FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended: June 30, 1997

OR

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

For the transition period from __________ to___________

Commission File Number 1-4471

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

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

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

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

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

Yes X No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at July 31,1997
Common Stock	325,137,709 shares

This document consists of 31 pages.

This Form 10-Q contains certain forward-looking statements and information relating to the Company that are based on the beliefs of management as well as assumptions made by and information currently available to management. The words "anticipate", "believe", "estimate", "expect", "intends", and similar expressions, as they relate to the Company or the Company's management, are intended to identify forward-looking statements. Such statements reflect the current views of the Company with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. The Company does not intend to update these forward-looking statements.

Xerox Corporation
Form 10-Q
June 30, 1997

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

PART I - FINANCIAL INFORMATION

Item I

Xerox Corporation
Consolidated Statements of Income

(In millions, except per-share data)	Three months ended June 30, 1997	Three months ended June 30, 1996	Six months ended June 30, 1997	Six months ended June 30, 1996
Revenues				

Sales	$ 2,286	$ 2,192	$ 4,265	$ 4,102
Service and rentals	1,817	1,778	3,607	3,540
Finance income	253	247	506	503
Total Revenues	4,356	4,217	8,378	8,145
Costs and Expenses				
Cost of sales	1,230	1,191	2,354	2,282
Cost of service and rentals	913	882	1,811	1,781
Equipment financing interest	129	125	258	255
Research and development expenses	281	264	543	518
Selling, administrative and general expenses	1,288	1,269	2,468	2,435
Other, net	18	27	19	31
Total Costs and Expenses	3,859	3,758	7,453	7,302
Income before Income Taxes, Equity Income and Minorities' Interests	497	459	925	843
Income taxes	175	164	325	303
Equity in net income of unconsolidated affiliates	46	42	68	62
Minorities' interests in earnings of subsidiaries	31	44	61	72
Income from Continuing Operations	337	293	607	530
Discontinued Operations	-	-	-	-
Net Income	$ 337	$ 293	$ 607	$ 530
Primary Earnings per Share				
Continuing Operations	$ 1.00	$ 0.85	$ 1.78	$ 1.53
Discontinued Operations	-	-	-	-
Primary Earnings per Share	$ 1.00	$ 0.85	$ 1.78	$ 1.53
Fully Diluted Earnings per Share				
Continuing Operations	$ 0.94	$ 0.81	$ 1.69	$ 1.46
Discontinued Operations	-	-	-	-
Fully Diluted Earnings per Share	$ 0.94	$ 0.81	$ 1.69	$ 1.46

See accompanying notes.

Xerox Corporation
Consolidated Balance Sheets

(In millions, except share data in thousands)	June 30, 1997	December 31, 1996
Assets		
Cash	$ 118	$ 104
Accounts receivable, net	2,135	2,022
Finance receivables, net	4,232	4,386
Inventories	3,046	2,676
Deferred taxes and other current assets	1,014	964
Total Current Assets	10,545	10,152
Finance receivables due after one year, net	6,973	6,986
Land, buildings and equipment, net	2,264	2,256
Investments in affiliates, at equity	1,474	1,282
Goodwill	1,368	623
Other assets	1,232	1,121
Investment in discontinued operations	3,977	4,398
Total Assets	$ 27,833	$ 26,818
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 3,412	$ 3,536
Accounts payable	525	577
Accrued compensation and benefit costs	605	761
Unearned income	210	208
Other current liabilities	2,202	2,122
Total Current Liabilities	6,954	7,204

Long-term debt	9,797	8,424
Postretirement medical benefits	1,074	1,050
Deferred taxes and other liabilities	2,344	2,429
Discontinued operations liabilities - policyholders' deposits and other	2,090	2,274
Deferred ESOP benefits	(494)	(494)
Minorities' interests in equity of subsidiaries	121	843
Company obligated, mandatorily redeemable preferred securities of subsidiary trust holding solely subordinated debentures of the Company	637	-
Preferred stock	713	721
Common shareholders' equity	4,597	4,367
Total Liabilities and Equity	$ 27,833	$ 26,818
Shares of common stock issued	325,902	325,902
Shares of common stock outstanding	324,777	323,681

See accompanying notes.

Xerox Corporation
Consolidated Statements of Cash Flows

Six months ended June 30 (in millions)	1997	1996
Cash Flows from Operating Activities		
Income from Continuing Operations	$ 607	$ 530
Adjustments required to reconcile income to cash flows from operating activities:		
Depreciation and amortization	334	357
Provisions for doubtful accounts	114	88
Provision for postretirement medical benefits, net of payments	20	23
Minorities' interests in earnings of subsidiaries	61	72
Undistributed equity in income of affiliated companies	(65)	(62)
Increase in inventories	(568)	(543)
Increase in finance receivables	(247)	(187)
Increase in accounts receivable	(148)	(282)
Decrease in accounts payable and accrued compensation and benefit costs	(204)	(177)
Net change in current and deferred income taxes	71	124
Other, net	(184)	(444)
Total	(209)	(501)
Cash Flows from Investing Activities		
Cost of additions to land, buildings and equipment	(193)	(241)
Proceeds from sales of land, buildings and equipment	19	30
Purchase of additional interest in Rank Xerox	(812)	-
Net change in payables to Discontinued Operations	(26)	-
Total	(1,012)	(211)
Cash Flows from Financing Activities		
Net change in debt	617	1,079
Dividends on common and preferred stock	(237)	(220)
Proceeds from sale of common stock	108	66
Repurchase of common and preferred stock	(116)	(207)
Dividends to minority shareholders	(3)	(1)
Net proceeds from issuance of mandatorily redeemable preferred stock	637	-
Total	1,006	717
Effect of Exchange Rate Changes on Cash	(8)	(2)
Cash Provided (Used) by Continuing Operations	(223)	3
Cash Provided (Used) by Discontinued Operations	237	(121)
Increase (Decrease) in Cash	14	(118)
Cash at Beginning of Period	104	136
Cash at End of Period	$ 118	$ 18

See accompanying notes.

Xerox Corporation
Notes to Consolidated Financial Statements

1. The consolidated financial statements presented herein have been prepared by Xerox Corporation ("the Company") in accordance with the accounting policies described in its 1996 Annual Report to Shareholders and should be read in conjunction with the notes thereto.

Effective 1997, Fuji Xerox changed its reporting period from a fiscal year ending October 20 to a fiscal year ending December 20. The results of operations during the period between the end of the 1996 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a gain of $8 million. The gain was credited to retained earnings.

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

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

2. Inventories consist of (in millions):

	June 30, 1997	December 31, 1996
Finished products	$ 1,779	$ 1,570
Work in process	110	80
Raw materials and supplies	419	322
Equipment on operating leases, net	738	704
Total	$ 3,046	$ 2,676

3. In June, 1997, we acquired the remaining 20 percent of Rank Xerox Limited (Rank Xerox) from The Rank Group Plc (Rank) in a transaction valued at 940 million pounds sterling, or approximately $1.5 billion. As a result of this transaction, we now own 100 percent of Rank Xerox. The transaction was funded entirely by debt consisting of 500 million pounds sterling of third party debt and 440 million pounds sterling of notes payable issued to Rank, which will be paid in deferred installments, half within one year and the other half at the end of two years. An additional payment of up to 60 million pounds sterling would be made in 2000 based upon achievement of certain Rank Xerox earnings growth targets by 1999. The purchase price was allocated such that goodwill increased by $737 million, minority interest in equity of subsidiaries was reduced by approximately $720 million, with the balance of $70 million applied to other assets and liabilities, primarily investment in affiliates, at equity.

4. In January 1997, a trust sponsored and wholly owned by the Company issued 650,000 shares of 8% Capital Securities (the Preferred Securities) with an aggregate liquidation amount of $650 million to the public for net proceeds, after discount and fees, of $637 million. The trust also issued 20,103 shares of common securities to the Company. The proceeds from these offerings were invested by the trust in $650 million aggregate principal amount of the Company's newly-issued 8% Junior Subordinated Debentures due 2027 (the Debentures). The Debentures represent all of the assets of the trust. The proceeds from the issuance of the Debentures were used by the Company for general corporate purposes. The Debentures and related income statement effects are eliminated in the Company's consolidated financial statements.

The Preferred Securities accrue and pay cash distributions semi-annually at a rate of 8% per annum of the stated liquidation amount of $1,000 per Preferred Security. The Company has guaranteed, on a subordinated basis, distributions and other payments due on the Preferred Securities (the Guarantee). The Guarantee, when taken together with the Company's obligations under the Debentures and in the indenture pursuant to which the Debentures were issued and the Company's obligations under the Amended and Restated Declaration of Trust governing the trust, provides a full and unconditional guarantee of amounts due on the Preferred Securities.

The Preferred Securities are mandatorily redeemable upon the maturity of the Debentures on February 1, 2027, or earlier to the extent of any redemption by the Company of any Debentures. The redemption price on February 1, 2027 will be $1,000 per share plus accrued and unpaid distributions to the date fixed for redemption.

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

	June 30, 1997	December 31, 1996
Common stock	$ 327	$ 327
Additional paid-in-capital	1,349	1,353
Retained earnings	3,459	3,090
Net unrealized gain (loss) on investment securities	5	(1)
Translation adjustments	(424)	(241)
Treasury stock	(119)	(161)
Total	$ 4,597	$ 4,367

6. Interest expense totaled $288 million and $295 million for the six months ended June 30, 1997 and 1996, respectively.

7. In 1996, the Board of Directors authorized the Company to repurchase up to $1 billion of Xerox common stock. The stock would be purchased from time to time on the open market depending on market conditions. Through June 30, 1997, 8.5 million shares had been repurchased for $422 million, some of which had been reissued to satisfy the exercise of stock options. In the second quarter of 1997, the repurchase program was suspended in connection with the acquisition of the remaining interest in Rank Xerox, as described above.

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

	Three months ended June 30, 1997	Three months ended June 30, 1996	Six months ended June 30, 1997	Six months ended June 30, 1996
Revenues				
Insurance premiums earned	$ 381	$ 436	$ 805	$ 854
Investment and other income	112	107	223	213
Total Revenues	493	543	1,028	1,067
Costs and Expenses				
Insurance losses and loss expenses	556	362	921	705
Insurance acquisition costs and other operating expenses	129	141	277	283
Interest expense	49	48	98	102
Administrative and general expenses	(39)	3	(28)	9
Total Costs and Expenses	695	554	1,268	1,099
Realized Capital Gains	1	-	7	2
Gain on Sale of Subsidiary	63	-	63	-
Income (Loss) Before Income Taxes	(138)	(11)	(170)	(30)
Income Tax Benefits	49	5	65	14
Income (Loss) From Insurance *	$ (89)	$ (6)	$ (105)	$ (16)

* The total Insurance after-tax losses were charged to reserves established for this purpose and, therefore, did not impact our earnings.

The net assets at June 30, 1997 and December 31, 1996 of the Insurance businesses included in our consolidated balance sheets as discontinued operations are as follows (in millions):

	June 30, 1997	December 31, 1996
Insurance Assets		
Investments	$ 6,888	$ 7,889
Reinsurance recoverable	2,111	2,458
Premiums and other receivables	1,003	1,082
Deferred taxes and other assets	987	1,201
Total Insurance Assets	$10,989	$12,630

Insurance Liabilities

Unpaid losses and loss expenses	$ 7,538	$ 8,572
Unearned income	609	812
Notes payable	265	215
Other liabilities	979	1,185
Total Insurance Liabilities	$ 9,391	$10,784
Investment in Insurance, net	$ 1,598	$ 1,846

9. Litigation

Continuing Operations

On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. Plaintiffs claim damages predominately resulting from the Company's alleged refusal to sell parts for high volume copiers and printers to plaintiffs prior to 1994. The Company's policies and practices with respect to the sale of parts to ISOs were at issue in an antitrust class action in Texas, which was settled by the Company during 1994. Claims for individual lost profits of ISOs who were not named parties, such as the plaintiffs in the Kansas action, were not included in that class action. In their complaint plaintiffs allege monetary damages in the form of lost profits in excess of $10 million (to be trebled) and injunctive relief. In a report prepared, pursuant to Rule 26(a)2)B)of the Federal Rules of Civil Procedure, an accountant retained by plaintiffs as an expert has indicated that he plans to testify at trial that, allegedly as a result of Xerox' conduct, plaintiffs have lost profits of approximately $75 million. The Company has asserted counterclaims against the plaintiffs alleging patent and copyright infringement, misappropriation of Xerox trade secrets and conversion. On December 11, 1995, the District Court issued a preliminary injunction against the parent company for copyright infringement. On April 8, 1997, the District Court granted partial summary judgment in favor of the Company on plaintiffs' antitrust claims, ruling that the Company's unilateral refusal to sell or license its patented parts cannot give rise to antitrust liability. The Court's ruling did not preclude a finding of antitrust liability based upon other allegations of exclusionary conduct, including the refusal to sell unpatented parts. The District Court also granted summary judgment in favor of the Company on its patent infringement claim, leaving open with respect to patent infringement only the issues of willfulness and the amount of damages, and granted partial summary judgment in favor of the Company with respect to some of its claims of copyright infringement. On July 17, 1997 the District Court, pursuant to 28 U.S.C. Section 1292(b), certified its April 8, 1997 Order for interlocutory appeal to the United States Court of Appeals for the Federal Circuit and stayed trial of the matter pending remand.

Discontinued Operations

Farm & Home Savings Association, now known as Roosevelt Bank, (Farm & Home) and certain Talegen Holdings, Inc. insurance companies (Insurance Companies) entered into an agreement (Indemnification Agreement) under which the Insurance Companies are required to defend and indemnify Farm & Home from certain actual and punitive damage claims being made against Farm & Home relating to the Brio superfund site (Brio). In a number of lawsuits pending against Farm & Home in the District Courts of Harris County, Texas, several hundred plaintiffs, former residents of, or students attending school within, a residential subdivision known as Southbend, seek both actual and punitive damages allegedly relating to injuries arising out of the hazardous substances at Brio. The Insurance Companies have been defending these cases under a reservation of rights because it is unclear whether certain of the claims fall under the coverage of either the policies or the Indemnification Agreement. The Insurance Companies have been successful in having some claims dismissed which were brought by plaintiffs who were unable to demonstrate a pertinent nexus to the Southbend subdivision. However, there are numerous plaintiffs who do have a nexus to the Southbend subdivision. In February 1997, the Insurance Companies reached an agreement in principle to settle all of the claims brought by plaintiffs who have or had a pertinent nexus to the Southbend subdivision, with the exception of a group of 53 plaintiffs. In addition, Farm & Home intends to press its pending motions for summary judgment which, if granted, would provide a legal basis for dismissal of any claims asserted in the future. If the settlement is not consummated, and the claims are not resolved by summary judgment, one or more of these cases can be expected to be tried in 1997. The Southbend subdivision has since been acquired by the Insurance Companies and all of the structures have been demolished.

Item II Xerox Corporation

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

Document Processing

Summary

Income from continuing operations increased 15 percent from $293 million in the 1996 second quarter to $337 million in the 1997 second quarter, including $13 million as a result of the acquisition of the Rank Group's remaining interest in Rank Xerox in June.

Revenues of $4.4 billion in the quarter represented 6 percent growth on a pre-currency basis. After the adverse effect of currency, revenue growth was 3 percent. The pre-currency revenue growth was driven by strong growth in equipment sales (excluding OEM sales) and continued excellent growth in document outsourcing.

Fully diluted earnings per share increased 16 percent to $0.94 in the second quarter including $0.04 as a result of the Rank Xerox transaction.

Underlying Growth

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

A substantial portion of our consolidated revenues is derived from operations outside of the United States where the U.S. dollar is not the functional currency, primarily in Europe. When compared with most of the major European currencies, the U.S. dollar was approximately 11 percent stronger in the 1997 second quarter than in the 1996 second quarter; only the pound sterling was stronger. As a result, foreign currency translation had an unfavorable impact of approximately 2 percentage points on total revenues in the 1997 second quarter.

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

Revenues

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

	1996					1997	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Revenues	4%	6%	5%	8%	6%	5%	6%
Digital Products	19	21	23	26	23	18	24
Light Lens Copiers	-	-	(4)	-	(1)	(2)	(3)

Digital product revenues were 34 percent of total revenues in the 1997 second quarter compared with 29 percent in the 1996 second quarter. Growth of 24 percent in the second quarter follows 18 percent growth in the first quarter. Color copying and printing grew 62 percent with continued excellent growth from the DocuColor 40, the company's 40 page-per-minute color document production system. Computer printing grew 15 percent and production publishing grew 9 percent despite some slowdown due to customer anticipation of the new 180 page-per-minute DocuTech Production Publisher, introduced in May and widely available beginning in July.

Black-and-white light lens copier revenues were 52 percent of total revenues in the 1997 second quarter compared with 57 percent in the 1996 second quarter. Revenues declined 3 percent in the second quarter reflecting increased competitive pricing pressures and the impact of customers transitioning to Xerox digital technology, including the new black-and-white digital copiers introduced in April and production publishing products.

Geographically, the underlying revenue growth rates are as follows:

	1996					1997	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Revenues	4%	6%	5%	8%	6%	5%	6%
United States	5	6	5	9	6	6	3
Rank Xerox	(2)	2	2	2	1	3	6
Other Areas	11	10	6	14	10	3	11
Memo: Fuji Xerox	13	15	11	11	12	11	4

Revenues from the U.S. sales and service operations grew 5 percent in the second quarter. However, total U.S. revenue growth was 3 percent primarily due to lower shipments to Fuji Xerox in the 1997 second quarter compared with a year ago.

Rank Xerox Limited and related companies manufacture and market Xerox products principally in Europe. Overall, the European economies remain soft. However, the U.K., Germany, and Holland had good revenue growth in the second quarter. France, Italy, and Spain had modest growth. Consolidation of the South African operations in 1997 accounted for one percentage point of the Rank Xerox growth in the 1997 second quarter.

Other Areas include operations principally in Latin America, Canada and China. Brazil had strong revenue growth in the 1997 second quarter reflecting excellent growth in equipment sales and document outsourcing. Revenue growth was also excellent in Mexico, but the smaller Latin American countries such as Chile, Venezuela and Colombia continue to be impacted by difficult economic conditions. Revenue growth in Canada and China was good in the second quarter.

Fuji Xerox Co., Ltd., an unconsolidated entity, jointly owned by Rank Xerox Limited and Fuji Photo Film Company Limited, develops, manufactures and distributes document processing products in Japan and other areas of the Pacific Rim, Australia and New Zealand. The modest revenue growth in the 1997 second quarter following strong revenue growth in the previous quarters is primarily the result of calendarization due to the 1997 change in the Fuji Xerox fiscal year from October 20 to December 20. The 1997 second quarter reflects modest growth in Japan and excellent growth in the Asia Pacific countries.

The underlying growth rates by type of revenue are as follows:

	1996					1997	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
Total Revenues	4%	6%	5%	8%	6%	5%	6%
Sales	3	6	7	12	7	5	6
Equipment (Excluding OEM)	7	9	6	14	10	10	11
Supplies	1	8	11	11	8	1	2
Paper	(2)	(7)	(12)	(7)	(7)	(9)	(1)
Service/Rentals/ Outsourcing/Other	5	4	4	4	4	4	5
Service	1	(2)	(3)	(1)	(1)	(2)	1
Rentals	2	2	1	(4)	-	(11)	(8)
Document Outsourcing *	48	51	51	41	47	41	36
Finance Income	1	-	4	1	1	2	5
Memo: Revenues Excluding Equipment Sales	3	4	2	3	3	2	3

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

Equipment sales in the 1997 second quarter grew 11 percent reflecting excellent growth in digital products partially offset by declines in black-and-white light lens copiers.

Supplies sales: The decline in growth in the 1997 first and second quarters from the 1996 third and fourth quarters is due principally to a reduction in sales of OEM printer cartridges following the buildup of inventory for new products at OEM customers.

Paper sales: Our strategy is to charge a spread over mill wholesale prices to cover our costs and value added as a distributor. The modest revenue decline in the 1997 second quarter from the 1996 second quarter is the result of lower industry-wide price declines which were offset by volume increases.

Combined service, rental and document outsourcing and other revenue growth improved to 5 percent in the 1997 second quarter. The 36 percent growth in document outsourcing (excluding equipment in outsourcing contracts accounted for as sales) continued to divert revenues from service, rentals, finance income and supplies. Service revenues grew 1 percent as the impact of higher machine populations resulting from recent higher equipment sales was partially offset by competitive price pressures. Rental revenues continued to decline due to continuing customer preference for purchase, primarily in Latin America, or document outsourcing rather than rental.

Document Outsourcing revenues are included in Equipment Sales as well as in Service/Rental/Document Outsourcing/Other. Where document outsourcing contracts include revenue accounted for as equipment sales, this revenue is included as Equipment Sales on the Income Statement. All other document outsourcing revenue which includes service, equipment not treated as sales, supplies, paper, and labor, are included in the Service/Rentals/Outsourcing/Other line item. When equipment in document outsourcing contracts recognized as equipment sales is included, total document outsourcing business revenue growth accelerated in the 1997 first and second quarters from earlier quarters.

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

Gross Profit and Expenses

The gross margins by revenue stream were as follows:

	1996 Q1	1996 Q2	1996 Q3	1996 Q4	1996 FY	1997 Q1	1997 Q2
Total Gross Margin	46.0%	47.9%	46.2%	47.1%	46.9%	46.5%	47.8%
Sales	42.9	45.7	43.9	45.4	44.6	43.2	46.2
Service/Rent/DocOut	49.0	50.4	48.8	49.3	49.4	49.9	49.7
Financing	49.0	49.5	48.3	51.0	49.5	48.9	49.2

The total gross margin declined by 0.1 percentage point in the 1997 second quarter from the 1996 second quarter.

The sales gross margin improved by 0.5 percentage points from the 1996 second quarter principally due to productivity, partially offset by competitive pricing pressures. The service, rentals and document outsourcing gross margin declined by 0.7 percentage points from an unusually high 1996 second quarter but was in line with the last several quarters.

Research and development (R&D) expense increased 6 percent in the 1997 second quarter as we continue to invest in technological development to maintain our premier position in the rapidly changing document processing market. Xerox R&D is strategically coordinated with that of Fuji Xerox which invested $537 million in R&D in the 1996 full year, for a combined total of $1.6 billion.

Selling, administrative and general expenses (SAG) increased 3 percent in the 1997 second quarter, or only half the revenue increase. SAG was 29.6 percent of revenue in the second quarter, a decrease of 0.5 percentage points from the 1996 second quarter. The decline was due to productivity initiatives and expense controls.

Worldwide employment increased by 900 in the 1997 second quarter to 89,100, largely as a result of the net hiring of 500 employees in the company's fast-growing document outsourcing business.

The $9 million decrease in other expenses, net, from the 1996 second quarter was due to the non-recurrence of several one-time charges in 1996 partially offset by increased currency losses from balance sheet translation due to currency devaluations in our Latin American operations. In January 1997, we issued $650 million of mandatorily redeemable preferred stock through a trust and paid down debt, which resulted in reduced interest expense. The after tax impact of the dividend on these securities is included in the income statement in the line item: minorities' interests in the earnings of subsidiaries.

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

Income before income taxes increased 8 percent to $497 million in the 1997 second quarter from $459 million in the 1996 second quarter.

The effective tax rate was 35.1 percent in the 1997 second quarter compared with 35.7 percent in the 1996 second quarter. We expect the second quarter rate to be maintained during the balance of 1997.

Equity in the net income of unconsolidated affiliates is principally the Rank Xerox share of Fuji Xerox income. Although there was a lower 1997 second quarter profit contribution from Fuji Xerox, largely because of unfavorable currency translation and calendarization relating to the 1997 fiscal year change, total equity in net income increased modestly, as a result of increases from a number of smaller investments.

Minorities' interests reduction in the second quarter was primarily due to our acquisition of the remaining interest in Rank Xerox, effective in June, and lower Rank Xerox profits, partially offset by the after tax impact of the dividend on the mandatorily redeemable preferred stock discussed above.

In June 1997, the company completed the acquisition of The Rank Group's remaining 20 percent financial interest in Rank Xerox Limited and related companies (Rank Xerox Companies) for 940 million pounds sterling, or approximately $1.5 billion. The transaction was funded entirely by debt consisting of 500 million pounds sterling of third party debt and 440 million pounds sterling of notes payable issued to The Rank Group. The purchase price was allocated such that goodwill increased by $737 million, minority interest in equity of subsidiaries was reduced by approximately $720 million, with the balance of $70 million applied to other assets and liabilities, primarily investments in affiliates at equity.

This acquisition increased second quarter net income by $13 million and fully diluted earnings per share by $0.04 and we estimate that it will have a positive impact on earnings per share and cash flow going forward.

In February 1996, the board of directors authorized the repurchase of up to $1 billion of Xerox common stock. Through the 1997 second quarter, the company had repurchased 8.5 million shares for $422 million, including $16 million in April. As a result of the Rank Xerox transaction, the repurchase program was suspended during the second quarter as use of the company's financial resources to fund the $1.5 billion acquisition of The Rank Group's remaining interest in Rank Xerox produces greater value for Xerox shareholders.

Effective 1997, Fuji Xerox changed its reporting period from a fiscal year ending October 20 to a fiscal year ending December

20. The results of operations during the period between the end of the 1996 fiscal year and the beginning of the new fiscal year (the stub period) amounted to a gain of $8 million. The gain was credited directly to retained earnings.

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings Per Share." Commencing with our fourth quarter reporting, SFAS No. 128 will require us to present basic and diluted earnings per share (EPS) on the face of the income statement. The computation of basic EPS replaces primary EPS. If we had implemented SFAS No. 128 during the second quarter, we would have reported basic EPS of $1.01 and $1.80 for the quarter and year to date, respectively, and diluted EPS of $0.94 and $1.69 for the quarter and year to date, respectively.

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" and No. 131, "Disclosures about Segments of an Enterprise and Related Information." Commencing in 1998, SFAS No. 130 will require companies to report comprehensive income and SFAS No. 131 will require companies to report segment performance as it is used internally to evaluate segment performance. These statements merely add additional disclosure requirements.

Discontinued Operations

The net investment in the discontinued financial services businesses which includes Insurance, Other Financial Services and Third-Party Financing and Real Estate totaled $1,887 million at June 30, 1997 compared with $2,124 million at December 31, 1996. The decrease primarily reflects the sale of Coregis Group, Inc. (Coregis) somewhat offset by scheduled funding of reinsurance coverage to the Talegen Holdings, Inc. (Talegen) companies and The Resolution Group, Inc. (TRG) by Ridge Reinsurance Limited (Ridge Re) and interest for the period on the assigned debt. A discussion of the discontinued businesses follows.

Insurance

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

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

During the disposal process, we will continue to be subject to all business risks and rewards of these insurance businesses. Although we believe that the disposal of the Remaining insurance companies should be substantially completed by the end of 1997, and that the value received from such disposals will be consistent with our net carrying value of these businesses, until such Remaining insurance companies are actually sold, no assurances can be given as to the ultimate impact the Remaining insurance companies will have on our total results from operations.

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

On May 30, 1997, Coregis was sold to a subsidiary of GE Capital Corporation for $375 million in cash and the assumption of $75 million of debt. The selling price was in excess of book value and was consistent with the estimated value for the unit when we discontinued the insurance operations in 1995. As per the sales agreement, the 1997 results of Coregis accrued to the buyer.

In an unrelated transaction, Andersen Consulting LLP agreed to acquire certain assets of Apprise Corp. (Apprise), one of Talegen's insurance-related service companies. The financial terms of this transaction, which closed in the first quarter, were not material.

In May, 1997 we announced an agreement to sell II to Fremont Indemnity Company, a unit of Fremont General Corporation for $365 million in cash and the assumption of $79 million of debt. The selling price is in excess of book value and is consistent with the estimated value of the unit when we discontinued the insurance operations in 1995. As per the sales agreement, the 1997 earnings of II will accrue to the buyer. This transaction was completed on August 1, 1997.

Insurance Operating Results

Operating results for the discontinued Insurance segment (the Remaining insurance companies, Ridge Re and Xerox Financial Services, Inc. holding company expenses, primarily assigned interest) for the second quarter follow:

	Second Quarter		Six Months	
(In millions)	1997	1996	1997	1996
Total Insurance Revenue	$ 340	$ 359	$ 686	$ 707
Insurance Pre-Tax Income (Loss):				
Underwriting	$ (268)	$ (54)	$ (332)	$ (108)
Investment income	84	74	164	148
Net realized capital gains	1	-	1	2
Interest expense	(49)	(49)	(98)	(103)
Other	40	(1)	44	(6)
Insurance Pre-Tax Income (Loss)	$ (192)	$ (30)	$ (221)	$ (67)
After-Tax Income (Loss):				
Insurance	$ (151)	$ (18)	$ (160)	$ (40)
Disposed companies	62	12	55	24
Total After-Tax Income (Loss)*	$ (89)	$ (6)	$ (105)	$ (16)

* The total Insurance after-tax loss was charged to reserves established for this purpose and, therefore, does not impact our earnings.

The preceding table's revenue and pre-tax loss excludes the results of Coregis, II and Apprise. The 1997 results of Apprise and the 1996 results of Coregis, II and Apprise are shown on an after-tax basis under the caption "Disposed companies."

Revenues from Insurance totaled $340 million in the second quarter of 1997 compared with $359 million in the second quarter of 1996, reflecting a slight reduction of earned premiums somewhat offset by an improvement in investment income.

The increase in the 1997 second quarter Insurance pre-tax loss, compared with 1996, primarily reflects reserve strengthening at WSG offset partially by an improvement in investment income.

The investment in Insurance at June 30, 1997 totaled $1,598 million compared with a balance of $1,846 million at December 31, 1996. The decrease primarily reflects the sale of Coregis, somewhat offset by contractual payments to Ridge Re for annual premium installments and associated finance charges and interest on the assigned insurance debt that will continue until the closing of the sales of the Remaining insurance companies.

Property and Casualty Operating Trends

The industry's profitability can be significantly affected by cyclical competitive conditions, judicial decisions affecting insurers' liabilities, and by volatile and unpredictable developments, including changes in the propensity of courts to grant large awards, fluctuations in interest rates 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). The Remaining insurance companies' operating results have historically been influenced by these industry trends, as well as by their exposure to uncollectible reinsurance, which had been greater than most other insurers.

Other Financial Services

The net investment in Other Financial Services (OFS) at June 30, 1997 was $122 million compared with $101 million at December 31, 1996. The increase in the investment primarily reflects the effect of a transfer from Insurance which had no effect on the total net investment in the discontinued financial services businesses.

On June 1, 1995, Xerox Financial Services, Inc. (XFSI) completed the sale of Xerox Financial Services Life Insurance Company and related companies (Xerox Life). In connection with the transaction, OakRe Life Insurance Company (OakRe), a wholly-owned XFSI subsidiary, has assumed responsibility, via Coinsurance Agreements, for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life. The Coinsurance Agreements include a provision for the assumption (at their election) by the purchaser's companies, of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with an affiliate of the new owner provides for the assumption of the liability under the Coinsurance Agreements for any SPDA policies not so assumed. Other policies (of Immediate, Whole Life, and Variable annuities as well as a minor amount of SPDAs) were sold and are now the responsibility of the purchaser's companies.

As a result of the Coinsurance Agreements, at June 30, 1997, OakRe retained approximately $1.9 billion of investment portfolio assets (transferred from Xerox Life) and liabilities related to the reinsured SPDA policies. Interest rates on these policies are fixed and were established upon issuance of the respective policies. Substantially all of these policies will reach their rate reset periods through the year 2000 and will be assumed under the Agreements as described above. Xerox Life's portfolio was designed to recognize that policy renewals extended liability "maturities", thereby permitting investments with average duration somewhat beyond the rate reset periods. OakRe's practice is to selectively improve this match over time as market conditions allow.

In connection with the aforementioned sale, XFSI established a $500 million letter of credit and line of credit with a group of banks to support OakRe's coinsurance obligations. The term of this letter of credit is five years and it is unused and available at June 30, 1997. Upon a drawing under the letter of credit, XFSI has the option to cover the drawing in cash or to draw upon the credit line.

Third-Party Financing and Real Estate

Third-Party Financing and Real Estate assets at June 30, 1997 totaled $395 million, a $55 million reduction from the December 31, 1996 level due primarily to the continued run-off of third-party assets. The run-off proceeds were used to reduce assigned debt to $178 million at June 30, 1997, a $45 million decrease from the year-end 1996 level.

Capital Resources and Liquidity

Total debt, including ESOP and discontinued operations debt not shown separately in our consolidated balance sheets, was $13,702 million at June 30, 1997 or $1,254 million more than at December 31, 1996. The changes in consolidated indebtedness since year-end and versus the first six months of 1996 are summarized as follows:

(In millions)	1997	1996
Total Debt as of January 1	$12,448	$11,794
Non-Financing Businesses		
Document Processing operations	419	648
Discontinued Businesses	(151)	109
Total Non-Financing	268	757
Financing Businesses	(201)	(14)
Total Operations	67	743
Shareholder dividends	237	220
Acquisition of Additional Interest in RX	1,530	-
Mandatorily redeemable preferred stock	(637)	-
Equity redemption and other changes	57	5

Total Debt as of June 30	$13,702	$12,762

The following table summarizes the changes in total equity during the first six months of 1997 and 1996:

(In millions)	1997	1996
Total equity as of January 1	$5,931	$5,396
Income from Continuing Operations	607	530
Shareholder dividends paid	(237)	(220)
Proceeds from Sale of Common Stock	108	66
Repurchase of common and preferred stock	(116)	(207)
Purchase of Minority Interest	(723)	-
Net proceeds from issuance of mandatorily redeemable preferred stock	637	-
All other, net	(139)	(56)
Balance as of June 30	$6,068	$5,509

Non-Financing Operations

Operational cash flows are highly seasonal. Due primarily to profit sharing payments and inventory build up, historically our operations have used cash in the first half and generated cash later in the year.

The following table summarizes Document Processing non-financing operations cash generation and borrowing for the six months ended June 30, 1997 and 1996:

	Cash Generated/(Borrowed) Six Months Ended June 30	
(In millions)	1997	1996
Document Processing Non-Financing:		
Income	$ 505	$ 429
Depreciation and amortization	334	357
Capital expenditures, net	(174)	(211)
Working capital/other	(1,084)	(1,223)
Total	$ (419)	$ (648)

Six-month cash usage of $419 million was $229 million less than in the first six months of 1996 due primarily to higher net income, lower capital spending due to an unusually high level of facilities infrastructure investments in the first half of 1996, and reduced working capital growth resulting from improved billing and collection performance.

Financing Businesses

Financing businesses debt was reduced by $201 million and $14 million during the first six months of 1997 and 1996, respectively. This larger decline in 1997 reflects currency translation effects related to the strength of the U.S. dollar compared with the major European currencies which were only partially offset by volume growth.

Hedging Instruments

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

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

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

With regard to interest rate hedging, virtually all customer financing assets earn fixed rates of interest. We "lock in" an interest rate spread by arranging fixed-rate liabilities with similar maturities as the underlying assets. Additionally, customer financing assets in one currency are consistently funded with liabilities in the same currency. We refer to the effect of these conservative practices as "match funding" customer financing assets. This practice effectively eliminates both the risk of a major compression in interest margins if interest rates increase and the opportunity for margin expansion if interest rates decline.

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under Note 9 contained in the "Notes to Consolidated Financial Statements" on pages 11-12 of this Quarterly Report, on Form 10-Q, is incorporated by reference in answer to this item.

Item 2. Changes in Securities

During the quarter ended June 30, 1997, Registrant issued the following securities in transactions which were not registered under the Securities Act of 1933, as amended (the Act):

(a) Securities Sold: on April 1, 1997, Registrant issued 1,798 shares of Common stock, par value $1 per share.

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

(c) The shares were issued at a deemed purchase price of $56.875 per share (aggregate price $102,261.26), based upon the market value on the date of issuance, in payment of the quarterly Directors' fees pursuant to Registrant's Restricted Stock Plan for Directors.

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

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

The Annual Meeting of Shareholders of Xerox Corporation was duly called and held on May 15, 1997 at the Sutton Place Hotel, 955 Bay Street, Toronto, Ontario, Canada.

Proxies for the meeting were solicited on behalf of the Board of Directors of the Registrant pursuant to Regulation 14A of the

General Rules and Regulations of the Commission. There was no solicitation in opposition to the Board of Directors' nominees for election as directors as listed in the Proxy Statement, and all nominees were elected.

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

Proposal 1 - Election of directors for the ensuing year.

Name	For	Withheld Vote
Paul A. Allaire	288,098,645	1,594,838
B. R. Inman	288,192,852	1,500,631
Antonia Ax:son Johnson	288,238,146	1,455,337
Vernon E. Jordan, Jr.	288,093,982	1,599,501
Yotaro Kobayashi	288,441,237	1,252,246
Hilmar Kopper	254,937,711	34,755,772
Ralph S. Larsen	288,455,665	1,237,818
John D. Macomber	288,389,761	1,303,721
George J. Mitchell	288,245,098	1,448,385
N. J. Nicholas, Jr.	288,439,212	1,254,271
John E. Pepper	288,408,014	1,285,469
Martha R. Seger	288,327,631	1,365,852
Thomas C. Theobald	288,358,443	1,335,040

Proposal 2 - To elect KPMG Peat Marwick LLP as independent auditors for the year 1997.

For -	288,390,447
Against -	547,723
Abstain -	755,313

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

For -	275,981,729
Against -	8,556,033
Abstain -	2,149,186
Broker Non-vote	3,006,535

Item 6. Exhibits and Reports on Form 8-K

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

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

Exhibit 10(b) Registrant's 1991 Long-Term Incentive Plan, as amended through May 15, 1997. Incorporated by reference to Registrant's Notice of the 1997 Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A.

Exhibit 10(n) Letter Agreement dated June 4, 1997 between Registrant and G. Richard Thoman, President and Chief Operating Officer of Registrant.

Exhibit 11 Computation of Net Income per Common Share.

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.

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

(b) Current reports on Form 8-K dated April 7, 1997, May 19, 1997, June 6, 1997 and June 30, 1997 reporting Item 5 "Other Events" were filed during the quarter for which this Quarterly Report is filed.

SIGNATURES

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

XEROX CORPORATION
(Registrant)

Date: August 7, 1997

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

Exhibit 11
Xerox Corporation

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

	Three months ended June 30, 1997	Three months ended June 30, 1996	Six months ended June 30, 1997	Six months ended June 30, 1996
I. Primary Net Income Per Common Share				
Income from continuing operations	$ 337	$ 293	$ 607	$ 530
Accrued dividends on ESOP preferred stock, net	(11)	(10)	(22)	(21)
Accrued dividends on redeemable preferred stock	-	-	-	(1)
Adjusted income from continuing operations	326	283	585	508
Discontinued operations	-	-	-	-
Adjusted net income	$ 326	$ 283	$ 585	$ 508
Average common shares outstanding during the period	324,090	323,795	324,018	323,492
Common shares issuable with respect to common stock equivalents for stock options, incentive and exchangeable shares	5,775	8,961	5,775	8,961
Adjusted average shares outstanding for the period	329,865	332,756	329,793	332,453
Primary earnings per share:				
Continuing operations	$ 1.00	$ 0.85	$ 1.78	$ 1.53
Discontinued operations	-	-	-	-
Primary earnings per share	$ 1.00	$ 0.85	$ 1.78	$ 1.53
II. Fully Diluted Net Income Per Common Share				
Income from continuing operations	$ 337	$ 293	$ 607	$ 530
Accrued dividends on redeemable preferred stock	-	-	-	(1)
ESOP expense adjustment, net of tax	1	-	-	(1)
Interest on convertible debt, net of tax	-	-	1	1
Adjusted income from continuing operations	338	293	608	529
Discontinued operations	-	-	-	-
Adjusted net income	$ 338	$ 293	$ 608	$ 529
Average common shares outstanding during the period	324,090	323,795	324,018	323,492
Stock options, incentive and exchangeable shares	6,597	9,483	6,597	9,483
Convertible debt	2,644	2,644	2,644	2,644
ESOP preferred stock	27,498	28,137	27,498	28,137
Adjusted average shares outstanding for the period	360,829	364,059	360,757	363,756
Fully diluted earnings per share:				
Continuing operations	$ 0.94	$ 0.81	$ 1.69	$ 1.46
Discontinued operations	-	-	-	-
Fully diluted earnings per share	$ 0.94	$ 0.81	$ 1.69	$ 1.46

Exhibit 12

Xerox Corporation

Computation of Ratio of Earnings to Fixed Charges

(In millions)	Six months ended June 30, 1997	1996	Year ended December 31, 1996	1995	1994	1993*	1992
Fixed charges:							
Interest expense	$ 288	$ 295	$ 592	$ 603	$ 520	$ 540	$ 627
Rental expense	60	74	140	142	170	180	187
Preferred stock dividend of subsidiary	23	-	-	-	-	-	-
Total fixed charges before capitalized interest	371	369	732	745	690	720	814
Capitalized interest	-	-	-	-	2	5	17
Total fixed charges	$ 371	$ 369	$ 732	$ 745	$ 692	$ 725	$ 831
Earnings available for fixed charges:							
Earnings**	$ 993	$ 905	$2,067	$1,980	$1,602	$ (193)	$1,183
Less undistributed income in minority owned companies	(65)	(62)	(84)	(90)	(54)	(51)	(52)
Add fixed charges before capitalized interest and preferred stock dividend of subsidiary	348	369	732	745	690	720	814
Total earnings available for fixed charges	$1,276	$1,212	$2,715	$2,635	$2,238	$ 476	$1,945
Ratio of earnings to fixed charges (1)(2)	3.44	3.28	3.71	3.54	3.23	0.66	2.34

(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, one-third of rent expense as representative of the interest portion of rentals, and preferred stock dividend requirements of subsidiaries. Debt has been assigned to discontinued operations based on historical levels assigned to the businesses when they were continuing operations, adjusted for subsequent paydowns. Discontinued operations consist of the Company's Insurance and Other Financial Services businesses and its real-estate development and third-party financing businesses.

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

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

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

Exhibit 10(n)

THE DOCUMENT COMPANY

XEROX

Paul A. Allaire
Chairman and Chief Executive Officer
Xerox Corporation
800 Long Ridge Road
Stamford, CT 06904
(203) 968-4515

June 4, 1997

Mr. G. Richard Thoman
28 Fox Run Lane
Greenwich, CT 06831

Dear Rick,

On behalf of Xerox Corporation, I am pleased to provide you with this revised offer for the position of President and Chief Operating Officer reporting to me at our Corporate Headquarters in Stamford, Connecticut. As we discussed, initially you will have primary oversight responsibility for Xerox' business operations and I would oversee the staff positions.

Corporate Officer
Upon your acceptance of this offer of employment, I will recommend to the Board of Directors that you be elected to this position and that you become a member of our board. Eligibility for the executive compensation, benefits and perquisites described below are contingent upon approval by the Executive Compensation and Benefits Committee of the Board of Directors (Committee) and your election by the Board.

Base Salary
The initial base salary for this position is at the annualized rate of $700,000. Salary payments are made monthly at the end of each calendar month. Compensation, including base salary level, is reviewed annually and increases are dependent on your personal as well as the Company's performance.

Fuji Xerox Co., Ltd.
I will recommend that you be elected to the Board of Directors of Fuji Xerox Co., Ltd.. This position provides an estimated annual retainer of $50,000 and eligibility for participation in the Fuji Xerox directors' pension plan.

Awards Upon Commencement of Employment
Upon commencement of employment, and subject to approval by the Committee, you will be awarded:
(1) 650,000 Non Qualified Stock Options under the terms of the 1991 Long-Term Incentive Plan (LTIP). This award will vest in equal installments over the next five years beginning on January 1, 1998 and will have an exercise price which is based upon the Fair Market Value (as defined in LTIP) on the effective date of the award.

(2) 100,000 Incentive Stock Rights (ISRs) which will also vest over this same 5 year period.

The other terms and provisions of these awards will be governed by the terms of LTIP and the customary form of agreement with participants currently in use under LTIP.

Executive Performance Incentive Plan (EPIP)
You are eligible to participate in the Company's annual incentive plan - the Executive Performance Incentive Plan. Your target bonus is 80% of base salary and payments can range from 0% to 320% of base salary (maximum 400% of the target award). We will meet and agree upon your personal 1997 bonus objectives and discuss details of the plan shortly after you join the Company. We will guarantee that for 1997 that you will be paid at least the target 80% bonus or $560,000.

In addition, I will recommend to the Committee that for each of the next three years, beginning with the performance year 1998, that you be awarded additional bonuses under EPIP in the amount of $3,750,000 annually. Since these bonuses are based on forfeiture of vested stock options at your current employer, should your current employer not cancel your already vested stock options, as you have indicated is their privilege, then Xerox will reduce the above amounts to $2,000,000 for 1998 and 1999 and $1,500,000 for the year 2000. These payments will not be included for purposes of determining benefits under any of the special provisions of this offer or under any of the Company's pension, profit sharing or similar retirement plans.

While annual bonuses are normally payable during February of the year following the bonus performance year, you have agreed that you will elect to defer all of these three incremental bonuses in the amounts stated above. We have agreed that you may elect to defer these amounts into deferred compensation accounts under the Company's Deferred Compensation Plan For Executives. Therefore, in advance of each bonusable year, you will be allowed to elect in writing to hypothetically invest your account balances in any of the investment choices offered under the Company's Profit Sharing and Savings Plan and to elect payment options which meet your investment needs and preferences.

Leveraged Executive Equity Plan (LEEP)
You will be recommended for participation in the Leveraged Executive Equity Plan under LTIP (LEEP) for 1997 which is subject to approval by the Committee. The current 3-year cycle of LEEP commenced in 1995 and your participation will be structured in order for you to participate for this, the last year of the Plan. LEEP is comprised of three elements, each briefly described below:

Investment Shares
Under the terms of LEEP, participation in the 1997 segment of the 1995 award cycle, requires you to own shares of Xerox common stock in an amount equivalent to 100% of your annual base salary rate (the Investment Shares). You will have until the end of the insider trading window following the reporting of first quarter 1998 financial results to acquire the requisite number of shares. We have agreed that the vesting of restricted shares and related dividends and non-qualified stock options (described below) for this initial 1997 LEEP award are not contingent on meeting the Investment Share requirement until after the above date in 1998. The total number of shares required will be determined using the fair market value of our stock (as defined in LTIP) on the effective date of this LEEP award.

For the purposes of your personal financial planning, you need to be aware that in order to participate in the 1998 LEEP three-year cycle, you will be required to maintain your Investment Share requirement, but at an increased amount of 300% of your then base salary.

Restricted Shares & Dividends
For each Investment Share, you will be awarded two (2) restricted shares of Xerox common stock. The restricted stock is earned through the achievement of a 1997 Corporate Earnings Per Share goal which was previously established by the Committee. If earned, the restricted shares will be released and you will receive the stock along with the accrued dividends associated with the shares, both net of any required withholding taxes, on or after March 1, 1998.

Non-Qualified Stock Options
For each share invested, you will be awarded five (5) stock options at the Fair Market Value on the effective date of the award. These options which result from the 1997 award will become exercisable on January 1, 1998. The option to purchase the shares will expire on December 31, 2004.

Each of the foregoing incentive stock awards provide for immediate vesting in the event of a change in control of the Company, as defined. Details concerning these provisions will be made available to you in the Award Summary and form of LEEP Agreement as grants are made to you.

The foregoing is merely a brief summary. Your award will be subject to the terms and conditions of the LEEP Agreement to be executed following award by the Committee.

In order to gain an appreciation of the potential value of this compensation package, I have previously provided you with a summary of actual (1995 and 1996 performance years) and anticipated (1997) returns for an individual in your pay range. Of course, these results are contingent upon a continuance of meeting Corporate and individual performance objectives and do not constitute a guarantee of future compensation.

Executive Retirement Benefits
You will be recommended for participation in the Mid Career Executive Hire program effective with your commencement of employment. This program provides for special retirement income and retiree medical insurance benefits which are designed to address your joining Xerox as an experienced executive. Under the Supplemental Executive Retirement Plan (SERP), following five (5) continuous years of employment and upon retirement from the Company at age 60 or beyond, a calculation will be made to determine the percent of your five highest years of eligible compensation (5HAP) that will be paid to you in monthly SERP benefits based on 2.5% of 5HAP per completed years of service with the Company. The maximum SERP calculable under this plan is 50% of eligible compensation. Eligible compensation includes base salary and annual incentive bonus payments. This benefit is reduced by benefits payable from other Xerox retirement plans, including the Xerox Retirement Income Guarantee Plan, the Unfunded Retirement Income Guarantee Plan and a portion of estimated social security benefits.

We will recommend to the Committee that a special Mid Career SERP program will be provided to you. Specifically:

You be credited with a "previous employment factor", not ordinarily part of SERP, so that you will have a vested benefit beginning at age 55
That the years of service used for the calculation of Mid Career SERP result in a crediting factor of 37.5% at age 55 and progress to 50.0% at age 60 in increments of 2.5% per year. Should you not have completed five years of employment with Xerox, the compensation used for your 5HAP calculation will be your actual earned eligible compensation divided by your actual completed years of Xerox employment at the time the calculation is made.
That a minimum annual benefit of $600,000 be provided by Xerox at age 55.
At retirement, you may elect a reduced SERP annuity to provide your surviving spouse with 100% of your SERP benefit. Based on your age and that of your spouse at retirement, we currently estimate that the 100% Joint and Survivor (J&S) annuity payments will be no more than 10% lower than the normal 50% J&S SERP benefit.
Should you die while an active employee of Xerox, but before you begin retirement, your surviving spouse will also receive this 100% joint and survivor SERP benefit irrespective of your age at the time of your death.
Participation in a special post retirement medical program will also be provided when you retire or this benefit can be triggered under the termination provisions of this offer as outlined in the second paragraph under Termination below.

Except as modified by the foregoing, your benefits under the Mid Career SERP and special retiree medical program will be determined by the other provisions of such plan and program. Details of both will be made available to you in a brochure some time after you would commence employment.

Executive Benefits and Perquisites
Life Insurance: You will be eligible to join our Contributory Life Insurance Plan. In accordance with plan provisions, your participation level provides a death benefit of $3,000,000. This coverage would be effective July 1, 1997. Should you begin employment with Xerox before then, you will be provided with an equivalent amount of Term Life Insurance to serve as a bridge until July 1, 1997. Please refer to the terms of the life insurance plan for full details of its provisions.

Perquisites: Upon joining us, you will be eligible for an annual Executive Expense Allowance of $26,000 subject to Committee approval. Additionally, the Company provides you with allowances for income tax preparation and financial counseling services. Upon request and availability, limousine service and corporate aircraft will be provided for Company travel in accordance with the applicable policies. The details of these programs will be provided to you shortly after your start date.

Indirect Pay Elements
In addition to the components of total pay described above, Xerox offers a number of indirect pay elements that are outlined in the You and Xerox documents previously provided to you. Please read this information carefully. If you have any questions, I can direct you to our Director of Corporate Compensation who can address your issues or concerns. I would like to highlight several indirect pay components that may be of particular interest to you:

Vacation - You are eligible for four (4) weeks annual vacation commencing with 2 weeks for the balance of 1997.
Profit Sharing - After one year's employment, you become eligible to participate in this program. At target levels of performance, the plan provides a payment of up to 10% of annual earnings (base and bonus).

The details of these and other plans are both summarized and described more fully in the attachments to our earlier offer.

Termination
If you are not elected Chief Executive Officer of the Company within thirty-six (36) months of the commencement of your employment or should another individual be elected to this post within this same period, then you may voluntarily elect to resign from your employment with Xerox in which event:

1) The Incentive Stock Rights, stock options and three incremental bonus payments that were awarded as part of Awards Upon Commencement of Employment with the Company,

2) the greater of the minimum annual retirement benefit of $600,000 or the calculated special Mid Career SERP benefit described above,

3) the Executive Performance Incentive Plan awards and

4) the earned portions of any LEEP awards,

all to the extent not already vested or paid, will become immediately vested and payable to you.

Further, should a change of control, as defined in SERP, occur within your first 36 months of employment, the vesting and payment provisions described above in paragraphs (1) through (4) will be triggered.

Finally, (1) should Xerox ask you to leave for any reason other than cause, or (2) if you are demoted from the position of President and Chief Operating Officer and you elect to resign your employment, the payments, retirement benefits described above in paragraphs (1) through (4) will also apply and your retiree medical and dental insurance coverages will be triggered.

Other Employment Conditions
Proprietary Information and Conflict of Interest Agreement and Other Requirements: This offer is contingent upon verification of certain information specified in the enclosed Addendum to Offer Letter. As included in the addendum, you will be expected to sign a standard Proprietary Information and Conflict of Interest Agreement form. Previously you received a copy of the form for your execution. You will also be expected to give your consent to and successfully complete a pre-employment drug test as required by Company policy.

We also require that you submit to a pre-employment physical examination arranged by the Company or provide us with a current medical report from a credible and recognized medical organization as a condition of employment with Xerox.

Rick, I look forward to your acceptance of this offer and of your joining Xerox. The President and Chief Operation Officer is, without question, a position critical to the future success of Xerox and one that I feel you will find both challenging and rewarding. I have every confidence that you will excel not only in this position, but can look forward to a rewarding career with Xerox.

Please indicate your acceptance of this offer by signing below
and returning the original of this letter to my attention.

Sincerely,

/s/ Paul A. Allaire
Paul A. Allaire

Accepted: /s/ G. Richard Thoman
G. Richard Thoman

Date: June 4,1997
Attachments:
PAA/ms
Copies: W. F. Buehler,
L. G.Robinson

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This schedule contains summary financial information extracted from Xerox Corporation's June 30, 1997 financial statements and is qualified in its entirety by reference to such financial statements.

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6-MOS
DEC-31-1997
JUN-30-1997
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