederland) B.V.	Netherlands	100

C. Talegen Holdings, Inc.

Insurance Holding Company System Organizational Chart

All controlled persons and controlled insurers of Talegen Holdings, Inc., a Delaware corporation ("Talegen"), (under applicable state insurance laws), are set forth in the following table, together with the jurisdiction of domicile of each and the percentage of voting securities owned as of January 1, 1995. Unless otherwise indicated, all of the persons included in the table are corporations, the voting securities of which are directly owned by Talegen. All of the outstanding capital stock of Talegen is owned by Xerox Financial Services, Inc., a Delaware corporation, which is a wholly-owned subsidiary of Xerox Corporation.

Name of Subsidiary	Incorporated In	Ownership %
Constitution Re Corporation	Delaware	100
Constitution Reinsurance Corporation	New York	100 (1)
Constitution Management Corp.	New York	100 (1)
Constitution Reassurance S.A.	Belgium	100 (3)
Coregis Group, Inc.	Delaware	100
Coregis Insurance Company	Indiana	100 (1)
Coregis Indemnity Company	Illinois	100 (1)
California Insurance Company	California	100 (1)
Coregis Managers Corporation (IL)	Illinois	100 (1)
Coregis Managers Corporation (NY)	New York	100 (1)
Crum & Forster Managers Corporation (FL)	Florida	100 (1)
Crum & Forster Holdings, Inc.	Delaware	100
United States Fire Insurance Company	New York	100 (1)
Southbend Properties, Inc.	Texas	100 (1)
The North River Insurance Company	New Jersey	100 (1)
Crum and Forster Insurance Company	New Jersey	100 (1)
Crum & Forster Underwriters Co. of Ohio	Ohio	100 (1)
Premier Insurance Company	Florida	100 (1)
Commonwealth Lloyd's Insurance Company	Texas	- (5)
Crum & Forster Custom Securities, Inc.	California	100 (1)
Industrial Indemnity Holdings, Inc.	Delaware	100
Industrial Indemnity Company	California	100 (1)
Claremont Holdings Limited	Bermuda	9.2
Claremont Insurance Limited	Bermuda	100
Industrial/Las Flores, Inc.	California	100 (1)
Industrial/Canyon Creek, Inc.	California	100 (1)
Industrial/Shadowridge, Inc.	California	100 (1)
Industrial/Mountainback, Inc.	California	100 (1)
Industrial/Channing, Inc.	California	100 (1)
Industrial Indemnity Company of Alaska	Alaska	100 (1)
Industrial Indemnity Company of Idaho	Idaho	100 (1)(2)
Industrial Indemnity Company of the Northwest	Washington	100 (1)
Industrial Insurance Company	California	100 (1)
All West Insurance Company	California	100 (1)
255 California Corporation	California	100 (1)
Industrial Indemnity Insurance Services, Inc.	California	100 (1)
American All Risk Loss Administrators	California	40 (1)

Name of Subsidiary	Incorporated In	Ownership %
The Resolution Group, Inc.	Delaware	100
Resolution Reinsurance Services Corporation	Delaware	100 (1)
International Insurance Company	Illinois	100 (1)
William Street Syndicate, Inc.	New York	20 (1)
Resolution Credit Services Corp.	California	100 (1)
Envision Claims Management Corporation	New Jersey	100 (1)
Viking Insurance Holdings, Inc.	Delaware	100
Viking Insurance Company of Wisconsin	Wisconsin	100 (1)
Viking General Agency, Inc.	Texas	100 (1)
Viking County Mutual Insurance Company	Texas	- (4)
Westchester Specialty Group, Inc.	Delaware	100
Westchester Fire Insurance Company	New York	100 (1)
Westchester Surplus Lines Insurance Company	Georgia	100 (1)
Industrial Underwriters Insurance Company	Texas	100 (1)
Westchester Specialty Insurance Services, Inc.	Nevada	100 (1)
Industrial Excess & Surplus Insurance Brokers	California	100 (1)
Talegen Properties, Inc.	Delaware	100
Filoli Information Systems Company	Delaware	40
Apprise Corp.	New Jersey	100
Crum & Forster of Canada Ltd.	Canada	100
First Quadrant Corp.	New Jersey	100
First Quadrant Limited	United Kingdom	100 (1)(7)
Seneca, Inc.	New Jersey	24.9 (1)
Herald Insurance Company	Canada	100 (6)

(1) Directly or indirectly owned by a subsidiary of Talegen.

(2) Includes qualifying shares held by directors.

(3) Includes qualifying share held by an individual.

- (4) County Mutual Company. Control maintained through management and contract with Viking Insurance Company of Wisconsin.
- (5) Lloyd's insurer. Control maintained through Power of Attorney.
- (6) Includes less than 1/5 of 1% shares beneficially owned by directors.
- (7) Includes one share held by Talegen in trust and as nominee for First Quadrant Corp.

Consent of Independent Auditors

To the Board of Directors and Shareholders of Xerox Corporation

We consent to the incorporation by reference in the Registration Statements of Xerox Corporation on Forms S-8 (Nos. 2-81528, 2-86274, 2-86275, 33-18126, 33-44313 and 33-44314) and Forms S-3 (Nos. 2-82363, 33-9486, 33-32215, 33-54629 and 33-49177) of our reports dated January 31, 1995 (except as to Notes 18 and 22, which are as of March 2, 1995), relating to the consolidated balance sheets of Xerox Corporation and consolidated subsidiaries as of December 31, 1994 and 1993, and the related consolidated statements of income and cash flows and related schedules for each of the years in the three-year period ended December 31, 1994 which reports appear in or are incorporated by reference in the 1994 Annual Report on Form 10-K. Our reports refer to the Company's changes in its methods of accounting for income taxes and postretirement benefits other than pensions in 1992.

KPMG PEAT MARWICK LLP

Stamford, Connecticut  
March 30, 1995

CT

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S DECEMBER 31, 1994, FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR	DEC-31-1994	DEC-31-1994
	38,585	
	75	107
		757
38,585	4,070	
	17,837	
	794	551
		0
		0
		0
		794
		6.73
		6.44

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM XEROX CORPORATION'S DECEMBER 31, 1994, FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR	DEC-31-1994	DEC-31-1994
		35
	0	
	12,157	
	398	
	2,294	
	9,249	4,756
	2,648	
	19,374	
	6,838	8,653
		7,853
	15,088	4,653
	8,171	
	5,403	
	206	
	757	
	1,514	595
	794	

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED  
FROM XEROX CORPORATION'S DECEMBER 31, 1994, FINANCIAL STATEMENTS AND IS  
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000

YEAR	DEC-31-1994	DEC-31-1994
	7,214	
	0	
	0	168
		0
	8,384	0
		21
	3,116	
197	14,519	
	8,862	
	1,033	
	0	
	0	425
		2,312
	423	
	12	
		14
		1,769
471	306	
	(44)	
	(44)	
	0	
		9,684
	1,748	
	11	
	486	
	1,541	
	8,862	
	(8)	