UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(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, 2021

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

For the transition period from to

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

New York	**001-39013**	**83-3933743**
New York	**001-04471**	**16-0468020**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

P.O. Box 4505, 201 Merritt 7
Norwalk, Connecticut 06851-1056
(Address of principal executive offices)

(203) 849-5216
(Registrant's telephone number, including area code)

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

Xerox Holdings Corporation Common Stock, $1 par value	**XRX**	**Nasdaq Global Select Market**
Title of each class	Trading Symbol	Name of each exchange on which registered

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.
Xerox Holdings Corporation Yes ☒ No ☐ **Xerox Corporation** Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Xerox Holdings Corporation Yes ☒ No ☐ **Xerox Corporation** Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Xerox Holdings Corporation		**Xerox Corporation**	
Large accelerated filer	☒	Large accelerated filer	☐
Accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Non-accelerated filer	☒
Smaller reporting company	☐	Smaller reporting company	☐
Emerging growth company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Xerox Holdings Corporation o **Xerox Corporation** o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Xerox Holdings Corporation Yes ☐ No ☒ **Xerox Corporation** Yes ☐ No ☒

Class	**Outstanding at October 31, 2021**
Xerox Holdings Corporation Common Stock, $1 par value	178,512,056 shares

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, and other written or oral statements made from time to time by management contain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will”, “should”, “targeting”, “projecting”, “driving” and similar expressions, as they relate to us, our performance and/or our technology, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: the effects of the COVID-19 pandemic on our and our customers' businesses and the duration and extent to which this will impact our future results of operations and overall financial performance; our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; our ability to attract and retain key personnel; changes in economic and political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; the imposition of new or incremental trade protection measures such as tariffs and import or export restrictions; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that confidential and/or individually identifiable information of ours, our customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems due to cyber attacks or other intentional acts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; the exit of the United Kingdom from the European Union; our ability to manage changes in the printing environment and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; any impacts resulting from the restructuring of our relationship with Fujifilm Holdings Corporation; and the shared services arrangements entered into by us as part of Project Own It. Additional risks that may affect Xerox’s operations are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this combined Quarterly Report on Form 10-Q, Xerox Holdings Corporation’s and Xerox Corporation’s combined Quarterly Reports on Form 10-Q for the quarters ended March 31, 2021 and June 30, 2021, and Xerox Holdings Corporation’s and Xerox Corporation’s combined 2020 Annual Report on Form 10-K, as well as in Xerox Holdings Corporation’s and Xerox Corporation’s Current Reports on Form 8-K filed with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this document or as of the date to which they refer, and we assume no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Throughout this combined Quarterly Report on Form 10-Q (combined Form 10-Q), references to “Xerox Holdings” refer to Xerox Holdings Corporation and its consolidated subsidiaries while references to “Xerox” refer to Xerox Corporation and its consolidated subsidiaries. References herein to “we,” “us,” “our,” the “Company” refer collectively to both Xerox Holdings and Xerox unless the context suggests otherwise. References to “Xerox Holdings Corporation” refer to the stand-alone parent company and do not include its subsidiaries. References to “Xerox Corporation” refer to the stand-alone company and do not include subsidiaries.

Xerox Holdings Corporation's primary direct operating subsidiary is Xerox and therefore Xerox reflects nearly all of Xerox Holdings' operations.

XEROX HOLDINGS CORPORATION
XEROX CORPORATION
FORM 10-Q
September 30, 2021

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For additional information about Xerox Holdings Corporation and Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. The content of our website is not incorporated by reference into this combined Form 10-Q unless expressly noted.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per-share data)	2021	2020	2021	2020
Revenues				
Sales	$ 657	$ 651	$ 1,929	$ 1,676
Services, maintenance and rentals	1,046	1,061	3,166	3,246
Financing	55	55	166	170
Total Revenues	1,758	1,767	5,261	5,092
Costs and Expenses				
Cost of sales	498	476	1,386	1,201
Cost of services, maintenance and rentals	662	611	1,971	1,875
Cost of financing	29	29	85	89
Research, development and engineering expenses	82	76	235	236
Selling, administrative and general expenses	413	444	1,295	1,411
Restructuring and related costs, net	10	20	39	64
Amortization of intangible assets	13	13	42	34
Transaction and related costs, net	—	(6)	—	18
Other expenses, net	(33)	(15)	(28)	15
Total Costs and Expenses	1,674	1,648	5,025	4,943
Income before Income Taxes and Equity Income	84	119	236	149
Income tax (benefit) expense	(4)	29	19	36
Equity in net income of unconsolidated affiliates	1	—	2	2
Net Income	89	90	219	115
Less: Net loss attributable to noncontrolling interests	(1)	—	(1)	—
Net Income Attributable to Xerox Holdings	$ 90	$ 90	$ 220	$ 115
Basic Earnings per Share	$ 0.48	$ 0.41	$ 1.12	$ 0.49
Diluted Earnings per Share	$ 0.48	$ 0.41	$ 1.10	$ 0.49

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2021	2020	2021	2020
Net Income	$ 89	$ 90	$ 219	$ 115
Less: Net loss attributable to noncontrolling interests	(1)	—	(1)	—
Net Income Attributable to Xerox Holdings	90	90	220	115
Other Comprehensive (Loss) Income, Net[1]				
Translation adjustments, net	(125)	179	(122)	7
Unrealized gains (losses), net	4	1	(3)	4
Changes in defined benefit plans, net	51	(92)	122	42
Other Comprehensive (Loss) Income, Net Attributable to Xerox Holdings	(70)	88	(3)	53
Comprehensive Income, Net	19	178	216	168
Less: Comprehensive loss, net attributable to noncontrolling interests	(1)	—	(1)	—
Comprehensive Income, Net Attributable to Xerox Holdings	$ 20	$ 178	$ 217	$ 168

(1) Refer to Note 18 - Other Comprehensive (Loss) Income for gross components of Other comprehensive (loss) income, net, reclassification adjustments out of Accumulated other comprehensive loss and related tax effects.

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents	$ 2,209	$ 2,625
Accounts receivable (net of allowance of $62 and $69, respectively)	891	883
Billed portion of finance receivables (net of allowance of $4 and $4, respectively)	100	99
Finance receivables, net	1,039	1,082
Inventories	788	843
Other current assets	209	251
Total current assets	5,236	5,783
Finance receivables due after one year (net of allowance of $123 and $129, respectively)	1,936	1,984
Equipment on operating leases, net	254	296
Land, buildings and equipment, net	370	407
Intangible assets, net	216	237
Goodwill	4,066	4,071
Deferred tax assets	511	508
Other long-term assets	1,492	1,455
Total Assets	$ 14,081	$ 14,741
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 646	$ 394
Accounts payable	1,032	983
Accrued compensation and benefits costs	262	261
Accrued expenses and other current liabilities	844	840
Total current liabilities	2,784	2,478
Long-term debt	3,673	4,050
Pension and other benefit liabilities	1,381	1,566
Post-retirement medical benefits	333	340
Other long-term liabilities	491	497
Total Liabilities	8,662	8,931
Commitments and Contingencies (See Note 20)		
Noncontrolling Interests (See Note 5)	10	—
Convertible Preferred Stock	214	214
Common stock	182	198
Additional paid-in capital	2,080	2,445
Treasury stock, at cost	(87)	—
Retained earnings	6,348	6,281
Accumulated other comprehensive loss	(3,335)	(3,332)
Xerox Holdings shareholders' equity	5,188	5,592
Noncontrolling interests	7	4
Total Equity	5,195	5,596
Total Liabilities and Equity	$ 14,081	$ 14,741
Shares of common stock issued	182,217	198,386
Treasury stock	(3,731)	—
Shares of Common Stock Outstanding	178,486	198,386

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash Flows from Operating Activities				
Net Income	$ 89	$ 90	$ 219	$ 115
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	79	90	249	272
Provisions	4	23	38	124
Net gain on sales of businesses and assets	(39)	(28)	(40)	(29)
Stock-based compensation	14	8	44	32
Restructuring and asset impairment charges	3	20	28	47
Payments for restructurings	(12)	(11)	(61)	(63)
Defined benefit pension cost	(3)	9	(5)	46
Contributions to defined benefit pension plans	(33)	(33)	(102)	(97)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(67)	(96)	(30)	332
Decrease (increase) in inventories	6	(49)	10	(274)
Increase in equipment on operating leases	(29)	(31)	(92)	(86)
Decrease in finance receivables	21	31	33	221
(Increase) decrease in other current and long-term assets	(2)	17	64	2
Increase (decrease) in accounts payable	107	90	74	(69)
Decrease in accrued compensation	(21)	(20)	(56)	(149)
(Decrease) increase in other current and long-term liabilities	(12)	(16)	80	(146)
Net change in income tax assets and liabilities	(13)	10	(11)	13
Net change in derivative assets and liabilities	1	1	(1)	(1)
Other operating, net	7	1	(10)	23
Net cash provided by operating activities	100	106	431	313
Cash Flows from Investing Activities				
Cost of additions to land, buildings, equipment and software	(19)	(18)	(52)	(60)
Proceeds from sales of businesses and assets	38	27	39	29
Acquisitions, net of cash acquired	(1)	—	(38)	(193)
Other investing, net	—	—	(3)	1
Net cash provided by (used in) investing activities	18	9	(54)	(223)
Cash Flows from Financing Activities				
Net proceeds from short-term debt	1	1	1	1
Proceeds from issuance of long-term debt	311	1,849	311	1,854
Payments on long-term debt	(236)	(773)	(445)	(1,086)
Dividends	(49)	(61)	(157)	(176)
Payments to acquire treasury stock, including fees	(87)	(150)	(500)	(150)
Other financing, net	14	(10)	(3)	(19)
Net cash (used in) provided by financing activities	(46)	856	(793)	424
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(13)	12	(13)	(12)
Increase (decrease) in cash, cash equivalents and restricted cash	59	983	(429)	502
Cash, cash equivalents and restricted cash at beginning of period	2,203	2,314	2,691	2,795
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 2,262	$ 3,297	$ 2,262	$ 3,297

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Revenues				
Sales	$ 657	$ 651	$ 1,929	$ 1,676
Services, maintenance and rentals	1,046	1,061	3,166	3,246
Financing	55	55	166	170
Total Revenues	1,758	1,767	5,261	5,092
Costs and Expenses				
Cost of sales	498	476	1,386	1,201
Cost of services, maintenance and rentals	662	611	1,971	1,875
Cost of financing	29	29	85	89
Research, development and engineering expenses	82	76	235	236
Selling, administrative and general expenses	413	444	1,295	1,411
Restructuring and related costs, net	10	20	39	64
Amortization of intangible assets	13	13	42	34
Transaction and related costs, net	—	(6)	—	18
Other expenses, net	(33)	(15)	(28)	15
Total Costs and Expenses	1,674	1,648	5,025	4,943
Income before Income Taxes and Equity Income	84	119	236	149
Income (benefit) tax expense	(4)	29	19	36
Equity in net income of unconsolidated affiliates	1	—	2	2
Net Income	89	90	219	115
Less: Net loss attributable to noncontrolling interests	(1)	—	(1)	—
Net Income Attributable to Xerox	$ 90	$ 90	$ 220	$ 115

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Net Income	$ 89	$ 90	$ 219	$ 115
Less: Net loss attributable to noncontrolling interests	(1)	—	(1)	—
Net Income Attributable to Xerox	90	90	220	115
Other Comprehensive (Loss) Income, Net[(1)]				
Translation adjustments, net	(125)	179	(122)	7
Unrealized gains (losses), net	4	1	(3)	4
Changes in defined benefit plans, net	51	(92)	122	42
Other Comprehensive (Loss) Income, Net Attributable to Xerox	(70)	88	(3)	53
Comprehensive Income, Net	19	178	216	168
Less: Comprehensive loss, net attributable to noncontrolling interests	(1)	—	(1)	—
Comprehensive Income, Net Attributable to Xerox	$ 20	$ 178	$ 217	$ 168

(1) Refer to Note 18 - Other Comprehensive (Loss) Income for gross components of Other comprehensive (loss) income, net, reclassification adjustments out of Accumulated other comprehensive loss and related tax effects.

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XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions)	September 30, 2021	December 31, 2020
Assets		
Cash and cash equivalents	$ 2,209	$ 2,625
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Finance receivables, net	1,039	1,082
Inventories	788	843
Other current assets	209	251
Total current assets	5,236	5,783
Finance receivables due after one year (net of allowance of $123 and $129, respectively)	1,936	1,984
Equipment on operating leases, net	254	296
Land, buildings and equipment, net	370	407
Intangible assets, net	216	237
Goodwill	4,066	4,071
Deferred tax assets	511	508
Other long-term assets	1,489	1,455
Total Assets	$ 14,078	$ 14,741
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 646	$ 394
Accounts payable	1,032	983
Accrued compensation and benefits costs	262	261
Accrued expenses and other current liabilities	790	750
Total current liabilities	2,730	2,388
Long-term debt	2,179	2,557
Related party debt	1,494	—
Pension and other benefit liabilities	1,381	1,566
Post-retirement medical benefits	333	340
Other long-term liabilities	491	497
Total Liabilities	8,608	7,348
Commitments and Contingencies (See Note 20)		
Noncontrolling Interests (See Note 5)	10	—
Additional paid-in capital	3,509	4,888
Retained earnings	5,279	5,833
Accumulated other comprehensive loss	(3,335)	(3,332)
Xerox shareholder's equity	5,453	7,389
Noncontrolling interests	7	4
Total Equity	5,460	7,393
Total Liabilities and Equity	$ 14,078	$ 14,741

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020
Cash Flows from Operating Activities				
Net Income	$ 89	$ 90	$ 219	$ 115
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	79	90	249	272
Provisions	4	23	38	124
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Stock-based compensation	14	8	44	32
Restructuring and asset impairment charges	3	20	28	47
Payments for restructurings	(12)	(11)	(61)	(63)
Defined benefit pension cost	(3)	9	(5)	46
Contributions to defined benefit pension plans	(33)	(33)	(102)	(97)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(67)	(96)	(30)	332
Decrease (increase) in inventories	6	(49)	10	(274)
Increase in equipment on operating leases	(29)	(31)	(92)	(86)
Decrease in finance receivables	21	31	33	221
(Increase) decrease in other current and long-term assets	(2)	17	64	2
Increase (decrease) in accounts payable	107	90	74	(69)
Decrease in accrued compensation	(21)	(20)	(56)	(149)
(Decrease) increase in other current and long-term liabilities	(12)	(16)	80	(146)
Net change in income tax assets and liabilities	(13)	10	(11)	13
Net change in derivative assets and liabilities	1	1	(1)	(1)
Other operating, net	7	1	(10)	23
Net cash provided by operating activities	100	106	431	313
Cash Flows from Investing Activities				
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Proceeds from sales of businesses and assets	38	27	39	29
Acquisitions, net of cash acquired	(1)	—	(38)	(193)
Other investing, net	—	—	—	1
Net cash provided by (used in) investing activities	18	9	(51)	(223)
Cash Flows from Financing Activities				
Net proceeds from short-term debt	1	1	1	1
Proceeds from issuance of long-term debt	311	342	311	347
Payments on long-term debt	(236)	(762)	(445)	(1,075)
Contributions from parent	—	1,494	—	1,494
Distributions to parent	(132)	(218)	(674)	(343)
Other financing, net	10	(1)	11	—
Net cash (used in) provided by financing activities	(46)	856	(796)	424
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(13)	12	(13)	(12)
Increase (decrease) in cash, cash equivalents and restricted cash	59	983	(429)	502
Cash, cash equivalents and restricted cash at beginning of period	2,203	2,314	2,691	2,795
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 2,262	$ 3,297	$ 2,262	$ 3,297

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

Note 1 – Basis of Presentation

References to “Xerox Holdings” refer to Xerox Holdings Corporation and its consolidated subsidiaries while references to “Xerox” refer to Xerox Corporation and its consolidated subsidiaries. References herein to “we,” “us,” “our,” the “Company” refer collectively to both Xerox Holdings and Xerox unless the context suggests otherwise. References to "Xerox Holdings Corporation" refer to the stand-alone parent company and do not include its subsidiaries. References to "Xerox Corporation" refer to the stand-alone company and do not include its subsidiaries.

The accompanying unaudited Condensed Consolidated Financial Statements and footnotes represent the respective, consolidated results and financial results of Xerox Holdings and Xerox and all respective companies that each registrant directly or indirectly controls, either through majority ownership or otherwise. This is a combined report of Xerox Holdings and Xerox, which includes separate unaudited Condensed Consolidated Financial Statements for each registrant.

The accompanying unaudited Condensed Consolidated Financial Statements of both Xerox Holdings and Xerox have been prepared in accordance with the accounting policies described in the Combined 2020 Annual Report on Form 10-K (2020 Annual Report), except as noted herein, and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in the 2020 Annual Report.

In our opinion, all adjustments necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. These adjustments consist of normal recurring items. Interim results of operations are not necessarily indicative of the results of the full year.

As of September 30, 2021, we are seeing improvement in our financial fundamentals where regions and countries continue to progress in controlling the COVID-19 pandemic and businesses resume investments in new printing technology and increase their level of printing services as compared to the prior year. However, the pandemic continues to have varying and divergent impacts across various regions and countries and a high degree of economic uncertainty still remains. We expect the pandemic's effects will likely continue to impact our financial results over the remainder of the year. Accordingly, many of our estimates and assumptions continue to require an increased level of judgment and may have to change in the future as events continue to evolve and additional information becomes available.

For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income”.

Notes to the Condensed Consolidated Financial Statements reflect the activity for both Xerox Holdings and Xerox for all periods presented, unless otherwise noted.

Transfer of CareAR Holdings LLC to Xerox

In August 2021, in connection with Xerox Holdings Corporation's announcement of the formation of the CareAR software business, the ownership of CareAR Holdings LLC was transferred from Xerox Holdings Corporation to Xerox Corporation. The transfer was accounted for as a transfer of an entity under common control with retrospective adjustment of Xerox's prior period financial statements to reflect the ownership of the business from its acquisition in the fourth quarter 2020. The impact of this retrospective adjustment was not material to Xerox as the acquisition value was $9 and the entity incurred approximately $1 of expenses in 2020.

Goodwill

Interim Impairment Evaluation

We perform our annual Goodwill impairment testing in the fourth quarter of each year. After completing our quantitative impairment review in the fourth quarter 2020, we concluded that Goodwill was not impaired. Based on various forecast models, which we believe reflected the inherent uncertainty of the future at that time, we estimated that the excess of fair value over carrying value ranged between 15% and 20% as of December 31, 2020.

Although business performance was steady in the third quarter 2021, we determined that the continued negative impacts from the COVID-19 pandemic, the impact of supply chain disruptions, as well as a market capitalization that remains less than book value, required us to qualitatively assess whether a triggering event had occurred as of September 30, 2021. Based on our interim assessment as of September 30, 2021, we determined that it was more-likely-than-not that the fair value of the Company was greater than the net book value and that we did not have a "triggering event" requiring a quantitative or Step 1 assessment of Goodwill. Despite indications that our excess fair value is likely reduced as compared to the fourth quarter 2020, the Company's financial results for the nine months ended September 30, 2021 as well as projections for the full year, reviewed as part of our qualitative analysis, are still within the range of our sensitivity analysis performed as part of our 2020 annual impairment assessment.

If assumptions or estimates with respect to the Company's future performance vary from what is expected, including those assumptions relating to the duration and severity of the financial impact from the COVID-19 pandemic and the supply chain disruptions, this may impact the impairment analysis and could reduce the underlying cash flows used to estimate fair values and result in a decline in fair value that may trigger future impairment charges. As previously disclosed, we normally assess Goodwill for impairment during the fourth quarter, and based on an updated evaluation of the impact of the events and factors noted in 2021 – macroeconomic, industry and company – we plan to utilize a quantitative model for the assessment of the recoverability of our Goodwill balance.

Note 2 – Recent Accounting Pronouncements

Xerox Holdings and Xerox consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). The ASUs listed below apply to both registrants. ASUs not listed below were assessed and determined to be not applicable to the Condensed Consolidated Financial Statements of either registrant.

Accounting Standard Updates to be Adopted:

Debt

In August 2020, the FASB issued **ASU 2020-06**, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40).* This update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. This update is effective for our fiscal year beginning January 1, 2022. We do not expect the adoption of this update to have a material impact on the Company's consolidated financial statements and related disclosures.

Reference Rate Reform

In March 2020, the FASB issued **ASU 2020-04**, *Reference Rate Reform (Topic 848), Facilitation of the Effects of Reference Rate Reform on Financial Reporting,* which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (LIBOR) or by another reference rate expected to be discontinued. In January 2021, the FASB issued **ASU 2021-01**, *Reference Rate Reform (Topic 848): Scope*, which provided clarification guidance to ASU 2020-04. These ASUs were effective commencing with our quarter ended March 31, 2020 through December 31, 2022. There has been no impact to date as a result of ASU 2020-04 or ASU 2021-01 and subsequent amendments on reference rate reform. However, we continue to evaluate potential future impacts that may result from the discontinuation of LIBOR or other reference rates as well as the accounting provided in this update on our financial condition, results of operations, and cash flows.

Accounting Standard Updates Adopted in 2021:

Income Taxes

In December 2019, the FASB issued **ASU 2019-12**, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which was intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. We adopted this update effective for our fiscal year beginning January 1, 2021. The adoption did not have, nor is it expected to have, a material impact on our results of operations, financial position or disclosures.

Other Updates

In 2021 and 2020, the FASB also issued the following ASUs, which impact the Company but did not have, or are not expected to have, a material impact on our financial condition, results of operations or cash flows upon adoption. Those updates are as follows:

- ***Investments:*** **ASU 2020-01**, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815).* We adopted this update effective for our fiscal year beginning January 1, 2021.
- ***Equity Instruments:*** **ASU 2021-04**, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40) Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options).* This update is effective for our fiscal year beginning January 1, 2022.
- ***Leases:*** **ASU 2021-05**, *Leases - Certain Lease Payments with Variable Lease Payments (ASC 842).* This update is effective for our fiscal year beginning January 1, 2022.

Note 3 – Revenue

Revenues disaggregated by primary geographic markets, major product lines, and sales channels are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Primary geographical markets[(1)]:				
United States	$ 1,012	$ 1,062	$ 3,001	$ 3,101
Europe	487	480	1,500	1,317
Canada	97	94	294	278
Other	162	131	466	396
Total Revenues	$ 1,758	$ 1,767	$ 5,261	$ 5,092
Major product and services lines:				
Equipment	$ 387	$ 419	$ 1,197	$ 1,054
Supplies, paper and other sales	270	232	732	622
Maintenance agreements[(2)]	447	443	1,330	1,338
Service arrangements[(3)]	493	486	1,490	1,512
Rental and other	106	132	346	396
Financing	55	55	166	170
Total Revenues	$ 1,758	$ 1,767	$ 5,261	$ 5,092
Sales channels:				
Direct equipment lease[(4)]	$ 170	$ 151	$ 506	$ 388
Distributors & resellers[(5)]	283	245	826	604
Customer direct	204	255	597	684
Total Sales	$ 657	$ 651	$ 1,929	$ 1,676

(1) Geographic area data is based upon the location of the subsidiary reporting the revenue.
(2) Includes revenues from maintenance agreements on sold equipment as well as revenues associated with service agreements sold through our channel partners as Xerox Partner Print Services (XPPS).
(3) Primarily includes revenues from our Managed Services offerings. Also includes revenues from embedded operating leases, which were not significant.
(4) Primarily reflects sales through bundled lease arrangements.
(5) Primarily reflects sales through our two-tier distribution channels.

Contract Assets and Liabilities: We normally do not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Our contract liabilities, which represent billings in excess of revenue recognized, are primarily related to advance billings for maintenance and other services to be performed and were approximately $135 and $130 at September 30, 2021 and December 31, 2020, respectively. The majority of the balance at September 30, 2021 is expected to be amortized to revenue over approximately the next 30 months.

Contract Costs: Incremental direct costs of obtaining a contract primarily include sales commissions paid to sales people and agents in connection with the placement of equipment with associated post sale services arrangements. These costs are deferred and amortized on the straight-line basis over the estimated contract term, which is currently estimated to be approximately four years. We pay commensurate sales commissions upon customer renewals, therefore our amortization period is aligned to our initial contract term.

Incremental direct costs are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Incremental direct costs of obtaining a contract	$ 14	$ 15	$ 44	$ 43
Amortization of incremental direct costs	18	19	55	60

The balance of deferred incremental direct costs net of accumulated amortization at September 30, 2021 and December 31, 2020 was $133 and $145, respectively. This amount is expected to be amortized over its estimated period of benefit, which we currently estimate to be approximately four years.

We may also incur costs associated with our services arrangements to generate or enhance resources and assets that will be used to satisfy our future performance obligations included in these arrangements. These costs are considered contract fulfillment costs and are amortized over the contractual service period of the arrangement to cost of services. In addition, we provide inducements to certain customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. As of September 30, 2021 and December 31, 2020, amounts deferred associated with contract fulfillment costs and inducements were $16 and $13, respectively. The related amortization was $2 and $1 for the three months ended September 30, 2021 and 2020, respectively, and $5 and $3 for the nine months ended September 30, 2021 and 2020, respectively.

Equipment and software used in the fulfillment of service arrangements, and where the Company retains control, are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Note 4 – Lessor

Revenue from sales-type leases is presented on a gross basis when the Company enters into a lease to realize value from a product that it would otherwise sell in its ordinary course of business, whereas in transactions where the Company enters into a lease for the purpose of generating revenue by providing financing, the profit or loss, if any, is presented on a net basis. In addition, we have elected to account for sales tax and other similar taxes collected from a lessee as lessee costs and therefore we exclude these costs from contract consideration and variable consideration and present revenue net of these costs.

The components of lease income are as follows:

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Location in Statements of Income	2021	2020	2021	2020
Revenue from sales type leases	Sales	$ 170	$ 151	$ 506	$ 388
Interest income on lease receivables	Financing	55	55	166	170
Lease income - operating leases	Services, maintenance and rentals	54	77	172	242
Variable lease income	Services, maintenance and rentals	15	15	46	51
Total Lease income		$ 294	$ 298	$ 890	$ 851

Profit at lease commencement on sales-type leases was estimated to be $51 and $52 for the three months ended September 30, 2021 and 2020, respectively, and $152 and $138 for the nine months ended September 30, 2021 and 2020, respectively.

Note 5 – Acquisitions and Investments

Acquisition

In 2021, Xerox continued its strategy of focusing on further penetrating the small-to-medium sized business (SMB) market through acquisitions of local area resellers and partners (including multi-brand dealers). During the second quarter of 2021, we acquired businesses associated with this initiative, which totaled $37, net of cash acquired, and included an office equipment dealer in Canada for approximately $30 and a document solutions provider in the U.S. for approximately $7.

The operating results of these acquisitions are not material to our financial statements and are included within our results from the acquisition date. The purchase prices were all cash for 100% ownership of the acquired companies and were primarily allocated to Intangible assets, net (approximately $21) and Goodwill (approximately $18), with the remainder to tangible assets and assumed/recorded liabilities. The allocations are based on preliminary management estimates, which continue to be reviewed, and are expected to be finalized by the end of 2021 and may include input and support from third-party valuations. Any adjustments to the preliminary allocations are not expected to be material.

Joint Venture Formation

In May 2021, Xerox and the Victorian Government (AU) (VicGov) announced that they have partnered to launch Eloque, a venture to commercialize new technology that will remotely monitor the structural health of critical infrastructure assets, such as road and railway bridges. Under the terms of the agreement, Xerox contributed approximately $5 in cash, along with technology and intellectual property for a controlling interest in the entity, whereas VicGov contributed approximately $5 in cash, along with technology and intellectual property for a noncontrolling interest in the entity. As a result of Xerox's controlling interest in the newly formed entity, beginning with the second quarter 2021, Xerox consolidated the new entity and the VicGov investment was reported as a noncontrolling interest. The revenues and expenses of the new entity post formation did not materially impact the Company's reported results for the three and nine months ended September 30, 2021.

ServiceNow Inc. Investment in CareAR

In August 2021, in connection with Xerox Holdings Corporation's announcement of the formation of the CareAR software business, ServiceNow, Inc. acquired a noncontrolling interest in CareAR Holdings LLC for $10. CareAR Holdings LLC is a direct operating subsidiary of Xerox Corporation and includes Xerox's XMPie, Inc., DocuShare LLC and CareAR, Inc. business units. ServiceNow's investment includes a fair value redemption right, which is contingent on the non-occurrence of a future liquidity event (e.g., sale, public offering, spin-off, etc.) within 6 years of the closing of the investment. As a result of this contingent redemption right, we classified ServiceNow's noncontrolling interest in CareAR Holdings LLC as temporary equity within Xerox's Condensed Consolidated Balance Sheet.

Note 6 – Supplementary Financial Information

Cash, Cash Equivalents and Restricted Cash

Cash, cash equivalents and restricted cash amounts were as follows:

	September 30, 2021	December 31, 2020
Cash and cash equivalents	$ 2,209	$ 2,625
Restricted cash		
Litigation deposits in Brazil	36	42
Escrow and cash collections related to secured borrowing arrangements[(1)]	17	22
Other restricted cash	—	2
Total Restricted cash	53	66
Cash, cash equivalents and restricted cash	$ 2,262	$ 2,691

(1) Represents collections on finance receivables pledged for secured borrowings that will be remitted to lenders in the following month.

Restricted cash primarily relates to escrow cash deposits made in Brazil associated with ongoing litigation as well as cash collections on finance receivables that were pledged for secured borrowings. As more fully discussed in Note 20 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. Restricted cash amounts are classified in our Condensed Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

Restricted cash was reported in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2021	December 31, 2020
Other current assets	$ 17	$ 23
Other long-term assets	36	43
Total Restricted cash	$ 53	$ 66

Supplemental Cash Flow Information

Summarized cash flow information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Provision for receivables	$ (2)	$ 17	$ 13	$ 104
Provision for inventory	6	6	25	20
Provision for product warranty	2	3	6	6
Depreciation of buildings and equipment	19	21	57	64
Depreciation and obsolescence of equipment on operating leases	37	45	120	142
Amortization of internal use software	10	11	30	32
Amortization of acquired intangible assets	13	13	42	34
Amortization of customer contract costs[(1)]	20	20	60	63
Cost of additions to land, buildings and equipment	9	9	21	36
Cost of additions to internal use software	10	9	31	24
Common stock dividends - Xerox Holdings Corporation	45	57	146	165
Preferred stock dividends - Xerox Holdings Corporation	4	4	11	11
Repurchases related to stock-based compensation - Xerox Holdings Corporation	—	9	14	19

(1) *Amortization of customer contract costs is reported in* (Increase) decrease in other current and long-term assets *in the Condensed Consolidated Statements of Cash Flows. Refer to Note 3 - Revenue - Contract Costs for additional information.*

Fuji Xerox Technology Agreement (TA)

As previously disclosed, our TA with Fuji Xerox (now known as FUJIFILM Business Innovation Corp.) expired on March 31, 2021. The TA included a provision that allowed Fuji Xerox continued use of the Xerox brand trademark for two years after the date of termination of the TA as it transitions to a new brand in exchange for an upfront prepaid fixed royalty of $100. Fuji Xerox elected to continue its use of the Xerox brand trademark over the two year period and, therefore, in April 2021, made the $100 upfront payment due under the TA, which is included in Operating cash flows for the nine months ended September 30, 2021.

We expect to recognize the revenue associated with this extended brand license ratably over the two year transition period. Accordingly, any potential entry by Xerox for Xerographic products into the Fuji Xerox territory under the Xerox brand will be deferred to at least April 1, 2023. The product supply agreements with Fuji Xerox will continue to be effective despite the termination of the TA, and Fuji Xerox and Xerox will continue to operate as each other’s product supplier under existing or new purchase/supply agreements.

Note 7 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	September 30, 2021	December 31, 2020
Invoiced	$ 717	$ 735
Accrued[(1)]	236	217
Allowance for doubtful accounts	(62)	(69)
Accounts receivable, net	$ 891	$ 883

(1) *Accrued receivables include amounts to be invoiced in the subsequent quarter for current services provided.*

The allowance for doubtful accounts was as follows:

	2021	2020
Balance at January 1st	$ 69	$ 55
Provision	4	8
Charge-offs	(5)	(2)
Recoveries and other[(1)]	—	(1)
Balance at March 31st	$ 68	$ 60
Provision	1	9
Charge-offs	(2)	(8)
Recoveries and other[(1)]	1	(1)
Balance at June 30th	$ 68	$ 60
Provision	—	7
Charge-offs	(5)	(6)
Recoveries and other[(1)]	(1)	2
Balance at September 30th	$ 62	$ 63

(1) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. The allowance for uncollectible accounts receivable is determined based on an assessment of past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. Based on that assessment the allowance for doubtful accounts as a percent of gross accounts receivable was 6.5% at September 30, 2021 and 7.2% at December 31, 2020. The allowance for doubtful accounts as a percent of gross accounts receivable remains at an elevated level as compared to historical levels primarily as a result of the macroeconomic and market disruption caused by COVID-19.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days. We have one facility in Europe that enables us to sell accounts receivable associated with our distributor network on an ongoing basis, without recourse. Under this arrangement, we sell our entire interest in the related accounts receivable for cash and no portion of the payment is held back or deferred by the purchaser.

Of the accounts receivable sold and derecognized from our balance sheet, $88 and $136 remained uncollected as of September 30, 2021 and December 31, 2020, respectively.

Accounts receivable sales activity was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Accounts receivable sales[(1)]	$ 127	$ 115	$ 359	$ 182

(1) Losses on sales were not material. Customers may also enter into structured-payable arrangements that require us to sell our receivables from that customer to a third-party financial institution, which then makes payments to us to settle the customer's receivable. In these instances, we ensure the sale of the receivables are bankruptcy-remote and the payment made to us is without recourse. The activity associated with these arrangements is not reflected in this disclosure, as payments under these arrangements have not been material and these are customer directed arrangements.

Note 8 - Finance Receivables, Net

Finance receivables include sales-type leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets.

Finance receivables, net were as follows:

	September 30, 2021	December 31, 2020
Gross receivables	$ 3,585	$ 3,691
Unearned income	(383)	(393)
Subtotal	3,202	3,298
Residual values	—	—
Allowance for doubtful accounts	(127)	(133)
Finance receivables, net	3,075	3,165
Less: Billed portion of finance receivables, net	100	99
Less: Current portion of finance receivables not billed, net	1,039	1,082
Finance receivables due after one year, net	$ 1,936	$ 1,984

Finance Receivables – Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and EMEA. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Customer credit limits are based upon an initial evaluation of the customer's credit quality and we adjust that limit accordingly based upon ongoing credit assessments of the customer, including payment history and changes in credit quality.

The allowance for credit losses is principally determined based on an assessment of origination year and past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. Based on that assessment, the allowance for doubtful credit losses as a percentage of gross finance receivables (net of unearned income) was 4.0% at September 30, 2021 and 4.0% at December 31, 2020. In determining the level of reserve required, we had to critically assess current and forecasted economic conditions in light of the COVID-19 pandemic to ensure we objectively included those expected impacts in the determination of our reserve. Our assessment also included a review of current portfolio credit metrics and the level of write-offs incurred over the past year of the COVID-19 pandemic.

The allowance for doubtful accounts and provision for credit losses represent estimates of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine the allowance for credit losses. These projected loss rates are primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current and future economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups.

The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. We believe our estimates, including any qualitative adjustments, are reasonable and have considered all reasonably available information about past events, current conditions, and reasonable and supportable forecasts of future events and economic conditions. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Our allowance for doubtful finance receivables is effectively determined by geography. The risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of the countries/regions included in those geographies. Since EMEA is comprised of various countries and regional economies, the risk profile within that portfolio segment is somewhat more diversified due to the varying economic conditions among and within the countries.

The bad debt provision of $(4) in the third quarter 2021 included a reserve reduction of approximately $14 reflecting improvements in the macroeconomic environment as well as lower write-offs. Actual write-offs incurred to date have lagged expectations but remain in line with our original projections over the life of the lease portfolio and are consistent with future expectations regarding our estimated impacts from the COVID-19 pandemic. Despite improvement in the global economy, local economies continue to recover from the impacts of the COVID-19 pandemic including the cessation of government support as well as labor, interest rate and inflation risks and the potential for higher taxes. As a result of these uncertainties, we continue to consider various adverse macroeconomic scenarios in our models. Accordingly, our reserves as a percent of receivables have remained fairly consistent subsequent to the first quarter 2020 when we recorded a charge of approximately $60 to initially record expected losses from the COVID-19 pandemic. We continue to monitor developments regarding the pandemic, including business reopenings and mitigating government support actions as well as future economic conditions, and as a result, our reserves may need to be updated in future periods.

The allowance for doubtful accounts as well as the related investment in finance receivables were as follows:

	United States	Canada	EMEA(1)	Total
Balance at December 31, 2020	$ 77	$ 15	$ 41	$ 133
Provision	2	1	3	6
Charge-offs	(2)	—	(1)	(3)
Recoveries and other(2)	1	—	(2)	(1)
Balance at March 31, 2021	$ 78	$ 16	$ 41	$ 135
Provision	6	(1)	(3)	2
Charge-offs	(3)	(1)	(1)	(5)
Recoveries and other(2)	—	1	—	1
Balance at June 30, 2021	$ 81	$ 15	$ 37	$ 133
Provision	—	(3)	(1)	(4)
Charge-offs	(1)	(1)	—	(2)
Recoveries and other(2)	—	—	—	—
Balance at September 30, 2021	$ 80	$ 11	$ 36	$ 127
Finance receivables as of September 30, 2021 collectively evaluated for impairment (3)	$ 1,866	$ 262	$ 1,074	$ 3,202
Balance at December 31, 2019	$ 59	$ 10	$ 20	$ 89
Provision	35	6	25	66
Charge-offs	(3)	(1)	(4)	(8)
Recoveries and other(2)	—	—	(1)	(1)
Balance at March 31, 2020	$ 91	$ 15	$ 40	$ 146
Provision	3	1	—	4
Charge-offs	(5)	(1)	(2)	(8)
Recoveries and other(2)	—	1	—	1
Balance at June 30, 2020	$ 89	$ 16	$ 38	$ 143
Provision	6	—	3	9
Charge-offs	(6)	(2)	(5)	(13)
Recoveries and other(2)	—	1	2	3
Balance at September 30, 2020	$ 89	$ 15	$ 38	$ 142
Finance receivables as of September 30, 2020 collectively evaluated for impairment(3)	$ 1,819	$ 284	$ 1,115	$ 3,218

(1) Includes developing market countries.
(2) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.
(3) Total Finance receivables exclude the allowance for credit losses of $127 and $142 at September 30, 2021 and 2020, respectively.

In the U.S., customers are further evaluated by class based on the type of lease origination. The primary categories are direct, which primarily includes leases originated directly with end customers through bundled lease arrangements, and indirect, which primarily includes leases originated through our XBS sales channel that utilizes a combination of internal and third-party leasing in its lease arrangements with end customers. Indirect also includes lease financing to end-user customers who purchased equipment we sold to distributors or resellers.

We evaluate our customers based on the following credit quality indicators:

- **Low Credit Risk:** This rating includes accounts with excellent to good business credit, asset quality and capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poor's (S&P) rating of BBB- or better. Loss rates in this category in the normal course are generally less than 1%.
- **Average Credit Risk:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category in the normal course are generally in the range of 2% to 5%.
- **High Credit Risk:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from low and average credit risk evaluation when the lease was originated. Accordingly, there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category in the normal course are generally in the range of 7% to 10%.

Credit quality indicators are updated at least annually, or more frequently to the extent required by economic conditions, and the credit quality of any given customer can change during the life of the portfolio.

Details about our finance receivables portfolio based on geography, origination year and credit quality indicators are as follows:

	September 30, 2021						
	2021	2020	2019	2018	2017	Prior	Total Finance Receivables
United States (Direct)							
Low Credit Risk	$ 125	$ 130	$ 112	$ 81	$ 31	$ 6	$ 485
Average Credit Risk	53	44	66	30	12	3	208
High Credit Risk	65	75	33	16	7	2	198
Total	$ 243	$ 249	$ 211	$ 127	$ 50	$ 11	$ 891
United States (Indirect)							
Low Credit Risk	$ 182	$ 155	$ 108	$ 47	$ 14	$ 1	$ 507
Average Credit Risk	158	108	83	43	15	1	408
High Credit Risk	28	16	9	5	2	—	60
Total	$ 368	$ 279	$ 200	$ 95	$ 31	$ 2	$ 975
Canada							
Low Credit Risk	$ 26	$ 29	$ 24	$ 16	$ 5	$ 1	$ 101
Average Credit Risk	28	37	30	17	9	1	122
High Credit Risk	6	14	8	6	4	1	39
Total	$ 60	$ 80	$ 62	$ 39	$ 18	$ 3	$ 262
EMEA[(1)]							
Low Credit Risk	$ 166	$ 154	$ 128	$ 85	$ 30	$ 9	$ 572
Average Credit Risk	125	123	109	62	22	4	445
High Credit Risk	13	17	14	8	4	1	57
Total	$ 304	$ 294	$ 251	$ 155	$ 56	$ 14	$ 1,074
Total Finance Receivables							
Low Credit Risk	$ 499	$ 468	$ 372	$ 229	$ 80	$ 17	$ 1,665
Average Credit Risk	364	312	288	152	58	9	1,183
High Credit Risk	112	122	64	35	17	4	354
Total	$ 975	$ 902	$ 724	$ 416	$ 155	$ 30	$ 3,202

	December 31, 2020													
	2020		2019		2018		2017		2016		Prior		Total Finance Receivables	
United States (Direct)														
Low Credit Risk	$	164	$	151	$	128	$	71	$	32	$	4	$	550
Average Credit Risk		54		95		52		26		8		2		237
High Credit Risk		90		42		27		13		5		3		180
Total	$	308	$	288	$	207	$	110	$	45	$	9	$	967
United States (Indirect)														
Low Credit Risk	$	193	$	140	$	79	$	33	$	7	$	—	$	452
Average Credit Risk		129		124		71		31		8		—		363
High Credit Risk		19		9		9		3		1		—		41
Total	$	341	$	273	$	159	$	67	$	16	$	—	$	856
Canada														
Low Credit Risk	$	37	$	34	$	24	$	10	$	5	$	1	$	111
Average Credit Risk		46		39		26		17		6		1		135
High Credit Risk		18		10		10		10		3		—		51
Total	$	101	$	83	$	60	$	37	$	14	$	2	$	297
EMEA[(1)]														
Low Credit Risk	$	197	$	177	$	131	$	62	$	20	$	4	$	591
Average Credit Risk		170		160		108		51		17		4		510
High Credit Risk		23		24		15		10		4		1		77
Total	$	390	$	361	$	254	$	123	$	41	$	9	$	1,178
Total Finance Receivables														
Low Credit Risk	$	591	$	502	$	362	$	176	$	64	$	9	$	1,704
Average Credit Risk		399		418		257		125		39		7		1,245
High Credit Risk		150		85		61		36		13		4		349
Total	$	1,140	$	1,005	$	680	$	337	$	116	$	20	$	3,298

(1) Includes developing market countries.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured.

The aging of our billed finance receivables is as follows:

	September 30, 2021						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Direct	$ 32	$ 6	$ 7	$ 45	$ 846	$ 891	$ 54
Indirect	25	6	4	35	940	975	—
Total United States	57	12	11	80	1,786	1,866	54
Canada	6	2	1	9	253	262	11
EMEA[(1)]	11	2	2	15	1,059	1,074	17
Total	$ 74	$ 16	$ 14	$ 104	$ 3,098	$ 3,202	$ 82

	December 31, 2020						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Direct	$ 33	$ 6	$ 9	$ 48	$ 919	$ 967	$ 74
Indirect	21	4	3	28	828	856	—
Total United States	54	10	12	76	1,747	1,823	74
Canada	8	2	—	10	287	297	12
EMEA[(1)]	12	3	2	17	1,161	1,178	23
Total	$ 74	$ 15	$ 14	$ 103	$ 3,195	$ 3,298	$ 109

(1) Includes developing market countries

Secured Borrowings and Collateral

In September 2021, we sold $331 of U.S. based finance receivables to a consolidated special purpose entity (SPE), which, at September 30, 2021, are included in our Condensed Consolidated Balance Sheet as collateral for a secured loan.

In December 2020, we sold $610 of U.S. based finance receivables to a consolidated SPE. As of September 30, 2021 the SPE holds $432 of total Finance receivables, net, which are included in our Condensed Consolidated Balance Sheet as collateral for a secured loan.

Refer to Note 12 - Debt, for additional information related to these arrangements.

Note 9 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	September 30, 2021	December 31, 2020
Finished goods	$ 652	$ 707
Work-in-process	43	43
Raw materials	93	93
Total Inventories	$ 788	$ 843

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Condensed Consolidated Statements of Cash Flows in the operating activities section. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term.

Equipment on operating leases and the related accumulated depreciation were as follows:

	September 30, 2021	December 31, 2020
Equipment on operating leases	$ 1,279	$ 1,376
Accumulated depreciation	(1,025)	(1,080)
Equipment on operating leases, net	$ 254	$ 296

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, were $15 and $15 for the three months ended September 30, 2021 and 2020, respectively and $46 and $51 for the nine months ended September 30, 2021 and 2020, respectively.

Secured Borrowings and Collateral

In September 2021, we sold the rights to payments under operating leases with an equipment net book value of $9 to a consolidated SPE, which are included in our Condensed Consolidated Balance Sheet as collateral for a secured loan.

Refer to Note 12 - Debt, for additional information related to this arrangement.

Note 10 – Lessee

Operating Leases

We have operating leases for real estate and vehicles in our domestic and international operations and for certain equipment in our domestic operations. Additionally, we have identified embedded operating leases within certain supply chain contracts for warehouses, primarily within our domestic operations. Our leases have remaining terms of up to eleven years and a variety of renewal and/or termination options.

The components of lease expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Operating lease expense	$ 25	$ 29	$ 79	$ 85
Short-term lease expense	5	5	16	15
Variable lease expense[(1)]	12	12	35	34
Sublease income	(1)	(1)	(3)	(2)
Total Lease expense	$ 41	$ 45	$ 127	$ 132

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(1) Variable lease expense is related to our leased real estate for offices and warehouses and primarily includes labor and operational costs as well as taxes and insurance.

Operating lease ROU assets, net and operating lease liabilities were reported in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2021	December 31, 2020
Other long-term assets	$ 269	$ 310
Accrued expenses and other current liabilities	$ 79	$ 83
Other long-term liabilities	211	250
Total Operating lease liabilities	$ 290	$ 333

Note 11 – Restructuring Programs

We engage in restructuring actions through Project Own It as well as other transformation efforts in order to reduce our cost structure and realign it to the changing nature of our business. As part of our efforts to reduce costs, our restructuring actions may also include the off-shoring and/or outsourcing of certain operations, services and other functions, as well as reducing our real estate footprint.

During the nine months ended September 30, 2021, we recorded net restructuring and asset impairment charges of $28, which included $25 of severance costs related to headcount reductions of approximately 435 employees worldwide, $3 of other contractual termination costs and $12 of asset impairment charges. These costs were partially offset by $12 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives.

Information related to restructuring program activity is outlined below:

	Severance and Related Costs	Other Contractual Termination Costs[2]	Asset Impairments[3]	Total
Balance at December 31, 2020	$ 78	$ 4	$ —	$ 82
Provision	14	1	10	25
Reversals	(4)	—	—	(4)
Net current period charges[1]	10	1	10	21
Charges against reserve and currency	(29)	(1)	(10)	(40)
Balance at March 31, 2021	$ 59	$ 4	$ —	$ 63
Provision	6	1	2	9
Reversals	(3)	(1)	(1)	(5)
Net current period charges[1]	3	—	1	4
Charges against reserve and currency	(20)	(1)	(1)	(22)
Balance at June 30, 2021	$ 42	$ 3	$ —	$ 45
Provision	5	1	—	6
Reversals	(3)	—	—	(3)
Net current period charges[1]	2	1	—	3
Charges against reserve and currency	(11)	(1)	—	(12)
Balance at September 30, 2021	$ 33	$ 3	$ —	$ 36

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(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown for restructuring and asset impairment charges.
(2) Primarily includes additional costs incurred upon the exit from our facilities including decommissioning costs and associated contractual termination costs.
(3) Primarily relates to the exit and abandonment of leased and owned facilities. The charges include the accelerated write-off of $3 for leased ROU assets and $9 for owned assets upon exit from the facilities, net of any potential sublease income and other recoveries, including potential sales.

The following table summarizes the reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Charges against reserve and currency	$ (12)	$ (13)	$ (74)	$ (61)
Effects of foreign currency and other non-cash items	—	2	13	(2)
Restructuring cash payments	$ (12)	$ (11)	$ (61)	$ (63)

In connection with our restructuring programs, we also incurred certain related costs as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Retention related severance/bonuses[1]	$ 7	$ (2)	$ 6	$ 9
Contractual severance costs	—	—	3	4
Consulting and other costs[2]	—	2	2	4
Total	$ 7	$ —	$ 11	$ 17

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(1) Includes retention related severance and bonuses for employees expected to continue working beyond their minimum notification period before termination. The credit for the nine months ended September 30, 2021 reflects a change in estimate.
(2) Represents professional support services associated with our business transformation initiatives.

Cash paid for restructuring related costs were approximately $3 and $15 for the three months ended September 30, 2021 and 2020, respectively, and $9 and $23 for the nine months ended September 30, 2021 and 2020, respectively. The restructuring related costs reserve was $22 and $21 at September 30, 2021 and December 31, 2020, respectively. The balance at September 30, 2021 is expected to be paid over the next twelve months.

Note 12 – Debt

Xerox Holdings Corporation / Xerox Corporation Intercompany Loan

In August 2020, Xerox Holdings Corporation issued $550 of 5.00% Senior Notes due August 2025 (the "2025 Senior Notes") at par and $550 of 5.50% Senior Notes due August 2028 (the "2028 Senior Notes") at par resulting in aggregate net proceeds (after fees and expenses) of approximately $1,089. On August 24, 2020, Xerox Holdings Corporation issued an additional $200 of the 2025 Senior Notes at 100.75% of par and an additional $200 of the 2028 Senior Notes at 102.50% of par resulting in additional aggregate net proceeds (after premium, fees and expenses) of approximately $405 for total aggregate net proceeds from both issuances of approximately $1,494. In 2020, the net debt proceeds were contributed by Xerox Holdings Corporation to Xerox Corporation and recorded as Additional paid-in capital by Xerox Corporation.

In February 2021, Xerox Holdings Corporation and Xerox Corporation entered into an Intercompany Loan agreement for the net proceeds of $1,494 contributed by Xerox Holdings Corporation to Xerox Corporation in 2020. The intercompany loan, which did not involve the exchange of cash in the current period, resulted in capitalization of the amount as Related Party Debt for Xerox Corporation. The amount was originally recorded as Additional paid-in capital in 2020 when the cash was contributed by Xerox Holdings Corporation.

The intercompany loan was established to mirror the terms included in Xerox Holdings Corporation’s 2025 and 2028 Senior Notes, including interest rates and payment dates. The intercompany interest expense also includes a ratable amount to reimburse Xerox Holdings Corporation for its debt issuance costs and premium.

At September 30, 2021, the balance of the Intercompany Loan reported in Xerox Corporation’s Condensed Consolidated Balance Sheet was $1,494, which is net of related debt issuance costs, and the intercompany interest payable was $10. Xerox Corporation’s interest expense included interest expense associated with this Intercompany Loan of $21 and $11 for the three months ended September 30, 2021 and 2020, respectively, and $60 and $11 for the nine months ended September 30, 2021 and 2020, respectively.

Secured Borrowings and Collateral

In September 2021, we entered into a secured loan agreement with a financial institution where we sold $331 of U.S. based finance receivables and the rights to payments under operating leases with an equipment net book value of $9 to a special purpose entity (SPE). The purchase by the SPE was funded through a $311 amortizing secured loan to the SPE from the financial institution. The secured loan was an amendment of the July 2020 secured borrowing with the same financial institution, which had a remaining balance of $136, and we received the incremental net cash. The transaction was accounted for as an extinguishment of debt and the issuance of new debt and associated collateral. The new loan has a variable interest rate based on LIBOR plus a spread (current rate of 1.40% at September 30, 2021) and an expected life of approximately 2.5 years with half projected to be repaid in the first year based on collections of the underlying portfolio of receivables. In October 2021, we entered into an interest rate hedge agreement to cap LIBOR over the life of the loan.

In December 2020, we entered into a secured loan agreement with a financial institution where we sold $610 of U.S. based finance receivables to an SPE. The purchase by the SPE was funded through an amortizing secured loan to the SPE from the financial institution of $500. The debt has a variable interest rate based on the financial institution's cost of funds plus a spread (current rate of 1.66% at September 30, 2021).

The sales of the receivables to the SPEs were structured as "true sales at law," and we have received opinions to that effect from outside legal counsel. However, the transactions were accounted for as secured borrowings as we consolidate the SPEs since we have both the power to direct the activities that most significantly impact the SPEs' economic performance through our role as servicer of all the receivables held by the SPEs, and the obligation through variable interests in the SPEs to absorb losses or receive benefits that could potentially be significant to the SPEs. As a result, the assets of the SPEs are not available to satisfy any of our other obligations. Conversely, the credit holders of these SPEs do not have legal recourse to the Company's general credit.

Below are the assets and liabilities held by the consolidated SPEs, which are included in our Condensed Consolidated Balance Sheets.

	September 30, 2021	December 31, 2020
Assets held by SPEs		
Billed portion of finance receivables, net	$ 15	$ 28
Finance receivables, net	320	350
Finance receivables due after one year, net	428	510
Equipment on operating leases, net	9	8
Restricted cash[(1)]	17	22
Total Assets	$ 789	$ 918
Liabilities held by SPEs		
Current portion of long-term debt, net[(2)]	$ 346	$ 394
Long term debt, net[(2)]	287	370
Total Liabilities	$ 633	$ 764

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(1) Restricted cash is included in Other current assets in our Condensed Consolidated Balance Sheet.
(2) Net of debt issuance costs of $2.

Interest Expense and Income

Interest expense and income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Interest expense[(1)(2)]	$ 52	$ 59	$ 156	$ 158
Interest income[(3)]	56	56	169	182

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(1) Includes Cost of financing as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.
(2) Interest expense of Xerox Corporation included intercompany interest expense associated with the Xerox Holdings Corporation / Xerox Corporation Intercompany Loan of $21 and $11 for the three months ended September 30, 2021 and 2020, respectively, and $60 and $11 for the nine months ended September 30, 2021 and 2020, respectively.
(3) Includes Financing revenue as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

Note 13 – Financial Instruments

Interest Rate Risk Management

We use interest rate swap and interest rate cap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged. At September 30, 2021, there were no interest rate derivative contracts outstanding.

Foreign Exchange Risk Management

We are a global company and we are exposed to foreign currency exchange rate fluctuations in the normal course of our business. As a part of our foreign exchange risk management strategy, we use derivative instruments, primarily forward contracts and purchased option contracts, to hedge the following foreign currency exposures, thereby reducing volatility of earnings or protecting fair values of assets and liabilities:

- Foreign currency-denominated assets and liabilities
- Forecasted purchases and sales in foreign currency

At September 30, 2021 and December 31, 2020, we had outstanding forward exchange and purchased option contracts with gross notional values of $1,106 and $1,161 respectively, with terms of less than 12 months. Approximately 81% of the contracts at September 30, 2021 mature within three months, 9% mature in three to six months and 10% in six to twelve months. There have not been any material changes in our hedging strategy.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. The net (liability) asset fair value of these contracts were $(1) and $2 as of September 30, 2021 and December 31, 2020, respectively.

Summary of Derivative Instruments Fair Value

The following table provides a summary of the fair value amounts of our derivative instruments:

Designation of Derivatives	Balance Sheet Location	September 30, 2021	December 31, 2020
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 4	$ 3
	Accrued expenses and other current liabilities	(5)	(2)
Foreign currency options	Other current assets	—	1
	Net designated derivative (liability) asset	$ (1)	$ 2
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 4	$ 3
	Accrued expenses and other current liabilities	(4)	(3)
	Net undesignated derivative assets	$ —	$ —
Summary of Derivatives	Total Derivative assets	$ 8	$ 7
	Total Derivative liabilities	(9)	(5)
	Net Derivative (liability) asset	$ (1)	$ 2

Summary of Derivative Instruments Gains (Losses)

Derivative gains and (losses) affect the income statement based on whether such derivatives are designated as hedges of underlying exposures. The following is a summary of derivative gains (losses).

Designated Derivative Instruments Gains (Losses)

The following table provides a summary of gains (losses) on derivative instruments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gain (Loss) on Derivative Instruments	2021	2020	2021	2020
Fair Value Hedges - Interest Rate Contracts				
Derivative loss recognized in interest expense	$ —	$ —	$ —	$ (1)
Hedged item gain recognized in interest expense	—	—	—	1
Cash Flow Hedges - Foreign Exchange Forward Contracts and Options				
Derivative gain (loss) recognized in OCI (effective portion)	$ 3	$ 1	$ (9)	$ 5
Derivative (loss) gain reclassified from AOCL to income - Cost of sales (effective portion)	(2)	—	(5)	1

During the three and nine months ended September 30, 2021 and 2020, no amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or (loss) were included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

As of September 30, 2021, a net after-tax loss of $1 was recorded in Accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

Non-designated derivative instruments are primarily instruments used to hedge foreign currency-denominated assets and liabilities. They are not designated as hedges since there is a natural offset for the remeasurement of the underlying foreign currency-denominated asset or liability.

The following table provides a summary of gains and (losses) on non-designated derivative instruments:

		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	2021	2020	2021	2020
Foreign exchange contracts – forwards	Other expense – Currency gains (losses), net	$ 2	$ 2	$ (20)	$ 19

Currency losses, net were $3 and $0 for the three months ended September 30, 2021 and 2020, respectively and $6 and $4 for nine months ended September 30, 2021 and 2020, respectively. Net currency gains and losses include the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives as well as the remeasurement of foreign currency-denominated assets and liabilities and are included in Other expenses, net.

Note 14 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities measured at fair value on a recurring basis. The basis for the measurement at fair value in all cases is Level 2 – Significant Other Observable Inputs.

	September 30, 2021	December 31, 2020
Assets		
Foreign exchange contracts - forwards	$ 8	$ 6
Foreign currency options	—	1
Deferred compensation plan investments in mutual funds	18	18
Total	$ 26	$ 25
Liabilities		
Foreign exchange contracts - forwards	$ 9	$ 5
Deferred compensation plan liabilities	18	17
Total	$ 27	$ 22

We utilize the income approach to measure the fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices, and therefore are classified as Level 2.

Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for those funds. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections.

Summary of Other Financial Assets and Liabilities

The estimated fair values of our other financial assets and liabilities were as follows:

	September 30, 2021		December 31, 2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 2,209	$ 2,209	$ 2,625	$ 2,625
Accounts receivable, net	891	891	883	883
Short-term debt and current portion of long-term debt	646	652	394	396
Long-term Debt				
Xerox Holdings Corporation	1,494	1,565	1,493	1,596
Xerox Corporation	1,892	1,993	2,187	2,298
Xerox - Other Subsidiaries(1)	287	288	370	372
Long-term debt	$ 3,673	$ 3,846	$ 4,050	$ 4,266

(1) Represents subsidiaries of Xerox Corporation

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short-term debt, including the current portion of long-term debt, and Long-term debt was estimated based on the current rates offered to us for debt of similar maturities (Level 2). The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 15 – Employee Benefit Plans

The components of Net periodic benefit cost and other changes in plan assets and benefit obligations were as follows:

	Three Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2021	2020	2021	2020	2021	2020
Service cost	$ —	$ —	$ 5	$ 5	$ —	$ 1
Interest cost	19	21	23	29	2	2
Expected return on plan assets	(29)	(27)	(53)	(49)	—	—
Recognized net actuarial loss	4	6	15	15	—	—
Amortization of prior service credit	—	—	—	(1)	(16)	(19)
Recognized settlement loss	13	10	—	—	—	—
Defined benefit plans	7	10	(10)	(1)	(14)	(16)
Defined contribution plans	—	(10)	5	6	n/a	n/a
Net Periodic Benefit Cost (Credit)	7	—	(5)	5	(14)	(16)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:						
Net actuarial (gain) loss (1)	(14)	77	—	—	1	—
Amortization of net actuarial loss	(17)	(16)	(15)	(15)	—	—
Amortization of net prior service credit	—	—	—	1	16	19
Total Recognized in Other Comprehensive (Loss) Income(2)	(31)	61	(15)	(14)	17	19
Total Recognized in Net Periodic Benefit Cost (Credit) and Other Comprehensive (Loss) Income	$ (24)	$ 61	$ (20)	$ (9)	$ 3	$ 3

	Nine Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2021	2020	2021	2020	2021	2020
Service cost	$ 1	$ 1	$ 15	$ 15	$ 1	$ 2
Interest cost	56	65	67	84	6	8
Expected return on plan assets	(84)	(79)	(157)	(142)	—	—
Recognized net actuarial loss (gain)	13	20	44	43	—	(1)
Amortization of prior service credit	(1)	(1)	—	(1)	(49)	(57)
Recognized settlement loss	41	42	—	—	—	—
Recognized curtailment gain	—	—	—	(1)	—	—
Defined benefit plans	26	48	(31)	(2)	(42)	(48)
Defined contribution plans	—	1	15	16	n/a	n/a
Net Periodic Benefit Cost (Credit)	26	49	(16)	14	(42)	(48)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:						
Net actuarial (gain) loss(1)	(83)	(3)	1	—	3	(6)
Amortization of net actuarial (loss) gain	(54)	(62)	(44)	(43)	—	1
Amortization of prior service credit	1	1	—	1	49	57
Total Recognized in Other Comprehensive (Loss) Income(2)	(136)	(64)	(43)	(42)	52	52
Total Recognized in Net Periodic Benefit Cost (Credit) and Other Comprehensive (Loss) Income	$ (110)	$ (15)	$ (59)	$ (28)	$ 10	$ 4

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(1) The net actuarial (gain) loss for U.S. Plans primarily reflects (i) the remeasurement of our primary U.S. pension plans as a result of the payment of periodic settlements and (ii) adjustments for the actuarial valuation results based on the January 1st plan census data.

(2) Amounts represent the pre-tax effect included within Other Comprehensive (Loss) Income. Refer to Note 18 - Other Comprehensive (Loss) Income for related tax effects and the after-tax amounts.

Contributions

The following table summarizes cash contributions to our defined benefit pension plans and retiree health benefit plans.

	Nine Months Ended September 30,		Year Ended December 31,	
	2021	2020	Estimated 2021	2020
U.S. plans	$ 18	$ 18	$ 25	$ 35
Non-U.S. plans	84	79	110	104
Total Pension	$ 102	$ 97	$ 135	$ 139
Retiree Health	$ 17	$ 17	$ 30	$ 25

There are no mandatory contributions required in 2021 for our U.S. tax-qualified defined benefit plans to meet the minimum funding requirements.

Defined Contribution Plans

In the first quarter 2021, the Company suspended, and will not make, its full year 2021 employer matching contribution for its U.S. based 401(k) plan for salaried (non-union) employees. The suspension is expected to result in savings of approximately $20 for the year ending December 31, 2021.

Note 16 – Shareholders' Equity of Xerox Holdings

(shares in thousands)

The shareholders' equity information presented below reflects the consolidated activity of Xerox Holdings.

	Common Stock[1]	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[2]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2021	$ 189	$ 2,214	$ (159)	$ 6,308	$ (3,265)	$ 5,287	$ 8	$ 5,295
Comprehensive income (loss), net	—	—	—	90	(70)	20	(1)	19
Cash dividends declared - common[3]	—	—	—	(46)	—	(46)	—	(46)
Cash dividends declared - preferred[4]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	14	—	—	—	14	—	14
Payments to acquire treasury stock, including fees	—	—	(87)	—	—	(87)	—	(87)
Cancellation of treasury stock	(7)	(152)	159	—	—	—	—	—
Other	—	4	—	—	—	4	—	4
Balance at September 30, 2021	$ 182	$ 2,080	$ (87)	$ 6,348	$ (3,335)	$ 5,188	$ 7	$ 5,195

	Common Stock[1]	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[2]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2020	$ 213	$ 2,722	$ —	$ 6,223	$ (3,681)	$ 5,477	$ 4	$ 5,481
Comprehensive income, net	—	—	—	90	88	178	—	178
Cash dividends declared - common[3]	—	—	—	(51)	—	(51)	—	(51)
Cash dividends declared - preferred[4]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	1	(3)	—	—	—	(2)	—	(2)
Payments to acquire treasury stock, including fees	—	—	(150)	—	—	(150)	—	(150)
Balance at September 30, 2020	$ 214	$ 2,719	$ (150)	$ 6,258	$ (3,593)	$ 5,448	$ 4	$ 5,452

	Common Stock[1]	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[2]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2020	$ 198	$ 2,445	$ —	$ 6,281	$ (3,332)	$ 5,592	$ 4	$ 5,596
Comprehensive income (loss), net	—	—	—	220	(3)	217	(1)	216
Cash dividends declared - common[3]	—	—	—	(142)	—	(142)	—	(142)
Cash dividends declared - preferred[4]	—	—	—	(11)	—	(11)	—	(11)
Stock option and incentive plans, net	1	30	—	—	—	31	—	31
Payments to acquire treasury stock, including fees	—	—	(500)	—	—	(500)	—	(500)
Cancellation of treasury stock	(17)	(396)	413	—	—	—	—	—
Investment from noncontrolling interests[5]	—	1	—	—	—	1	4	5
Balance at September 30, 2021	$ 182	$ 2,080	$ (87)	$ 6,348	$ (3,335)	$ 5,188	$ 7	$ 5,195

	Common Stock[1]	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[2]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2019	$ 215	$ 2,782	$ (76)	$ 6,312	$ (3,646)	$ 5,587	$ 7	$ 5,594
Comprehensive income, net	—	—	—	115	53	168	—	168
Cash dividends declared - common[3]	—	—	—	(158)	—	(158)	—	(158)
Cash dividends declared - preferred[4]	—	—	—	(11)	—	(11)	—	(11)
Stock option and incentive plans, net	1	11	—	—	—	12	—	12
Payments to acquire treasury stock, including fees	—	—	(150)	—	—	(150)	—	(150)
Cancellation of treasury stock	(2)	(74)	76	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Balance at September 30, 2020	$ 214	$ 2,719	$ (150)	$ 6,258	$ (3,593)	$ 5,448	$ 4	$ 5,452

(1) Common Stock has a par value of $1 per share.
(2) Refer to Note 18 - Other Comprehensive (Loss) Income for the components of AOCL.
(3) Cash dividends declared on common stock for the three and nine months ended September 30, 2021 and 2020 were $0.25 per share, respectively, and $0.75 per share, respectively.
(4) Cash dividends declared on preferred stock for the three and nine months ended September 30, 2021 and 2020 were $20.00 per share, respectively, and $60.00 per share, respectively.
(5) Refer to Note 5 - Acquisitions and Investments for additional information regarding this noncontrolling investment.

Treasury Stock

The following is a summary of the purchases of Common Stock during 2021:

	Shares	Amount
Balance at December 31, 2020	—	$ —
Purchases[1]	20,798	500
Cancellations	(17,067)	(413)
Balance at September 30, 2021	3,731	$ 87

(1) Includes associated fees.

Note 17 – Shareholder's Equity of Xerox

The shareholder's equity information presented below reflects the consolidated activity of Xerox.

	Additional Paid-in Capital	Retained Earnings	AOCL[1]	Xerox Shareholder's Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2021[2]	$ 3,413	$ 5,404	$ (3,265)	$ 5,552	$ 8	$ 5,560
Comprehensive income (loss), net	—	90	(70)	20	(1)	19
Dividends declared to parent	—	(215)	—	(215)	—	(215)
Transfers from parent	96	—	—	96	—	96
Balance at September 30, 2021	$ 3,509	$ 5,279	$ (3,335)	$ 5,453	$ 7	$ 5,460

	Additional Paid-in Capital	Retained Earnings	AOCL[1]	Xerox Shareholder's Equity	Non- controlling Interests	Total Equity
Balance at June 30, 2020	$ 3,515	$ 5,925	$ (3,681)	$ 5,759	$ 4	$ 5,763
Comprehensive income, net	—	90	88	178	—	178
Dividends declared to parent	—	(55)	—	(55)	—	(55)
Capital contributions from parent[3]	1,494	—	—	1,494	—	1,494
Transfers to parent	(150)	—	—	(150)	—	(150)
Balance at September 30, 2020	$ 4,859	$ 5,960	$ (3,593)	$ 7,226	$ 4	$ 7,230

	Additional Paid-in Capital	Retained Earnings	AOCL[1]	Xerox Shareholder's Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2020[2]	$ 4,888	$ 5,833	$ (3,332)	$ 7,389	$ 4	$ 7,393
Comprehensive income (loss), net	—	220	(3)	217	(1)	216
Dividends declared to parent	—	(774)	—	(774)	—	(774)
Intercompany loan capitalization[4]	(1,494)	—	—	(1,494)	—	(1,494)
Transfers from parent	114	—	—	114	—	114
Investment from noncontrolling interests[5]	1	—	—	1	4	5
Balance at September 30, 2021	$ 3,509	$ 5,279	$ (3,335)	$ 5,453	$ 7	$ 5,460

	Additional Paid-in Capital	Retained Earnings	AOCL[1]	Xerox Shareholder's Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2019	$ 3,266	$ 6,247	$ (3,646)	$ 5,867	$ 7	$ 5,874
Comprehensive income, net	—	115	53	168	—	168
Dividends declared to parent	—	(402)	—	(402)	—	(402)
Capital contributions from parent[3]	1,494	—	—	1,494	—	1,494
Transfers from parent	99	—	—	99	—	99
Distributions to noncontrolling interests	—	—	—	—	(3)	(3)
Balance at September 30, 2020	$ 4,859	$ 5,960	$ (3,593)	$ 7,226	$ 4	$ 7,230

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(1) Refer to Note 18 - Other Comprehensive (Loss) Income for the components of AOCL.
(2) Amounts adjusted to reflect the transfer of CareAR Holdings, LLC from Xerox Holdings Corporation to Xerox Corporation. Refer to Note 1 - Basis of Presentation for additional information regarding the transfer of ownership.
(3) Primarily represents the contribution of aggregate net debt proceeds received from Senior Note offerings in the third quarter 2020 from Xerox Holdings to Xerox. Refer to Note 12 - Debt for additional information regarding the Senior Note offerings.
(4) Refer to Note 12 - Debt for information regarding capitalization of balance to Intercompany Loan with Xerox Holdings Corporation.
(5) Refer to Note 5 - Acquisitions and Investments for additional information regarding this investment from noncontrolling interests.

Note 18 - Other Comprehensive (Loss) Income

Other Comprehensive (Loss) Income is comprised of the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments (Losses) Gains	$ (129)	$ (125)	$ 176	$ 179	$ (126)	$ (122)	$ (2)	$ 7
Unrealized Gains (Losses)								
Changes in fair value of cash flow hedges gains (losses)	3	2	1	1	(9)	(7)	5	4
Changes in cash flow hedges reclassed to earnings[(1)]	2	2	—	—	5	4	(1)	—
Net Unrealized Gains (Losses)	5	4	1	1	(4)	(3)	4	4
Defined Benefit Plans Gains (Losses)								
Net actuarial/prior service gains (losses)	13	10	(77)	(58)	79	59	9	6
Prior service amortization[(2)]	(16)	(12)	(20)	(15)	(50)	(37)	(59)	(44)
Actuarial loss amortization/settlement[(2)]	32	23	31	23	98	72	104	79
Other gains (losses)[(3)]	30	30	(42)	(42)	28	28	1	1
Changes in Defined Benefit Plans Gains (Losses)	59	51	(108)	(92)	155	122	55	42
Other Comprehensive (Loss) Income Attributable to Xerox Holdings/Xerox	$ (65)	$ (70)	$ 69	$ 88	$ 25	$ (3)	$ 57	$ 53

(1) Reclassified to Cost of sales - refer to Note 13 - Financial Instruments for additional information regarding our cash flow hedges.
(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 15 - Employee Benefit Plans for additional information.
(3) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits in AOCL.

Accumulated Other Comprehensive Loss (AOCL)

AOCL is comprised of the following:

	September 30, 2021	December 31, 2020
Cumulative translation adjustments	$ (1,842)	$ (1,720)
Other unrealized (losses) gains, net	(1)	2
Benefit plans net actuarial losses and prior service credits	(1,492)	(1,614)
Total Accumulated Other Comprehensive Loss Attributable to Xerox Holdings/Xerox	$ (3,335)	$ (3,332)

Note 19 – Earnings per Share

(shares in thousands)

The following table sets forth the computation of basic and diluted earnings per share of Xerox Holdings Corporation's common stock:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Basic Earnings per Share				
Net Income Attributable to Xerox Holdings	$ 90	$ 90	$ 220	$ 115
Accrued dividends on preferred stock	(4)	(4)	(11)	(11)
Adjusted Net income available to common shareholders	$ 86	$ 86	$ 209	$ 104
Weighted average common shares outstanding	179,408	211,169	187,549	212,163
Basic Earnings per Share	$ 0.48	$ 0.41	$ 1.12	$ 0.49
Diluted Earnings per Share				
Net Income Attributable to Xerox Holdings	$ 90	$ 90	$ 220	$ 115
Accrued dividends on preferred stock	(4)	(4)	(11)	(11)
Adjusted Net income available to common shareholders	$ 86	$ 86	$ 209	$ 104
Weighted average common shares outstanding	179,408	211,169	187,549	212,163
Common shares issuable with respect to:				
Stock options	—	—	—	20
Restricted stock and performance shares	2,168	1,538	2,120	2,600
Convertible preferred stock	—	—	—	—
Adjusted weighted average common shares outstanding	181,576	212,707	189,669	214,783
Diluted Earnings per Share	$ 0.48	$ 0.41	$ 1.10	$ 0.49
The following securities were not included in the computation of diluted earnings per share as they were either contingently issuable shares or shares that if included would have been anti-dilutive:				
Stock options	622	808	622	788
Restricted stock and performance shares	4,387	3,118	4,435	2,055
Convertible preferred stock	6,742	6,742	6,742	6,742
Total Anti-Dilutive Securities	11,751	10,668	11,799	9,585
Dividends per Common Share	$ 0.25	$ 0.25	$ 0.75	$ 0.75

Note 20 – Contingencies and Litigation

Legal Matters

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting; servicing and procurement law; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Brazil Contingencies

Our Brazilian operations have received or been the subject of numerous governmental assessments related to indirect and other taxes. The tax matters principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. Below is a summary of our Brazilian tax contingencies:

	September 30, 2021	December 31, 2020
Tax contingency - unreserved	$ 349	$ 355
Escrow cash deposits	33	39
Surety bonds	103	112
Letters of credit	75	78
Liens on Brazilian assets	—	—

The decrease in the unreserved portion of the tax contingency, inclusive of any related interest, was due to closed cases and currency, partially offset by new cases and interest. With respect to the unreserved tax contingency, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute, as well as, additional surety bonds and letters of credit, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens on assets would be removed to the extent the matters are resolved in our favor. We are also involved in certain disputes with contract and former employees. Exposures related to labor matters are not material to the financial statements as of September 30, 2021 and December 31, 2020. We routinely assess all these matters as to the probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Litigation Against the Company

Pending Litigation Relating to the Fuji Transaction:

1. Ribbe v. Jacobson, et al.:

On April 11, 2019, Carmen Ribbe filed a putative derivative and class action stockholder complaint in the Supreme Court of the State of New York for New York County, naming as defendants Xerox, then-current Board members Joseph J. Echevarria, Cheryl Gordon Krongard, Keith Cozza, Giovanni G. Visentin, Jonathan Christodoro, Nicholas Graziano, and A. Scott Letier, and former Board members Jeffrey Jacobson, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Gregory Q. Brown, and Sara Martinez Tucker. Plaintiff previously filed a putative shareholder derivative lawsuit on May 24, 2018 against certain of these defendants, as well as others, in the same court; that lawsuit was dismissed without prejudice on December 6, 2018 (*"Ribbe I"*). The new complaint included putative derivative claims on behalf of Xerox for breach of fiduciary duty against the then members of the Xerox Board who approved Xerox's entry into agreements to settle shareholder actions filed in 2018 in the same court against Xerox, its then directors, and FUJIFILM Holdings Corporation ("Fujifilm") in connection with a proposed transaction announced in January 2018 to combine Xerox and Fuji Xerox (the "Fuji

Transaction"), including a consolidated putative class action, In re Xerox Corporation Consolidated Shareholder Litigation ("XCCSL"), and actions filed by Darwin Deason, Deason v. Fujifilm Holdings Corp., et al. and Deason v. Xerox Corporation, et al., against the same defendants as well as, in the first Deason action, former Xerox Chief Executive Officer Ursula M. Burns (the "Fuji Transaction Shareholder Lawsuits"). Plaintiff alleged that the settlements ceded control of the Board and the Company to Darwin Deason and Carl C. Icahn without a vote by, or compensation to, other Xerox stockholders; improperly provided certain benefits and releases to the resigning and continuing directors; and subjected Xerox to potential breach of contract damages in an action by Fuji relating to Xerox's termination of the proposed Fuji Transaction. Plaintiff also alleged that the then-current Board members breached their fiduciary duties by allegedly rejecting plaintiff's January 14, 2019 shareholder demand on the Board to remedy harms arising from entry into the Deason and XCCSL settlements. The new complaint further included direct claims for breach of fiduciary duty on behalf of a putative class of current Xerox stockholders other than Mr. Deason, Mr. Icahn, and their affiliated entities (the "Ribbe Class") against the defendants for causing Xerox to enter into the Deason and XCCSL settlements, which plaintiff alleged perpetuated control of Xerox by Mr. Icahn and Mr. Deason and denied the voting franchise of Xerox shareholders. Among other things, plaintiff sought damages in an unspecified amount for the alleged fiduciary breaches in favor of Xerox against defendants jointly and severally; rescission or reformation of the Deason and XCCSL settlements; restitution of funds paid to the resigning directors under the Deason settlement; an injunction against defendants' engaging in the alleged wrongful practices and equitable relief affording the putative Ribbe Class the ability to determine the composition of the Board; costs and attorneys' fees; and other further relief as the Court may deem proper.

Defendants accepted service of the complaint as of May 16, 2019. On June 4, 2019, the Court entered an order setting a briefing schedule for defendants' motions to dismiss the complaint. On July 12, 2019, plaintiff filed a motion to preclude defendants from referencing in their motions to dismiss the formation of, or work by, the committee of the Board established to investigate plaintiff's shareholder demand. On July 18, 2019, the Court denied plaintiff's motion and adjourned sine die the deadline by which defendants must file any motions to dismiss the complaint.

On January 6, 2020, plaintiff filed his first amended complaint ("FAC"). The FAC includes many of plaintiff's original allegations regarding the 2018 shareholder litigation and settlements, as well as additional allegations, including, among others, that the members of the Special Committee of the Board that investigated plaintiff's demand lacked independence and wrongfully refused to pursue the claims in the demand; allegations that an agreement announced in November 2019 for, among other things, the sale by Xerox of its interest in Fuji Xerox to Fujifilm and dismissal of Fujifilm's breach of contract lawsuit against Xerox (the "FX Sale Transaction"), was unfavorable to Xerox; and allegations about a potential acquisition by Xerox of HP similar to those in the Miami Firefighters derivative action described below. In addition to the claims in the April 11, 2019 complaint, the FAC adds as defendants Carl C. Icahn, Icahn Capital LP, and High River Limited Partnership (the "Icahn defendants") and asserts claims against those defendants and the Board similar to those in Miami Firefighters relating to the Icahn defendants' purchases of HP stock allegedly with knowledge of material nonpublic information concerning Xerox's potential acquisition of HP. In addition to the relief sought in Ribbe's prior complaint, the FAC seeks relief similar to that sought in Miami Firefighters relating to the Icahn defendants' alleged purchases of HP stock.

On January 21, 2020, plaintiff in the Miami Firefighters action filed a motion seeking to intervene in Ribbe and to have stayed, or alternatively, severed and consolidated with the Miami Firefighters action, any claims first filed in Miami Firefighters and later asserted by Ribbe. At a conference held on February 25, 2020, the Court denied the motion to intervene without prejudice. On March 6, 2020, plaintiff in the Miami Firefighters action renewed its motion. On July 23, 2020, after hearing oral argument, the Court issued an order denying the motion and setting certain case deadlines.

Discovery commenced. On August 7, 2020, Xerox, the director defendants, and the Icahn defendants filed separate motions to dismiss. On October 1, 2020, plaintiff filed a cross-motion seeking, among other relief, joinder of Xerox Holdings Corporation as a nominal defendant. Briefing on the motions to dismiss and plaintiff's cross-motion was completed on October 16, 2020. On December 14, 2020, following oral argument, the Court issued a decision and order denying plaintiff's cross-motion and granting defendants' motions, dismissing the action in its entirety as to all defendants. Dismissal as to the Icahn defendants was conditioned on the filing of an affidavit, which the Icahn defendants filed on December 16, 2020, indicating whether defendant Icahn gained a profit or incurred a loss on purchases of HP stock during the relevant time period.

On April 7, 2021, plaintiff filed in the previously dismissed Ribbe I and XCCSL actions a motion seeking an award of attorneys' fees of $1.5 and a service award of $10 thousand for benefits he allegedly obtained for Xerox and its stockholders. On June 4, 2021, the Court granted plaintiff's fee application, in part, and awarded plaintiff attorneys' fees in the amount of $125 thousand in the dismissed actions, which Xerox paid in July 2021. The Court denied plaintiff's request for a service award.

Plaintiff had six months from January 13, 2021 in which to perfect his appeal of the Court's December 14, 2020 dismissal order. Upon his application to the Appellate Division, plaintiff's time to perfect the appeal was extended. On September 9, 2021, plaintiff filed a letter with the Appellate Division withdrawing and discontinuing his appeal of the dismissal order. As a result, the case is now concluded.

2. Miami Firefighters' Relief & Pension Fund v. Icahn, et al.:

On December 13, 2019, alleged shareholder Miami Firefighters' Relief & Pension Fund ("Miami Firefighters") filed a purported derivative complaint in New York State Supreme Court, New York County on behalf of Xerox Holdings Corporation ("Xerox Holdings") (as nominal defendant) against Carl Icahn and his affiliated entities High River Limited Partnership and Icahn Capital LP (the "Icahn defendants"), Xerox Holdings, and all then-current Xerox Holdings directors (the "Directors"). Plaintiff made no demand on the Board before bringing the action, but instead alleges that doing so would be futile because the Directors lack independence due to alleged direct or indirect relationships with Icahn. Among other things, the complaint alleges that Icahn controls and dominates Xerox Holdings and therefore owes a fiduciary duty of loyalty to Xerox Holdings, which he breached by acquiring HP stock at a time when he knew that Xerox Holdings was considering an offer to acquire HP or had knowledge of the "obvious merits" of such potential acquisition, and that the Icahn defendants' holdings of HP common stock have risen in market value by approximately $128 since disclosure of the offer. The complaint includes four causes of action: breach of fiduciary duty of loyalty against the Icahn defendants; breach of contract against the Icahn defendants (for purchasing HP stock in violation of Icahn's confidentiality agreement with Xerox Holdings); unjust enrichment against the Icahn defendants; and breach of fiduciary duty of loyalty against the Directors (for any consent to the Icahn defendants' purchases of HP common stock while Xerox Holdings was considering acquiring HP). The complaint seeks a judgment of breach of fiduciary duties against the Icahn defendants and the Directors; a declaration that Icahn breached his confidentiality agreement with Xerox Holdings; a constructive trust on Icahn Capital and High River's investments in HP securities; disgorgement to Xerox Holdings of profits Icahn Capital and High River earned from trading in HP stock; payment of unspecified damages by the Directors for breaching fiduciary duties; and attorneys' fees, costs, and other relief the Court deems just and proper. On January 15, 2020, the Court entered an order granting plaintiff's unopposed motion to consolidate with Miami Firefighters a similar action filed on December 26, 2019 by alleged shareholder Steven J. Reynolds against the same parties in the same court, and designating Miami Firefighters' counsel as lead counsel in the consolidated action. On January 21, 2020, plaintiff filed a motion seeking to intervene in Ribbe v. Jacobson, et al., described above, and to have stayed, or alternatively, severed and consolidated with this action, any claims first filed in this action and later asserted by Ribbe. At a conference held on February 25, 2020, the Court denied the motion to intervene without prejudice. On March 6, 2020, plaintiff in the Miami Firefighters action renewed its motion. On July 23, 2020, after hearing oral argument, the Court issued an order denying the motion and setting certain case deadlines.

Discovery commenced. On August 10, 2020, the Xerox defendants and the Icahn defendants filed separate motions to dismiss. Briefing on the motions was completed on October 21, 2020. On December 14, 2020, following oral argument, the Court issued a decision and order granting defendants' motions and dismissing the action in its entirety as to all defendants. Dismissal as to the Icahn defendants was conditioned on the filing of an affidavit, which the Icahn defendants filed on December 16, 2020, indicating whether defendant Icahn gained a profit or incurred a loss on purchases of HP stock during the relevant time period.

On December 23, 2020, plaintiff filed a motion seeking discovery related to the Icahn defendants' losses resulting from their investment in HP. The motion was fully briefed on January 7, 2021. On January 15, 2021, the Court issued a decision and order denying the motion.

Also on January 15, 2021, plaintiff filed a notice of appeal of the December 14, 2020 dismissal order to the Appellate Division, First Department. On January 20, 2021, plaintiff filed a notice of appeal of the January 15, 2021 order denying its motion for discovery to the Appellate Division, First Department. On July 15, 2021, plaintiff filed its brief in connection with the appeals of the December 14, 2020 dismissal order and the January 15, 2021 discovery order. Briefing on plaintiff's appeal is complete and oral argument took place on October 26, 2021.

Xerox Holdings will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

Other Litigation

1. Xerox Holdings Corporation v. Factory Mutual Insurance Company and Related Actions:

On March 10, 2021, Xerox Holdings Corporation ("Xerox Holdings") filed a complaint for breach of contract and declaratory judgment against Factory Mutual Insurance Company in Rhode Island Superior Court, Providence County seeking insurance coverage for business interruption losses resulting from the coronavirus/COVID-19 pandemic. The complaint alleges that defendant agreed to provide Xerox Holdings with up to $1 billion in per-occurrence coverage for losses resulting from pandemic-related loss or damage to certain real and other property, including business interruption loss resulting from insured property damage; that the pandemic had inflicted significant physical loss or damage to property of Xerox Holdings and its direct and indirect customers; that Xerox Holdings' worldwide actual and projected losses through the end of 2020 totaled in excess of $300 (and is still increasing); and that following Xerox Holdings' timely and proper claim in March 2020 for coverage under the "all risk" commercial property insurance policy it had purchased from defendant, defendant improperly denied and rejected coverage for most of the claim. The complaint seeks a jury trial, a declaratory judgment against defendant declaring that Xerox is entitled to full coverage of costs and losses under defendant's policy and declaring that defendant is required to pay for such costs and losses, subject to any applicable limits; damages in an amount to be determined at trial; consequential damages; attorneys' fees and costs; pre- and post-judgment interest; and other relief the Court deems just and proper. Also on March 10, 2021, subsidiaries of Xerox Holdings filed similar complaints and related requests for arbitration in Toronto, London, and Amsterdam for Canadian, UK and European losses.

Xerox Holdings consented to defendant's request for an extension of its time in which to answer or otherwise respond to the complaint. On May 6, 2021, FMG filed its answer to the complaint. The parties thereafter agreed to stay all non-U.S. proceedings pending the outcome of the U.S. litigation.

Guarantees

We have issued or provided approximately $295 of guarantees as of September 30, 2021 in the form of letters of credit or surety bonds issued to i) support certain insurance programs; ii) support our obligations related to the Brazil contingencies; and iii) support certain contracts, primarily with public sector customers, which require us to provide a surety bond as a guarantee of our performance of contractual obligations.

In general, we would only be liable for the amount of these guarantees in the event we defaulted in performing our obligations under each contract, the probability of which we believe is remote. We believe that our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

ITEM 2 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Throughout the Management’s Discussion and Analysis (MD&A), references to “Xerox Holdings” refer to Xerox Holdings Corporation and its consolidated subsidiaries while references to “Xerox” refer to Xerox Corporation and its consolidated subsidiaries. References herein to “we,” “us,” “our,” the “Company” refer collectively to both Xerox Holdings and Xerox unless the context suggests otherwise. References to "Xerox Holdings Corporation" refer to the stand-alone parent company and do not include its subsidiaries. References to "Xerox Corporation" refer to the stand-alone company and do not include its subsidiaries.

Currently, Xerox Holdings' primary direct operating subsidiary is Xerox and Xerox reflects nearly all of Xerox Holdings' operations. Accordingly, the following MD&A primarily focuses on the operations of Xerox and is intended to help the reader understand Xerox's business and its results of operations and financial condition. The MD&A is provided as a supplement to, and should be read in conjunction with, the Condensed Consolidated Financial Statements and the accompanying notes. Throughout this MD&A, references are made to various notes in the Condensed Consolidated Financial Statements which appear in Item 1 of this Quarterly Report on Form 10-Q, and the information contained in such notes is incorporated by reference into the MD&A in the places where such references are made.

In connection with Xerox Holdings Corporation's announcement of the formation of the CareAR software business in the third quarter 2021, the ownership of CareAR Holdings LLC was transferred from Xerox Holdings Corporation to Xerox Corporation.

Refer to Note 1 - Basis of Presentation in the Condensed Consolidated Financial Statements for additional information regarding the change in ownership of CareAR Holdings LLC.

Currency Impact

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "constant currency", “currency impact” or “the impact from currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Impact of COVID-19 on Our Business Operations

In response to the COVID-19 pandemic, we continue to prioritize the health and safety of our employees, customers and partners and support their needs so they can perform their work flawlessly, whether in the workplace or a remote location.

During the third quarter 2021, our business continued to be impacted by the COVID-19 pandemic. The prolonged and extensive impact of the Delta variant drove many of our customers to delay their plans to return employees to workplaces. As a result, while we continued to see a correlation between the roll-out of vaccinations, the return of employees to the workplace, and the gradual recovery of our post sale revenues, the marginal improvement in our page-volume-driven post sale revenues was less than previously anticipated. In addition, global supply chain issues, created in part by the COVID-19 pandemic, have resulted in an unprecedented level of disruption that has led to shortages and transportation delays of our products and third-party IT hardware. This has resulted in lower than anticipated equipment and IT sales, higher transportation and logistics costs and growth of our order backlog[1] at the end of the quarter, as our customers continued to invest in our print technology and services. We expect the ongoing effects of the COVID-19 pandemic, including the potential emergence of new variants, as well as global supply chain disruptions, to delay economic recovery and continue to affect our revenues and margins into 2022.

We have a strong balance sheet and sufficient liquidity, including approximately $2.3 billion of cash and cash equivalents and access to our undrawn $1.8 billion revolver. With our Project Own It transformation and cost savings, we have built a leaner and more flexible cost structure. In addition, in response to the COVID-19 pandemic, various governments continued to employ temporary measures to provide aid and economic stimulus directly to companies through cash grants and credits or indirectly through payments to temporarily furloughed employees. We recognized savings from the use of such measures in the U.S., Canada and Europe. We continue to monitor government programs and actions being implemented, or expected to be implemented, to counter the economic impacts of the COVID-19 pandemic.

The savings from temporary government assistance were recorded as follows in the Condensed Consolidated Statements of Income:

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2021	2020	2021	2020
Cost of sales	$ —	$ 1	$ —	$ 1
Cost of services, maintenance and rentals	4	25	17	65
Research, development and engineering expenses	—	—	—	1
Selling, administrative and general expenses	5	9	12	28
Total Estimated savings	$ 9	$ 35	$ 29	$ 95

Overview

Third Quarter 2021 Review

Total revenue of $1.76 billion for third quarter 2021 decreased 0.5% from third quarter 2020, including a 1.1-percentage point favorable impact from currency. Total revenue reflected an increase of 1.7% in Post sale revenue, including a 1.2-percentage point favorable impact from currency and a decrease of 7.6% in Equipment sales revenue, including a 0.8-percentage point favorable impact from currency.

Total revenue of $5.26 billion for the nine months ended September 30, 2021 increased 3.3% as compared to the prior year period, including a 2.5-percentage point favorable impact from currency. Total revenue reflected an increase of 0.6% in Post sale revenue, including a 2.4-percentage point favorable impact from currency and an increase of 13.6% in Equipment sales revenue, including a 2.6-percentage point favorable impact from currency.

As the third quarter 2021 progressed, we saw an increase in the supply chain challenges we experienced in the second quarter 2021. Specifically, raw material and component shortages limited the availability of certain of our products, particularly with respect to our mid-range devices. Transportation constraints and labor shortages extended delivery times and increased unit shipping costs above normal levels. These challenges caused equipment revenue to fall short of our expectations. However, demand for our products remains strong, resulting in further growth of our order backlog[1] for equipment and I/T hardware. Post sale revenue in the third quarter fell below our expectations, as the Delta variant disrupted many companies' plans to return workers to the workplace. While business closures and limited office occupancy as a result of the COVID-19 pandemic continue to affect our revenues, the progress of vaccinations and the gradual reopening of workplaces resulted in higher sequential and year-over-year page volumes in third quarter 2021.

Net income attributable to Xerox Holdings and adjusted[2] Net income attributable to Xerox Holdings were as follows:

(in millions)	Three Months Ended September 30, 2021	2020	B/(W)	Nine Months Ended September 30, 2021	2020	B/(W)
Net income attributable to Xerox Holdings	$ 90	$ 90	$ —	$ 220	$ 115	$ 105
Adjusted[(2)] Net income attributable to Xerox Holdings	90	105	(15)	231	191	40

Third quarter 2021 Net income attributable to Xerox Holdings was flat as compared to third quarter 2020 reflecting lower Income tax expense, as well as lower Selling, administrative and general expenses, in part due to lower bad debt expense, as well as lower Restructuring and related costs, net and Other expenses, net. These benefits were all offset by lower gross profit reflecting lower revenues and higher logistics costs associated with product supply constraints as well as the reduction of benefits from temporary government assistance and furlough measures. Third quarter 2021 Adjusted[2] net income attributable to Xerox Holdings decreased $15 million as compared to the prior year, primarily reflecting lower gross profit due to lower revenues and higher logistics costs associated with product supply constraints as well as the reduction of benefits from temporary government assistance and furlough measures, which were partially offset by lower Income tax expense and Selling, administrative and general expenses, in part due to lower bad debt expense, as well as lower Other expenses, net.

Net income attributable to Xerox Holdings for the nine months ended September 30, 2021 increased $105 million as compared to the prior year period primarily reflecting higher revenues and lower bad debt expense, as well as lower non-service retirement-related costs, Restructuring and related costs, net, Transaction and related costs, net and Income tax expense. These benefits were partially offset by reduced temporary government assistance and furlough measures, as well as higher freight costs, which reduced gross profit. Adjusted[2] net income attributable to Xerox Holdings for the nine months ended September 30, 2021 increased $40 million as compared to the prior year, primarily due to higher revenue, lower bad debts expense and Income tax expense. These benefits were partially offset by reduced temporary government assistance and furlough measures as well higher freight costs, which reduced gross profit.

Cash flows provided by operating activities for the nine months ended September 30, 2021 were $431 million, as compared to $313 million in the prior year period, which includes the receipt of an upfront prepaid fixed royalty from FUJIFILM Business Innovation Corp. (formerly Fuji Xerox) (FX) of $100 million and higher cash from working capital, net[3], partially offset by a lower run-off of finance receivables. Cash used in investing activities for the nine months ended September 30, 2021 was $54 million reflecting capital expenditures of $52 million and acquisitions of $38 million, which were partially offset by proceeds from sales of assets of $39 million. Cash used in financing activities for the nine months ended September 30, 2021 was $793 million reflecting $500 million for repurchases of our Common Stock, payments of $444 million on secured financing arrangements, partially offset by proceeds of $311 million on a secured financing arrangement and dividend payments of $157 million.

2021 Outlook

Given the continued uncertainty associated with global supply chains and a delay in many companies' plans to return to workplaces until 2022, we are lowering our revenue guidance to approximately $7.1 billion, or $7.0 billion at constant currency[2]. However, our focus on cash gives us confidence to reaffirm our free cash flow guidance and we plan to continue our capital allocation policy of returning at least 50% of our annual free cash flow to shareholders, as disclosed in our 2020 Annual Report. We expect operating cash flows to be approximately $580 million, with capital expenditures of approximately $80 million. Additionally, a new share repurchase authorization of $500 million was approved by our Board of Directors in October 2021, which will be used opportunistically to repurchase shares.

(1) Order backlog is measured as the value of unfulfilled sales orders, shipped and non-shipped, received from our customers waiting to be installed, including orders with future installation dates. It includes printing devices as well as IT hardware associated with our IT services offerings.
(2) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.
(3) Working capital, net reflects Accounts receivable, net, Inventories and Accounts payable.

Financial Review

Revenues

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	% Change	CC % Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	% Change	CC % Change	% of Total Revenue 2021	% of Total Revenue 2020
Equipment sales	$ 387	$ 419	(7.6)%	(8.4)%	$ 1,197	$ 1,054	13.6 %	11.0 %	23 %	21 %
Post sale revenue	1,371	1,348	1.7 %	0.5 %	4,064	4,038	0.6 %	(1.8)%	77 %	79 %
Total Revenue	$ 1,758	$ 1,767	(0.5)%	(1.6)%	$ 5,261	$ 5,092	3.3 %	0.8 %	100 %	100 %
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$ 657	$ 651	0.9 %	(0.1)%	$ 1,929	$ 1,676	15.1 %	12.6 %		
Less: Supplies, paper and other sales	(270)	(232)	16.4 %	15.1 %	(732)	(622)	17.7 %	15.2 %		
Equipment sales	$ 387	$ 419	(7.6)%	(8.4)%	$ 1,197	$ 1,054	13.6 %	11.0 %		
Services, maintenance and rentals	$ 1,046	$ 1,061	(1.4)%	(2.5)%	$ 3,166	$ 3,246	(2.5)%	(4.9)%		
Add: Supplies, paper and other sales	270	232	16.4 %	15.1 %	732	622	17.7 %	15.2 %		
Add: Financing	55	55	— %	(2.3)%	166	170	(2.4)%	(4.8)%		
Post sale revenue	$ 1,371	$ 1,348	1.7 %	0.5 %	$ 4,064	$ 4,038	0.6 %	(1.8)%		
Americas	$ 1,127	$ 1,152	(2.2)%	(2.9)%	$ 3,336	$ 3,381	(1.3)%	(2.2)%	63 %	66 %
EMEA	594	568	4.6 %	2.6 %	1,798	1,571	14.4 %	8.3 %	34 %	31 %
Other	37	47	(21.3)%	(21.3)%	127	140	(9.3)%	(9.3)%	3 %	3 %
Total Revenue[(1)]	$ 1,758	$ 1,767	(0.5)%	(1.6)%	$ 5,261	$ 5,092	3.3 %	0.8 %	100 %	100 %

CC - See "Currency Impact" section for a description of Constant Currency.
(1) Refer to the "Geographic Sales Channels and Products and Offerings Definitions" section.

Third quarter 2021 total revenue decreased 0.5% as compared to third quarter 2020, including a 1.1-percentage point favorable impact from currency, while total revenue for the nine months ended September 30, 2021 increased 3.3% as compared to the prior year period, including a 2.5-percentage point favorable impact from currency and an approximate 0.5-percentage point favorable impact from recent partner dealer acquisitions. Total revenue for both the three and nine months ended September 30, 2021 reflected global product supply constraints and freight disruptions (as a result of container shortages and transportation congestion) which limited our ability to fulfill orders and resulted in growth of our order backlog. While business closures and limited office occupancy as a result of the COVID-19 pandemic (particularly the Delta variant) continue to affect our revenues, the progress of vaccinations and the gradual reopening of workplaces resulted in higher sequential and year-over-year page volumes in the third quarter 2021.

Geographically, revenue increased more significantly in our EMEA operations for both the three and nine months ended September 30, 2021, where we have a larger presence across SMB businesses which have had a faster recovery and greater resiliency against pandemic resurgences. Revenue decreased in our North American operations, which were more significantly impacted by freight disruptions that were further amplified by labor shortages within the transportation industry. North America also has a higher proportion of large enterprise customers, who are generally experiencing a slower pace of return to workplaces.

Total revenue for the three and nine months ended September 30, 2021 reflected the following:

Post sale revenue

Post sale revenue primarily reflects contracted services, equipment maintenance, supplies and financing. These revenues are associated not only with the population of devices in the field, which are affected by installs and removals, but also by the page volumes generated from the usage of such devices and the revenue per printed page. Post sale revenue also includes transactional IT hardware sales and implementation services primarily from our XBS organization in the U.S.

For the three months ended September 30, 2021, Post sale revenue increased 1.7% as compared to third quarter 2020, including a 1.2-percentage point favorable impact from currency, while Post sale revenue increased 0.6% for the nine months ended September 30, 2021, including a 2.4-percentage point favorable impact from currency. Post sale revenue reflected the following:

- **Services, maintenance and rentals revenue** includes rental and maintenance revenue (including bundled supplies) as well as the post sale component of our managed print and document services offerings. While these revenues are contractual in nature, our bundled services contracts generally include a fixed minimum charge and a significant variable component based on print volumes.
  - For the three months ended September 30, 2021, these revenues decreased 1.4% as compared to third quarter 2020, including a 1.1-percentage point favorable impact from currency, reflecting the impact of lower royalty revenue and lower third-party financing commissions (resulting from higher XFS lease penetration of our XBS operations), as well as a lower net population of devices, and an ongoing competitive price environment, partially offset by modestly higher page volumes corresponding with the gradual reopening of workplaces.
  - For the nine months ended September 30, 2021, these revenues decreased 2.5% as compared to the prior year period, including a 2.4-percentage point favorable impact from currency, reflecting the impact of lower royalty revenue and lower third-party financing commissions (resulting from higher XFS lease penetration of our XBS operations), a lower population of devices (which is partially associated with lower installs in prior periods), an ongoing competitive price environment, and lower page volumes during first quarter 2021 (including a higher mix of lower average-page-volume products).
- **Supplies, paper and other sales** includes unbundled supplies and other sales.
  - For the three months ended September 30, 2021, these revenues increased 16.4% as compared to third quarter 2020, including a 1.3-percentage point favorable impact from currency and primarily reflected higher supplies and paper revenues consistent with the gradual reopening of workplaces, which drove higher demand. We also saw a marginal improvement in inventories carried by channel partners, as confidence in the recovery continued to moderately improve. The increase also reflected higher IT revenues, driven by higher demand for our offerings, but partially dampened by IT hardware product constraints.
  - For the nine months ended September 30, 2021, these revenues increased 17.7% as compared to the prior year period, including a 2.5-percentage point favorable impact from currency, reflecting primarily higher supplies revenues, as well as higher paper sales, consistent with the gradual reopening of workplaces, which drove higher demand.
- **Financing revenue** is generated from financed equipment sale transactions. For the three months ended September 30, 2021, these revenues were flat as compared to third quarter 2020, including a 2.3-percentage point favorable impact from currency, while Financing revenue for the nine months ended September 30, 2021 decreased 2.4%, including a 2.4-percentage point favorable impact from currency. The decrease at constant currency[1] reflected a lower finance receivables balance due to the pace of run-off of our lease portfolio and lower equipment sales in prior periods, as well as the impact of lower equipment sales in the third quarter 2021. However, lease originations increased for both the three and nine months ended September 30, 2021 as compared to the respective prior year periods primarily as a result of higher XFS lease penetration from our XBS sales unit.

(1) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.

Equipment sales revenue

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	% Change	CC % Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	% Change	CC % Change	% of Equipment Sales 2021	% of Equipment Sales 2020
Entry	$ 69	$ 66	4.5%	3.9%	$ 206	$ 158	30.4%	27.6%	17%	15%
Mid-range	244	276	(11.6)%	(12.2)%	758	677	12.0%	9.7%	64%	64%
High-end	68	72	(5.6)%	(6.5)%	218	206	5.8%	3.1%	18%	20%
Other	6	5	20.0%	20.0%	15	13	15.4%	15.4%	1%	1%
Equipment sales	$ 387	$ 419	(7.6)%	(8.4)%	$ 1,197	$ 1,054	13.6%	11.0%	100%	100%

CC - See "Currency Impact" section for a description of Constant Currency.
Note: During first quarter 2021, we revised the classification of equipment sales revenue by category for our XBS sales unit. Refer to the Equipment Sales Revenue - Classification Update section, for the revision of prior periods based on the new classification.

Equipment sales revenue decreased 7.6% for the three months ended September 30, 2021 as compared to third quarter 2020, including a 0.8-percentage point favorable impact from currency partially offset by the impact of price declines of less than 5%, while for the nine months ended September 30, 2021, Equipment sales revenue increased 13.6% as compared to the prior year period, including a 2.6-percentage point favorable impact from currency partially offset by the impact of price declines of less than 5%.

The decrease in Equipment sales revenue in the third quarter 2021 reflected the adverse impact of product supply constraints (consistent with market-wide shortages of computer chips and resins) and global freight disruptions that were further amplified by labor shortages within the transportation industry. Demand continued to increase as businesses reopened, resulting in a backlog of orders at the end of the quarter that increased sequentially and was above both prior year and pre-pandemic levels. Equipment sales revenue increased in EMEA, as the impact of supply chain disruptions was offset by higher demand from our indirect channels serving SMB, and from large government deals (in Europe and certain developing market regions). Equipment sales revenue decreased in our Americas operations as freight disruptions (from container shortages and transportation congestion) were more prevalent in the U.S. than abroad. The supply chain disruption impacted the availability of our mid-range devices most significantly. The increase in Equipment sales revenue for the nine months ended September 30, 2021 is partially the result of a favorable compare to the respective prior year period, as businesses were extensively shut down in 2020 due to the COVID-19 pandemic. Equipment sales revenue increased at a higher pace through our indirect channels primarily in EMEA, as well as in the U.S. Sales of office-centric devices led the increase of these revenues (as businesses re-open and prepare for a broader return to workplaces), while sales of high-end production systems, which demand larger capital investments, had a more moderate increase. Equipment sales were significantly impacted by global freight disruptions and product supply constraints (the result of market-wide shortages of computer chips and resins).

The change at constant currency[1] reflected the following:

- **Entry** - The increase for the three months ended September 30, 2021 as compared to third quarter 2020, was driven by higher demand for our printers and MFPs through our indirect channels in EMEA and the Americas. The increase for the nine months ended September 30, 2021 as compared to the prior year period, was driven by higher demand for our lower-end printers and MFPs through our indirect channels primarily in EMEA as well as in the Americas, which included markedly higher installs related to government deals in the developing regions of EMEA. While sales increased across this portfolio, we experienced an unfavorable mix from significantly higher sales of our lower-end black-and-white devices.
- **Mid-range** - The decrease for the three months ended September 30, 2021 as compared to third quarter 2020, was primarily driven by the significant impact of global product supply constraints and freight disruptions that had a more severe effect on our U.S. operations. The decrease also reflected unfavorable mix from growth in black-and-white devices. The increase for the nine months ended September 30, 2021 as compared to the prior year period, was driven by higher demand primarily from EMEA and our indirect channels in the U.S., consistent with the gradual reopening of workplaces, as compared to business shutdowns that reduced purchases of office devices in the prior year period.
- **High-end** - The decrease for the three months ended September 30, 2021 as compared to third quarter 2020, primarily reflected the impact of global product supply constraints and freight disruptions, resulting in lower sales of color systems in the U.S., partially offset by higher sales of black-and-white systems corresponding with our customers' refresh cycles. The increase for the nine months ended September 30, 2021 as compared to the prior year period, reflected primarily improvement in sales of devices in the lower-end of the range and to SMB customers, as well as sales of black-and-white systems corresponding with our customers' refresh cycles, while sales of larger color production engines continued to be depressed as a result of our customers' delayed capital investment decisions as well as the impact of global product supply constraints and freight disruptions, resulting in lower sales of color systems in the U.S.

Total Installs

Installs reflect only new placements of devices (i.e., measure does not take into account removal of devices which may occur as a result of contract renewals or cancellations). Revenue associated with equipment installations may be reflected up-front in Equipment sales or over time either through rental income or as part of our services revenues (which are both reported within our Post sale revenues), depending on the terms and conditions of our agreements with customers. Installs include activity for Xerox and non-Xerox branded products installed by our XBS sales unit. Detail by product group (see ***Geographic Sales Channels and Products and Offerings Definitions***) is shown below.

Installs for the three months ended September 30, 2021:

Entry
- 17% increase in color multifunction devices reflecting higher installs of ConnectKey devices through our indirect channels primarily in EMEA, as well as in North America.
- 7% decrease in black-and-white multifunction devices reflecting lower installs as a result of product constraints and a larger number of installs of black-and-white devices in the prior year, primarily associated with work-from-home demand associated with the COVID-19 pandemic.

Mid-Range
- 1% increase in mid-range color installs primarily reflecting higher installs of our recently launched new-generation of ConnectKey multi-function printers, and the impact of freight disruption and product constraints.
- 20% increase in mid-range black-and-white installs primarily in EMEA, reflecting higher installs of our recently launched new-generation of ConnectKey multi-function devices.

High-End
- 7% decrease in high-end color installs primarily reflecting the impact of global product constraints and freight disruption that resulted in lower installations of color systems in the U.S.
- 34% increase in high-end black-and-white systems reflecting higher installs of our Nuvera devices related to cyclical account refreshes.

Installs for the nine months ended September 30, 2021:

Entry
- 13% increase in color multifunction devices reflecting higher installs of ConnectKey devices through our indirect channels in EMEA and North America.
- 40% increase in black-and-white multifunction devices reflecting higher activity primarily from low-end devices through indirect channels in the Americas, and from developing regions in EMEA, which included large order government deals.

Mid-Range[(2)]
- 22% increase in mid-range color installs primarily in EMEA, reflecting higher installs of our recently launched new-generation of ConnectKey multi-function printers, as well as our PrimeLink entry-production color devices.
- 22% increase in mid-range black-and-white installs reflecting higher installs of our recently launched new-generation of ConnectKey multi-function devices, as well as our PrimeLink entry-production color devices.

High-End[(2)]
- 19% increase in high-end color installs reflecting primarily growth from our lower-end Versant devices as well as our Iridesse and iGen production systems partially offset by lower installs of our higher-end production presses.
- 33% increase in high-end black-and-white systems reflecting higher installs of our Nuvera devices primarily related to cyclical account refreshes in the U.S.

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(1) Refer to the Non-GAAP Financial Measures section for an explanation of the non-GAAP financial measure.
(2) Mid-range and High-end color installations exclude FX digital front-end sales through the second quarter of 2020. When we include these sales in 2020, installs of Mid-range color devices increased 22% and High-end color systems increased 18% for the nine months ended September 30, 2021.

Geographic Sales Channels and Products and Offerings Definitions

Our business is aligned to a geographic focus and is primarily organized on the basis of go-to-market sales channels, which are structured to serve a range of customers for our products and services. In 2019 we changed our geographic structure to create a more streamlined, flatter and more effective organization, as follows:

- Americas, which includes our sales channels in the U.S. and Canada, as well as Mexico, and Central and South America.
- EMEA, which includes our sales channels in Europe, the Middle East, Africa and India.
- Other, primarily includes sales to and royalties from FX, and our licensing revenue.

Our products and offerings include:

- "Entry", which includes A4 devices and desktop printers. Prices in this product group can range from approximately $150 to $3,000.
- "Mid-Range", which includes A3 Office and Light Production devices that generally serve workgroup environments in mid to large enterprises. Prices in this product group can range from approximately $2,000 to $75,000+.
- "High-End", which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises. Prices for these systems can range from approximately $30,000 to $1,000,000+.

Equipment Sales Revenue - Classification Update

During first quarter 2021, we revised the classification of equipment sales revenue by category for our XBS sales unit to conform the classification of devices across Xerox sales channels. The revision had no impact on reported total equipment sales revenue.

	2020 Equipment Sales Revenue As Reported				
(in millions)	Q1	Q2	Q3	Q4	FY
Entry	$ 40	$ 34	$ 55	$ 59	$ 188
Mid-range	218	209	291	325	1,043
High-end	64	64	69	115	312
Other	3	3	4	11	21
Equipment Sales Revenue	$ 325	$ 310	$ 419	$ 510	$ 1,564

	Change				
(in millions)	Q1	Q2	Q3	Q4	FY
Entry	$ 8	$ 10	$ 11	$ 11	$ 40
Mid-range	(12)	(14)	(15)	(16)	(57)
High-end	3	3	3	4	13
Other	1	1	1	1	4
Equipment Sales Revenue	$ —	$ —	$ —	$ —	$ —

	2020 Equipment Sales Revenue As Revised				
(in millions)	Q1	Q2	Q3	Q4	FY
Entry	$ 48	$ 44	$ 66	$ 70	$ 228
Mid-range	206	195	276	309	986
High-end	67	67	72	119	325
Other	4	4	5	12	25
Equipment Sales Revenue	$ 325	$ 310	$ 419	$ 510	$ 1,564

Costs, Expenses and Other Income

Summary of Key Financial Ratios

The following is a summary of key financial ratios used to assess our performance:

(in millions)	Three Months Ended September 30, 2021	2020	B/(W)	Nine Months Ended September 30, 2021	2020	B/(W)
Gross Profit	$ 569	$ 651	$ (82)	$ 1,819	$ 1,927	$ (108)
RD&E	82	76	(6)	235	236	1
SAG	413	444	31	1,295	1,411	116
Equipment Gross Margin	18.3 %	25.5 %	(7.2) pts.	24.9 %	26.7 %	(1.8) pts.
Post sale Gross Margin	36.4 %	40.3 %	(3.9) pts.	37.5 %	40.7 %	(3.2) pts.
Total Gross Margin	32.4 %	36.8 %	(4.4) pts.	34.6 %	37.8 %	(3.2) pts.
RD&E as a % of Revenue	4.7 %	4.3 %	(0.4) pts.	4.5 %	4.6 %	0.1 pts.
SAG as a % of Revenue	23.5 %	25.1 %	1.6 pts.	24.6 %	27.7 %	3.1 pts.
Pre-tax Income	$ 84	$ 119	$ (35)	$ 236	$ 149	$ 87
Pre-tax Income Margin	4.8 %	6.7 %	(1.9) pts.	4.5 %	2.9 %	1.6 pts.
Adjusted(1) Operating Profit	$ 74	$ 131	$ (57)	$ 289	$ 280	$ 9
Adjusted(1) Operating Margin	4.2 %	7.4 %	(3.2) pts.	5.5 %	5.5 %	— pts.

(1) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.

Pre-tax Income Margin

Third quarter 2021 pre-tax income margin of 4.8% decreased 1.9-percentage points as compared to third quarter 2020. The decrease primarily reflected the impact of lower adjusted[1] operating margin (see below), partially offset by lower Restructuring and related costs, net and Other expenses, net.

Pre-tax income margin for the nine months ended September 30, 2021 of 4.5% increased 1.6-percentage points as compared to the prior year period. The increase primarily reflected the impact of lower Restructuring and related costs, net, Transaction and related costs, net and Other expenses, net, while adjusted[1] operating margin was flat as compared to the prior year period.

Adjusted[1] Operating Margin

Third quarter 2021 adjusted[1] operating margin of 4.2% decreased by 3.2-percentage points as compared to third quarter 2020, reflecting the impact of higher freight costs and lower revenues associated with product supply constraints, as well as a reduction of temporary government assistance and furlough measures, lower royalty revenues and third-party lease commissions, partially offset by lower bad debt expenses and cost and expense reductions associated with our Project Own It transformation actions.

Adjusted[1] operating margin for the nine months ended September 30, 2021 of 5.5% was flat as compared to the prior year period, reflecting an approximate 1.8-percentage point favorable impact from lower bad debt expense due to a higher provision in the prior year to reflect the expected impact to our trade and finance receivable portfolio from the COVID-19 pandemic. Additionally, cost and expense reductions associated with our Project Own It transformation actions as well as higher revenues, primarily due to the significant effect of the COVID-19 pandemic on our business during the prior year period, favorably impacted adjusted[1] operating margin. These favorable factors were partially offset by a $66 million reduction of temporary government assistance and furlough measures and higher freight costs associated with product supply constraints, which lowered gross profit.

(1) Refer to the Operating Income and Margin reconciliation table in the "Non-GAAP Financial Measures" section.

Gross Margin

Third quarter 2021 gross margin of 32.4% decreased by 4.4-percentage points as compared to third quarter 2020, reflecting unfavorable impacts of approximately 2.9-percentage points associated with supply chain costs and capacity restrictions (including significantly higher freight and shipping costs and constrained availability of higher margin equipment), and 0.6-percentage points associated with investments to support future growth. The remainder of the decline reflects the impact of lower savings from temporary government assistance and furlough measures, net of Project Own It savings, as well as the impact from an ongoing competitive price environment and lower royalty revenues.

Gross margin for the nine months ended September 30, 2021 of 34.6% decreased by 3.2-percentage points as compared to the prior year period, reflecting unfavorable impacts of approximately 1.5-percentage points associated with supply chain costs and capacity restrictions (including significantly higher freight and shipping costs and constrained availability of higher margin equipment) and 0.5-percentage points associated with investments to support future growth. The remainder of the decline reflects the impact of lower savings from temporary government assistance and furlough measures and from an ongoing competitive price environment. These headwinds were partially offset by the cost savings from our Project Own It transformation actions.

Third quarter 2021 equipment gross margin of 18.3% decreased by 7.2-percentage points as compared to third quarter 2020, reflecting the impact of higher freight costs and lower revenues associated with product supply constraints and an unfavorable mix of sales through our EMEA channel and of lower margin Entry products, as well as the impacts of price declines.

Equipment gross margin for the nine months ended September 30, 2021 of 24.9% decreased by 1.8-percentage points as compared to the prior year period, primarily reflecting the impact of higher freight costs associated with product supply constraints, as well as the impact of price declines and an unfavorable mix of growth in low-end devices, partially offset by higher revenues and favorable transaction currency.

Third quarter 2021 Post sale gross margin of 36.4% decreased by 3.9-percentage points as compared to third quarter 2020, reflecting the impact of contracted service and maintenance revenues, and lower savings from temporary government assistance and furlough measures, as well as pricing pressure on contract renewals and lower royalty revenues and third-party lease commissions, partially offset by productivity and cost savings and restructuring savings associated with Project Own It transformation actions.

Post sale gross margin for the nine months ended September 30, 2021 of 37.5% decreased by 3.2-percentage points as compared to the prior year period, reflecting the impact of contracted service and maintenance revenues, and lower savings from temporary government assistance and furlough measures and the impact of pricing pressure on contract renewals, as well as lower royalty revenues and third-party lease commissions, partially offset by productivity and cost savings and restructuring savings associated with Project Own It transformation actions.

Research, Development and Engineering Expenses (RD&E)

(in millions)	Three Months Ended September 30, 2021	Three Months Ended September 30, 2020	Change	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Change
R&D	$ 67	$ 61	$ 6	$ 189	$ 194	$ (5)
Sustaining engineering	15	15	—	46	42	4
Total RD&E Expenses	$ 82	$ 76	$ 6	$ 235	$ 236	$ (1)

Third quarter 2021 RD&E as a percentage of revenue of 4.7% increased by 0.4-percentage points as compared to third quarter 2020, as a result of revenue declines that outpaced the rate of investments.

RD&E of $82 million increased $6 million as compared to third quarter 2020 primarily reflecting investments in our innovation portfolio and the reversal of 401(k) matching contributions in the third quarter 2020, partially offset by savings from restructuring and productivity as well as benefits from the timing of program development cycles.

RD&E as a percentage of revenue for the nine months ended September 30, 2021 of 4.5% decreased by 0.1-percentage points as compared to the prior year period, as a result of higher revenues and Project Own It cost reductions, that outpaced the rate of investments.

RD&E for the nine months ended September 30, 2021 of $235 million decreased $1 million as compared to the prior year period, primarily reflecting the benefits from the timing of program development cycles, as well as savings from restructuring and productivity, partially offset by investments in our innovation portfolio.

Selling, Administrative and General Expenses (SAG)

Third quarter 2021 SAG as a percentage of revenue of 23.5% decreased by 1.6-percentage points as compared to third quarter 2020, primarily as a result of a lower bad debt provision and lower selling and administrative expenses which more than offset lower revenues.

Third quarter 2021 SAG of $413 million decreased by $31 million as compared to third quarter 2020, including a $20 million benefit from a lower bad debt provision. The remaining decrease reflected the impact of productivity and cost savings from our Project Own It transformation actions, partially offset by lower benefits from temporary government assistance and furlough measures, higher compensation related accruals (corresponding with higher expected operating results) and other investments in the business to support future growth, as well as the reversal of the accrual for 401(k) matching contributions in the third quarter 2020 and the adverse impact from translation currency.

SAG as a percentage of revenue for the nine months ended September 30, 2021 of 24.6% decreased by 3.1-percentage points as compared to the prior year period, primarily as a result of an approximate 1.8-percentage point favorable impact from lower bad debt expense due to a higher provision in the prior year to reflect the expected impact to our trade and finance receivable portfolio from the COVID-19 pandemic. The remaining decrease was primarily due to the impact of higher revenues and lower selling expenses as a result of cost savings and restructuring associated with our Project Own It transformation actions, and savings from additional cost reduction actions to mitigate the impact of the pandemic (including reductions in discretionary spend such as near-term targeted marketing programs).

SAG for the nine months ended September 30, 2021 of $1,295 million decreased by $116 million as compared to the prior year period, primarily reflecting lower bad debt expenses, as well as cost savings and restructuring savings associated with our Project Own It transformation actions and from additional cost reduction actions to mitigate the impact of the pandemic (including reductions in discretionary spend such as near-term targeted marketing programs), partially offset by an approximate $30 million adverse impact from translation currency, higher compensation related accruals (corresponding with higher expected operating results) and other investments in the business to support future growth, as well as the impact of lower benefits from temporary government assistance and furlough measures and higher expenses from prior year acquisitions.

Our bad debt provision for the nine months ended September 30, 2021 of $9 million decreased by $94 million as compared to the prior year period, primarily due to the prior year reflecting an approximate $60 million incremental provision to cover estimated write-offs on our trade and finance receivable portfolio from the COVID-19 pandemic, while 2021 reflected finance receivable reserve reductions, in the second quarter and third quarter 2021 of approximately $6 million and $14 million, respectively, and lower reserves for trade receivables. The 2021 reductions in our Finance and Trade reserves reflect improvements in the macroeconomic environment as well as lower write-offs. Although actual finance receivable write-offs incurred to date continued to lag expectations, we believe our current reserve position remains sufficient to cover expected future losses that may result from future economic conditions. Despite the improvement in the global economy, significant uncertainties remain as local economies continue to recover from the impacts of the COVID-19 pandemic including the cessation of government support as well as labor, interest rate and inflation risks and the potential for higher taxes. As a result of these uncertainties, we continue to consider various adverse macroeconomic scenarios in our models. Accordingly, our reserves as a percent of receivables have remained fairly consistent subsequent to the first quarter 2020 charge of approximately $60 million to initially record expected losses from the COVID-19 pandemic. We continue to monitor developments regarding the pandemic, including business closures and reopenings and mitigating government support actions as well as future economic conditions, and as a result our reserves may need to be updated in future periods. On a trailing twelve-month basis (TTM), bad debt expense was approximately 1.0% of total receivables (excluding the second and third quarter 2021 reductions of $6 million and $14 million, respectively), which is consistent with the pre-pandemic trend and reflects the consistent level of reserves subsequent to the first quarter 2020 charge.

Refer to Note 7 - Accounts Receivable, Net and Note 8 - Finance Receivables, Net in the Condensed Consolidated Financial Statements for additional information regarding our bad debt provision.

Restructuring and Related Costs, Net

We incurred Restructuring and related costs, net of $10 million for the third quarter 2021, as compared to $20 million for third quarter 2020, and $39 million for the nine months ended September 30, 2021, as compared to $64 million in the prior year period. These costs were primarily related to the implementation of initiatives under our business transformation projects including Project Own It. The following is a breakdown of those costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2021	2020	2021	2020
Severance[1]	$ 5	$ 18	$ 25	$ 57
Asset impairments - leased right-of-use assets[2]	—	2	3	3
Asset impairments - owned assets[2]	—	2	9	3
Other contractual termination costs[3]	1	1	3	2
Net reversals[4]	(3)	(3)	(12)	(18)
Restructuring and asset impairment costs	3	20	28	47
Retention-related severance/bonuses[5]	7	(2)	6	9
Contractual severance costs[6]	—	—	3	4
Consulting and other costs[7]	—	2	2	4
Total	$ 10	$ 20	$ 39	$ 64

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(1) Reflects headcount reductions of approximately 35 and 650 employees worldwide in third quarter 2021 and 2020, respectively and 435 and 1,100 employees worldwide for the nine months ended September 30, 2021 and 2020, respectively.
(2) Primarily related to the exit and abandonment of leased and owned facilities net of any potential sublease income and other recoveries, including potential sales.
(3) Primarily includes additional costs incurred upon the exit from our facilities including decommissioning costs and associated contractual termination costs.
(4) Reflects net reversals for changes in estimated reserves from prior period initiatives.
(5) Includes retention related severance and bonuses for employees expected to continue working beyond their minimum notification period before termination.
(6) Amounts primarily reflect severance and other related costs we are contractually required to pay in connection with employees transferred as part of the shared service arrangement entered into with HCL Technologies.
(7) Represents professional support services associated with our business transformation initiatives.

Third quarter 2021 actions impacted several functional areas, with approximately 35% focused on gross margin improvements, approximately 50% focused on SAG reductions and the remainder focused on RD&E optimization.

Third quarter 2020 actions impacted several functional areas, with approximately 30% focused on gross margin improvements, approximately 65% focused on SAG reductions and the remainder focused on RD&E optimization.

The Restructuring and related costs, net reserve balance as of September 30, 2021 for all programs was $58 million, which is expected to be paid over the next twelve months.

Refer to Note 11 - Restructuring Programs in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Transaction and Related Costs, Net

Transaction and related costs, net primarily reflect costs from third party providers for professional services associated with certain major and strategic M&A projects. There were no Transaction and related costs, net incurred during 2021. For the three months ended September 30, 2020, we recognized a credit of $6 million, primarily related to adjustments to costs from third party providers of professional services, while for the nine months ended September 30, 2020 we incurred $18 million of costs primarily related to legal and other professional costs associated with the terminated proposal to acquire HP Inc.

Amortization of Intangible Assets

Third quarter 2021 Amortization of intangible assets of $13 million was flat as compared to the third quarter 2020. Amortization of intangible assets for the nine months ended September 30, 2020 was $42 million, an increase of $8 million as compared to the prior year period primarily due to intangible assets associated with our 2020 and 2021 acquisitions.

Worldwide Employment

Worldwide employment was approximately 23,600 as of September 30, 2021 and decreased by approximately 1,500[1] from December 31, 2020. The reduction resulted from net attrition (attrition net of gross hires), of which a large portion is not expected to be backfilled, as well as the impact of organizational changes.

(1) Decrease based on revised headcount at December 31, 2020 of 25,100 from 24,700 due to the change in definition of full-time equivalent employee.

Other Expenses, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2021	2020	2021	2020
Non-financing interest expense	$ 23	$ 30	$ 71	$ 69
Interest income	(1)	(1)	(3)	(12)
Non-service retirement-related costs	(22)	(13)	(64)	(20)
Gains on sales of businesses and assets	(39)	(28)	(40)	(29)
Currency losses, net	3	—	6	4
Contract termination costs - IT services	—	—	—	3
All other expenses, net	3	(3)	2	—
Other expenses, net	$ (33)	$ (15)	$ (28)	$ 15

Non-Financing Interest Expense

Third quarter 2021 non-financing interest expense of $23 million was $7 million lower than third quarter 2020. When combined with financing interest expense (Cost of financing), total interest expense decreased by $7 million as compared to third quarter 2020, primarily reflecting a lower average interest rate and average debt balance.

Non-financing interest expense for the nine months ended September 30, 2021 of $71 million was $2 million higher than the prior year period. When combined with financing interest expense (Cost of financing), total interest expense decreased by $2 million from the prior year period reflecting a lower average interest rate and average debt balance.

Refer to Note 12 - Debt in the Condensed Consolidated Financial Statements, for additional information regarding debt activity and the interest expense.

Interest Income

Interest income for the nine months ended September 30, 2021 was $9 million lower than the prior year period, primarily due to lower interest rates and a lower cash balance.

Non-Service Retirement-Related Costs

Non-service retirement-related costs for the three and nine months ended September 30, 2021 were $9 million and $44 million lower than the respective prior year periods, primarily driven by lower discount rates and higher expected returns on plan assets due to higher asset balances.

Refer to Note 15 - Employee Benefit Plans in the Condensed Consolidated Financial Statements, for additional information regarding non-service retirement-related costs.

Gains on Sales of Businesses and Assets

Gains on sales of businesses and assets increased $11 million for both the three and nine months ended September 30, 2021 as compared to the respective prior year periods, reflecting higher proceeds from the sale of non-core business assets.

Income Taxes

Third quarter 2021 effective tax rate was (4.8)%. On an adjusted[1] basis, third quarter 2021 effective tax rate was (3.5)%. Both rates include the benefits from additional incentives as a result of changes in elections made with the filed tax returns, as well as a decrease in the deferred tax valuation allowances of approximately 26%. The adjusted[1] effective tax rate was lower than the U.S. federal statutory tax rate of 21% primarily due to additional incentives as a result of changes in elections made with the filed tax returns, decrease in deferred tax valuation allowances, and the geographical mix of earnings. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, net, Amortization of intangible assets, non-service retirement-related costs and other discrete, unusual or infrequent items (as applicable) as described in our Non-GAAP Financial Measures section.

Third quarter 2020 effective tax rate was 24.4%. On an adjusted[1] basis, third quarter 2020 effective tax rate was 21.1%. This rate was higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes and the geographical mix of earnings which includes non-deductible items on lower pre-tax income and an increase in deferred tax asset valuation allowances partially offset by the impact from various tax law changes. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, net, Amortization of intangible assets, Transaction and related costs, net, as well as non-service retirement-related costs and other discrete, unusual or infrequent items (as applicable), as described in our Non-GAAP Financial Measures section.

The effective tax rate for the nine months ended September 30, 2021 was 8.1%. On an adjusted[1] basis, the effective tax rate for the nine months ended September 30, 2021 was 9.9%. Both rates include the benefits from tax law changes, additional incentives as a result of changes in elections made with the filed tax returns, as well as a decrease in the deferred tax valuation allowances of approximately 15%. The adjusted[1] effective tax was lower than the U.S. federal statutory tax rate of 21% primarily due to benefits from tax law changes, additional incentives as a result of changes in elections made with the filed tax returns, decrease in deferred tax valuation allowances and partially offset by state taxes and the geographical mix of earnings. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, net, Amortization of intangible assets, non-service retirement-related costs and other discrete, unusual or infrequent items (as applicable), as described in our Non-GAAP Financial Measures section.

The effective tax rate for the nine months ended September 30, 2020 was 24.2%. On an adjusted[1] basis, the effective tax rate for the nine months ended September 30, 2020 was 23.8%. This rate was higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes, the geographical mix of earnings which includes non-deductible items on lower pre-tax income and an increase in deferred tax asset valuation allowances partially offset by a benefit of approximately 6.0% for the impact from various tax law changes. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, net, Amortization of intangible assets, Transaction and related costs, net, as well as non-service retirement-related costs and other discrete, unusual or infrequent items (as applicable), as described in our Non-GAAP Financial Measures section.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable.

(1) Refer to the Effective Tax Rate reconciliation table in the "Non-GAAP Financial Measures" section.

Equity in Net Income of Unconsolidated Affiliates

Investment in Affiliates, at Equity largely consists of several minor investments in entities in the Middle East region. Equity in net income of unconsolidated affiliates for the nine months ended September 30, 2021 of $2 million was flat as compared to the prior year period.

Net Income

Third quarter 2021 Net income attributable to Xerox Holdings was $90 million, or $0.48 per diluted share. On an adjusted[1] basis, Net income attributable to Xerox Holdings was $90 million, or $0.48 per diluted share. Third quarter 2021 adjustments to Net income attributable to Xerox Holdings included Restructuring and related costs, net, Amortization of intangible assets, and non-service retirement-related costs (see **Non-GAAP Financial Measures**).

Net income attributable to Xerox Holdings for the nine months ended September 30, 2021 was $220 million, or $1.10 per diluted share and included the benefit from a change in tax law (see **Income Taxes** above). On an adjusted[1] basis, Net income attributable to Xerox Holdings was $231 million, or $1.16 per diluted share. Adjustments to Net income attributable to Xerox Holdings for the nine months ended September 30, 2021 included Restructuring and related costs, net, Amortization of intangible assets, and non-service retirement-related costs (see **Non-GAAP Financial Measures**).

Third quarter 2020 Net income attributable to Xerox Holdings was $90 million, or $0.41 per diluted share. On an adjusted[1] basis, Net income attributable to Xerox Holdings was $105 million, or $0.48 per diluted share. Third quarter 2020 adjustments to Net income attributable to Xerox Holdings included Restructuring and related costs, net, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs (see **Non-GAAP Financial Measures**).

Net income attributable to Xerox Holdings for the nine months ended September 30, 2020 was $115 million, or $0.49 per diluted share. On an adjusted[1] basis, Net income attributable to Xerox Holdings was $191 million, or $0.84 per diluted share. Both amounts included the impact of the approximately $60 million pre-tax increase in bad debt expense (approximately $43 million after-tax) as compared to the prior year period, primarily reflecting the expected impact to our customer base and related outstanding receivable portfolio from the COVID-19 pandemic. Adjustments to Net income attributable to Xerox Holdings for the nine months ended September 30, 2020 included Restructuring and related costs, net, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs and other discrete, unusual or infrequent items (see **Non-GAAP Financial Measures**).

Refer to Note 19 - Earnings per Share in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

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(1) Refer to the Net Income and EPS reconciliation table in the "Non-GAAP Financial Measures" section.

Other Comprehensive (Loss) Income

Third quarter 2021 Other Comprehensive Loss, Net Attributable to Xerox was $70 million and included the following: i) net translation adjustment losses of $125 million reflecting the weakening of our major foreign currencies against the U.S. Dollar during the quarter; ii) $4 million of net unrealized gains; and iii) $51 million of net gains from the changes in defined benefit plans primarily due to net actuarial gains as a result of better than expected investment returns and higher discount rates as well as the positive impact of currency. This compares to Other Comprehensive Income, Net Attributable to Xerox of $88 million for the third quarter 2020, which reflected the following: i) net translation adjustment gains of $179 million reflecting the significant strengthening of our major foreign currencies against the U.S. Dollar; ii) $1 million of net unrealized gains; and iii) $92 million of net losses from the changes in defined benefit plans primarily due to net actuarial losses as a result of lower discount rates in the U.S. and the negative impacts from currency, partially offset by settlements.

Other Comprehensive Loss, Net Attributable to Xerox for the nine months ended September 30, 2021 was $3 million and included the following: i) net translation adjustment losses of $122 million reflecting the weakening of our major foreign currencies against the U.S. Dollar; ii) $3 million of net unrealized losses; and iii) $122 million of net gains from the changes in defined benefit plans primarily due to remeasurement in the second quarter of 2021 and net actuarial gains as a result of higher discount rates, as well as the positive impact of currency. This compares to Other Comprehensive Income, Net Attributable to Xerox for the nine months ended September 30, 2020 of $53 million, which reflected the following: i) $42 million of net gains from the changes in defined benefit plans primarily due to the amortization and recognition of net actuarial losses from AOCL[1]; ii) net translation adjustment gains of $7 million reflecting the strengthening of our major foreign currencies against the U.S. Dollar; and iii) $4 million of net unrealized gains.

Refer to Note 18 - Other Comprehensive (Loss) Income in the Condensed Consolidated Financial Statements, for the components of Other Comprehensive (Loss) Income, Note 13 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding unrealized (losses) gains, net, and Note 15 - Employee Benefit Plans in the Condensed Consolidated Financial Statements, for additional information regarding net changes in our defined benefit plans.

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(1) AOCL - Accumulated other comprehensive loss.

New Business Strategy

As disclosed in our 2020 Annual Report, in January 2021 we announced our intention to stand up our Software, Financing and Innovation businesses as separate units by 2022. At this stage, the operations and financial results for these units continue to be primarily managed by and reported in our “go-to-market” (GTM) sales channels. We have begun the process of reorganizing these new units from the GTM units but we have not progressed to the point where we have discrete and complete financial information for these new businesses. Accordingly, the chief operating decision maker (CODM) and management continue to manage the Company’s operations, including the products and services from these units, through the GTM sales channels and as result, we continue to have one operating and reportable segment.

We expect that the business and financial information for these new units, as well as the operational management of these businesses, will continue to be refined and improved during the fourth quarter 2021. Accordingly, a reassessment of our operating segments may be required beginning in 2022.

Capital Resources and Liquidity

Our financial results through September 30, 2021 were impacted by ongoing COVID-19 related business closures and office building capacity restrictions, as well as supply chain and freight disruptions. However, we believe we have sufficient liquidity to manage the business through the economic disruption caused by this pandemic:

- The majority of our business is contractually based and most of our bundled services contracts include a fixed minimum as well as a variable component linked to excess print volumes, which provides us with a continuing stream of operating cash flow.
- As of September 30, 2021, total cash, cash equivalents and restricted cash were $2,262 million and, apart from restricted cash of $53 million, was readily accessible for use. We have access to an undrawn $1.8 billion Credit Facility that matures in August 2022.

Cash Flow Analysis

The following summarizes our cash, cash equivalents and restricted cash:

(in millions)	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2020	Change
Net cash provided by operating activities	$ 431	$ 313	$ 118
Net cash used in investing activities	(54)	(223)	169
Net cash (used in) provided by financing activities	(793)	424	(1,217)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(13)	(12)	(1)
(Decrease) increase in cash, cash equivalents and restricted cash	(429)	502	(931)
Cash, cash equivalents and restricted cash at beginning of period	2,691	2,795	(104)
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 2,262	$ 3,297	$ (1,035)

Cash Flows from Operating Activities

Net cash provided by operating activities was $431 million for the nine months ended September 30, 2021. The $118 million increase in operating cash from the prior year period was primarily due to the following:

- $109 million decrease in pre-tax income before depreciation and amortization, provisions, gain on sales of businesses and assets, restructuring and related costs, net and defined benefit pension costs.
- $284 million increase from inventory primarily due to significant cash usage in 2020 as inventory levels increased because of lower demand resulting from the COVID-19 pandemic.
- $143 million increase from accounts payable primarily due to higher spending as compared to the prior year, partially offset by the timing of supplier and vendor payments.
- $132 million increase from other current and long-term liabilities, reflecting higher accruals from the increased level of operations as compared to the prior year.
- $93 million increase from accrued compensation primarily related to higher employee incentive accruals and year-over-year timing of employee incentive payments.
- $80 million increase primarily due to the receipt of an upfront prepaid fixed royalty from FX of $100 million for their continued use of the Xerox brand trademark subsequent to the termination of our technology agreement with them.
- $362 million decrease from accounts receivable primarily due to higher revenues as compared to the prior year, partially offset by the timing of collections.
- $188 million decrease from a lower net run-off of finance receivables due to an increased level of direct lease originations from our XBS sales unit as well as higher equipment sales.

Cash Flows from Investing Activities

Net cash used in investing activities was $54 million for the nine months ended September 30, 2021. The $169 million change from the prior year period was primarily due to the following:

- $156 million change due to two acquisitions completed in the current year for $37 million compared to four acquisitions in the prior year for $193 million.
- $11 million increase due to proceeds from the sales of non-core business assets of $38 million in the current year compared to $27 million in the prior year.
- Other investing, net includes $3 million of noncontrolling investments as part of our corporate venture capital fund.

Cash Flows from Financing Activities

Net cash used in financing activities was $793 million for the nine months ended September 30, 2021. The $1,217 million decrease in cash from the prior year period was primarily due to the following:

- $902 million decrease from net debt activity. 2021 reflects payments of $444 million on existing secured financing arrangements[1] and $1 million of deferred debt issuance costs offset by proceeds of $311 million on a new secured financing arrangement. 2020 reflects proceeds of $1,507 million from a Senior Notes offering and $340 million from a secured financing arrangement offset by payments of $1,051 million on Senior Notes, $22 million on the secured financing arrangement and $13 million of deferred debt issuance costs.
- $350 million decrease due to share repurchases in the current year of $500 million compared to share repurchases of $150 million in the prior year.
- Other financing, net includes receipts for noncontrolling investments of $5 million in Eloque, a joint venture for the remote monitoring of critical infrastructure assets, and $10 million in CareAR Holdings LLC, a newly formed software business.

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(1) The payments on existing secured financing arrangements of $444 million include $136 million associated with the early extinguishment of an existing arrangement that was funded through the new secured financing arrangement. Refer to Note 12 - Debt for further information.

Cash, Cash Equivalents and Restricted Cash

Refer to Note 6 - Supplementary Financial Information in the Condensed Consolidated Financial Statements for additional information regarding Cash, cash equivalents and restricted cash.

Operating Leases

We have operating leases for real estate and vehicles in our domestic and international operations and certain equipment in our domestic operations. Additionally, we have identified embedded operating leases within certain supply chain contracts for warehouses, primarily within our domestic operations. Our leases have remaining terms of up to eleven years and a variety of renewal and/or termination options. As of September 30, 2021 and December 31, 2020, total operating lease liabilities were $290 million and $333 million, respectively.

Refer to Note 10 - Lessee in the Condensed Consolidated Financial Statements for additional information regarding our leases accounted under lessee accounting.

Debt and Customer Financing Activities

The following summarizes our debt:

(in millions)	September 30, 2021	December 31, 2020
Xerox Holdings Corporation	$ 1,500	$ 1,500
Xerox Corporation	2,200	2,200
Xerox - Other Subsidiaries[(1)]	636	767
Subtotal - Principal debt balance	4,336	4,467
Debt issuance costs		
Xerox Holdings Corporation	(11)	(13)
Xerox Corporation	(7)	(11)
Xerox - Other Subsidiaries[(1)]	(2)	(3)
Subtotal - Debt issuance costs	(20)	(27)
Net unamortized premium	3	3
Fair value adjustments[(2)]		
- terminated swaps	—	1
Total Debt	$ 4,319	$ 4,444

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(1) Represents secured debt issued by subsidiaries of Xerox Corporation as part of the securitization of Finance Receivables.
(2) Fair value adjustments normally include the following: (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

Refer to Note 12 - Debt in the Condensed Consolidated Financial Statements for additional information regarding debt.

Finance Assets and Related Debt

The following represents our total finance assets, net associated with our lease and finance operations:

(in millions)	September 30, 2021		December 31, 2020	
Total finance receivables, net[1]	$	3,075	$	3,165
Equipment on operating leases, net		254		296
Total Finance Assets, net[2]	$	3,329	$	3,461

(1) *Includes (i) Billed portion of finance receivables, net, (ii) Finance receivables, net and (iii) Finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.*
(2) *The change from December 31, 2020 includes a decrease of $59 million due to currency.*

Our lease contracts permit customers to pay for equipment over time rather than at the date of installation; therefore, we maintain a certain level of debt (that we refer to as financing debt) to support our investment in these lease contracts, which are reflected in Total finance assets, net. For this financing aspect of our business, we maintain an assumed 7:1 leverage ratio of debt to equity as compared to our finance assets.

Based on this leverage, the following represents the breakdown of total debt between financing debt and core debt:

(in millions)	September 30, 2021		December 31, 2020	
Finance receivables debt[1]	$	2,691	$	2,769
Equipment on operating leases debt		222		259
Financing debt		2,913		3,028
Core debt		1,406		1,416
Total Debt	$	4,319	$	4,444

(1) *Finance receivables debt is the basis for our calculation of "Cost of financing" expense in the Condensed Consolidated Statements of Income.*

Sales of Accounts Receivable

Activity related to sales of accounts receivable is as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	2021		2020		2021		2020	
Estimated (decrease) increase to operating cash flows[1]	$	(17)	$	54	$	(43)	$	(86)

(1) *Represents the difference between current and prior period accounts receivable sales adjusted for the effects of currency.*

Refer to Note 7 - Accounts Receivable, Net in the Condensed Consolidated Financial Statements for additional information regarding our accounts receivable sales arrangements.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to i) the statutes, regulations and practices of each of the local jurisdictions in which we operate, ii) the legal requirements of the agreements to which we are a party and iii) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our principal debt maturities are spread over the next five years as follows:

(in millions)	Xerox Holdings Corporation	Xerox Corporation	Xerox - Other Subsidiaries[1]	Total
2021 Q4	$ —	$ —	$ 76	$ 76
2022	—	300	349	649
2023	—	1,000	184	1,184
2024	—	300	27	327
2025	750	—	—	750
2026 and thereafter	750	600	—	1,350
Total[2]	$ 1,500	$ 2,200	$ 636	$ 4,336

(1) *Represents secured debt issued by subsidiaries of Xerox Corporation as part of securitization of Finance Receivables.*
(2) *Includes fair value adjustments.*

Refer to Note 12 - Debt in the Condensed Consolidated Financial Statements for additional information regarding debt.

Treasury Stock

Xerox Holdings Corporation repurchased 3.7 million shares of its common stock for an aggregate $87 million, including fees, in third quarter 2021. Xerox Holdings Corporation repurchased 20.8 million shares of its common stock for an aggregate cost of $500 million, including fees, during the nine months ended September 30, 2021. The cumulative total of shares repurchased by Xerox Holdings Corporation under the current share repurchase program is 45.5 million shares for an aggregate cost of approximately $1,100 million, including fees. As of September 30, 2021, there was approximately $500 thousand of remaining share repurchase authorization.

In October 2021, Xerox Holdings Corporation's Board of Directors authorized a new $500 million share repurchase program (exclusive of any commissions and other transaction fees and costs related thereto), to be used opportunistically. The approximately $500 thousand of authority remaining under Xerox Holdings Corporation's previously authorized $1.1 billion share repurchase program was cancelled.

Shared Services Arrangements

In March 2019, as part of Project Own It, Xerox entered into a shared services arrangement with HCL Technologies (HCL) pursuant to which we transitioned certain global administrative and support functions, including, among others, selected information technology and finance functions, from Xerox to HCL. This transition was expected to be completed during 2020, however, it sustained some delays caused by the COVID-19 pandemic, and it is now expected to be finalized by the end of 2021. HCL is expected to make certain ongoing investments in software, tools and other technology to consolidate, optimize and automate the transferred functions with the goal of providing improved service levels and significant cost savings. The shared services arrangement with HCL includes a remaining aggregate spending commitment of approximately $900 million over the next 5 years. However, we can terminate the arrangement at any time at our discretion, subject to payment of termination fees that decline over the term, or for cause.

In July 2021, Xerox entered into an arrangement with Tata Consulting Services (TCS), whereby TCS will provide business processing outsourcing services in support of our global finance organization. This will include the transition of all the finance processes currently being provided by HCL. These activities started to transition during the third quarter 2021 and are expected to be completed in fourth quarter 2021. The transition does not impact our minimum revenue commitments to HCL and will result in all of our finance business processing outsourcing services being provided by one vendor. TCS will leverage their existing technology and make additional investments as required to consolidate, optimize and automate the supported services with the goal of providing improved service levels and cost savings. The arrangement is initially for 6 years with a total contract value of approximately $160 million. We can terminate the arrangement subject to payment of termination fees that decline over the term.

We incurred net charges of $52 million and $49 million during the three months ended September 30, 2021 and 2020, respectively, and $152 million and $139 million for the nine months ended September 30, 2021 and 2020, respectively, related to these shared services arrangements. The cost has been allocated to the various functional expense lines in the Condensed Consolidated Statements of Income based on an assessment of the nature and amount of the costs incurred for the various transferred functions prior to their transfer to HCL and TCS.

ServiceNow License Purchase

In June 2021, Xerox entered into a software services agreement with a system integrator that included Xerox's use of ServiceNow software licenses for a 5-year commitment of approximately $60 million. A portion of licenses obtained through this new arrangement are expected to be used by Xerox as part of a future project with the system integrator for the reengineering and restructure of Xerox's current global technical service force.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilize derivative financial instruments to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, interest rate caps, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro and U.K. Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency exchange rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 13 – Financial Instruments in the Condensed Consolidated Financial Statements for further discussion and information on our financial risk management strategies.

Non-GAAP Financial Measures

We have reported our financial results in accordance with generally accepted accounting principles (GAAP). In addition, we have discussed our financial results using the non-GAAP measures described below. We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related income tax effects.

Reconciliations of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as in the third quarter 2021 presentation slides available at www.xerox.com/investor.

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Adjusted Earnings Measures

- Net Income and EPS
- Effective Tax Rate

The above measures were adjusted for the following items:

Restructuring and related costs, net: Restructuring and related costs, net include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.

Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

Transaction and related costs, net: Transaction and related costs, net are costs and expenses primarily associated with certain strategic M&A projects. These costs are primarily for third-party legal, accounting, consulting and other similar type professional services as well as potential legal settlements that may arise in connection with those M&A transactions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned transactions. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.

Other discrete, unusual or infrequent items: We excluded these items, when applicable, given their discrete, unusual or infrequent nature and its impact on our results for the period.

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

Adjusted Operating Income and Margin

We calculate and utilize adjusted operating income and margin measures by adjusting our reported pre-tax income and margin amounts. In addition to the costs and expenses noted above as adjustments for our adjusted earnings measures, adjusted operating income and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Constant Currency (CC)

Refer to "Currency Impact" for a discussion of this measure and its use in our analysis of revenue growth.

Summary

Management believes that all of these non-GAAP financial measures provide an additional means of analyzing the current period's results against the corresponding prior period's results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable GAAP measures and should be read only in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions. These non-GAAP measures are among the primary factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on these non-GAAP measures.

Reconciliations of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with GAAP are set forth on the following tables:

Net Income and EPS reconciliation:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2021		2020		2021		2020	
(in millions, except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported[(1)]	$ 90	$ 0.48	$ 90	$ 0.41	$ 220	$ 1.10	$ 115	$ 0.49
Adjustments:								
Restructuring and related costs, net	10		20		39		64	
Amortization of intangible assets	13		13		42		34	
Transaction and related costs, net	—		(6)		—		18	
Non-service retirement-related costs	(22)		(13)		(64)		(20)	
Contract termination costs - IT services	—		—		—		3	
Income tax on adjustments[(2)]	(1)		1		(6)		(23)	
Adjusted	$ 90	$ 0.48	$ 105	$ 0.48	$ 231	$ 1.16	$ 191	$ 0.84
Dividends on preferred stock used in adjusted EPS calculation[(3)]		$ 4		$ 4		$ 11		$ 11
Weighted average shares for adjusted EPS[(3)]		182		213		190		215
Fully diluted shares at September 30, 2021[(4)]		181						

(1) Net income and EPS attributable to Xerox Holdings.
(2) Refer to Effective Tax Rate reconciliation.
(3) Average shares for the calculation of adjusted diluted EPS for 2021 and 2020 excludes 7 million shares associated with our Series A convertible preferred stock and therefore earnings includes the preferred stock dividend.
(4) Represents common shares outstanding at September 30, 2021 plus potential dilutive common shares as used for the calculation of adjusted diluted EPS for 2021. The amount excludes shares associated with our Series A convertible preferred stock as they were anti-dilutive for 2021.

Effective Tax Rate reconciliation:

	Three Months Ended September 30,					
	2021			2020		
(in millions)	Pre-Tax Income	Income Tax Benefit	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[(1)]	$ 84	$ (4)	(4.8)%	$ 119	$ 29	24.4 %
Non-GAAP Adjustments[(2)]	1	1		14	(1)	
Adjusted[(3)]	$ 85	$ (3)	(3.5)%	$ 133	$ 28	21.1 %

	Nine Months Ended September 30,					
	2021			2020		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[(1)]	$ 236	$ 19	8.1 %	$ 149	$ 36	24.2 %
Non-GAAP Adjustments[(2)]	17	6		99	23	
Adjusted[(3)]	$ 253	$ 25	9.9 %	$ 248	$ 59	23.8 %

(1) Pre-tax income and income tax (benefit) expense.
(2) Refer to Net Income and EPS reconciliation for details.
(3) The tax impact on Adjusted Pre-Tax Income is calculated under the same accounting principles applied to the Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

Operating Income and Margin reconciliation:

	Three Months Ended September 30,					
	2021			2020		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 84	$ 1,758	4.8 %	$ 119	$ 1,767	6.7 %
Adjustments:						
Restructuring and related costs, net	10			20		
Amortization of intangible assets	13			13		
Transaction and related costs, net	—			(6)		
Other expenses, net	(33)			(15)		
Adjusted	$ 74	$ 1,758	4.2 %	$ 131	$ 1,767	7.4 %

	Nine Months Ended September 30,					
	2021			2020		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 236	$ 5,261	4.5 %	$ 149	$ 5,092	2.9 %
Adjustments:						
Restructuring and related costs, net	39			64		
Amortization of intangible assets	42			34		
Transaction and related costs, net	—			18		
Other expenses, net	(28)			15		
Adjusted	$ 289	$ 5,261	5.5 %	$ 280	$ 5,092	5.5 %

(1) Pre-Tax Income

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the "Financial Risk Management" section of this Quarterly Report on Form 10-Q is hereby incorporated by reference in answer to this Item.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Xerox Holdings Corporation

The management of Xerox Holdings Corporation evaluated, with the participation of its principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer of Xerox Holdings Corporation have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures of Xerox Holdings Corporation were effective to ensure that information required to be disclosed in the reports filed or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to Xerox Holdings Corporation, including its consolidated subsidiaries, and was accumulated and communicated to the management of Xerox Holdings Corporation, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Xerox Corporation

The management of Xerox Corporation evaluated, with the participation of its principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this report. Based on this evaluation, the principal executive officer and principal financial officer of Xerox Corporation have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures of Xerox Corporation were effective to ensure that information required to be disclosed in the reports that or submitted under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms relating to Xerox Corporation, including its consolidated subsidiaries, and was accumulated and communicated to the management of Xerox Corporation, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

Xerox Holdings Corporation

As required by paragraph (d) of Rule 13a-15 under the Exchange Act, we evaluated changes in our internal control over financial reporting during the last fiscal quarter. There were no changes identified in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Xerox Corporation

As required by paragraph (d) of Rule 13a-15 under the Exchange Act, we evaluated changes in our internal control over financial reporting during the last fiscal quarter. There were no changes identified in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 20 – Contingencies and Litigation in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this item.

ITEM 1A — RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of the combined Xerox Holdings Corporation and Xerox Corporation Annual Report on Form 10-K for the year ended December 31, 2020.

You should carefully consider the following risk factor as well as the other information included, and risks described, in other sections of this Form 10-Q, including under the headings "Cautionary Statement Regarding Forward-Looking Statements", "Legal Proceedings", "Selected Financial Data", and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our Condensed Consolidated Financial Statements and the related notes thereto. The following risk factor has been updated from the risk factor contained in our combined Annual Report on Form 10-K for the year ended December 31, 2020.

The following risk could materially and adversely affect our business, financial condition, or results of operations. The selected risk described below, however, is not the only risk facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially and adversely affect our business, financial condition, or results of operations.

If we are unsuccessful at addressing our business challenges, our business and results of operations may be adversely affected and our ability to invest in and grow our business could be limited.

We are in the process of addressing many challenges facing our business, including the COVID-19 pandemic. One set of challenges relates to dynamic and accelerating market trends, such as the declines in installations and printed pages, fewer devices per location and an increase in electronic documentation. A second set of challenges relates to changes in the competitive landscape. Our primary competitors are exerting increased competitive pressure in targeted areas and are entering new markets; our emerging competitors are introducing new technologies and business models. These market and competitive trends make it difficult to reverse the current declines in revenue over the past several years. A third set of challenges relates to our continued efforts to reduce costs and increase productivity in light of declining revenues. In addition, we are vulnerable to increased risks associated with our efforts to address these challenges given the markets in which we compete, as well as the broad range of geographic regions in which we and our customers and partners operate, including the impact of the COVID-19 pandemic on those markets and regions, which is expected to continue in future periods. In connection with the formation of the CareAR software business, our business faces additional risks regarding whether CareAR's service experience management platform will achieve expectations regarding customer adoption, integration with ServiceNow's platform, and cost and carbon emission reduction, as well as the financial performance of CareAR, including projected revenue for fiscal years 2021 and 2022. If we do not succeed in these efforts, or if these efforts are more costly or time-consuming than expected, our business and results of operations may be adversely affected, which could limit our ability to invest in and grow our business.

ITEM 2 — UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2021

During the quarter ended September 30, 2021, Xerox Holdings Corporation issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the Act).

Dividend Equivalents:

(a) Securities issued on August 2, 2021: Xerox Holdings Corporation issued 2,701 DSUs, representing the right to receive shares of Common Stock, par value $1 per share, at a future date.

(b) No underwriters participated. The DSUs were issued to each of the non-employee Directors of Xerox Holdings Corporation and to two former non-employee Directors of Xerox Corporation: Jonathan Christodoro, Keith Cozza, Joseph J. Echevarria, Nicholas Graziano, Aris Kekedjian, Cheryl Gordon Krongard, Scott Letier, Nichelle Maynard-Elliott, Steven D. Miller, and Margarita Paláu-Hernández.

(c) The DSUs were issued at a deemed purchase price of $23.415 per DSU (aggregate price $63,244), based upon the market value of our Common Stock on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Xerox Holdings Corporation's 2004 Equity Compensation Plan for Non-Employee Directors (as amended and restated in 2021 (the 2021 Restatement)).

(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.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2021

Repurchases of Xerox Holdings Corporation's Common Stock, par value $1 per share, include the following:

Board Authorized Share Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share[1]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2]	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs[2]
July 1 through 31	3,730,928	$ 23.41	3,730,928	$ 450,218
August 1 through 31	—	—	—	450,218
September 1 through 30	—	—	—	450,218
Total	3,730,928		3,730,928	

(1) Exclusive of fees and expenses.

(2) Of the $1.1 billion of share repurchase authority previously granted by Xerox Holdings Corporation's Board of Directors, exclusive of fees and expenses, approximately $1.1 billion has been used through September 30, 2021. Repurchases may be made on the open market, or through derivative or negotiated contracts. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 through 31	21,071	$ 23.82	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	—	—	n/a	n/a
Total	21,071			

(1) These repurchases are made under a provision in our restricted stock compensation programs for the indirect repurchase of shares through a net-settlement feature upon the vesting of shares in order to satisfy minimum statutory tax-withholding requirements.

(2) Exclusive of fees and expenses.

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 — OTHER INFORMATION

None.

ITEM 6 — EXHIBITS

10.1	Xerox Holdings Corporation Performance Incentive Plan as amended October 21, 2021.
31(a)(1)	Certification of Xerox Holdings Corporation CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(a)(2)	Certification of Xerox Corporation CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)(1)	Certification of Xerox Holdings Corporation CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)(2)	Certification of Xerox Corporation CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32(a)	Certification of Xerox Holdings Corporation CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification of Xerox Corporation CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from Xerox Holdings Corporation and Xerox Corporation's combined Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 was formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Xerox Holdings Corporation Condensed Consolidated Statements of Income, (ii) Xerox Holdings Corporation Condensed Consolidated Statements of Comprehensive Income, (iii) Xerox Holdings Corporation Condensed Consolidated Balance Sheets, (iv) Xerox Holdings Corporation Condensed Consolidated Statements of Cash Flows, (v) Xerox Corporation Condensed Consolidated Statements of Income, (vi) Xerox Corporation Condensed Consolidated Statements of Comprehensive Income, (vii) Xerox Corporation Condensed Consolidated Balance Sheets, (viii) Xerox Corporation Condensed Consolidated Statements of Cash Flows, and (ix) Notes to the Condensed Consolidated Financial Statements.
104	The cover page from this Quarterly Report on Form 10-Q, (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signatures for each undersigned shall be deemed to relate only to matters having reference to such company and its subsidiaries.

XEROX HOLDINGS CORPORATION
(Registrant)

By: /S/ JOSEPH H. MANCINI, JR.

Joseph H. Mancini, Jr.
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 3, 2021

XEROX CORPORATION
(Registrant)

By: /S/ JOSEPH H. MANCINI, JR.

Joseph H. Mancini, Jr.
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: November 3, 2021

EXHIBIT INDEX

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Xerox Holdings Corporation Performance Incentive Plan
As Amended Through October 21, 2021

The Xerox Holdings Corporation Performance Incentive Plan (the “Plan”) was adopted by Xerox Holdings Corporation (the “Company”) effective as of May 21, 2020. The Plan as amended through October 21, 2021 updates references to the stock exchange on which the Company’s Common Stock (as defined herein) is listed.

1. Purpose

The purpose of the Plan as set forth herein or in any amendments hereto is to advance the interests of the Company and to increase shareholder value by providing officers and employees of the Company and any entity in which the Company has a significant equity interest, as determined by the Committee (“Affiliate”), with a proprietary interest in the growth and performance of the Company and with incentives for current or future service with the Company and Affiliates.

2. Effective Date and Term

The Plan is effective as of May 21, 2020 (the “Effective Date”) as to all awards granted under the Plan on and after the Effective Date. No awards or grants may be made after May 20, 2025, or after such earlier date as the Plan may be terminated pursuant to Section 13 by the Company’s Board of Directors (the “Board”).

The Plan is a successor plan to (i) the Xerox Corporation 2004 Performance Incentive Plan, (ii) the Xerox Corporation 1991 Long-Term Incentive Plan, (iii) the Xerox Corporation 1998 Employee Stock Option Plan, (iv) the Xerox Executive Performance Incentive Insurance Plan, (v) the Xerox Mexicana, S.A. de C.V. Executive Rights Plan, and (vi) the Xerox Canada Inc. Executive Rights Plan, any or all of which may be referred to as a “Predecessor Plan.” Effective as of the Effective Date, no further awards were made under a Predecessor Plan, but outstanding awards under any Predecessor Plan remained outstanding in accordance with their applicable terms and conditions.

3. Plan Administration

(a) The independent Compensation Committee of the Board, or such other independent committee as the Board shall determine, comprised of not less than three members, shall be responsible for administering the Plan (the “Committee”). The Committee shall be qualified to administer the Plan as contemplated by (i) Rule 16b-3 under the Securities Exchange Act of 1934 (the “1934 Act”) or any successor rule, and (ii) any rules and regulations of a stock exchange on which Common Stock (as defined in Section 5) of the Company is listed.

(b) The Committee shall have full and exclusive power to interpret, construe and implement the Plan and any rules, regulations, guidelines or agreements adopted hereunder and to adopt such rules, regulations and guidelines for carrying out the Plan as it may deem necessary or proper. These powers shall include, but not be limited to, (i) determination of the type or types of awards to be granted under the Plan; (ii) determination of the terms and conditions of any awards under the Plan; (iii) determination of whether, to what extent and under what circumstances awards may be settled, paid or exercised in cash, shares, other securities, or other awards, or other property, or cancelled, forfeited or suspended; (iv) adoption of such modifications, amendments, procedures, subplans and the like as are necessary to enable participants employed in other countries in which the Company or any Affiliate may operate to receive advantages and benefits under the Plan consistent with the laws of such countries, and consistent with the rules of the Plan; (v) subject to the rights of participants, modification, change, amendment or cancellation of any award to correct an administrative error; and (vi) taking any other action the Committee deems necessary or desirable for the administration of the Plan. All determinations, interpretations, and other decisions under or with respect to the Plan or any award by the Committee shall be final, conclusive and binding upon the Company, any Affiliate, any participant, any holder or beneficiary of any award under the Plan and any employee of the Company or an Affiliate.

(c) To the extent specified by the Committee, the Committee may delegate its administrative responsibilities to a subcommittee of the Committee comprised of not less than three members. Except for the power to amend the Plan as provided in Section 13 and except for determinations regarding employees who are subject to Section 16 of the 1934 Act and except as may otherwise be required any rules and regulations of a stock exchange on which Common Stock of the Company is listed, the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Committee may establish to any officer or officers of the Company. Subject to compliance with applicable law and the applicable stock exchange rules, the Board, in its discretion, may perform any action of the Committee hereunder. To the extent that the Board, a subcommittee or any individual to whom authority is delegated pursuant to this Plan administers or amends the Plan, references in the Plan to the "Committee" shall be deemed to refer to such subcommittee or such individual.

4. Eligibility

Any employee of the Company or any Affiliate shall be eligible to receive an award under the Plan, as determined by the Committee.

5. Shares of Stock Subject to the Plan

(a) As of the Effective Date, a total number of 14,000,000 shares of common stock of the Company par value $1.00 per share ("Common Stock"), reduced by one share for each share subject to an award granted after December 31, 2019 under the Xerox Corporation 2004 Performance Incentive Plan, are available for issuance under the Plan.

(b) Shares issued or transferred under the Plan may be authorized but unissued shares of Common Stock or reacquired shares of Common Stock, including shares purchased by the Company on the open market for purposes of the Plan. If and to the extent Stock Options or SARs granted under the Plan or any Predecessor Plan expire or are canceled, forfeited, exchanged or surrendered after December 31, 2019 without having been exercised, or if any Stock Awards granted under the Plan or any Predecessor Plan are forfeited, terminated or otherwise not paid in full after December 31, 2019, the shares subject to such awards shall again be available for purposes of the Plan. Shares of Common Stock surrendered in payment of the exercise price of a Stock Option shall not be available for re-issuance under the Plan. Shares of Common Stock withheld or surrendered for payment of taxes with respect to Awards shall not be available for re-issuance under the Plan. Upon the exercise of SARs, the full number of shares subject to the SARs shall be considered issued under the Plan, without regard to the number of shares issued upon exercise of the SARs. To the extent any awards are paid in cash, and not in shares of Common Stock, any shares previously subject to such Awards or Predecessor Plan awards shall again be available for issuance or transfer under the Plan. For the avoidance of doubt, if shares are repurchased by the Company on the open market with the proceeds of the exercise price of Stock Options, such shares may not again be made available for issuance under the Plan. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company shall not be counted against the shares available for issuance under the Plan.

(c) Any shares issued under the Plan may consist in whole or in part of authorized and unissued shares or of treasury shares and no fractional shares shall be issued under the Plan. Cash may be paid in lieu of any fractional shares in payment of awards under the Plan.

6. Adjustments and Reorganizations

(a) If the Company shall at any time change the number of issued shares without new consideration to the Company (such as by stock dividend, stock split, recapitalization, reorganization, exchange of shares, liquidation, combination or other change in corporate structure affecting the shares) or make a distribution of cash or property that has a substantial impact on the value of issued shares (other than by normal cash dividends), the Committee shall equitably adjust (i) the aggregate number of shares that may be issued under the Plan; (ii) the number of shares subject to awards of a specified type or to any individual under the Plan; and/or (iii) the price per share for any outstanding Stock Options, SARs and other awards under the Plan to reflect such change to preclude, to the extent practicable, the enlargement or dilution of rights and benefits under the Plan and such outstanding Awards; provided, however, that any fractional shares resulting from such adjustment shall be eliminated. The Committee shall have the sole discretion and authority to determine what appropriate adjustments shall be made and any adjustments determined by the Committee shall be final, binding and conclusive.

(b) Except as otherwise provided in subsection 6(a) above, notwithstanding any other provision of the Plan, and without affecting the number of shares reserved or available hereunder, the Committee shall authorize the issuance, continuation or assumption of outstanding Stock Options, SARs and other awards under the Plan or provide for other equitable adjustments after changes in the shares resulting from any merger, consolidation, sale of all or substantially all assets, acquisition of property or stock, recapitalization, reorganization or similar occurrence in which the Company is the continuing or surviving corporation, upon such terms and conditions as it may deem necessary to preserve the rights of the holders of awards under the Plan.

(c) In the case of any sale of all or substantially all assets, merger, consolidation or combination of the Company with or into another corporation other than a transaction in which the Company is the continuing or surviving corporation and which does not result in the outstanding shares being converted into or exchanged for different securities, cash or other property, or any combination thereof (an "Acquisition"), any individual holding a Stock Award, Stock Option or SAR shall have the right to receive the Acquisition Consideration (as defined in this subsection (c)) receivable by a holder of the number of shares available in accordance with the terms of the applicable awards and the Plan as in effect immediately before the Acquisition.

The term "Acquisition Consideration" shall mean the kind and amount of shares of the surviving or new corporation, cash, securities, evidence of indebtedness, other property or any combination thereof receivable in respect of one share of the Company upon consummation of an Acquisition.

(d) No adjustment or modification to any outstanding award pursuant to this Section 6 shall be permitted if it would constitute the modification or extension of a stock right within the meaning of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code) and Treasury guidance thereunder.

7. Awards

(a) The Committee shall determine the type or types of award(s) to be made to each participant under the Plan and shall approve the terms and conditions governing such awards in accordance with Section 12. Awards may include but are not limited to those listed in this Section 7. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity.

(b) A Stock Option is a grant of a right to purchase a specified number of shares of Common Stock during a specified period. The purchase price of each option shall be not less than 100% of Fair Market Value (as defined in Section 10) on the effective date of grant. A Stock Option may be exercised in whole or in installments, which may be cumulative. A Stock Option may be in the form of an incentive stock option ("ISO") that complies with Code Section 422 and the regulations thereunder at the time of grant. The price at which shares of Common Stock may be purchased under a Stock Option shall be paid in full at the time of the exercise in cash or such other method as provided by the Committee at the time of grant or as provided in the form of agreement approved in accordance herewith, including tendering (either constructively or by attestation) Common Stock, surrendering a stock award valued at market value at the time of surrender, surrendering a cash award, or any combination thereof. Other than pursuant to Section 6, the Committee shall not without the approval of the Company's shareholders (i) lower the exercise price per share of a Stock Option after it is granted, (ii) cancel a Stock Option when the exercise price per share exceeds the Fair Market Value of one share in exchange for cash or another award (other than in connection with a Change in Control), or (iii) take any other action with respect to a Stock Option that would be treated as a repricing under Nasdaq rules. The Company may not repurchase a Stock Option for value (in cash, substitutions, cash buyouts or otherwise) from a Stock Option-holder if the current Fair Market Value of the shares underlying the Stock Option is lower than the exercise price per share of the Stock Option. The foregoing two sentences are collectively referred to herein as the "Repricing Prohibition." Under no circumstances may a Stock Option provide for automatic award of additional stock options upon the exercise of the Stock Option, including, without limitation, "reload options."

(c) A Stock Appreciation Right ("SAR") is a right to receive a payment, in cash and/or Common Stock, as determined by the Committee, equal to the excess of (i) the Fair Market Value of a specified number of shares of Common Stock at the time the SAR is exercised over (ii) the Fair Market Value on the effective date of grant of the SAR as set forth in the applicable award agreement (the "SAR Exercise Price"). Notwithstanding any provision of the Plan to the contrary, the Repricing Prohibition described above shall also apply to SARs on the same basis as it does to Stock Options were the SAR Exercise Price substituted for the Stock Option exercise price.

(d) A Stock Award is an award made in stock or denominated in units of stock, other than a Stock Option or a SAR. For example, Stock Awards may include, but are not limited to, awards of restricted stock, restricted stock units (RSUs), performance share units (PSUs), or phantom stock. All or part of any Stock Award may be subject to conditions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance, including, without limitation, earnings per share, cash flow, cost reduction, days sales outstanding, cash conversion cycle, cash management (including, without limitation, inventory and/or capital expenditures), total shareholder return, return on shareholders' equity, return on invested capital, economic value added measures, return on assets, pre-or post-currency revenue, pre-or post-currency performance profit, profit before tax, profit after tax, operating profit, operating margin, stock price and return on sales. The Committee may at its discretion modify performance standards as appropriate if any performance condition cannot be satisfied solely because of the occurrence of a significant event that is beyond the reasonable control of the Company or the participant, and could not have been reasonably foreseen or provided for, including war, acts of terrorism and acts of God including earthquakes and epidemics.

(e) A Cash Award may be any of the following:

(i) an annual incentive award in connection with which the Committee will establish specific performance periods (not to exceed twelve months) to provide cash awards for the purpose of motivating participants to achieve goals for the performance period. An annual incentive award shall specify the minimum, target and maximum amounts of awards for a performance period for a participant or any groups of participants; or

(ii) a long-term award denominated in cash with the eventual payment amount subject to future service and such other restrictions and conditions as may be established by the Committee, and as set forth in the award agreement, including, but not limited to, continuous service with the Company, achievement of specific business objectives, and other measurement of individual, business unit or Company performance (for example, an award of phantom stock, the eventual payment of which would be made in cash and tied to the performance of a particular business unit, as set forth in the award agreement).

(f) The Committee shall have the discretion with respect to any award granted under the Plan to establish upon its grant conditions under which (i) the award may be later forfeited, cancelled, rescinded, suspended, withheld or otherwise limited or restricted; or (ii) gains realized by the grantee in connection with an award or an award's exercise may be recovered; provided that such conditions comply with applicable laws.

If a participant who is an employee or former employee of the Company is determined by the Committee, in the Committee's sole discretion exercised prior to a Change in Control, to have failed to satisfy one or more of the conditions set forth in the Award Agreement, by any act or failure to act, any awards granted to such employee or former employee, whether or not Nonforfeitable (as defined in Section 22) shall be canceled and be of no further force or effect and any payment or delivery of an award from six months prior to such act or failure to act may be rescinded. In the event of any such rescission, the participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee.

If an accounting restatement is required to correct any material non-compliance with financial reporting requirements under relevant securities laws, the Committee in its sole discretion may authorize the Company to recover any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, that was based on such erroneous data and paid during the three-year period preceding the date on which the Company is required to prepare the accounting restatement, from executive officers or former executive officers. The Company may implement any policy or take any action with respect to the recovery of excess incentive-based compensation, including entitlement to shares, that the Committee determines to be necessary or advisable in order to comply with the requirements of the Dodd-Frank Wall Street Financial Reform and Consumer Protection Act.

8. Dividends and Dividend Equivalents

The Committee may provide that awards denominated in stock earn dividends or dividend equivalents. Such dividend equivalents may be paid currently in cash or shares of Common Stock or may be credited to an account established by the Committee under the Plan in the name of the participant. In addition, dividends or dividend equivalents paid on outstanding awards or issued shares may be credited to such account rather than paid currently. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares or share equivalents**.** Notwithstanding the above, no dividends or dividend equivalents will be paid on shares subject to any award before the award becomes nonforfeitable. In no event will dividends or dividend equivalents be paid with respect to Options or SARs.

9. Deferrals and Settlements

Payment of awards may be in the form of cash, stock, other awards, or in such combinations thereof as the Committee shall determine at the time of grant, and with such restrictions as it may impose. Except as provided in Section 23 herein, the Committee may also require or permit participants to elect to defer the issuance of shares or the payment of awards in cash under such rules and procedures as it may establish under the Plan, provided that such rules and procedures comply with the requirements of Code Section 409A, if applicable. It may also provide that deferred payments include the payment or crediting of interest on the deferral amounts or the payment or crediting of dividend equivalents on deferred payments denominated in shares.

10. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean the closing price of Common Stock as reported in The Wall Street Journal in the Nasdaq Composite Index or similar successor consolidated transactions reports for the relevant date, or if no sales of Common Stock were made on said exchange on that date, the closing price of Common Stock as reported in said composite transaction report for the preceding day on which sales of Common Stock were made on said exchange. Under no circumstances shall Fair Market Value be less than the par value of the Common Stock.

11. Transferability and Exercisability

Except as otherwise provided in this Section 11, all awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the participant other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. Notwithstanding the preceding sentence, the Committee may provide that any award of non-qualified Stock Options may be transferable by the recipient to family members or family trusts established by the recipient. The Committee may also provide that, in the event that a participant terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, a third party, including but not limited to a “blind” trust, may be authorized by the Committee to act on behalf of and for the benefit of the respective participant with respect to any outstanding awards. Except as otherwise provided in this Section 11, during the life of the participant, awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Committee. In addition, if so permitted by the Committee, a participant may designate a beneficiary or beneficiaries to exercise the rights of the participant and receive any distributions under the Plan upon the death of the participant. In no event may an award be transferred for monetary value.

12. Award Agreements; Notification of Award

Awards under the Plan (other than annual incentive Cash Awards described in Section 7(e)(i)) shall be evidenced by one or more agreements approved by the Committee that set forth the terms and conditions of and limitations on an award, except that in no event shall the term of any Stock Option or SAR exceed a period of ten years from the date of its grant, except as otherwise permitted by Section 19. The Committee need not require the execution of any such agreement by a participant in which case acceptance of the award by the respective participant will constitute agreement to the terms of the award. In the case of an annual incentive Cash Award, the participant shall receive notification of such award in such form as the Committee may determine.

13. Plan Amendment and Termination

The Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time in a manner consistent with the following:

(a) The Committee may amend the Plan as it deems necessary or appropriate, except that no such amendment which would cause the Plan not to comply with the requirements the New York Business Corporation Law as in effect at the time of such amendment shall be made without the approval of the Company’s shareholders. No such amendment shall materially adversely affect any outstanding awards under the Plan without the consent of all of the holders thereof.

(b) Notwithstanding the foregoing, an amendment that constitutes a “material amendment,” as defined by Nasdaq rules, shall be submitted to the Company’s shareholders for approval. Any revision that deletes or limits the scope of the provision in Section 7 prohibiting repricing of Stock Options or SARs without shareholder approval will be considered a material revision.

(c) The Board may terminate the Plan at any time. Upon termination of the Plan, no future awards may be granted, but previously-made awards shall remain outstanding in accordance with their applicable terms and conditions, and the terms of the Plan.

14. Tax Withholding

The Company or an employee's employer (the "Employer") shall have the right to deduct from any payment of an award made under the Plan, including the delivery or vesting of shares, an amount sufficient to cover withholding required by law for any foreign, federal, state or local taxes or to take such other action as may be necessary to satisfy any such withholding obligations. The Committee may permit shares to be used to satisfy required tax withholding and such shares shall be valued at the fair market value as of the payment date of the applicable award.

Regardless of any action the Company or the Employer takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to employee's participation in the Plan and legally applicable to employee ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains employee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Company and the Employer make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of awards under the Plan, including, but not limited to, the making of awards, the issuance of shares of Common Stock of awards, subsequent sale of shares of Common Stock acquired pursuant to such issuance and the receipt of any dividends or dividend equivalents. The Company and the Employer do not commit to and are under no obligation to structure the terms of the grant or any aspect of the awards to reduce or eliminate employee's liability for Tax-Related Items or achieve any particular tax result. The Company, the Employer, and their respective agents, at their discretion, are authorized to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: withholding from employee's wages or other cash compensation paid to employee by the Company or the Employer; withholding from the proceeds of the sale of shares of Common Stock acquired upon vesting/settlement of the awards through Stock Option exercise either through a voluntary sale or through a mandatory sale arranged by the Company (on employee's behalf pursuant to this authorization); or withholding in shares of Common Stock to be issued upon vesting/settlement of the awards and Stock Option exercises.

Employee shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of employee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares or the proceeds of the sale of shares of Common Stock if employee fails to comply with employee's obligations in connection with the Tax-Related Items.

15. Other Company Benefit and Compensation Programs

Unless otherwise determined by the Committee, payments of awards received by participants under the Plan shall not be deemed a part of a participant's regular, recurring compensation for purposes of calculating payments or benefits from any Company or Employer benefit plan, severance program or severance pay law of any country.

16. Unfunded Plan

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or a separate fund or funds. The Plan shall not establish any fiduciary relationship between the Company and any participant or other person. To the extent any person holds any rights by virtue of a grant awarded under the Plan, such right (unless otherwise determined by the Committee) shall be no greater than the right of an unsecured general creditor of the Company.

17. Future Rights

No person shall have any claim or right to be granted an award under the Plan, and no participant shall have any right by reason of the grant of any award under the Plan to continued employment by the Company or any Affiliate of the Company. Awards hereunder are voluntary and occasional and do not create any contractual or other right to receive future awards, or benefits in lieu of awards, even if awards have been granted repeatedly in the past. All decisions with respect to future awards under the Plan, if any, will be at the sole discretion of the Committee.

18. General Restriction

Each award shall be subject to the requirement that, if at any time the Committee shall determine, in its sole discretion, that the listing, registration or qualification of any award under the Plan upon any securities exchange or under any state or federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such award or the exercise payment thereof, such award may not be granted, exercised or paid in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

19. Governing Law

The validity, construction and effect of the Plan and any actions taken or relating to the Plan shall be determined in accordance with the laws of the state of New York and applicable Federal law.

Grants provided hereunder are made and/or administered in the United States. Any litigation that arises under the Plan shall be conducted in the courts of Monroe County, New York, or the federal courts for the United States for the Western District of New York.

20. Successors and Assigns

The Plan shall be binding on all successors and permitted assigns of a participant, including, without limitation, the estate of such participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of such participant's creditors.

21. Rights as a Shareholder

A participant shall have no rights as a shareholder until he or she becomes the holder of record of Common Stock.

22. Change in Control

Notwithstanding anything to the contrary in the Plan, the following shall apply to all awards granted and outstanding under the Plan:

(a) Definitions. Unless otherwise defined by the Committee and set forth in the award agreement at the time of the grant or otherwise defined in a participant's employment agreement, the following definitions shall apply to this Section 22:

(i) A "Change in Control" shall be deemed to have occurred if:

(A) any Person (as defined below in this Section 22(a)(i)) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 35% or more of the combined voting power of the Company's then outstanding securities;

(B) there is consummated a merger or consolidation of the Company with any other person, other than (1) a merger or consolidation that results in the directors of the Company who were members of the Incumbent Board (as defined below in this Section 22(a)(i)) immediately before such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof, or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 35% or more of the combined voting power of the Company's then outstanding voting securities; or

(C) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately before such sale.

For purposes of this definition of Change in Control, "Person" shall have the meaning given in Section 3(a)(9) of the 1934 Act, as modified and used in Section 13(d) and 14(d) of the 1934 Act, except that such term shall not include Excluded Persons. "Excluded Persons" shall mean (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, (3) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (4) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (5) an individual, entity or group who is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule), provided that if any Excluded Person described in this clause (5) subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this definition, such individual, entity or group shall no longer be considered an Excluded Person and shall be deemed to have first acquired beneficial ownership of securities of the Company on the first date on which such individual, entity or group becomes required to or does so report on such Schedule.

The "Incumbent Board" comprises the following individuals: individuals who, as of the date hereof, constitute the Board; and any new director whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended.

(ii) "CIC Price" shall mean either (A) the highest price paid for a share of the Company's Common Stock in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (B) if the Change in Control occurs without such a transaction or series of transactions, the closing price for a share of the Company's Common Stock on the date immediately preceding the date upon which the event constituting a Change in Control shall have occurred as reported in The Wall Street Journal in the Nasdaq Composite Index or similar successor consolidated transactions reports.

(iii) An award is “Nonforfeitable” in whole or in part to the extent that, under the terms of the Plan or the award agreement or summary under the Plan, the award is vested in whole or part.

(iv) A “Section 409A-Conforming Change in Control” is a Change in Control that conforms to the definition under Code Section 409A of a change in ownership or effective control of the Company, or in the ownership of a substantial portion of the assets of the Company, as such definition is set forth in Treasury guidance.

(v) A “Termination for Good Reason” by a participant shall mean the termination of employment of a participant within two years of the occurrence of any of the following circumstances, provided that such circumstance occurs without the participant’s express written consent after a Change in Control, the participant gives the Company notice of the occurrence of the offending circumstance(s) within 90 days of the first occurrence of the circumstance(s), and the Company fails to cure the circumstance(s) within 30 days of receipt of this notice (or the Company notifies participant in writing prior to the expiration of such 30-day period that the circumstance(s) will not be cured):

(A) The material diminution of the participant’s authority, duties, or responsibilities from those in effect immediately prior to a Change in Control of the Company;

(B) Any of the following: (1) A material reduction in a participant’s annual base salary and/or annual target bonus, (2) a failure by the Company to increase a participant’s annual base salary following a Change in Control at such periodic intervals not materially inconsistent with the Company’s practice prior thereto by at least a percentage equal to the average of the percentage increases in a participant’s base salary for the three merit pay periods immediately preceding such Change in Control, or (3) the failure to increase a participant’s salary as the same may be increased from time to time for similarly situated individuals, except that this clause (B) shall not apply to across-the-board salary reductions similarly affecting all similarly situated employees of the Company and all similarly situated employees of any person in control of the Company;

(C) The Company’s requiring a participant to be based anywhere other than in the metropolitan area in which a participant was based immediately before the Change in Control (except for required travel on the Company’s business to an extent substantially consistent with a participant’s present business travel obligations), provided that such required relocation constitutes a material change in the geographic location at which the participant is required to perform the services;

(D) The failure by the Company to continue in effect any material compensation or benefit plan, vacation policy or any material perquisites in which a participant participates immediately before the Change in Control, (except to the extent such plan terminates in accordance with its terms), unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan in connection with the Change in Control, or the failure by the Company to continue a participant’s participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of a participant’s participation relative to other participants, than existed at the time of the Change in Control;

(E) The failure of the Company to obtain a satisfactory agreement from any successor to assume responsibility to perform under this Plan; or

(F) A termination by a participant of employment shall not fail to be a Termination for Good Reason by participant merely because of a participant's incapacity due to physical or mental illness, or because a participant's employment continued after the occurrence of any of the events listed in this subsection.

(vi) "Vesting Date" shall mean the vesting date of an award set forth in the award summary.

(b) Acceleration of Nonforfeitability of SARs, Stock Awards, Cash Awards, and Dividends and Dividend Equivalents.

(i) All SARs, Stock Options Stock Awards and Cash Awards (including dividend equivalents) outstanding shall become 100% Nonforfeitable with respect to a participant upon a Termination for Good Reason or an involuntary termination of employment (other than a termination For Cause, as defined in the award agreement, according to a determination made before the Change in Control) that occurs not later than two years after a Change in Control.

(ii) If a performance-based award becomes Nonforfeitable after a Change in Control under Section 22(b)(i), each applicable performance measure shall be deemed achieved at 100% of the target level determined by the Committee as of the grant date of the award, unless otherwise provided in the applicable award agreement.

(iii) Notwithstanding anything in this Section 22(b), the Committee may cancel a Stock Option or SAR upon a Change in Control provided that the exercise price of such Stock Option or SAR is in excess of the CIC Price, and further provided that no consideration is paid for such cancellation.

(c) Payment Schedule. In accordance with the uniform payment rule set forth in subsection (c) of Section 23 hereof,

(i) Following a Change in Control that is not a Section 409A-Conforming Change in Control, awards (to the extent Nonforfeitable) shall be paid on the Vesting Date, and

(ii) Following a Section 409A-Conforming Change in Control, awards (to the extent Nonforfeitable) shall be paid on the Vesting Date or, if earlier, upon a termination of employment that occurs within two years of such 409A-Conforming Change in Control (or, in the case of a Specified Employee (as defined in Section 23), the date that is 6 months after such termination).

(iii) If a participant has made a valid election under Code Section 409A to defer payment beyond the Vesting Date, such award shall be paid pursuant to clauses (i) and (ii) by substituting the date so elected for the Vesting Date.

(iv) This subsection (c) shall not apply to Stock Options, SARs, or shares of restricted stock.

(d) Cancellation. Upon payment under this section, such awards shall be cancelled.

(e) Discretionary Awards. Upon or in anticipation of the occurrence of a Change in Control, the Committee may grant additional awards (e.g., above-target awards for performance-based Stock Awards) at its sole discretion. Any such discretionary grants shall be paid on the date specified by the terms of such grant.

(f) The amount of cash to be paid shall be determined as follows: (i) in the case of each Nonforfeitable Stock Award, an amount equal to the product of (A) the number of shares subject to the Nonforfeitable Stock Award and (B) the CIC price; (ii) in the case of each Nonforfeitable Stock Option, an amount equal to the product of (A) the number of shares subject to the Stock Option and (B) the excess of the CIC Price over the exercise price; (iii) in the case of each Nonforfeitable SAR, an amount equal to the product of (A) the number of shares subject to the Nonforfeitable SAR and (B) the excess of the CIC Price over the SAR Exercise Price; and (iv) in the case of a Nonforfeitable Cash Award, the cash payable pursuant to the Nonforfeitable Cash Award.

(g) Notwithstanding the foregoing, any Stock Options, SARS or Stock Awards held by an officer or director subject to Section 16 of the 1934 Act which have been outstanding less than six months (or such other period as may be required by the 1934 Act) upon the occurrence of an event constituting a Change in Control shall not be paid in cash before the time permitted by applicable law including Section 16 of the 1934 Act.

23. Section 409A Compliance

(a) Construction and effect of terms and actions.

(i) It is intended that no awards under the Plan shall cause any amount to be taxable under Code Section 409A with respect to any individual. All provisions of this Plan and of any agreement, award or award summary thereunder shall be construed in a manner consistent with this intent. Any provision of or amendment to this Plan, or of any agreement, award or award summary thereunder, that would cause any amount to be taxable under Code Section 409A with respect to any person is void and without effect. Any election by any participant, and any administrative action by the Committee that would cause any amount to be taxable under Code Section 409A with respect to any person is void and without effect under the Plan. Notwithstanding anything to the contrary herein, in no event shall the Company, its officers, directors, employees, subsidiaries, or affiliates be liable for any additional tax, interest, or penalty incurred by a participant or beneficiary as a result of the Plan's failure to satisfy the requirements of Code Section 409A, or as a result of the Plan's failure to satisfy any other applicable requirements for the deferral of tax.

(ii) All references in the Plan, awards and award agreements to "termination of employment" shall mean "separation from service" as defined in Code Section 409A and Treasury guidance thereunder. The Committee, however, may decide in its discretion that, solely for purposes of determining the vested percentage of an award or the exercise period of a Stock Option or SAR, the reference to "termination of employment" shall mean the end of the participant's salary continuance period.

(b) Election Rule. A participant may elect to defer awards under the Plan only if the election is made not later than December 31 of the year preceding the year in which related services are performed, except to the extent otherwise permitted by Section 409A and Treasury guidance thereunder.

(c) Uniform Payment Rule.

(i) All awards except SARs, Stock Options and shares of restricted stock shall be paid on the date that is the earlier of (A) or (B) below, where

(A) is a termination of employment no later than two years after the occurrence of a Section 409A-Conforming Change in Control (or, in the case of a Specified Employee as defined in subsection (d) hereof the date that is 6 months after such termination); and

(B) is the Vesting Date.

(ii) If a participant has made a valid election under Code Section 409A and the Plan to defer payment beyond the Vesting Date, such award shall be settled pursuant to clause (i) by substituting the date so elected for the Vesting Date.

(iii) Payment pursuant to the death or disability of a participant is governed by the award agreement.

(d) Six-Month Delay Rule for Specified Employees. To the extent necessary to avoid any amount becoming taxable under Code Section 409A, any award that is to be paid to a Specified Employee upon termination of employment shall be administered so that any payment with respect to such award shall be made on the date that is 6 months after such termination. If the participant dies during such 6-month period, any postponed amounts shall be paid within 90 days of the participant's death. A Specified Employee shall have the meaning set forth in IRS guidance under Code Section 409A.

(e) Accelerations. In the case of an award that is deferred compensation for purposes of Code Section 409A, acceleration of payment is not permitted, except that, if permitted by the Committee, acceleration of payment is permitted to the extent such acceleration shall not cause any amount to be taxable under Code Section 409A with respect to any individual.

(f) CHRO Delegation. The Chief Human Resources Officer of the Company, or his or her delegate, may amend the Plan as he or she, in his or her sole discretion, deems necessary or appropriate to avoid any amount becoming taxable under Code Section 409A and guidance thereunder.

(g) To the extent permitted by Code Section 409A, the term of a Stock Option or SAR may be extended beyond the original term while the holder cannot exercise the Stock Option or SAR because such an exercise would violate an applicable Federal, state, local, or foreign law (including, without limitation, the Company's insider trading policy established pursuant to any such law), or would jeopardize the ability of the Company to continue as a going concern, provided that the term is not extended more than 30 days after the date such exercise first would no longer violate an applicable Federal, state, local, and foreign law or would first no longer jeopardize the ability of the Company to continue as a going concern.

24. Limitation of Actions. Any action brought in state or federal court (other than an alleged breach of fiduciary duty action under the Employee Retirement Income Security Act of 1974 ("ERISA") which shall be governed by the terms of ERISA Section 413, if applicable) must be commenced within one year after the cause of action accrues.

XEROX HOLDINGS CORPORATION

CEO CERTIFICATIONS

I, Giovanni Visentin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 3, 2021

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Principal Executive Officer

CEO CERTIFICATIONS

I, Giovanni Visentin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 3, 2021

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Principal Executive Officer

CFO CERTIFICATIONS

I, Xavier Heiss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Holdings Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 3, 2021

/S/ XAVIER HEISS

Xavier Heiss
Principal Financial Officer

CFO CERTIFICATIONS

I, Xavier Heiss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 3, 2021

/S/ XAVIER HEISS

Xavier Heiss
Principal Financial Officer

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-Q of Xerox Holdings Corporation, a New York corporation (the "Company"), for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Giovanni Visentin, Vice Chairman and Chief Executive Officer of the Company, and Xavier Heiss, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Chief Executive Officer
November 3, 2021

/S/ XAVIER HEISS

Xavier Heiss
Chief Financial Officer
November 3, 2021

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Holdings Corporation and will be retained by Xerox Holdings Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-Q of Xerox Corporation, a New York corporation (the “Company”), for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Giovanni Visentin, Vice Chairman and Chief Executive Officer of the Company, and Xavier Heiss, Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Chief Executive Officer
November 3, 2021

/S/ XAVIER HEISS

Xavier Heiss
Chief Financial Officer
November 3, 2021

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Xerox Corporation and will be retained by Xerox Corporation and furnished to the Securities and Exchange Commission or its staff upon request.