

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended: September 30, 1995

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-4471

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

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

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

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

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

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class	Outstanding at September 30, 1995
Common Stock	107,852,063 shares
Class B Stock	1,000 shares

This document consists of 39 pages.

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Xerox Corporation  
Form 10-Q  
September 30, 1995

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## PART I - FINANCIAL INFORMATION

Xerox Corporation  
Consolidated Statements of Income

(In millions, except per-share data)	Three months ended		Nine months ended	
	September 30,		September 30,	
	1995	1994	1995	1994
Document Processing				
Revenues				
Sales	\$ 2,087	\$ 1,830	\$ 6,048	\$ 5,154
Service and rentals	1,694	1,552	5,054	4,587
Finance income	246	254	749	750
Total Revenues	4,027	3,636	11,851	10,491
Costs and Expenses				
Cost of sales	1,181	1,097	3,466	3,074
Cost of service and rentals	856	752	2,540	2,209
Equipment financing interest	123	124	378	374
Research and development expenses	243	217	709	639
Selling, administrative and general expenses	1,164	1,067	3,442	3,134
Other, net	45	33	122	143
Total Costs and Expenses	3,612	3,290	10,657	9,573
Income before Income Taxes, Equity Income and Minorities' Interests				
Income Taxes	415	346	1,194	918
Equity in Net Income of Unconsolidated Affiliates	160	136	462	361
Minorities' Interests in Earnings of Subsidiaries	38	25	102	63
Income from Document Processing	37	50	137	137
	256	185	697	483
Insurance				
Revenues				
Insurance premiums earned	464	550	1,497	1,726
Investment and other income	106	112	337	323
Total Revenues	570	662	1,834	2,049
Costs and Expenses				
Insurance losses and loss expenses	406	434	1,261	1,333
Insurance acquisition costs and other insurance operating expenses	145	168	475	553
Interest expense	54	51	175	155
Administrative and general expenses	33	20	102	43
Total Costs and Expenses	638	673	2,013	2,084
Realized Capital Gains	32	4	46	13
Income (loss) before Income Taxes	(36)	(7)	(133)	(22)
Income Tax Benefits	16	8	57	22
Income (loss) from Insurance	(20)	1	(76)	-
Total Company				
Net Income	\$ 236	\$ 186	\$ 621	\$ 483
Primary Earnings per Share	\$ 2.03	\$ 1.61	\$ 5.33	\$ 3.97
Fully Diluted Earnings per Share	\$ 1.93	\$ 1.53	\$ 5.09	\$ 3.84
See accompanying notes.				

Xerox Corporation  
Consolidated Balance Sheets  
September 30,

December 31,  
1994

(In millions, except share data in thousands)

	1995	1994
<b>Assets</b>		
Document Processing		
Cash	\$ 51	\$ 35
Accounts Receivable, net	2,005	1,811
Finance Receivables, net	3,895	3,910
Inventories	2,946	2,294
Deferred Taxes and Other Current Assets	1,057	1,199
Total Current Assets	9,954	9,249
Finance Receivables Due after One Year, net	6,077	6,038
Land, Buildings and Equipment, net	2,075	2,108
Investments in Affiliates, at equity	1,492	1,278
Goodwill	631	66
Other Assets	691	635
Total Document Processing Assets	20,920	19,374
Insurance		
Cash	86	21
Investments Available-for-Sale	7,148	8,384
Reinsurance Recoverable	2,588	3,063
Premiums and Other Receivables	1,808	1,276
Goodwill	248	284
Deferred Taxes and Other Assets	1,171	1,438
Total Insurance Assets	13,049	14,466
Investment in Discontinued Operations	3,657	4,692
<b>Total Assets</b>	<b>\$ 37,626</b>	<b>\$ 38,532</b>
<b>Liabilities and Equity</b>		
Document Processing		
Short-Term Debt and Current Portion of		
Long-Term Debt	\$ 3,081	\$ 3,159
Accounts Payable	432	562
Accrued Compensation and Benefit Costs	664	709
Unearned Income	240	298
Other Current Liabilities	1,937	2,110
Total Current Liabilities	6,354	6,838
Long-Term Debt	6,401	5,494
Liability for Postretirement Medical Benefits	1,027	1,006
Deferred Taxes and Other Liabilities	2,131	2,210
Total Document Processing Liabilities	15,913	15,548
Insurance		
Unpaid Losses and Loss Expenses	7,711	8,809
Unearned Income	885	1,066
Notes Payable	388	425
Other Liabilities	928	954
Total Insurance Operating Liabilities	9,912	11,254
Discontinued Operations Liabilities -		
Life Reinsurance Payable and Other	3,256	4,194
Other Long-Term Debt and Obligations	2,436	2,102
Deferred ESOP Benefits	(596)	(596)
Minorities' Interests in Equity of Subsidiaries	748	1,021
Preferred Stock	767	832
Common Shareholders' Equity	5,190	4,177
<b>Total Liabilities and Equity</b>	<b>\$ 37,626</b>	<b>\$ 38,532</b>
Shares of common stock issued and outstanding	107,852	105,993
See accompanying notes.		

Xerox Corporation  
Consolidated Statements of Cash Flows

Nine months ended September 30,	(In millions)	1995	1994
Cash at Beginning of Period			
Document Processing	\$	35	\$ 68
Insurance		21	18
Total		56	86
Document Processing			
Cash Flows from Operating Activities		24	(81)
Cash Flows from Investing Activities			
Cost of additions to land, buildings and equipment	(295)		(255)
Proceeds from sales of land, buildings and equipment	46		152
Purchase of additional interest in Rank Xerox	(972)		-
Net change in payables to Insurance	(43)		(9)
Net transactions with Insurance	112		47
Net transactions with Discontinued Operations	35		25
Total	(1,117)		(40)
Cash Flows from Financing Activities			
Net change in debt	1,392		840
Yen financing repayment	-		(116)
Dividends on common and preferred stock	(292)		(297)
Proceeds from sale of common stock	120		78
Redemption of preferred stock	(65)		(241)
Dividends to minority shareholders	(64)		(69)
Net proceeds (returned to)/received from minority shareholders	20		(32)
Total	1,111		163
Effect of Exchange Rate Changes on Cash	(2)		(68)
Net Cash Flows from Document Processing	16		(26)
Insurance			
Cash Flows from Operating Activities	(364)		(110)
Cash Flows from Investing Activities			
Proceeds from sale of Constitution Re	421		-
Proceeds from sale of Viking	105		-
Purchase of portfolio investments	(1,310)		(1,807)
Proceeds from sales of portfolio investments	6,135		575
(Increase)decrease in short-term investments	(4,416)		976
Subtotal	935		(256)
Other, net	(35)		(13)
Net transactions with Discontinued Operations	61		12
Total	961		(257)
Cash Flows from Financing Activities			
Net change in notes payable	(37)		210
Net change in debt	(383)		196
Net transactions with Document Processing	(112)		(47)
Total	(532)		359
Net Cash Flows from Insurance	65		(8)
Discontinued Operations			
Income from discontinued operations	-		-
Collections and changes in assets, net	1,034		164
Net change in debt	10		(126)
Net change in operating liabilities	(948)		(1)
Net transactions with Document Processing	(35)		(25)
Net transactions with Insurance	(61)		(12)
Net Cash Flows from Discontinued Operations	-		-
Cash at End of Period			
Document Processing		51	42
Insurance		86	10
Total	\$	137	\$ 52

See Supplemental Cash Flows Information and accompanying notes.

Xerox Corporation  
Consolidated Statements of Cash Flows  
Supplemental Cash Flows Information

Reconciliation of income to cash flows from operating activities:			
Nine months ended September 30,	(In millions)	1995	1994
Document Processing			
Income from Document Processing		\$ 697	\$ 483
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization		486	476
Provisions for doubtful accounts		201	161
Provision for postretirement medical benefits		37	41
Charges against 1993 restructuring reserve		(258)	(295)
Minorities' interests in earnings of subsidiaries		137	137
Undistributed equity in income of affiliated companies		(99)	(58)
Increase in inventory		(819)	(635)
Increase in finance receivables		(172)	(255)
Increase in accounts receivable		(256)	(248)
Decrease in accounts payable and accrued compensation and benefit costs		(34)	(26)
Net change in current and deferred income taxes		207	72
Other, net		(103)	66
<b>Cash Flows from Operating Activities</b>		<b>\$ 24</b>	<b>\$ (81)</b>
Insurance			
Loss from Insurance		\$ (76)	\$ -
Adjustments required to reconcile income to cash flows from operating activities:			
Depreciation and amortization		27	24
Provisions for doubtful accounts		9	5
Realized capital gains		(46)	(13)
(Increase)decrease in receivables		(213)	277
Increase in accounts payable and accrued compensation and benefit costs		49	17
Increase in unearned income		47	34
Decrease in unpaid losses and loss expenses		(304)	(411)
Other, net		143	(43)
<b>Cash Flows from Operating Activities</b>		<b>\$ (364)</b>	<b>\$ (110)</b>

See accompanying notes.

Xerox Corporation  
Notes to Consolidated Financial Statements

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

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

2. Inventories consist of (in millions):

	September 30, 1995	December 31, 1994
Finished products	\$ 1,905	\$ 1,458
Work in process	100	88
Raw materials and supplies	369	268
Equipment on operating leases, net	572	480
Total	\$ 2,946	\$ 2,294

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

	September 30, 1995	December 31, 1994
Common stock	\$ 109	\$ 107
Additional paid-in-capital	1,531	1,406
Retained earnings	3,511	3,197
Net unrealized loss on investment securities	(1)	(433)
Translation adjustments	40	(100)
Total	\$ 5,190	\$ 4,177

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

Xerox Corporation  
Notes to Consolidated Financial Statements

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

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

6. The Company's Consolidated Balance Sheet at September 30, 1995 includes current and non-current accrued liabilities of \$258 million and \$221 million, respectively, associated with the Document Processing restructuring program announced in December 1993. At December 31, 1994, the corresponding accrued liabilities aggregated \$765 million. During the stub period and the nine month period ended September 30, 1995, \$30 million and \$256 million of net pre-tax charges, respectively, were charged against the aggregate reserve balance. Management believes the aggregate reserve balance of \$479 million at September 30, 1995 is adequate for the completion of the restructuring program. Additional information concerning the progress of the restructuring program is included in the accompanying Management's Discussion and Analysis on page 19.

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

Interest expense totaled \$203 million and \$181 million for the three months ended September 30, 1995 and 1994, respectively. Interest expense was \$620 million and \$541 million for the nine month periods then ended.

Long-term debt, excluding the current portion, totaled \$9,037 million at September 30, 1995 and \$7,780 million at December 31, 1994.

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

Xerox Corporation  
Notes to Consolidated Financial Statements

ended December 31, 1994, 1993, and 1992, respectively. On July 18, 1995, the sale of Viking closed for approximately \$103 million in cash plus future upward price adjustments based on loss reserve development. The transaction approximated book value.

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

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

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

## 12. Litigation

### Document Processing

On March 10, 1994, a lawsuit was filed in the United States District Court for the District of Kansas by two independent service organizations (ISOs) in Kansas City and St. Louis and their parent company. On April 15, 1994, another case was filed in the United States District Court for the Northern District of California by 21 different ISOs from 12 states. Plaintiffs in these actions claim damages (to be trebled) to their individual businesses resulting from essentially the same alleged violations

Xerox Corporation  
Notes to Consolidated Financial Statements

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 asserted counterclaims against certain of the plaintiffs alleging patent and copyright infringement, misappropriation of Xerox trade secrets, conversion and unfair competition and/or false advertising. The Company denies any wrongdoing and intends to vigorously defend these actions and pursue its counterclaims.

#### Insurance

On September 15, 1992, International Surplus Lines Insurance Company, which has since been merged into International Insurance Company (International Insurance), a subsidiary of Talegen, filed a complaint in the United States District Court for the Southern District of Ohio, Eastern District, in Columbus, Ohio against certain underwriting syndicates at Lloyds 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 September 30, 1995, approximately \$18.6 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

Xerox Corporation  
Notes to Consolidated Financial Statements

Jersey against The North River Insurance Company (North River), a subsidiary of Talegen, by certain foreign insurance companies and underwriting syndicates at Lloyds 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. Of this amount, plaintiffs paid North River approximately \$68 million; approximately \$38 million remains unpaid. The reinsurers allege that North River misrepresented and withheld certain facts surrounding the decision and breached certain duties to its reinsurers. As part of the Talegen restructuring, International Insurance has assumed the rights and obligations with respect to these reinsurance contracts. A motion by North River to dismiss the complaint for lack of federal subject matter jurisdiction was granted on May 3, 1995. Plaintiffs refiled their claims in New York state court on June 28, 1995. On July 31, 1995, International Insurance filed a counterclaim for amounts plaintiffs have not paid. International Insurance believes it is entitled to the full payment of these reinsurance recoverables and will vigorously defend the foregoing action.

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. Cross motions for summary judgment in the action are pending. However, the parties have reached agreement in principle on a stand-still whereby the litigation will be dismissed with all parties reserving their rights.

Xerox Corporation  
Notes to Consolidated Financial Statements

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 certain of 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. In a second case, the plaintiffs' attorney has agreed to dismiss claims asserted by similarly situated plaintiffs.

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

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

Financial Summary

(In millions, except per-share data)	Third quarter			Year-to-date September 30,		
	1995	1994	% Growth	1995	1994	% Growth
<b>Revenues</b>						
Document Processing	\$4,027	\$3,636	11%	\$11,851	\$10,491	13%
Insurance	570	662	(14)	1,834	2,049	(10)
<b>Total Revenues</b>	<b>\$4,597</b>	<b>\$4,298</b>	<b>7</b>	<b>\$13,685</b>	<b>\$12,540</b>	<b>9</b>
<b>Net Income (Loss)</b>						
Document Processing	\$ 256	\$ 185	38	\$ 697	\$ 483	44
Insurance	(20)	1	*	(76)	-	*
<b>Net Income</b>	<b>\$ 236</b>	<b>\$ 186</b>	<b>27</b>	<b>\$ 621</b>	<b>\$ 483</b>	<b>29</b>
<b>Primary Earnings (Loss) per Share</b>						
Document Processing	\$ 2.21	\$ 1.60	38	\$ 6.02	\$ 3.97	52
Insurance	(.18)	.01	*	(.69)	-	*
<b>Primary Earnings per Share</b>	<b>\$ 2.03</b>	<b>\$ 1.61</b>	<b>26</b>	<b>\$ 5.33</b>	<b>\$ 3.97</b>	<b>34</b>
<b>Fully Diluted Earnings (Loss) per Share</b>						
Document Processing	\$ 2.09	\$ 1.53	37	\$ 5.72	\$ 3.84	49
Insurance	(.16)	-	*	(.63)	-	*
<b>Fully Diluted Earnings per Share</b>	<b>\$ 1.93</b>	<b>\$ 1.53</b>	<b>26</b>	<b>\$ 5.09</b>	<b>\$ 3.84</b>	<b>33</b>

\* Calculation not meaningful.

## Summary of Total Company Results

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

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

## Document Processing

### Underlying Growth

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

When compared with the major European currencies, the U.S. dollar was approximately 10 percent weaker in the 1995 third quarter than in the 1994 third quarter, and approximately 13 percent weaker in the 1995 first nine months than in the 1994 first nine months. As a result, foreign currency translation had a favorable impact of 3 percentage points on total revenues in the 1995 third quarter and 4 percentage points on total revenues in the 1995 first nine months.

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

### Revenues

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

#### Underlying Growth

	1995				1994			
	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1
Total Revenues	8%	8%	11%	7%	11%	4%	6%	5%
Sales								
Equipment	7	8	9	10	13	4	11	9
Supplies	9	10	22	11	22	10	3	10
Paper	42	42	52	4	21	1	(2)	(1)
Total	11	12	18	10	14	5	9	9
Service/Rentals/FacMgmt/Other								
Service	1	4	3	4	6	4	4	3
Rentals	3	(2)	3	(1)	5	(4)	(3)	(7)
Facilities Management/Other	38	28	33	20	22	20	22	17
Total	6	6	6	5	8	5	5	3
Finance Income	(7)	(2)	(4)	(4)	(3)	(3)	(6)	(7)
Memo:								
Non-Equipment Revenues	8	9	12	5	9	4	4	3

Total revenue growth of 8 percent in the 1995 third quarter was unchanged from the 1995 second quarter and a decline from the

growth of 11 percent in the 1995 first quarter and the 1994 fourth quarter.

The good growth in equipment sales in the third quarter reflected excellent growth in data center printing and color copying and printing, and good growth in production publishing and black-and-white copying, which was somewhat offset by lower printer engine sales to original equipment manufacturers due to unusually high shipments in the third quarter of last year. Excluding these OEM sales, equipment sales grew 12 percent which represents an improvement from earlier quarters this year. On a geographical basis, continuing excellent growth in Brazil was moderated by demand in the U.S. and Europe.

Non-Equipment revenues from supplies, paper, service, rentals, facilities management and other revenues, and income from customer financing represented 68 percent of total revenues in the 1995 third quarter, unchanged from the 1995 second quarter but a decline from 72 percent in the 1995 first quarter. Growth in these revenues is primarily a function of the growth in the Company's installed population of equipment, usage and pricing.

Supplies sales: The good growth in the 1995 third quarter and 1995 second quarter, and the excellent growth in the 1995 first quarter are due principally to continued excellent growth in enterprise printing and cartridge sales for personal copiers. The declining sequential trend this year reflects lower OEM sales.

Paper sales: The Company's policy is to charge a spread over mill wholesale prices to cover its costs and value added as a distributor. The excellent growth this year is due primarily to higher worldwide prices.

Service revenues: The modest growth in recent quarters reflects the diversionary trend to facilities management and competitive pricing pressures.

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

Facilities management, copy centers and other revenues: This growth reflects the trend of customers focusing on their core businesses and outsourcing their document processing requirements to Xerox. This has the effect of diverting

revenue from equipment sales, service and finance income. This trend toward facilities management rather than equipment sales can also increase revenues in future periods but reduce current period total revenues.

Finance income: The decline is due to a continuation of the trend of lower interest rates on financing contracts.

#### Geographic Revenues

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

	1995			FY	1994			
	Q3	Q2	Q1		Q4	Q3	Q2	Q1
Total Revenues	8%	8%	11%	7%	11%	4%	6%	5%
United States	5	5	8	7	10	6	7	4
Rank Xerox	2	5	13	7	13	3	7	6
Other Areas	27	25	17	7	10	4	2	5

The Company's U.S. revenues grew 5 percent in the third quarter, equal to the second quarter and a decrease from the 1995 first quarter. However, U.S. revenues, grew 9 percent in the third quarter excluding the impact of unusually high OEM printer engine sales in the third quarter last year, when a new customer placed a large order to fill its distribution channel. Third quarter revenue growth was also adversely affected by some residual disruption from sales force productivity initiatives begun earlier this year.

Rank Xerox Limited and related companies (Rank Xerox) manufactures and markets Xerox products principally in Europe. The Rank Xerox revenue growth rate declined from 13 percent in the 1995 first quarter and the 1994 fourth quarter to 5 percent in the 1995 second quarter to 2 percent in the 1995 third quarter. In the 1995 third quarter revenue growth was good in the United Kingdom, Holland and the smaller European countries, and modest in Germany. Revenue in France declined for the second consecutive quarter primarily due to reduced government spending. Due to the change to calendar-year financial reporting, the traditionally slow month of August falls in the third quarter this year compared with the fourth quarter in 1994. Revenue in Italy had no growth after excellent growth in the first half. Revenue in Spain declined after strong growth in the first half.

Other Areas includes operations principally in Latin America and Canada. Revenue growth has been substantial in Brazil, strong in the smaller Latin American countries, and good in Canada. In Brazil, since a new economic plan was implemented in July 1994, inflation has declined to 1-3 percent per month and the economy

has shown strong growth. In Mexico, revenues have declined significantly this year due to devaluation and the continuing economic disruption following devaluation of the Mexican peso in December 1994. In 1994, full year revenues were \$300 million in Mexico and over \$1 billion in Brazil.

#### Major Product Categories

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

	1995			FY	1994			
	Q3	Q2	Q1		Q4	Q3	Q2	Q1
Total Revenues	8%	8%	11%	7%	11%	4%	6%	5%
Black & White Copiers	3	2	4	4	7	-	4	3
Enterprise Printing	18	20	22	20	22	17	22	21

Revenues from black-and-white copying represented 60 percent of total document processing revenues in the 1995 third and second quarters, 61 percent in the 1995 first quarter and 63 percent for the 1994 full year. Revenues from enterprise printing, including production publishing, data center printing, network printing, and color printing and copying, represented 24 percent of total revenues in the 1995 third and second quarters, 23 percent in the 1995 first quarter and 22 percent for the 1994 full year.

#### Productivity Initiatives

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

Employment declined by 11,400 from year-end 1993 to 85,600 employees at the end of the 1995 third quarter; 11,100 of the reductions were due to restructuring program initiatives and 1,300 employees were transferred to Electronic Data Systems Corp. (EDS), partially offset by 1,000 net hires. Employment declined by 200 in the 1995 third quarter, including 500 due to the restructuring program, partially offset by the addition of 300 employees, principally to support the rapidly growing facilities management business. For the 1995 first nine months, employment declined by 2,000, including 3,500 due to the restructuring program, partially

offset by the addition of 1,500 employees, principally to support the facilities management business.

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

#### Costs and Expenses

The gross margins by revenue stream were as follows:

#### Gross Margins

	1995				1994			
	Q3	Q2	Q1	FY	Q4	Q3	Q2	Q1
Total Gross Margin	46.4%	46.7%	45.2%	45.8%	45.3%	45.7%	46.2%	46.3%
Sales	43.4	43.3	41.2	40.7	41.5	40.1	40.6	40.3
Service/Rental	49.5	50.6	49.1	51.6	50.9	51.5	52.1	51.9
Financing	49.8	48.5	50.1	50.1	50.1	51.2	49.8	49.3

Total gross margins improved by 0.7 percentage points in the 1995 third quarter from the 1994 third quarter. The improvement of 3.3 percentage points in the sales gross margin from the 1994 third quarter was principally due to cost reductions and favorable product and geographical mix, principally Brazil, partially offset by currency and increasing pricing pressures. The erosion in the service and rentals gross margin of 2.0 percentage points from the 1994 third quarter was largely due to significant inflationary cost increases which were not offset by pricing in Brazil, and pricing pressures, partially offset by productivity improvements.

Research and development (R&D) expense increased 12 percent in the 1995 third quarter and 11 percent for the 1995 first nine months. The Company expects to continue to invest in technological development to maintain its premier position in the rapidly changing document processing market and expects to introduce a stream of new, technologically innovative products in the coming months. The Company's R&D is strategically coordinated with that of Fuji Xerox Co., Ltd., an unconsolidated joint venture between Rank Xerox Limited and Fuji Photo Film Company Limited. Fuji Xerox invested approximately \$500 million in R&D in 1994.

Selling, administrative and general expenses (SAG) increased 6 percent in the 1995 third quarter and the 1995 first nine months principally due to economic cost increases, particularly in Brazil, and investments in improved systems and sales distribution channels, partially offset by improved productivity. SAG was 28.9 percent of revenue in the third quarter, consistent with earlier quarters this year, and an improvement of 0.4 percentage points from the 1994 third quarter.

The increase in other expenses, net in the 1995 third quarter reflects higher interest expense principally due to the financing

of the Company's increased financial interest in Rank Xerox. Foreign currency losses from balance sheet translation in the Company's Brazilian operations continued to be modest and declined somewhat from the 1994 third quarter. This decline was offset somewhat by increased losses in other Latin American operations, primarily in Colombia. In the 1995 first half a reduction of year-over-year losses from balance sheet translation was primarily due to a lower rate of net currency devaluation in Brazil.

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

Income before income taxes, equity in net income of unconsolidated affiliates and minorities' interests increased 20 percent to \$415 million in the 1995 third quarter from \$346 million in the 1994 third quarter. For the 1995 first nine months, this income increased 30 percent to \$1,194 million from \$918 million in the 1994 first nine months. The excellent profit growth in the third quarter and the first nine months reflects the benefits from productivity initiatives and was particularly influenced by substantial profit growth in the Company's Brazilian operations.

The effective tax rate was 38.6 percent in the 1995 third quarter compared with 39.3 percent in the 1994 third quarter, and 39.3 percent in the 1994 full year. In the 1995 first nine months, the effective tax rate was 38.7 percent.

Equity in the net income of unconsolidated affiliates, principally Fuji Xerox, increased in the 1995 third quarter to \$38 million from \$25 million in the 1994 third quarter. This equity in net income was \$102 million in the 1995 first nine months compared with \$63 million in the 1994 first nine months. The increase in Fuji Xerox income in the third quarter and the first nine months was due to revenue growth in their domestic market and currency translation.

Minorities' interests in the earnings of subsidiaries was \$37 million in the 1995 third quarter compared with \$50 million in the 1994 third quarter, and was \$137 million for the 1995 first nine months, equal to the 1994 first nine months. The decrease in the third quarter was due to the Company's increased financial interest in Rank Xerox partially offset by excellent growth in Rank Xerox income. For the first nine months, the decrease due to the Company's increased financial interest in Rank Xerox was offset by excellent growth in Rank Xerox income.

On February 28, 1995, Xerox increased its financial interest in Rank Xerox to 80 percent from 67 percent. This transaction reduced third quarter and the first nine months minorities' interest by approximately \$25 million and \$89 million, respectively.

## Income

Income in the 1995 third quarter was \$256 million, a growth of 38 percent compared with the 1994 third quarter. For the 1995 first nine months, income was \$697 million, a growth of 44 percent from the \$483 million of income in the 1994 first nine months.

The 1995 third quarter Document Processing primary earnings per share increased 38 percent to \$2.21 and the 1995 first nine months primary earnings per share increased 52 percent to \$6.02. Fully diluted earnings per share increased 37 percent to \$2.09 in the 1995 third quarter and by 49 percent in the 1995 first nine months to \$5.72.

## Rank Xerox and Latin American Fiscal-Year Change in 1995

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

## Insurance

### Insurance Operating Results

The results of Insurance and Other Financial Services ("IOFS") are separated into the continuing Insurance segment and discontinued operations, which include Other Financial Services ("OFS"), (discontinued in 1993) and third-party financing and real-estate development (discontinued in 1990). The Insurance segment includes Talegen Holdings, Inc. ("Talegen"), Ridge Reinsurance Limited ("Ridge Re") and that portion of Xerox Financial Services, Inc. ("XFSI") interest expense and other costs associated with the continuing business activities. The Constitution Re Corporation ("Constitution Re") sale to EXOR America Inc. ("EXOR") was completed on April 26, 1995 for a cash sale price of \$421 million. The transaction resulted in a net loss of approximately \$7 million. On July 18, 1995 Xerox completed the sale of Viking Insurance Holdings, Inc., a Talegen subsidiary, to Guaranty National Corporation ("GNC") for approximately \$103 million in cash plus future upward price adjustments based on loss reserve development. The transaction approximated book value. On August 31, 1995, Xerox completed the sale of First Quadrant Corporation's insurance investment management segment to American Re Asset Management, Inc. ("ARAM"), a subsidiary of American Re Corporation. Net proceeds from the sales of Constitution Re to EXOR, Viking to GNC and First Quadrant insurance segment to ARAM have largely been used to pay down debt and are in line with the Company's previously announced strategy to disengage from financial services and redeploy capital into its more profitable document processing business. Talegen continues to own Crum & Forster Holdings, Inc., Industrial Indemnity Holdings, Inc., Coregis Group, Inc., Westchester Specialty Group, Inc., The Resolution Group, Inc. and three service companies (which, including Talegen, are referred to as the "Remaining Companies").

Income after-tax from the Insurance segment was a \$20 million loss in the third quarter, 1995, compared with a \$1 million profit in the third quarter, 1994. For the first nine months, 1995, income after-tax was a \$76 million loss compared to break even in the first nine months, 1994. Third quarter and first nine months results are summarized in the following table.

(In millions)	Third Quarter		Nine Months	
	1995	1994	1995	1994
Talegen Remaining Companies	\$ 46	\$ 38	\$124 *	\$101
Monsanto Settlement (Holding Co. Portion)	-	-	(14)*	-
Talegen Dispositioned Companies	4	13	(3)	33
Total Talegen	50	51	107	134
Cessions To Ridge Re	(22)	(11)	(56)*	(17)
Interest/Other	(48)	(39)	(127)	(117)
Total Insurance	\$(20)	\$ 1	\$(76)*	\$ -

\* The first nine months, 1995, includes the \$22 million after-tax impact of the March 2, 1995 settlement between Monsanto Company and Talegen and four of its insurance subsidiaries (\$1 million in Remaining Companies, \$14 million at the holding company level and \$7 million in cessions to Ridge Re).

The Remaining Companies had after-tax income of \$46 million in the third quarter, 1995, compared with \$38 million in the third quarter, 1994. For the first nine months, 1995, after-tax income totaled \$124 million compared with \$101 million in the first nine months, 1994. The year-over-year improvements in both the third quarter and year-to-date are due to generally improved underwriting results, higher investment income and higher net realized capital gains, partially offset by higher catastrophe losses and interest expense related to the \$425 million in debt issued in the fourth quarter, 1994.

Revenues from the Insurance businesses were \$570 million in the third quarter, 1995, a decline of 14 percent from the third quarter, 1994. Revenues for the first nine months, 1995, totaled \$1,834 million, a 10 percent decline from the first nine months, 1994. The lower revenues in both the third quarter and first nine months 1995 reflect the absence of 1995 earned premium volumes for Constitution Re and Viking subsequent to their sales. For the Remaining Companies, year-over-year earned premiums increased in the third quarter and were approximately flat for the nine months. Further details on premium levels are included in the individual Talegen insurance operating group results.

The overall underwriting loss for the Remaining Companies in the third quarter, 1995, increased by \$10 million to \$49 million, compared with \$39 million in the third quarter, 1994. The increase in the third quarter 1995 includes approximately \$11 million after-tax impact for catastrophe losses associated with Hurricanes Erin and Marilyn compared to nominal catastrophe losses in the prior year period. For the first nine months, the underwriting loss improved by \$2 million to \$126 million. The nine month improvement in 1995 primarily reflects more favorable loss experience in certain insurance operating groups on current and prior years' business and continuing overall expense controls, partially offset by higher catastrophe losses.

Third quarter, 1995, underwriting results include cessions to Ridge Re (a wholly owned subsidiary of XFSI that provides reinsurance coverage to current and former Talegen Insurance Operating Groups) of \$33 million pre-tax (\$22 million after-tax) of adverse development related to 1992 and prior accident years. For the first nine months, 1995, cessions total \$86 million pre-tax (\$56 million after-tax). Cessions to Ridge Re in 1994 totaled \$16 million pre-tax (\$11 million after-tax) for the third quarter and \$25 million pre-tax (\$17 million after-tax) for the first nine months.

Pre-tax catastrophe losses for the Remaining Companies were approximately \$17 million in the third quarter, 1995, compared with approximately \$1 million in the third quarter, 1994. For the first nine months, 1995 losses totaled \$26 million compared with \$19 million in the first nine months, 1994. The increase in the third quarter reflects losses related to Hurricanes Erin and Marilyn, while the year-to-date increase reflects the impact of heavier storm activity in the Midwest and the aforementioned hurricanes compared with the Northridge earthquake in California and Northeast winter storms in 1994.

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

(\$ in millions)	Gross Premiums Written	Growth %	Combined Ratio		After-Tax Income	
			1995	1994	1995	1994
Third Quarter						
Coregis	\$ 155	5%	105.0	102.1	\$10	\$ 8
Crum & Forster Insurance	318	29	108.8	105.7	43	20
Industrial Indemnity	73	(21)	104.5	98.2	8	13
Westchester Specialty Group	77	(13)	117.8	106.7	5	8
Nine Months						
Coregis	\$ 322	10%	101.4	105.8	\$30	\$16
Crum & Forster Insurance	870	16	109.1	107.0	77	47
Industrial Indemnity	230	(23)	107.5	106.9	16	27
Westchester Specialty Group	224	(14)	115.1	106.9	17	20

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

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

At Coregis, strong program management disciplines resulted in gross written premium growth of 5 percent for the quarter and 10 percent for nine months as good renewal retentions and expansion in various core programs continued. The combined ratio increased 2.9 points to 105.0 for the quarter, but decreased 4.4 points to 101.4 for nine months. Improved loss experience in 1995 was partially offset by higher operating expenses in the third quarter. Net income increased \$2 million for the quarter and \$14 million for the nine months due to increased production, improved loss experience, and higher net investment income and net realized capital gains. These positive impacts were partially offset by interest expense on debt issued in the fourth quarter of 1994.

Crum & Forster Insurance continued to achieve new business expansion and strong renewal retentions with the company's custom agents as reflected in gross written premium growth of 29 percent for the third quarter and 16 percent for nine months. The combined ratio increased 3.1 points for the quarter to 108.8 and 2.1 points to 109.1 for the nine months primarily due to loss funding on prior years' business. Net income increased \$23 million for the quarter and \$30 million year-to-date reflecting higher net investment income and net realized capital gains, partially offset by interest expense on debt issued in the fourth quarter of 1994.

At Industrial Indemnity gross premium volume declined 21 percent for the quarter and 23 percent for the first nine months due to the continued competitive open rating environment for workers compensation business in California, the company's largest market. The combined ratio was 104.5 for the third quarter, a favorable result, although 6.3 points higher than the prior year period due to the release of loss reserves in 1994. The year-to-date combined ratio was 107.5, or 0.6 point higher than the first nine months of 1994 due to reserve releases. The lower production in California and interest expense on debt issued in the fourth quarter of 1994 contributed to decreases of \$5 million in net income for the quarter and \$11 million for the nine months.

Gross premium volume at Westchester Specialty declined 13 percent for the third quarter and 14 percent for nine months. Continuing the trend of recent quarters, casualty business declined due to market pressure on prices and related exposure reductions, while premiums grew in profitable property business. The company has strengthened its loss funding for casualty business causing the combined ratio to increase 11.1 points for the quarter to 117.8 and 8.2 points for the nine months to 115.1. The effects of higher loss funding and interest expense on debt issued in the fourth quarter of 1994 were largely offset by improved net investment income and net realized capital gains, resulting in a \$3 million decline in net income for the quarter and nine months.

The Resolution Group's combined ratio is not meaningful due to the absence of new and renewal business. In addition, gross premium

volume continues to be insignificant and represents the run-off of discontinued business. Net income was minimal.

Investment income for Talegen Remaining Companies was \$100 million in the third quarter, 1995, compared with \$91 million in the third quarter, 1994. For the first nine months, 1995, investment income was \$297 million compared with \$261 million in the first nine months, 1994. The increase in 1995 investment income primarily reflects a higher level of invested assets and higher yields.

Realized pre-tax capital gains for Talegen Remaining Companies totaled \$33 million in the third quarter, 1995, compared to \$4 million in the third quarter, 1994. For the first nine months, 1995, gains totaled \$46 million compared to \$14 million in the first nine months, 1994. The third quarter, 1995 capital gains included the impact from repositioning the Remaining Companies portfolios.

#### Property and Casualty Operating Trends

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

#### Disengagement From Insurance Business

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

The Company's objective is to continue to obtain value from the Insurance investments. The ultimate value will depend on the success of the operational improvements, timing, the level of interest rates, and the relative values of insurance properties, and a sizable charge to income could occur.

## Talegen Reserves

The methodologies for establishing reserves for unpaid losses and loss expenses and reserves for uncollectible reinsurance are discussed in the Company's Form 10-K. The following table sets forth gross unpaid losses and loss expenses, reinsurance recoverables on unpaid losses and loss expenses and the resultant net unpaid losses and loss expenses for the insurance companies within the Remaining Companies as of September 30, 1995 and December 31, 1994:

### Unpaid Losses and Loss Expenses

(\$ in millions)	September 30, 1995			December 31, 1994		
	Gross Reserves	Recover-ables	Net Reserves	Gross Reserves	Recover-ables	Net Reserves
Coregis	\$1,040	\$ 281	\$ 759	\$ 995	\$271	\$ 724
Crum & Forster Insurance	2,954	788	2,166	2,941	768	2,173
Industrial Indemnity	1,324	180	1,144	1,445	188	1,257
The Resolution Group	1,629	1,002	627	1,680	983	697
Westchester Specialty Group	1,220	485	735	1,225	485	740
Ceded balances to affiliates	(456)	(456)	-	(451)	(451)	-
Total	\$7,711	\$2,280	\$5,431	\$7,835	\$2,244	\$5,591

#### Memo Item:

1) Included in the above reinsurance recoverable balances are recoverables from Ridge Re of \$139 million and \$53 million at September 30, 1995 and December 31, 1994, respectively.

The changes in gross reserves over the nine months ending September 30, 1995 represent reserves established for premiums earned during the nine month period offset by claim and loss expense payments made. Additionally, insurance companies within Crum & Forster Insurance, Westchester Specialty Group and The Resolution Group strengthened gross reserves for development on 1994 and prior accident year claims, by \$48 million, \$45 million and \$34 million, respectively, whereas insurance companies within Coregis and Industrial Indemnity reduced gross reserves by \$20 million and \$5 million, respectively. Of the reserve strengthening amounts, \$26 million, \$31 million and \$29 million, respectively, were ceded to Ridge Re. Cessions to Ridge Re, while beneficial to Talegen, do not result in a benefit to the Insurance Segment or consolidated Xerox accounts.

The Company's Form 10-K discusses the complexity and uncertainty pertaining to claims resulting from asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail losses, and provides a discussion on what Talegen and the insurance operating groups believed to be reasonably possible exposure on known claims in these claim categories as of December 31, 1994. Talegen continues to gather and analyze developing

legal and factual information with regard to claims in these areas and makes adjustments to the reserves in the period that the related uncertainties are clarified. Total reserves for asbestos bodily injury, asbestos-in-building, hazardous waste and other latent or long-tail claims for the insurance companies within the Remaining Companies as of September 30, 1995 and December 31, 1994 are as follows:

Total Reserves (1) by Claim Categories

(\$ in millions)	September 30, 1995		December 31, 1994	
	Gross	Net	Gross	Net
<b>Crum &amp; Forster Insurance</b>				
Asbestos Bodily Injury	\$ 71	\$ 28	\$ 58	\$ 40
Asbestos-in-Building	-	-	-	-
Hazardous Waste	62	46	79	61
Other Latent or Long-Tail Claims	66	44	110	57
<b>Total</b>	<b>\$199</b>	<b>\$118</b>	<b>\$247</b>	<b>\$158</b>
<b>The Resolution Group</b>				
Asbestos Bodily Injury	\$153	\$ 12	\$170	\$ 17
Asbestos-in-Building	19	1	21	2
Hazardous Waste	83	29	101	36
Other Latent or Long-Tail Claims	47	4	48	2
<b>Total</b>	<b>\$302</b>	<b>\$ 46</b>	<b>\$340</b>	<b>\$ 57</b>
<b>Westchester Specialty Group</b>				
Asbestos Bodily Injury	\$ 38	\$ 11	\$ 38	\$ 11
Asbestos-in-Building	45	1	45	1
Hazardous Waste	25	15	34	21
Other Latent or Long-Tail Claims	9	1	9	1
<b>Total</b>	<b>\$117</b>	<b>\$ 28</b>	<b>\$126</b>	<b>\$ 34</b>
<b>Total (1)</b>				
Asbestos Bodily Injury	\$262	\$ 51	\$266	\$ 68
Asbestos-in-Building	64	2	66	3
Hazardous Waste	170	90	214	118
Other Latent or Long-Tail Claims	122	49	167	60
<b>Total</b>	<b>\$618</b>	<b>\$192</b>	<b>\$713</b>	<b>\$249</b>

(1) The total excludes \$2 million of hazardous waste reserves as of September 30, 1995 and December 31, 1994 for Coregis Insurance Company, an insurance company within the Coregis insurance operating group. Hazardous waste exposures for Coregis are not significant primarily because 1986 was the first year significant business volume was written by insurance companies within the Coregis insurance operating group.

The reduction in hazardous waste reserves during the nine months ended September 30, 1995 primarily results from payments on claims and allocated loss adjustment expenses whereas the reduction in other latent or long-tail claim reserves is primarily caused by claims resolved in connection with the March 2, 1995 Monsanto settlement.

## Ridge Re Cessions

Third quarter, 1995, underwriting results include cessions to Ridge Re (a wholly owned subsidiary of XFSI that provides reinsurance coverage to current and former Talegen Insurance Operating Groups) of \$33 million pre-tax (\$22 million after-tax) of adverse loss development related to 1992 and prior accident years. First nine months, 1995, cessions total \$86 million pre-tax (\$56 million after-tax) and were from three of the Talegen insurers (Crum & Forster Insurance - \$17 million, Westchester Specialty Group - \$20 million and The Resolution Group - \$19 million). Cessions to Ridge Re in the first nine months, 1994 totaled \$25 million pre-tax (\$17 million after-tax).

## Interest and Other

Interest and other charges on an after-tax basis were \$48 million in the third quarter, 1995 compared with \$39 million in the third quarter, 1994. First nine months, 1995, interest and other charges totaled \$127 million compared with \$117 million in the first nine months, 1994. The increase includes disengagement related costs, partially offset by declines in net interest expense.

During the third quarter, 1995, the Other Postretirement Benefit accrual related to employees of the Talegen Remaining Companies was reduced by \$3 million after-tax as a result of various amendments made by the insurance operating groups to their retiree medical plans. Through nine months, 1995, the reduction totaled \$22 million after-tax.

In the third quarter and nine months of 1995, after-tax provisions of \$3 million and \$22 million, respectively, were recorded related to disengagement from various Insurance businesses in light of uncertainties surrounding the ultimate values to be obtained from these operations.

## Discontinued Operations

Other Financial Services (OFS), which were discontinued in the fourth quarter of 1993, had no after-tax income in the first nine months of 1995 and 1994. The net investment in OFS was \$171 million and \$232 million at September 30, 1995 and December 31, 1994, respectively. Management currently believes that the liquidation of the remaining OFS units will not result in a net loss.

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

On June 1, 1995, XFSI completed the sale of Xerox Financial Services Life Insurance Company and related companies ("Xerox Life Companies") to a subsidiary of General American Life Insurance Company. After the sale, the Xerox Life Companies names were changed to replace the name "Xerox" in the corporate titles with the name "Cova" ("Cova Companies"). OakRe Life Insurance Company, an XFSI subsidiary formed in 1994, has assumed responsibility for existing Single Premium Deferred Annuity (SPDA) policies issued by Xerox Life's Missouri and California companies via coinsurance agreement ("Coinsurance Agreements"). The Coinsurance Agreements include a provision for the assumption (at their election) by the Cova Companies, of all of the SPDA policies at the end of their current rate reset periods. A Novation Agreement with an affiliate of the new owner provides for the assumption of the liability under the Coinsurance Agreements for any SPDA policies not so assumed by the Cova Companies. Other policyholders (of Immediate, Whole Life, and Variable annuities as well as a minor amount of SPDAs issued by Xerox Life New York) will continue to be the responsibility of the Cova Companies. The sale of Xerox Life Companies is part of the Company's strategy to exit the financial services business and focus on its core document processing business, which was announced in June 1993.

During the first nine months, 1995, sales of real-estate and third-party assets and run-off activity reduced assets associated with these businesses by \$26 million to a total of \$521 million. Assigned debt increased by \$13 million to \$244 million. The debt increase includes a tax payment made in 1995 relating to the 1994 sale of a portion of the Direct Financing Lease portfolio, partially offset by the run-off related reduction of assets. Management believes that the combination of existing reserves together with run-off profits should adequately provide for any credit losses or losses on disposition.

## Liquidity and Capital Structure

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

(In millions)	Funds Generation/(Use)		
	Year-to-Date 1995	September 30, 1994	Better/ (Worse)
<b>Non-Financing:</b>			
Document Processing	\$ (515)	\$ (115)	\$ (400)
Rank Xerox Purchase	(972)	-	(972)
Yen Financing Repayment	-	(116)	116
IOFS-related/other	421	(410)	831
Non-Financing	(1,066)	(641)	(425)
<b>Financing:</b>			
Xerox Equipment Financing	150	(226)	376
Third-Party Financing	(10)	126	(136)
Financing	140	(100)	240
Operations generation(usage)	(926)	(741)	(185)
Shareholder Dividends	(292)	(297)	5
Equity issuance/(redemption) and changes in cash	39	(138)	177
Debt(increase)decrease	\$ (1,179)	\$ (1,176)	\$ (3)

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

(In millions)	Funds Generation/(Use)		
	Year-to-Date 1995	September 30, 1994	Better/ (Worse)
<b>Document Processing</b>			
<b>Non-Financing:</b>			
Income	\$ 534	\$ 314	\$ 220
Depreciation and Amortization	486	476	10
Restructuring Payments	(258)	(295)	37
Capital Expenditures	(295)	(255)	(40)
Assets Sold	46	152	(106)
Working Capital/Other	(1,028)	(507)	(521)
	\$ (515)	\$ (115)	\$ (400)

## Capital Resources

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

### Non-Financing Businesses

Business Equipment funds usage of \$515 million was \$400 million greater than in the first nine months of 1994 as a result of increased profit sharing payments, higher inventory growth, and lower asset sales partially offset by higher income. The lower asset sales reflect third quarter 1994 sales to EDS.

On February 28, 1995, \$972 million was paid to The Rank Organisation Plc whereby Xerox increased its financial interest in Rank Xerox to about 80 percent from 67 percent.

IOFS-related funds generation was \$421 million or \$831 million better than in 1994 reflecting proceeds from sales of Constitution Re, Viking, and Xerox Life and the absence of new debt at Talegen compared with 1994.

### Financing Businesses

Xerox Equipment Financing generated \$150 million of funds during the first nine months of 1995 or \$376 million more than in 1994 resulting from slightly lower penetration rates due to product mix, increased sales in markets which do not participate in our financing programs, and a trend toward rentals in the U.S.

Third Party Financing funds usage was \$10 million during the first nine months of 1995 compared with \$126 million of funds generation in 1994 due to a tax payment related to certain leveraged-lease sales arranged in 1994 and to lower collections on the portfolio consistent with the reduction in the asset base.

### Total Company Debt

Total debt increased by \$1,179 million in the first nine months of 1995. This growth is attributable to the purchase of incremental interest in Rank Xerox, Business Equipment funds usage, and premium payments and related financing payments to Ridge Re partially offset by the proceeds from the sales of Constitution Re and Viking.

Management believes that the Company has adequate short-term credit facilities available to fund its day-to-day operations and readily available access to the capital markets to meet any longer-term financing requirements. The Company's domestic operations have three revolving credit agreements totaling \$5.0 billion, of which \$1.3 billion expires in December 1995 and the

remainder in 1999. In addition, the Company's foreign subsidiaries had unused committed lines of credit aggregating \$1.9 billion in various currencies at prevailing interest rates.

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

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

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

#### Hedging Instruments

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

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

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

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

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under note 12 contained in the "Notes to Consolidated Financial Statements" on pages 10 - 13 of this Quarterly Report, on Form 10-Q, is incorporated by reference in answer to this item.

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

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

Exhibit 12 Computation of Ratio of Earnings to Fixed Charges.

(b) No Current Reports on Form 8-K 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: November 2, 1995

\_\_\_\_\_  
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 September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
<b>I. Primary Net Income Per Common Share</b>				
Net income	\$ 236	\$ 186	\$ 621	\$ 483
Accrued dividends on ESOP preferred stock, net	(11)	(10)	(32)	(31)
Accrued dividends on redeemable preferred stock	-	(2)	(2)	(11)
Call premium on redeemable preferred stock	-	-	-	(11)
Adjusted net income	\$ 225	\$ 174	\$ 587	\$ 430
Average common shares outstanding during the period	107,774	105,683	107,101	105,277
Common shares issuable with respect to common stock equivalents for stock options, incentive and exchangeable shares	3,016	3,079	3,016	3,079
Adjusted average shares outstanding for the period	110,790	108,762	110,117	108,356
Primary earnings per share	\$ 2.03	\$ 1.61	\$ 5.33	\$ 3.97
<b>II. Fully Diluted Net Income Per Common Share</b>				
Net income	\$ 236	\$ 186	\$ 621	\$ 483
Accrued dividends on redeemable preferred stock	-	(2)	(2)	(11)
Call premium on redeemable preferred stock	-	-	-	(11)
ESOP expense adjustment, net of tax	(2)	(2)	(6)	(6)
Interest on convertible debt, net of tax	1	1	2	2
Adjusted net income	\$ 235	\$ 183	\$ 615	\$ 457
Average common shares outstanding during the period	107,774	105,683	107,101	105,277
Stock options, incentive and exchangeable shares	3,256	3,121	3,256	3,121
Convertible debt	881	881	881	881
ESOP preferred stock	9,585	9,792	9,585	9,792
Adjusted average shares outstanding for the period	121,496	119,477	120,823	119,071
Fully diluted earnings per share	\$ 1.93	\$ 1.53	\$ 5.09	\$ 3.84

Xerox Corporation  
Computation of Ratio of Earnings to Fixed Charges  
Nine months ended

(In Millions)	September 30,			Year ended December 31,			
	1995	1994	1994	1993*	1992	1991	1990
Fixed charges:							
Interest expense	\$ 620	\$ 541	\$ 732	\$ 755	\$ 788	\$ 758	\$ 799
Rental expense	134	144	190	201	208	206	191
Total fixed charges before capitalized interest	754	685	922	956	996	964	990
Capitalized interest	-	2	2	5	17	3	-
Total fixed charges	\$ 754	\$ 687	\$ 924	\$ 961	\$1,013	\$ 967	\$ 990
Earnings available for fixed charges:							
Earnings**	\$1,163	\$ 959	\$1,558	\$ (227)	\$ 192	\$ 939	\$1,116
Less undistributed income in minority owned companies	(99)	(58)	(54)	(51)	(52)	(70)	(60)
Add fixed charges before capitalized interest	754	685	922	956	996	964	990
Total earnings available for fixed charges	\$1,818	\$1,586	\$2,426	\$ 678	\$1,136	\$1,833	\$2,046
Ratio of earnings to fixed charges (1)(2)	2.41	2.31	2.63	0.71	1.12	1.90	2.07

(1) The ratio of earnings to fixed charges has been computed based on the Company's continuing operations by dividing total earnings available for fixed charges, excluding capitalized interest, by total fixed charges. Fixed charges consist of interest, including capitalized interest, and one-third of rent expense as representative of the interest portion of rentals. Debt has been assigned to discontinued operations based on the net assets of the discontinued operations and debt to equity ratios that existed at the time the assets were acquired. Management believes that this allocation method is reasonable. 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 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 \$283 million.

\*\* Sum of "Income before Income Taxes, Equity Income and Minorities' Interests" from Document Processing, "Income(loss) before Income Taxes" from Insurance and "Equity in Net Income of Unconsolidated Affiliates".

CT

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

1,000,000

9-MOS	DEC-31-1995	SEP-30-1995
	37,626	37,626
	25	109
		742
37,626		5,081
	13,685	
	621	405
		0
		0
		0
		621
		5.33
		5.09

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1,000,000

9-MOS	DEC-31-1995	SEP-30-1995
		51
	0	
	12,374	
	397	
	2,946	
	9,954	4,785
	2,710	
	20,920	
6,354		9,482
		6,048
	11,851	3,466
	6,384	
	4,273	
	180	
	620	
	1,194	
		462
	697	

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1,000,000

9-MOS	DEC-31-1995	SEP-30-1995
	1,838	0
	0	0
	0	0
	7,148	0
		86
	2,588	
147	13,049	
	7,711	
	845	
	0	
	0	
	388	
	1,497	
	321	
	46	
	16	
	1,261	
281	194	
	(133)	
	(57)	
	(76)	
	8,809	
	0	
	0	
	0	
	0	
	0	
	0	
	0	

DATA NOT AVAILABLE FOR INTERIM REPORTING.