

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: March 31, 2019

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

For the transition period from _____ to _____

Commission File Number 001-04471

xeroxTM

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

New York
(State or other jurisdiction of
incorporation or organization)
P.O. Box 4505, 201 Merritt 7
Norwalk, Connecticut 06851-1056
(Address of principal executive offices)

16-0468020
(IRS Employer
Identification No.)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, \$1 par value	XRX	New York Stock Exchange Chicago Stock Exchange

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

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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). 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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting 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.

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

Class	Outstanding at April 30, 2019
Common Stock, \$1 par value	224,626,584 shares

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report 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: 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 potential termination or restructuring of our relationship with Fujifilm Holdings Corporation; the proposed holding company reorganization; the occurrence and timing of any closing of the proposed holding company reorganization; the shared services arrangements entered into by the Company as part of Project Own It; any potential strategic transaction involving our customer financing business and/or related assets; and other factors that 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 Quarterly Report on Form 10-Q and our 2018 Annual Report on Form 10-K, as well as our Current Reports on Form 8-K filed with the Securities and Exchange Commission (SEC). Our forward-looking statements are also subject to the factors and other information set forth in the “Summary of the Holding Company Reorganization Proposal” section, the “Risk Factors” section and the “Proposal 1 - Approval of the Holding Company Reorganization” section of our definitive Joint Proxy Statement/Prospectus dated April 22, 2019 filed on Schedule 14A with the SEC. These forward-looking statements speak only as of the date of this report or as of the date to which they refer, and Xerox assumes no obligation to update any forward looking statements as a result of new information or future events or developments, except as required by law.

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For additional information about 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. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS**XEROX CORPORATION**
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended March 31,	
	2019	2018
Revenues		
Sales ⁽¹⁾	\$ 750	\$ 845
Services, maintenance and rentals ⁽¹⁾	1,393	1,519
Financing	63	71
Total Revenues	2,206	2,435
Costs and Expenses		
Cost of sales ⁽¹⁾	464	532
Cost of services, maintenance and rentals ⁽¹⁾	821	899
Cost of financing	32	34
Research, development and engineering expenses	92	100
Selling, administrative and general expenses	548	628
Restructuring and related costs	112	28
Amortization of intangible assets	15	12
Transaction and related costs, net	—	38
Other expenses, net	39	30
Total Costs and Expenses	2,123	2,301
Income before Income Taxes and Equity Income	83	134
Income tax (benefit) expense	(8)	40
Equity in net income (loss) of unconsolidated affiliates	45	(68)
Net Income	136	26
Less: Net income attributable to noncontrolling interests	3	3
Net Income Attributable to Xerox	\$ 133	\$ 23
Basic Earnings per Share	\$ 0.57	\$ 0.08
Diluted Earnings per Share	\$ 0.55	\$ 0.08

(1) Certain prior year amounts have been conformed to the current year presentation. Refer to Note 1 - Basis of Presentation for additional information.

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 March 31,	
	2019	2018
Net Income	\$ 136	\$ 26
Less: Net income attributable to noncontrolling interests	3	3
Net Income Attributable to Xerox	133	23
Other Comprehensive Income, Net⁽¹⁾		
Translation adjustments, net	37	176
Unrealized gains, net	2	17
Changes in defined benefit plans, net	1	18
Other Comprehensive Income, Net Attributable to Xerox	40	211
Comprehensive Income, Net	176	237
Less: Comprehensive income, net attributable to noncontrolling interests	3	3
Comprehensive Income, Net Attributable to Xerox	\$ 173	\$ 234

(1) Refer to Note 18 - Other Comprehensive Income for gross components of Other Comprehensive Income, 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 CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

<i>(in millions, except share data in thousands)</i>	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 723	\$ 1,084
Accounts receivable, net	1,234	1,276
Billed portion of finance receivables, net	102	105
Finance receivables, net	1,191	1,218
Inventories	859	818
Other current assets	204	194
Total current assets	4,313	4,695
Finance receivables due after one year, net	2,080	2,149
Equipment on operating leases, net	414	442
Land, buildings and equipment, net	469	499
Investments in affiliates, at equity	1,452	1,403
Intangible assets, net	208	220
Goodwill	3,889	3,867
Deferred tax assets	753	740
Other long-term assets	1,221	859
Total Assets	\$ 14,799	\$ 14,874
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 555	\$ 961
Accounts payable	1,054	1,091
Accrued compensation and benefits costs	298	349
Accrued expenses and other current liabilities	1,022	850
Total current liabilities	2,929	3,251
Long-term debt	4,268	4,269
Pension and other benefit liabilities	1,481	1,482
Post-retirement medical benefits	348	350
Other long-term liabilities	496	269
Total Liabilities	9,522	9,621
Commitments and Contingencies (See Note 20)		
Convertible Preferred Stock	214	214
Common stock	230	232
Additional paid-in capital	3,282	3,321
Treasury stock, at cost	(103)	(55)
Retained earnings	5,270	5,072
Accumulated other comprehensive loss	(3,652)	(3,565)
Xerox shareholders' equity	5,027	5,005
Noncontrolling interests	36	34
Total Equity	5,063	5,039
Total Liabilities and Equity	\$ 14,799	\$ 14,874
Shares of common stock issued	229,732	231,690
Treasury stock	(3,321)	(2,067)
Shares of Common Stock Outstanding	226,411	229,623

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 March 31,	
	2019	2018
Cash Flows from Operating Activities		
Net income	\$ 136	\$ 26
Adjustments required to reconcile Net income to Cash flows from operating activities		
Depreciation and amortization	118	138
Provisions	22	17
Net gain on sales of businesses and assets	(1)	(16)
Undistributed equity in net income of unconsolidated affiliates	(42)	68
Stock-based compensation	15	16
Restructuring and asset impairment charges	54	28
Payments for restructurings	(33)	(54)
Defined benefit pension cost	36	27
Contributions to defined benefit pension plans	(34)	(38)
Decrease in accounts receivable and billed portion of finance receivables	39	46
Increase in inventories	(50)	(87)
Increase in equipment on operating leases	(30)	(56)
Decrease in finance receivables	81	85
Increase in other current and long-term assets	(2)	(17)
(Decrease) increase in accounts payable	(34)	44
Decrease in accrued compensation	(73)	(32)
Increase in other current and long-term liabilities	46	1
Net change in income tax assets and liabilities	(21)	13
Net change in derivative assets and liabilities	8	(6)
Other operating, net	(9)	13
Net cash provided by operating activities	226	216
Cash Flows from Investing Activities		
Cost of additions to land, buildings, equipment and software	(15)	(18)
Proceeds from sale of businesses and assets	1	16
Acquisitions, net of cash acquired	(4)	—
Net cash used in investing activities	(18)	(2)
Cash Flows from Financing Activities		
Net proceeds (payments) on short-term debt	2	(1)
Proceeds from issuance of long-term debt	2	2
Payments on long-term debt	(406)	(38)
Dividends	(62)	(67)
Payments to acquire treasury stock, including fees	(103)	—
Other financing, net	(2)	(13)
Net cash used in financing activities	(569)	(117)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1)	9
(Decrease) increase in cash, cash equivalents and restricted cash	(362)	106
Cash, cash equivalents and restricted cash at beginning of period	1,148	1,368
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 786	\$ 1,474

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

XEROX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation

References herein to “we,” “us,” “our,” the “company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiaries unless the context suggests otherwise.

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2018 Annual Report on Form 10-K (“2018 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 have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2018 Annual Report.

In our opinion, all adjustments, which are 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.

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

Corporate Reorganization

On March 6, 2019, the Xerox Board of Directors approved a reorganization (the “Reorganization”) of the Company’s corporate structure into a holding company structure, pursuant to which Xerox Corporation will become a direct, wholly-owned subsidiary of a new holding company. The purpose of the Reorganization is to provide the Company with strategic, operational and financial flexibility. The business operations, directors and executive officers of the Company will not change as a result of the Reorganization.

The Reorganization is intended to be implemented via a tax-free transaction for U.S. federal income tax purposes that will result in each holder of Xerox Corporation’s common stock owning the same number of shares of common stock in the new holding company and each holder of Xerox Corporation’s preferred stock owning the same number of shares of preferred stock in the new holding company. It is expected that the directors and executive officers of Xerox Corporation will also serve in the same capacities for the new holding company and that shares of the new holding company’s common stock will trade on the New York Stock Exchange under Xerox Corporation’s current ticker symbol “XRX.”

The Reorganization is subject to the approval of shareholders, who will be asked to vote on the Reorganization at the annual shareholders meeting scheduled to be held on May 21, 2019, as well as regulatory approval and other customary conditions and is expected to be implemented in mid-2019, though there can be no assurance as to its completion or timing. Upon the completion of the Reorganization, it is anticipated that the new holding company will become a guarantor of Xerox Corporation’s existing Credit Facility.

Shared Services Arrangement with HCL Technologies

In March 2019, as part of Project Own It, we entered into a shared services arrangement with HCL Technologies (HCL) pursuant to which we are outsourcing certain global administrative and support functions, including, among others, selected information technology and finance functions (excluding accounting). The transition of these functions to HCL is expected to take up to 18 months. HCL is expected to make certain up-front and 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 total aggregate spending commitment by us of approximately \$1.3 billion over the next 7 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. The spending commitment excludes restructuring and related costs we are expected to incur in connection with the transition of the contemplated functions - refer to Note 11 - Restructuring Programs for additional information. The shared services arrangement with HCL is subject to compliance with European works council and employment regulatory requirements.

Change in Presentation

During first quarter 2019, we realigned portions of our business to support our new revenue strategy. This realignment included the combination and consolidation of certain sales units to better service customers consistently across the company. In connection with that realignment, we changed the classification of revenues and related costs from certain service arrangements to consistently conform the presentation of those amounts among our various business units. Prior year amounts were also revised as follows to conform to the 2019 presentation.

	March 31, 2018		
	As Reported	Change	As Revised
Sales	\$ 933	\$ (88)	\$ 845
Services, maintenance and rentals	1,431	88	1,519
Cost of sales	\$ 563	\$ (31)	\$ 532
Cost of services, maintenance and rentals	868	31	899

The revised presentation does not impact Total Revenues, Total Costs and Expenses or Net Income.

Note 2 – Recent Accounting Pronouncements

Accounting Standard Updates to be Adopted:

Financial Instruments - Credit Losses

In June 2016, the FASB issued **ASU 2016-13**, *Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments*, with additional updates being issued in 2018. This update requires measurement and recognition of expected credit losses for financial assets. The update impacts financial assets and net investment in leases that are not accounted for at fair value through Net Income. This update is effective for our fiscal year beginning January 1, 2020. We are currently evaluating the impact of the adoption of ASU 2016-13 on our Condensed Consolidated Financial Statements.

Intangibles - Internal-Use Software

In August 2018, the FASB issued **ASU 2018-15**, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The update provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The capitalized implementation costs are required to be expensed over the term of the hosting arrangement. The update also clarifies the presentation requirements for reporting such costs in the entity's financial statements. This update is effective for our fiscal year beginning January 1, 2020. We are currently evaluating the impact of the adoption of ASU 2018-15 on our Condensed Consolidated Financial Statements.

Accounting Standard Updates Adopted in 2019:

Leases

On January 1, 2019, we adopted **ASU 2016-02**, *Leases (ASC Topic 842)*. This update, as well as additional amendments and targeted improvements issued in 2018 and early 2019, supersedes existing lease accounting guidance found under ASC 840, Leases ("ASC 840") and requires the recognition of right-to-use assets and lease obligations by lessees for those leases originally classified as operating leases under prior lease guidance. Effective with the adoption, leases are classified as either finance or operating, with classification affecting the pattern of expense recognition. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires qualitative and quantitative disclosure of key information regarding the amount, timing and uncertainty of cash flows arising from leasing arrangements to increase transparency and comparability among companies. The accounting for lessors does not fundamentally change with this update except for changes to conform and align guidance to the lessee guidance, as well as to the revenue recognition guidance in ASU 2014-09. Some of these conforming changes, such as those related to the definition of lease term and minimum lease payments, resulted in certain lease arrangements, that would have been previously accounted for as operating leases, to be classified and accounted for as sales-type leases with a corresponding up-front recognition of equipment sales revenue.

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Upon adoption we applied the transition option, whereby prior comparative periods are not retrospectively presented in the Condensed Consolidated Financial Statements. We also elected the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and the lessee practical expedient to combine lease and non-lease components for certain asset classes (real estate lease arrangements for offices and warehouses). Additionally, we made a policy election to not recognize right-of-use assets and lease liabilities for short-term leases for all asset classes. We elected the package of practical expedients from both the Lessee and Lessor perspective, to the extent applicable.

Lessee accounting - the adoption of this update resulted in an increase to assets and related liabilities of approximately \$385 (approximately \$440 undiscounted) primarily related to leases of facilities. Lessor accounting - the adoption of this update resulted in an increase to equipment sales by approximately \$3 in 2019 as compared to 2018.

Refer to Note 3 - Adoption of New Leasing Standard - Xerox as a Lessee and Note 4 - Adoption of New Leasing Standard - Xerox as a Lessor for additional transitional disclosures related to the adoption of this standard.

Financial Instruments - Derivatives

In August 2017, the FASB issued **ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities**. The amendments in this update expand and refine hedge accounting for both financial and non-financial risk components, align the recognition and presentation of the effects of hedging instruments with the same income statement line item that the hedged item is reported and include certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. We adopted ASU 2017-12 effective for our fiscal year beginning January 1, 2019, and it did not have a material impact on our financial condition, results of operations or cash flows.

Income Taxes

In February 2018, the FASB issued **ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income**. We adopted ASU 2018-02 effective for our fiscal year beginning January 1, 2019 and upon adoption reclassified \$127 from Accumulated other comprehensive loss (AOCL) to Retained earnings related to the stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act") enacted in December 2017. The reclassification was primarily related to the stranded tax effects associated with amounts in AOCL from our retirement-related benefit plans. Accordingly, the adoption of this update eliminated the stranded tax effects resulting from the Tax Act. However, because the update only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in Income from continuing operations is not affected.

Other Updates

In 2018, the FASB also issued the following Accounting Standards Updates, which 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:

- **Collaborative Arrangements: ASU 2018-18, (Topic 808) Clarifying the Interaction between Topic 808 and Topic 606.** This update is effective for our fiscal year beginning January 1, 2020, early adoption is permitted.
- **Compensation - Retirement Benefits - Defined Benefit Plans - General: ASU 2018-14, (Topic 715-20) Changes to the Disclosure Requirements for Defined Benefit Plans.** This update is effective for our fiscal year beginning January 1, 2020, early adoption is permitted.
- **Fair Value Measurement: ASU 2018-13, (Topic 820) Disclosure Framework.** This update is effective for our fiscal year beginning January 1, 2020, early adoption is permitted.
- **Investments - Debt Securities and Regulated Operations: ASU 2018-04, (Topics 320 and 980) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update).**

Note 3 – Adoption of New Leasing Standard - Xerox as a Lessee

Refer to Note 2 - Recent Accounting Pronouncements - Leases, for additional information related to the adoption of **ASU 2016-02, Leases** (ASC Topic 842).

Lessee Summary:

We determine at inception whether an arrangement is a lease. Our leases do not include assets of a specialized nature, nor the transfer of ownership at the end of the lease, and the exercise of end-of-lease purchase options, which are primarily in our equipment leases, is not reasonably assured at lease inception. Accordingly, the two primary criteria we use to classify transactions as operating or finance leases are: (i) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the asset, and (ii) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the asset at the inception of the lease. Right-of-use ("ROU") assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. We also assess arrangements for goods or services to determine if the arrangement contains a lease at its inception. This assessment first considers whether there is an implicitly or explicitly identified asset in the arrangement and then whether there is a right to control the use of the asset. If there is an embedded lease within a contract, the company determines the classification of the lease at the lease inception date consistent with standalone leases of assets.

Operating leases are included in Other long-term assets, Accrued expenses and other current liabilities, and Other long-term liabilities in our Condensed Consolidated Balance Sheets. Finance leases are included in Land, buildings and equipment, net, Accrued expenses and other current liabilities, and Other long-term liabilities in our Condensed Consolidated Balance Sheets.

Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Since the implicit rate for most of our leases is not readily determinable, we use our incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is the rate of interest that we would have to pay to borrow, on a collateralized basis, an amount equal to the lease payments, in a similar economic environment and over a similar term. The rate is dependent on several factors, including the lease term and currency of the lease payments.

Lease terms used to calculate the present value of lease payments generally do not include any options to extend, renew, or terminate the lease, as we do not have reasonable certainty at lease inception that these options will be exercised. We generally consider the economic life of our operating lease ROU assets to be comparable to the useful life of similar owned assets. We have elected the short-term lease exception, therefore operating lease ROU assets and liabilities do not include leases with a lease term of twelve months or less. Our leases generally do not provide a residual guarantee. The operating lease ROU asset also excludes lease incentives.

Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components. These components are accounted for separately for vehicle and equipment leases. We account for the lease and non-lease components as a single lease component for real estate leases of offices and warehouses.

We review the impairment of our ROU assets consistent with the approach applied for our other long-lived assets. We review the recoverability of our long-lived assets when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected undiscounted future pre-tax cash flows of the related operations. We have elected to include the carrying amount of operating lease liabilities in any tested asset group and include the associated operating lease payments in the undiscounted future pre-tax cash flows.

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 ten years and a variety of renewal and/or termination options. The components of lease expense are as follows:

	Three Months Ended March 31, 2019
Operating lease expense	\$ 33
Short-term lease expense	5
Variable lease expense ⁽¹⁾	13
Total Lease expense	\$ 51

(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.

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

	March 31, 2019
Other long-term assets	\$ 341
Accrued expenses and other current liabilities	\$ 97
Other long-term liabilities	265
Total Operating lease liabilities	\$ 362

Supplemental information related to operating leases is as follows:

	March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows	\$ 32
Right-of-use assets obtained in exchange for new lease liabilities ⁽¹⁾	\$ 9
Weighted-average remaining lease term	4 years
Weighted-average discount rate	5.64%

⁽¹⁾ Includes the impact of new leases as well as remeasurements and modifications to existing leases.

Maturities and additional information related to operating lease liabilities are as follows:

	March 31, 2019
2019 ⁽¹⁾	\$ 92
2020	101
2021	77
2022	63
2023	47
Thereafter	28
Total Lease payments	408
Less: Imputed interest	46
Total Operating lease liabilities	\$ 362

⁽¹⁾ Represents the future minimum operating lease payments expected to be made over the remaining balance of the year.

Finance Leases

Xerox has one finance lease for equipment and related infrastructure within an outsourced warehouse supply arrangement in the U.S. The lease expires in December 2023 and has a remaining lease obligation of \$8 as of March 31, 2019 using a discount rate of 4.07%.

Prior Period Disclosures under ASC 840

For the years ended December 31, 2018 and 2017, operating lease rent expense, net of sublease income, were \$147 and \$161, respectively.

Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2018 were as follows:

	December 31, 2018
2019	\$ 114
2020	88
2021	64
2022	50
2023	36
Thereafter	27
Total Operating lease commitments	\$ 379

Note 4 – Adoption of New Leasing Standard - Xerox as a Lessor

Refer to Note 2 - Recent Accounting Pronouncements - Leases, for additional information related to the adoption of [ASU 2016-02, Leases \(ASC Topic 842\)](#).

Lessor Summary:

The following represent updated disclosures to our Revenue Recognition policies as a result of the adoption of ASC Topic 842.

Bundled Lease Arrangements: A portion of our direct sales of equipment to end customers are made through bundled lease arrangements which typically include equipment, services (maintenance and managed services) and financing components where the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements also typically include an incremental, variable component for page volumes in excess of the contractual page volume minimums, which are often expressed in terms of price-per-image or page. Revenues under these bundled lease arrangements are allocated considering the relative standalone selling prices of the lease and non-lease deliverables included in the bundled arrangement. Lease deliverables include the equipment and financing, while the non-lease deliverables generally consist of the services, which include supplies. Consistent with the guidance in ASC 842 and ASC 606, regarding the allocation of fixed and variable consideration, we only consider the fixed payments for purposes of allocation to the lease elements of the contract. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed lease payments that the customer is obligated to make over the lease term. Amounts allocated to the equipment and financing elements are then subjected to the accounting estimates noted below under **Leases** to ensure the values reflect standalone selling prices.

The remainder of any fixed payments, as well as the variable payments, are allocated to non-lease elements because the variable consideration for incremental page volume or usage is considered attributable to the delivery of those elements. The consideration for the non-lease elements is not dependent on the consideration for equipment and vice versa and the consideration for the equipment and services is priced at the appropriate standalone values; therefore, the relative standalone selling price allocation method is not necessary. The revenue associated with the non-lease elements are normally accounted for as a single performance obligation being delivered in a series with delivery being measured as the usage billed to the customer. Accordingly, revenue from these agreements is recognized in a manner consistent with the guidance for Maintenance and Services agreements.

Leases: The two primary accounting provisions we use to classify transactions as sales-type or operating leases are: (i) a review of the lease term to determine if it is for the major part of the economic life of the underlying equipment (defined as greater than 75%); and (ii) a review of the present value of the lease payments to determine if they are equal to or greater than substantially all of the fair market value of the equipment at the inception of the lease (defined as greater than 90%). Equipment placements included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized in a manner consistent with Equipment. Equipment placements included in arrangements that do not meet these conditions are accounted for as operating leases and revenue is recognized over the term of the lease.

We consider the economic life of most of our products to be five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended.

We perform an analysis of the stand-alone selling price of equipment based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices reflects stand-alone value.

Our lease pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices noted above.

Additional Lease Payments: Certain leases may require the customer to pay property taxes and insurance on the equipment. In these instances, the amounts for property taxes and insurance that we invoice to customers and pay to third parties are considered variable payments and are recorded as other revenues and other cost of revenues,

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respectively. Amounts related to property taxes and insurance are not material. We exclude from variable payments all lessor costs that are explicitly required to be paid directly by a lessee on behalf of the lessor to a third party.

Presentation: 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 is as follows:

	Three Months Ended March 31,	
	2019	2018
Lease income - sales type	\$ 134	\$ 160
Interest income on lease receivables	63	71
Lease income - operating leases	134	141
Variable lease income	27	30
Total Lease income	\$ 358	\$ 402

Note 5 – Revenue

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

	Three Months Ended March 31,	
	2019	2018
Primary geographical markets⁽¹⁾:		
United States	\$ 1,294	\$ 1,414
Europe	600	676
Canada	124	144
Other	188	201
Total Revenues	\$ 2,206	\$ 2,435
Major product and services lines:		
Equipment	\$ 448	\$ 499
Supplies, paper and other sales	302	346
Maintenance agreements ⁽²⁾	598	669
Service arrangements ⁽³⁾	635	682
Rental and other	160	168
Financing	63	71
Total Revenues⁽⁴⁾	\$ 2,206	\$ 2,435
Sales channels:		
Direct equipment lease ⁽⁵⁾	\$ 134	\$ 160
Distributors & resellers ⁽⁶⁾	315	344
Customer direct	301	341
Total Sales⁽⁴⁾	\$ 750	\$ 845

(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 (formerly our Managed Document Services arrangements). Also includes revenues from embedded operating leases, which were not significant.

(4) Certain prior year amounts have been revised to conform to the current year presentation. Refer to Note 1 - Basis of Presentation - Change in Presentation, for additional information.

(5) Primarily reflects direct sales through bundled lease arrangements.

(6) 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 advanced billings for maintenance and other services to be performed and were approximately \$132 and \$116 at March 31, 2019 and December 31, 2018, respectively. The majority of the balance at March 31, 2019 will 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.

For the three months ended March 31, 2019 and 2018, the incremental direct costs of obtaining a contract of \$18 and \$17, respectively, and the related amortization was \$23 and \$24, respectively. The balance of deferred incremental direct costs net of accumulated amortization at March 31, 2019 and December 31, 2018 was \$167 and \$172, 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 also 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 March 31, 2019 and December 31, 2018 amounts deferred associated with contract fulfillment costs and inducements were \$12 and \$12, respectively. The related amortization for the three months ended March 31, 2019 and 2018 was \$1 and \$1, respectively.

Note 6 – Supplementary Financial Information

Cash, Cash Equivalents and Restricted Cash

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

	March 31, 2019	December 31, 2018
Cash and cash equivalents	\$ 723	\$ 1,084
Restricted cash		
Litigation deposits in Brazil	62	61
Other restricted cash	1	3
Total Restricted cash	63	64
Cash, cash equivalents and restricted cash	\$ 786	\$ 1,148

Restricted cash primarily relates to escrow cash deposits made in Brazil associated with ongoing litigation. 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 is expected to be contractually or judicially released.

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

	March 31, 2019	December 31, 2018
Other current assets	\$ 1	\$ 1
Other long-term assets	62	63
Total Restricted cash	\$ 63	\$ 64

Supplemental Cash Flow Information

Summarized cash flow information is as follows:

	Three Months Ended March 31,	
	2019	2018
Provision for receivables	\$ 14	\$ 13
Provision for inventory	8	4
Provision for product warranty	4	4
Depreciation of buildings and equipment	27	44
Depreciation and obsolescence of equipment on operating leases	59	64
Amortization of internal use software	17	18
Amortization of acquired intangible assets	15	12
Amortization of customer contract costs ⁽¹⁾	24	25
Cost of additions to land, buildings and equipment	9	9
Cost of additions to internal use software	6	9
Common stock dividends	58	64
Preferred stock dividends	4	3
Payments to noncontrolling interests	1	12

(1) Amortization of customer contract costs are reported in Increase in other current and long-term assets in the Condensed Consolidated Statements of Cash Flows. Refer to Note 5 - Revenue for additional information on contract costs.

Note 7 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	March 31, 2019	December 31, 2018
Invoiced	\$ 965	\$ 999
Accrued	323	333
Allowance for doubtful accounts	(54)	(56)
Accounts receivable, net	\$ 1,234	\$ 1,276

Amounts to be invoiced in the subsequent quarter for current services provided are included in amounts accrued.

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 principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

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, \$124 and \$131 remained uncollected as of March 31, 2019 and December 31, 2018, respectively.

Accounts receivable sales were as follows:

	Three Months Ended March 31,	
	2019	2018
Accounts receivable sales ⁽¹⁾	\$ 88	\$ 103
Loss on sales of accounts receivable	1	1

(1) 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. Amounts disclosed below at December 31, 2018 were accounted for under ASC 840, Leases, which was superseded by ASC 842, Leases, adopted on January 1, 2019. Differences upon adoption were not material. Refer to Note 2 - Recent Accounting Pronouncements for additional information.

Finance receivables, net were as follows:

	March 31, 2019	December 31, 2018
Gross receivables	\$ 3,888	\$ 4,003
Unearned income	(422)	(439)
Subtotal	3,466	3,564
Residual values	—	—
Allowance for doubtful accounts	(93)	(92)
Finance Receivables, Net	3,373	3,472
Less: Billed portion of finance receivables, net	102	105
Less: Current portion of finance receivables not billed, net	1,191	1,218
Finance Receivables Due After One Year, Net	\$ 2,080	\$ 2,149

A summary of future contractual maturities of our gross finance receivables, including those previously billed is as follows:

	March 31, 2019	December 31, 2018
12 Months ⁽¹⁾	\$ 1,519	\$ 1,543
24 Months	1,072	1,108
36 Months	724	755
48 Months	407	425
60 Months	148	158
Thereafter	18	14
Total	\$ 3,888	\$ 4,003

⁽¹⁾ Includes amounts previously billed of \$105 and \$107 as of March 31, 2019 and December 31, 2018, respectively.

Finance Receivables – Allowance for Credit Losses and Credit Quality

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. Our finance receivable portfolios are primarily in the U.S., Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

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

Allowance for Credit Losses:	United States	Canada	Europe	Other ⁽¹⁾	Total
Balance at December 31, 2018	\$ 53	\$ 12	\$ 25	\$ 2	\$ 92
Provision	4	1	4	—	9
Charge-offs	(4)	(1)	(3)	—	(8)
Recoveries and other ⁽²⁾	—	—	—	—	—
Balance at March 31, 2019	<u>\$ 53</u>	<u>\$ 12</u>	<u>\$ 26</u>	<u>\$ 2</u>	<u>\$ 93</u>
Finance receivables as of March 31, 2019 collectively evaluated for impairment⁽³⁾	<u>\$ 1,895</u>	<u>\$ 329</u>	<u>\$ 1,200</u>	<u>\$ 42</u>	<u>\$ 3,466</u>
Balance at December 31, 2017	\$ 56	\$ 15	\$ 35	\$ 2	\$ 108
Provision	5	—	4	—	9
Charge-offs	(5)	(1)	(4)	—	(10)
Recoveries and other ⁽²⁾	—	—	1	—	1
Balance at March 31, 2018	<u>\$ 56</u>	<u>\$ 14</u>	<u>\$ 36</u>	<u>\$ 2</u>	<u>\$ 108</u>
Finance receivables as of March 31, 2018 collectively evaluated for impairment⁽³⁾⁽⁴⁾	<u>\$ 2,006</u>	<u>\$ 373</u>	<u>\$ 1,364</u>	<u>\$ 50</u>	<u>\$ 3,793</u>

(1) Includes developing market countries and smaller units.

(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 \$93 and \$108 at March 31, 2019 and 2018, respectively.

(4) As a result of an internal reorganization, XBS amounts, previously classified as Other, were reclassified to the U.S. in first quarter 2019. Prior year amounts have also been reclassified to conform to the current year presentation.

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

- **Investment grade:** 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 are normally less than 1%.
- **Non-investment grade:** 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 are generally in the range of 2% to 5%.
- **Substandard:** 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 investment and non-investment grade 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 are generally in the range of 7% to 10%.

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Credit quality indicators are updated at least annually and the credit quality of any given customer can change during the life of the portfolio. Details about our finance receivables portfolio based on industry and credit quality indicators are as follows:

	March 31, 2019				December 31, 2018			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 172	\$ 332	\$ 88	\$ 592	\$ 177	\$ 334	\$ 88	\$ 599
Government and education	439	60	9	508	453	63	9	525
Graphic arts	76	126	83	285	82	131	87	300
Industrial	86	80	15	181	86	82	16	184
Healthcare	83	45	11	139	86	48	9	143
Other	61	97	32	190	63	90	42	195
Total United States⁽¹⁾	917	740	238	1,895	947	748	251	1,946
Finance and other services	54	32	19	105	52	33	20	105
Government and education	37	3	4	44	38	3	4	45
Graphic arts	20	28	26	74	22	30	26	78
Industrial	18	12	11	41	16	12	9	37
Other	31	20	14	65	34	21	15	70
Total Canada	160	95	74	329	162	99	74	335
France	217	150	27	394	232	157	29	418
U.K./Ireland	152	83	8	243	150	87	7	244
Central ⁽²⁾	186	121	8	315	196	123	8	327
Southern ⁽³⁾	54	132	15	201	52	136	17	205
Nordics ⁽⁴⁾	29	17	1	47	28	15	2	45
Total Europe⁽⁵⁾	638	503	59	1,200	658	518	63	1,239
Other⁽¹⁾	30	11	1	42	31	13	—	44
Total	\$ 1,745	\$ 1,349	\$ 372	\$ 3,466	\$ 1,798	\$ 1,378	\$ 388	\$ 3,564

(1) As a result of an internal reorganization, XBS amounts, previously classified as Other, were reclassified to the U.S. in first quarter 2019. Prior year amounts have also been reclassified to conform to the current year presentation.

(2) Switzerland, Germany, Austria, Belgium and Holland.

(3) Italy, Greece, Spain and Portugal.

(4) Sweden, Norway, Denmark and Finland.

(5) Prior year amounts have been recasted to conform to the current year presentation.

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The aging of our billed finance receivables is based upon the number of days an invoice is past due and is as follows:

March 31, 2019							
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 15	\$ 3	\$ 2	\$ 20	\$ 572	\$ 592	\$ 10
Government and education	16	3	3	22	486	508	21
Graphic arts	12	1	1	14	271	285	5
Industrial	6	1	1	8	173	181	5
Healthcare	4	1	1	6	133	139	4
Other	5	1	1	7	183	190	3
Total United States	58	10	9	77	1,818	1,895	48
Canada	8	1	1	10	319	329	22
France	5	—	—	5	389	394	12
U.K./Ireland	2	—	—	2	241	243	—
Central ⁽²⁾	2	1	1	4	311	315	5
Southern ⁽³⁾	3	1	1	5	196	201	5
Nordics ⁽⁴⁾	1	—	—	1	46	47	—
Total Europe	13	2	2	17	1,183	1,200	22
Other	1	1	—	2	40	42	—
Total	\$ 80	\$ 14	\$ 12	\$ 106	\$ 3,360	\$ 3,466	\$ 92

December 31, 2018							
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 15	\$ 4	\$ 2	\$ 21	\$ 578	\$ 599	\$ 11
Government and education	17	4	3	24	501	525	24
Graphic arts	10	1	1	12	288	300	5
Industrial	5	2	1	8	176	184	5
Healthcare	4	2	1	7	136	143	5
Other	5	2	1	8	187	195	4
Total United States⁽¹⁾	56	15	9	80	1,866	1,946	54
Canada	7	2	1	10	325	335	22
France	5	—	—	5	413	418	14
U.K./Ireland	2	—	—	2	242	244	—
Central ⁽²⁾	1	1	1	3	324	327	6
Southern ⁽³⁾	3	1	1	5	200	205	6
Nordics ⁽⁴⁾	—	—	—	—	45	45	—
Total Europe	11	2	2	15	1,224	1,239	26
Other⁽¹⁾	2	—	—	2	42	44	—
Total	\$ 76	\$ 19	\$ 12	\$ 107	\$ 3,457	\$ 3,564	\$ 102

(1) As a result of an internal reorganization, XBS amounts, previously classified as Other, were reclassified to the U.S. in first quarter 2019. Prior year amounts have also been reclassified to conform to the current year presentation.

(2) Switzerland, Germany, Austria, Belgium and Holland.

(3) Italy, Greece, Spain and Portugal.

(4) Sweden, Norway, Denmark and Finland.

Note 9 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	March 31, 2019	December 31, 2018
Finished goods	\$ 730	\$ 699
Work-in-process	55	49
Raw materials	74	70
Total Inventories	\$ 859	\$ 818

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our 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. Amounts disclosed below at December 31, 2018 were accounted for under ASC 840, Leases, which was superseded by ASC 842, Leases, adopted on January 1, 2019. Differences upon adoption were not material. Refer to Note 2 - Recent Accounting Pronouncements for additional information.

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

	March 31, 2019	December 31, 2018
Equipment on operating leases	\$ 1,501	\$ 1,519
Accumulated depreciation	(1,087)	(1,077)
Equipment on operating leases, net	\$ 414	\$ 442

Estimated minimum future revenues associated with Equipment on operating leases are as follows:

	March 31, 2019	December 31, 2018
2019 ⁽¹⁾	\$ 202	\$ 260
2020	200	178
2021	115	111
2022	62	61
2023	24	21
Thereafter	3	2

⁽¹⁾ 2019 amount represents the future minimum revenues expected to be earned over the remaining balance of the year.

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, were \$27 and \$30, for the three months ended March 31, 2019 and 2018, respectively.

Note 10 – Investment in Affiliates, at Equity

Our Equity in net income (loss) of unconsolidated affiliates was as follows:

	Three Months Ended March 31,	
	2019	2018
Fuji Xerox	\$ 43	\$ (70)
Other	2	2
Total Equity in net income (loss) of unconsolidated affiliates	\$ 45	\$ (68)

Fuji Xerox

Equity in net income (loss) of Fuji Xerox is affected by certain adjustments required to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income (loss) that is different from that implied by our 25% ownership interest. In addition, the Equity in net income (loss) of Fuji Xerox for the three months ended March 31, 2019 and 2018 includes after-tax restructuring and other charges of \$12 and \$79, respectively.

Fuji Xerox recorded a cumulative charge of JPY 12 billion (approximately \$110 based on the Yen/U.S. Dollar average exchange rate for the quarter ended March 31, 2018 of 108.07) in their net loss for the quarter ended March 31, 2018 (our first quarter 2018) related to the correction of certain out-of-period adjustments and misstatements. Our recognition of 25% of Fuji Xerox's net loss for Xerox's first quarter 2018 included an approximately \$28 charge related to these adjustments and misstatements.

Summarized financial information for Fuji Xerox was as follows:

	Three Months Ended March 31,	
	2019	2018
Summary of Operations		
Revenues	\$ 2,461	\$ 2,465
Costs and expenses	2,204	2,771
Income (Loss) before Income Taxes	257	(306)
Income tax expense (benefit)	85	(39)
Net Income (Loss)	172	(267)
Less: Net income attributable to noncontrolling interests	1	—
Net Income (Loss) – Fuji Xerox	\$ 171	\$ (267)
Weighted Average Exchange Rate ⁽¹⁾	110.33	108.07

(1) Represents Yen/U.S. Dollar exchange rate used to translate.

Note 11 – Restructuring Programs

We engage in restructuring actions, including Project Own It, as well as other transformation efforts in order to reduce our cost structure, realign it to the changing nature of our business and to achieve operating efficiencies through a number of opportunities including reduction of our real estate footprint.

During the three months ended March 31, 2019, we recorded net restructuring and asset impairment charges of \$54, which included \$12 of severance costs related to headcount reductions of approximately 150 employees worldwide, \$14 of other contractual termination costs and \$36 of asset impairment charges. These costs were partially offset by \$8 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, 2018	\$ 94	\$ 1	\$ —	\$ 95
Provision	12	14	36	62
Reversals	(8)	—	—	(8)
Net current period charges⁽¹⁾	4	14	36	54
Charges against reserve and currency	(32)	(1)	(36)	(69)
Balance at March 31, 2019	\$ 66	\$ 14	\$ —	\$ 80

(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 related to the exit and abandonment of leased and owned facilities. The charge includes the accelerated write-off of \$26 for leased right-of-use asset balances and \$10 for owned asset balances upon exit from the facility net of any potential sublease income or other recovery amounts.

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

	Three Months Ended March 31,	
	2019	2018
Charges against reserve and currency	\$ (69)	\$ (52)
Effects of foreign currency and other non-cash items	36	(2)
Restructuring cash payments	\$ (33)	\$ (54)

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During the three months ended March 31, 2019, in connection with our restructuring programs, we also incurred certain related costs as follows:

	Three Months Ended March 31, 2019
Retention related severance/bonuses ⁽¹⁾	\$ 9
Contractual severance costs ⁽²⁾	38
Consulting and other costs ⁽³⁾	11
Total	\$ 58

(1) Includes retention related severance and bonuses for employees expected to continue working beyond their minimum notification period before termination.

(2) Reflects estimated severance costs we are contractually required to pay on employees transferred (approximately 2,200) as part of the shared service arrangement entered into with HCL Technologies.

(3) Represents professional support services associated with our business transformation initiatives.

The remaining liability associated with restructuring related costs was \$48 at March 31, 2019.

Note 12 – Debt

Interest Expense and Income

Interest expense and income were as follows:

	Three Months Ended March 31,	
	2019	2018
Interest expense ⁽¹⁾	\$ 59	\$ 63
Interest income ⁽²⁾	67	74

(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) Includes Finance income 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 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.

Fair Value Hedges

As of March 31, 2019, pay variable/receive fixed interest rate swaps with notional amounts of \$300 and net liability fair value of \$1 were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings for the three months ended March 31, 2019.

The following is a summary of our fair value hedges at March 31, 2019:

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Note 2021	2014	\$ 300	\$ (1)	3.2%	4.5%	Libor	2021

Foreign Exchange Risk Management

We are a global company that is 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

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At March 31, 2019 and December 31, 2018, we had outstanding forward exchange and purchased option contracts with gross notional values of \$954 and \$1,103 respectively, with terms of less than 12 months. Approximately 76% of the contracts at March 31, 2019 mature within three months, 12% mature in three to six months and 12% in six to twelve months. The associated currency exposures being hedged at March 31, 2019 were materially consistent with our year-end currency exposures. There has not been any material change 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 asset fair value of these contracts were \$5 and \$8 as of March 31, 2019 and December 31, 2018, 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	March 31,		December 31,	
		2019		2018	
Derivatives Designated as Hedging Instruments					
Foreign exchange contracts - forwards	Other current assets	\$	6	\$	7
	Accrued expenses and other current liabilities		(1)		—
Foreign currency options	Other current assets		—		1
Interest rate swaps	Other long-term liabilities		(1)		(3)
	Net designated derivative asset	\$	4	\$	5
Derivatives NOT Designated as Hedging Instruments					
Foreign exchange contracts – forwards	Other current assets	\$	4	\$	7
	Accrued expenses and other current liabilities		(1)		(1)
	Net undesignated derivative asset	\$	3	\$	6
Summary of Derivatives					
	Total Derivative Assets	\$	10	\$	15
	Total Derivative Liabilities		(3)		(4)
	Net Derivative asset	\$	7	\$	11

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:

Gain (Loss) on Derivative Instruments	Three Months Ended	
	March 31,	
	2019	2018
Fair Value Hedges - Interest Rate Contracts		
Derivative gain (loss) recognized in interest expense	\$	2
Hedged item (loss) gain recognized in interest expense		(2)
Cash Flow Hedges - Foreign Exchange Forward Contracts and Options		
Derivative gain recognized in OCI (effective portion)	\$	3
Derivative gain (loss) reclassified from AOCL to income - Cost of sales (effective portion)		1

During the three months ended March 31, 2019 and 2018, 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 March 31, 2019, a net after-tax gain of \$6 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 re-measurement of the underlying foreign currency-denominated asset or liability.

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended March 31,	
		2019	2018
Foreign exchange contracts – forwards	Other expense – Currency (loss) gain, net	\$ (5)	\$ —

For the three months ended March 31, 2019 and 2018 currency (losses) gains, net were \$(2) and \$2, 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.

	March 31, 2019	December 31, 2018
Assets		
Foreign exchange contracts - forwards	\$ 10	\$ 14
Foreign currency options	—	1
Deferred compensation investments in mutual funds	16	16
Total	\$ 26	\$ 31
Liabilities		
Foreign exchange contracts - forwards	\$ 2	\$ 1
Interest rate swaps	1	3
Deferred compensation plan liabilities	17	16
Total	\$ 20	\$ 20

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:

	March 31, 2019		December 31, 2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 723	\$ 723	\$ 1,084	\$ 1,084
Accounts receivable, net	1,234	1,234	1,276	1,276
Short-term debt and current portion of long-term debt	555	563	961	966
Long-term debt	4,268	4,201	4,269	3,922

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:

Components of Net Periodic Benefit Costs:	Three Months Ended March 31,					
	Pension Benefits				Retiree Health	
	U.S. Plans		Non-U.S. Plans		2019	2018
	2019	2018	2019	2018	2019	2018
Service cost	\$ —	\$ 1	\$ 7	\$ 6	\$ —	\$ 1
Interest cost	30	33	39	39	4	6
Expected return on plan assets	(26)	(34)	(60)	(63)	—	—
Recognized net actuarial loss (gain)	5	6	10	15	(1)	—
Amortization of prior service credit	—	—	—	(1)	(19)	(1)
Recognized settlement loss	31	25	—	—	—	—
Defined benefit plans	40	31	(4)	(4)	(16)	6
Defined contribution plans ⁽¹⁾	8	9	6	7	n/a	n/a
Net Periodic Benefit Cost (Credit)	48	40	2	3	(16)	6
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain) ⁽²⁾	15	(58)	—	—	—	—
Amortization of net actuarial (loss) benefit	(36)	(31)	(10)	(15)	1	—
Amortization of prior service credit	—	—	—	1	19	1
Total Recognized in Other Comprehensive Income⁽³⁾	(21)	(89)	(10)	(14)	20	1
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	\$ 27	\$ (49)	\$ (8)	\$ (11)	\$ 4	\$ 7

(1) Prior year amounts have been revised to reflect additional cost for previously excluded plans.

(2) The net actuarial loss (gain) for U.S. Plans primarily reflects the re-measurement of our primary U.S. pension plans as a result of the payment of periodic settlements.

(3) Amounts represent the pre-tax effect included within Other Comprehensive Income. Refer to Note 18 - Other Comprehensive 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.

	Three Months Ended March 31,		Year Ended December 31,	
	2019	2018	Estimated 2019	2018
U.S. plans	\$ 6	\$ 8	\$ 25	\$ 27
Non-U.S. plans	28	30	110	117
Total Pension	\$ 34	\$ 38	\$ 135	\$ 144
Retiree Health	\$ 8	\$ 15	\$ 35	\$ 57

There are no mandatory contributions required in 2019 for our U.S. tax-qualified defined benefit plans to meet the minimum funding requirements.

Note 16 – Shareholders' Equity
(shares in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽¹⁾	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2018	\$ 232	\$ 3,321	\$ (55)	\$ 5,072	\$ (3,655)	\$ 5,005	\$ 34	\$ 5,039
Cumulative effect of change in accounting principle ⁽²⁾	—	—	—	127	(127)	—	—	—
Comprehensive income, net	—	—	—	133	40	173	3	176
Cash dividends declared - common ⁽³⁾	—	—	—	(58)	—	(58)	—	(58)
Cash dividends declared - preferred ⁽⁴⁾	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	14	—	—	—	14	—	14
Payments to acquire treasury stock, including fees	—	—	(103)	—	—	(103)	—	(103)
Cancellation of treasury stock	(2)	(53)	55	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
Balance at March 31, 2019	<u>\$ 230</u>	<u>\$ 3,282</u>	<u>\$ (103)</u>	<u>\$ 5,270</u>	<u>\$ (3,652)</u>	<u>\$ 5,027</u>	<u>\$ 36</u>	<u>\$ 5,063</u>

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL ⁽¹⁾	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2017	\$ 255	\$ 3,893	\$ —	\$ 4,856	\$ (3,748)	\$ 5,256	\$ 37	\$ 5,293
Cumulative effect of change in accounting principle	—	—	—	117	—	117	—	117
Comprehensive income, net	—	—	—	23	211	234	3	237
Cash dividends declared - common ⁽³⁾	—	—	—	(65)	—	(65)	—	(65)
Cash dividends declared - preferred ⁽⁴⁾	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	15	—	—	—	15	—	15
Distributions to noncontrolling interests	—	—	—	—	—	—	(11)	(11)
Balance at March 31, 2018	<u>\$ 255</u>	<u>\$ 3,908</u>	<u>\$ —</u>	<u>\$ 4,927</u>	<u>\$ (3,537)</u>	<u>\$ 5,553</u>	<u>\$ 29</u>	<u>\$ 5,582</u>

(1) Refer to Note 18 - Other Comprehensive Income for the components of AOCL.

(2) Refer to Note 2 - Recent Accounting Pronouncements - Income Taxes, for additional information related to the adoption of ASU 2018-02.

(3) Cash dividends declared on common stock were \$0.25 per share in the first quarter of 2019 and 2018.

(4) Cash dividends declared on preferred stock were \$20.00 per share in the first quarter of 2019 and 2018.

Treasury Stock

The following is a summary of the purchases of common stock during the first quarter of 2019:

	Shares	Amount
Balance at December 31, 2018	2,067	\$ 55
Purchases ⁽¹⁾	3,321	103
Cancellations	(2,067)	(55)
Balance at March 31, 2019	<u>3,321</u>	<u>\$ 103</u>

(1) Includes associated fees.

Note 17 – Stock-Based Compensation

(shares in thousands)

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (RSUs), performance shares (PSs) and stock options (SOs). We grant stock-based compensation awards in order to continue to attract and retain qualified employees and to better align employees' interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock.

Stock-based compensation expense was as follows:

	Three Months Ended March 31,			
	2019		2018	
Stock-based compensation expense, pre-tax	\$	15	\$	16
Income tax benefit recognized in earnings		4		4

The board of directors (the "Board") recently approved a change in the timing of our annual grant of awards from April to January to fully align the grant date with the underlying performance period related to PSs. The following is a summary of the program design and performance metrics effective for our January 2019 grant and grants thereafter, as approved by the Board. Stock options were not awarded under the 2019 grant.

Restricted Stock Units

Compensation expense for RSUs is based upon the grant date market price and is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of shares expected to vest. RSUs vest on a graded schedule as follows: 25% after one year of service, 25% after two years of service, and 50% after three years of service from the date of grant. Shares awarded to employees who are retirement-eligible at the date of grant, become retirement-eligible during the vesting period, or are terminated not-for-cause (e.g. as part of a restructuring initiative), vest based on service provided from the date of grant to the date of separation. Shares granted through March 31, 2019 under this program were 1,240, with a corresponding weighted average grant date fair value of \$22.28 per share.

Performance Shares

In connection with the January 2019 grant, the Board approved a change to the PSs performance goals replacing the Total Shareholder Return (TSR) metric with an Absolute Share Price metric focusing on stock price appreciation. The Board retained the Revenue and Free Cash Flow metrics as performance goals as well as the three-year performance period for all measures. The performance metrics are weighted as follows: 25% Revenue, 25% Free Cash Flow and 50% Absolute Share Price. Each PS grant is one-half performance based (Revenue and Free Cash Flow) and one-half market-based (Absolute Share Price). The performance goals are independent of each other and depending on the achievement of these metrics, a recipient of a PS award is entitled to receive a number of shares equal to a percentage, ranging from 0% to 200% of the PS award granted. PSs retain the three-year cliff vesting from the date of grant.

Performance-Based Component

PSs vest contingent upon meeting pre-determined cumulative performance metrics. The fair value of our PSs is based upon the grant-date market price. Compensation expense is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of shares expected to vest. If the cumulative three-year actual results exceed the stated targets, all plan participants have the potential to earn additional shares of common stock up to a maximum overachievement of 100% of the original grant. If the stated targets are not met, any recognized compensation cost would be reversed. Shares granted through March 31, 2019 under this program were 695, with a corresponding weighted average grant date fair value of \$22.30 per share.

Market-Based Component

The Absolute Share Price metric is based on Xerox's average closing price for the last twenty trading days of the performance period, inclusive of dividends during the three-year performance period. Payout for this portion of the PS will be determined based on total return targets approved by the compensation committee of the Board. Since this portion of the PS award represents a market condition, a Monte Carlo simulation was used to determine the grant-date fair value.

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A summary of the key valuation input assumptions used in the Monte Carlo simulation relative to PS awards granted were as follows:

	Program to Date March 31, 2019
Term	3 years
Risk-free interest rate ⁽¹⁾	2.51%
Dividend yield ⁽²⁾	3.97%
Xerox's blended volatility ⁽³⁾	32.95%
Weighted average fair value ⁽⁴⁾	\$ 16.02

(1) The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve on the valuation date, with a maturity matched to the performance period.

(2) The dividend yield was calculated as the expected quarterly dividend divided by Xerox's three-month average stock price as of the valuation date, annualized and continuously compounded.

(3) Xerox's volatility is calculated using a blended volatility approach, with 50% weight on Xerox's historical volatility calculated from daily stock returns over a three-year look-back term from the valuation date, and 50% weight on Xerox's implied volatility.

(4) The weighted average of fair values used to record compensation expense as determined by the Monte Carlo simulation.

The Absolute Share Price is compared against total return targets to determine the payout as follows:

Total Return Targets ⁽¹⁾	Payout Percentages
\$40.00 and above	200%
\$35.00	100%
\$30.00	50%
Below \$30.00	0%

(1) For performance between the levels described above, the degree of vesting is interpolated on a linear basis.

Compensation expense is recognized on a straight-line basis over the vesting period based on the fair value determined by the Monte Carlo simulation and, except in cases of employee forfeiture, cannot be reversed regardless of performance. Shares granted through March 31, 2019 under this program were 695.

Note: Management's estimate of the number of shares expected to vest at the time of grant reflects an estimate for forfeitures based on our historical forfeiture rate to date. Should actual forfeitures differ from management's estimate, the activity will be reflected in a subsequent period.

Note 18 - Other Comprehensive Income

Other Comprehensive Income is comprised of the following:

	Three Months Ended March 31,			
	2019		2018	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation adjustments gains	\$ 37	\$ 37	\$ 184	\$ 176
Unrealized gains (losses)				
Changes in fair value of cash flow hedges gains	3	3	12	8
Changes in cash flow hedges reclassified to earnings ⁽¹⁾	(1)	(1)	12	10
Other losses	—	—	(1)	(1)
Net Unrealized gains	2	2	23	17
Defined benefit plans (losses) gains				
Net actuarial/prior service (losses) gains	(15)	(12)	58	43
Prior service amortization ⁽²⁾	(19)	(14)	(2)	(1)
Actuarial loss amortization/settlement ⁽²⁾	45	34	46	35
Fuji Xerox changes in defined benefit plans, net ⁽³⁾	9	9	(21)	(21)
Other losses ⁽⁴⁾	(16)	(16)	(38)	(38)
Changes in defined benefit plans gains	4	1	43	18
Other Comprehensive Income Attributable to Xerox	\$ 43	\$ 40	\$ 250	\$ 211

(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) Represents our share of Fuji Xerox's benefit plan changes.

(4) 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:

	March 31, 2019	December 31, 2018
Cumulative translation adjustments	\$ (1,986)	\$ (2,023)
Other unrealized gains, net	6	4
Benefit plans net actuarial losses and prior service credits ⁽¹⁾⁽²⁾	(1,672)	(1,546)
Total Accumulated other comprehensive loss attributable to Xerox	\$ (3,652)	\$ (3,565)

(1) Includes our share of Fuji Xerox.

(2) The change from December 31, 2018 includes \$(127) related to the adoption of ASU 2018-02 and the reclassification of stranded tax effects resulting from the Tax Act - refer to Note 2 - Recent Accounting Pronouncements - Income Taxes for additional information.

Note 19 – Earnings per Share

(shares in thousands)

The following table sets forth the computation of basic and diluted earnings per share of common stock:

	Three Months Ended March 31,	
	2019	2018
Basic Earnings per Share		
Net Income Attributable to Xerox	\$ 133	\$ 23
Accrued dividends on preferred stock	(4)	(4)
Adjusted Net income available to common shareholders	\$ 129	\$ 19
Weighted average common shares outstanding	228,567	254,660
Basic Earnings per Share	\$ 0.57	\$ 0.08
Diluted Earnings per Share		
Net Income Attributable to Xerox	\$ 133	\$ 23
Accrued dividends on preferred stock	—	(4)
Adjusted Net income available to common shareholders	\$ 133	\$ 19
Weighted average common shares outstanding	228,567	254,660
Common shares issuable with respect to:		
Stock options	3	—
Restricted stock and performance shares	4,406	2,810
Convertible preferred stock	6,742	—
Adjusted Weighted average common shares outstanding	239,718	257,470
Diluted Earnings per Share	\$ 0.55	\$ 0.08
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	947	—
Restricted stock and performance shares	3,847	2,977
Convertible preferred stock	—	6,742
Total Anti-Dilutive Securities	4,794	9,719
Dividends per Common Share	\$ 0.25	\$ 0.25

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:

	March 31, 2019	December 31, 2018
Tax contingency - unreserved	\$ 500	\$ 500
Escrow cash deposits	58	58
Surety bonds	105	106
Letters of credit	106	104
Liens on Brazilian assets	—	—

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 March 31, 2019 and December 31, 2018. 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. Deason v. Fujifilm Holdings Corp., et al.; Deason v. Xerox Corp., et al.; In re Xerox Corporation Consolidated Shareholder Litigation:

In February 2018, five complaints (the "Fuji Transaction Shareholder Lawsuits"), including four putative class actions (which have been consolidated), were filed by Xerox shareholders in the Supreme Court of the State of New York, County of New York (the "Court") in connection with the proposed transaction to combine Xerox and Fuji Xerox (the "Fuji Transaction"). All of the complaints name as defendants Xerox, its directors, and FUJIFILM Holdings Corporation ("Fujifilm"). The complaint in one of the actions also names as a defendant Ursula M. Burns, the former Chief Executive Officer of Xerox. The plaintiffs allege, among other things, that Xerox's directors breached their fiduciary duties in negotiating, approving, and purportedly making false and misleading disclosures about the Fuji Transaction, and that Fujifilm aided and abetted those breaches. The complaint in one of the actions further alleges that Xerox and the director defendants engaged in common law fraud by purportedly failing to disclose information about the joint venture agreements between Xerox and Fujifilm. The Fuji Transaction Shareholder Lawsuits seek injunctive relief preventing the previously proposed transactions, and/or additional disclosures by Xerox's directors, unspecified damages from Xerox's directors, costs and attorneys' fees, as well as other relief.

One of the Fuji Transaction Shareholder Lawsuits was brought by Darwin Deason, a Xerox shareholder ("Deason I"). Another complaint was filed by Mr. Deason against Xerox and its directors in the same Court on March 2, 2018 ("Deason II") alleging that defendants breached their fiduciary duties by refusing Mr. Deason's request for a waiver of the deadline for nomination of a new slate of Xerox directors. In Deason II, Mr. Deason sought to enjoin Xerox and its directors from enforcing Xerox's advance notice by-laws, thereby allowing Mr. Deason to proceed with the nominations, as well as costs, fees, and other relief.

On April 27, 2018, the Court issued decisions and orders granting plaintiffs' preliminary injunction motions, which (i) enjoined Xerox from "taking any further action to consummate the change of control transaction between Xerox and Fuji that was announced on January 31, 2018 pending a final determination of the claims asserted in the underlying action;" (ii) enjoined Xerox from enforcing its advance notice bylaw provision requiring shareholders to nominate directors for election at the 2018 annual shareholder meeting by December 11, 2017; and (iii) required Xerox to waive such advance notice bylaw provision to permit the noticing of a slate of director nominees for election at the 2018 annual shareholder meeting, and denying defendants' motions to dismiss.

On May 1, 2018, Xerox entered into a Director Appointment, Nomination and Settlement Agreement (the "Initial Settlement Agreement") with Mr. Deason and Carl C. Icahn and certain of his affiliates who were also Xerox shareholders (the "Icahn Group"), among others, that would have resolved Deason I, Deason II and the pending proxy contest in connection with Xerox's 2018 Annual Meeting of Shareholders. The Initial Settlement Agreement expired by its terms on May 3, 2018 without becoming effective.

On May 7, 2018, defendants filed with the Supreme Court of the State of New York, Appellate Division, First Judicial Department, notices of appeal of, and motions to stay pending appeal, the lower Court's decision and order. Defendants also moved the appellate court for interim relief ordering that the appeal be heard on an expedited basis. At a hearing before the appellate court on May 7, 2018, the appellate court ruled that the appeals would be heard on an expedited basis and granted a partial interim stay allowing Xerox and Fujifilm to take steps to seek regulatory approvals related to the Fuji Transaction pending a ruling from the appellate court on defendants' motions to stay pending appeal.

On May 13, 2018, a second Director Appointment, Nomination and Settlement Agreement (the "Final Settlement Agreement") with respect to Deason I, Deason II and the pending proxy contest in connection with Xerox's 2018 Annual Meeting of Shareholders that was initiated by the Icahn Group was signed on behalf of Mr. Deason, the Icahn Group and all defendants except Fujifilm, and a memorandum of understanding regarding settlement of the putative class case was signed by all defendants except Fujifilm. Pursuant to the settlements, the settling defendants withdrew their appeal and motion to stay in Deason I and Deason II. The settling defendants also withdrew their motion to stay in the putative class case. The Court entered a stipulation of discontinuance as to the settling parties in Deason II on May 14, 2018, and agreed on June 22, 2018 to do the same in Deason I.

On June 14, 2018, Fujifilm filed answers in Deason I and the putative class case, along with cross-claims against the members of the Xerox Board (as constituted before May 13, 2018) and a third-party complaint against Xerox director Jonathan Christodoro, seeking contribution for any potential award against Fujifilm for aiding and abetting purported breaches of fiduciary duties.

On June 19, 2018, the putative class plaintiffs filed a motion for preliminary approval of a stipulation of settlement that would resolve the claims asserted by the plaintiffs in the putative class case against all defendants, other than Fujifilm. Carmen Ribbe, the plaintiff in the below derivative action, and Fujifilm filed oppositions to the motion on July 10, 2018.

On June 22, 2018, the Court entered an order denying a joint motion by the putative class plaintiffs and the settling defendants to dissolve the injunction in the putative class case as against the settling defendants, and entered an order denying Fujifilm's motion to dissolve the injunctions in the putative class case and Deason I in their entirety.

On July 16, 2018, the Court held a hearing concerning the putative class plaintiffs' motion for preliminary approval of the settlement in the putative class case. The Court indicated that it was not inclined to consider motions for approval of the settlement prior to considering whether the putative class should be certified.

On August 2, 2018, the Appellate Division entered orders recognizing the Xerox defendants' withdrawal of their appeal in the Deason cases and denying all appellants' motions to stay pending determination of appeals in the Deason and putative class cases.

On August 2, 2018, the Appellate Division entered orders (i) at their request, deeming withdrawn the Xerox defendants' appeal and motion to stay in the Deason cases; (ii) upon their request, deeming withdrawn the Xerox defendants' motion to stay, pending determination of appeal, the putative class case; and (iii) denying Fujifilm's motion to stay pending determination of its appeals in the Deason and putative case cases.

On September 21, 2018, putative class plaintiffs filed a motion for certification of a settlement class and a motion to transmit notice of the proposed settlement to the proposed class. On October 17, 2018, derivative plaintiff Carmen Ribbe and Fujifilm filed oppositions to the putative class plaintiffs' motion to transmit notice to the proposed class. The class has not yet been certified, and preliminary approval has not been granted.

The Appellate Division heard oral argument on September 25, 2018 on Fujifilm's appeal of the Court's decision. On October 16, 2018, the Appellate Division entered a decision and order reversing the Court's rulings, ordering that the claims brought against Fujifilm in the cases by Mr. Deason and the purported class be dismissed, and further ordering that the preliminary injunction of the proposed Fuji Transaction be dissolved (the "Appellate Decision and Order").

On November 15, 2018, the putative class plaintiffs filed with the Appellate Division a motion seeking the opportunity to reargue Fujifilm's appeal or, in the alternative, for leave to appeal the Appellate Decision and Order to the New York State Court of Appeals.

On December 6, 2018, pursuant to the Appellate Decision and Order, the Court entered a judgment dismissing the complaints against Fujifilm in Deason I and the putative class case. The Court further issued orders denying the putative class plaintiffs' motion for class certification, without prejudice to renewing the motion after the outcome of any appeals of the Appellate Decision and Order.

On January 8, 2019, the Court entered an order staying all further proceedings in Deason I and the putative class case until thirty days after exhaustion of appeals, including any appeals to the New York State Court of Appeals, of the Appellate Decision and Order. On January 9, 2019, the Court entered an order denying the putative class plaintiffs' motion to transmit notice to the proposed class, without prejudice to renewal of their motion at a later time.

On October 31, 2018 and January 3, 2019, respectively, Xerox and the Xerox director defendants in the putative class case filed with the Appellate Division a request and motion seeking an extension, until after any decision regarding approval of settlement of the putative class action, of the deadline by which to perfect their appeal of the Court's April 27, 2018 decision and order.

On February 21, 2019, the Appellate Division issued an order denying the putative class plaintiffs' motion seeking to reargue Fujifilm's appeal or, in the alternative, for leave to appeal the Appellate Decision and Order to the New York State Court of Appeals. No further notice of appeal was filed, and the Appellate Decision and Order became final and unappealable on March 26, 2019.

Xerox will vigorously defend these lawsuits to the extent that the proceedings continue as to Xerox. At this time, however, it is premature to make any conclusion regarding the probability of incurring material losses in these lawsuits. 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.

2. 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, current Board members Gregory Q. Brown, Joseph J. Echevarria, Cheryl Gordon Krongard, Sara Martinez Tucker, 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, and Stephen H. Rusckowski. 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. The new complaint includes putative derivative claims on behalf of Xerox for breach of fiduciary duty against the members of the Xerox Board who approved Xerox's entry into agreements to settle the Deason and In re Xerox Corporation Consolidated Shareholder Litigation ("XCCSL") actions (described above). Plaintiff alleges 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 alleges that the 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 includes 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 alleges perpetuated control of Xerox by Mr. Icahn and Mr. Deason and denied the voting franchise of Xerox shareholders. Among other things, plaintiff seeks 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. Xerox 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.

3. Fujifilm Holdings Corp. v. Xerox Corporation:

On June 18, 2018, Fujifilm filed a complaint against Xerox in the U.S. District Court for the Southern District of New York, relating to the Fuji Transaction agreements. The complaint alleges that Xerox: (1) willfully breached the Fuji Transaction agreements by purporting to terminate them to appease Messrs. Icahn and Deason and using as a pretext issues with Fujifilm's untimely submitted financials, and by settling Deason I and Deason II without notice to or consent by Fujifilm; (2) willfully breached the implied covenant of good faith and fair dealing by failing to support and use best efforts to conclude the Fuji Transaction, thus depriving Fujifilm of the benefit of its bargain; and (3) effected a change in Xerox's recommendation regarding the Fuji Transaction, entitling Fujifilm to terminate the Fuji Transaction agreements and to receive from Xerox a \$183 termination fee. Fujifilm seeks a judgment for damages to be determined at trial in an amount in excess of \$1.0 billion plus punitive damages; a declaration regarding the alleged change in recommendation such that Fujifilm may terminate the transaction and Xerox must pay the \$183 termination fee and other remedies; costs and attorneys' fees; and other relief the court may deem appropriate.

At a conference on September 24, 2018, the Court stayed all discovery pending resolution of Xerox's motion to dismiss. Xerox filed its motion to dismiss on October 1, 2018. On February 22, 2019, following oral argument, the Court denied the motion to dismiss.

On March 12, 2019, the Court entered a scheduling order setting various case deadlines. Xerox filed its answer denying the claims on March 15, 2019. Discovery has commenced.

Xerox believes the lawsuit is meritless and will vigorously defend it. At this time, however, 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.

All Other Pending Litigation:

1. State of Texas v. Xerox Corporation, Xerox State Healthcare, LLC, and ACS State Healthcare, LLC:

On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the "State"), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleged that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively "the Defendants") violated the Texas Medicaid Fraud Prevention Act in the administration of ACS State Healthcare's contract with the Texas Department of Health and Human Services ("HHSC"). Xerox Corporation provided a guaranty of contractual performance with respect to the ACS State Healthcare contract. The State alleged that the Defendants made false representations of material facts regarding the processes, procedures, implementation and results regarding the prior authorization of orthodontic claims. The State sought recovery of actual damages, two times the amount of any overpayments made as a result of alleged unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys' fees. The State referenced the amount in controversy as exceeding hundreds of millions of dollars. The Defendants filed their Answer in June 2014 denying all allegations. In August 2017, the State of Texas filed a Second Amended Petition, which made substantially similar allegations and sought similar remedies as the original lawsuit. On October 23, 2017, Xerox Corporation filed a Motion for Summary Judgment seeking judgment in Xerox's favor on all claims against it. On July 2, 2018, the Court denied the State of Texas' motion for a determination of the adequacy of its pleadings as to Xerox or in the alternative, seeking leave to amend its petition to bring additional claims against Xerox.

On February 15, 2019, The State filed, without opposition, its Third Amended Petition against Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), Conduent State Healthcare, LLC (f/k/a Xerox State Healthcare, LLC, f/k/a ACS State Healthcare, LLC) and Conduent Incorporated (collectively, the "Conduent Entities") and Xerox Corporation to add claims for breach of contract and negligence. On February 18, 2019, Xerox and the Conduent Entities entered into a Settlement Agreement and Release ("Agreement") with the State and the HHSC to settle all claims arising from alleged failures by the defendants or Texas Medicaid & Healthcare Partnership to comply with obligations under two contracts between Conduent State Healthcare, LLC and the HHSC entered into in 2003 and

2010. Xerox is not required to make any payment under the Agreement. Pursuant to the terms of the Agreement, the Conduent Entities will pay the State \$235.9 payable in installments through no later than July 31, 2021. Also pursuant to the Agreement, all proceedings in the lawsuit are suspended, as confirmed by an order issued by the Court on February 19, 2019, and the State and the HHSC will dismiss the lawsuit with prejudice and release all of the defendants from all of the State's claims after the settlement amount has been paid in full. No defendant made any admission of liability or wrongdoing in entering into the Agreement.

This matter is a "Conduent Liability", as defined in the Separation and Distribution Agreement dated as of December 31, 2016 between Xerox Corporation and Conduent Incorporated, for which Conduent is required to indemnify Xerox. Conduent is entitled to direct the defense of this matter.

2. Oklahoma Firefighters Pension and Retirement System v. Xerox Corporation, Ursula M. Burns, Luca Maestri, Kathryn A. Mikells, Lynn R. Blodgett, Robert K. Zapfel, David H. Bywater and Mary Scanlon:

On October 21, 2016, the Oklahoma Firefighters Pension and Retirement System ("plaintiff") filed a purported securities class action complaint against Xerox Corporation, Ursula Burns, Luca Maestri, Kathryn Mikells, Lynn Blodgett and Robert Zapfel (collectively, "defendants") in the U.S. District Court for the Southern District of New York on behalf of the plaintiff and certain purchasers or acquirers of Xerox common stock. The complaint alleged that defendants made false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5, relating to the operations and prospects of Xerox's Health Enterprise business. Plaintiff sought, among other things, unspecified monetary damages and attorneys' fees. Other, similar lawsuits may follow. On December 28, 2016, the Court entered a stipulated order setting out a schedule for amendment of the complaint and for defendants' response to that complaint following the Court's appointment of lead plaintiff under the Private Securities Litigation Reform Act. On February 28, 2017, the Court issued an opinion and order appointing the Arkansas Public Employees Retirement System ("APERS") as lead plaintiff. On May 1, 2017, APERS filed an amended complaint, alleging substantially similar claims and seeking substantially similar relief, but adding David Bywater and Mary Scanlon as defendants. On June 30, 2017, defendants moved to dismiss the amended complaint, and the motions were fully briefed on October 13, 2017. On March 20, 2018, the Court entered an opinion and order granting the motions, and on March 23, 2018, the Court entered a judgment of dismissal and closed the case. On April 20, 2018, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit, and the appeal was fully briefed as of November 28, 2018. The Second Circuit has set oral argument for May 31, 2019. Xerox 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.

Guarantees

We have issued or provided approximately \$331 of guarantees as of March 31, 2019 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.

Indemnifications

We have indemnified, subject to certain deductibles and limits, the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. Where appropriate, an obligation for such indemnifications is recorded as a liability. Since the obligated amounts of these types of indemnifications are often not explicitly stated and/or are contingent on the occurrence of future events, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have not historically made significant payments for these indemnifications. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing. We have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.

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

The following Management's Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Xerox Corporation. MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying notes. Throughout the MD&A, we refer to various notes in our Condensed Consolidated Financial Statements which appear in Item 1 of this 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.

Throughout this document, references to "we," "our," the "Company," and "Xerox" refer to Xerox Corporation and its subsidiaries. References to "Xerox Corporation" refer to the stand-alone parent company and do not include its subsidiaries.

Currency Impact

To understand the trends in our 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.

Overview

First Quarter 2019 Review

Total revenue of \$2.21 billion for first quarter 2019 declined 9.4% from first quarter 2018, including a 2.4-percentage point unfavorable impact from currency. The decrease in revenue reflected a 9.2% decrease in Post sale revenue, including a 2.4-percentage point unfavorable impact from currency, and a 10.2% decrease in Equipment sales revenue, including a 2.6-percentage point unfavorable impact from currency. The decline in Post sale revenue reflected the continuing trends of lower page volumes, an ongoing competitive price environment and a lower population of devices, as well as lower transactional Post sale revenue from unbundled supplies and paper in our developing market sales units and XBS IT network integration sales. The declines in Post sale revenues were larger in the U.S. where we recently implemented organizational changes as part of our Project Own It transformation actions. The decline in Equipment sales primarily reflected lower revenues from our mid-range products as some areas were impacted by organizational changes we implemented and within XBS where we transitioned a significant number of accounts from U.S. Enterprise.

Net income attributable to Xerox and Adjusted¹ Net Income Attributable to Xerox for the three months ended March 31, 2019 and 2018 were as follows:

(in millions)	Three Months Ended March 31,		
	2019	2018	B/(W)
Net income attributable to Xerox	\$ 133	\$ 23	\$ 110
Adjusted ⁽¹⁾ Net income attributable to Xerox	219	178	41

The increase in Net income attributable to Xerox for the three months ended March 31, 2019 as compared to the prior year period, was primarily due to the continued benefits of cost savings and productivity improvements from our Project Own It transformation actions, which offset the impact of lower revenues, as well as lower Transaction and related costs, net, lower Income tax expense and higher Equity in net income of unconsolidated affiliates. These benefits were partially offset by higher Restructuring and related costs. The increase in adjusted¹ net income attributable to Xerox for the three months ended March 31, 2019 as compared to the prior year period was primarily related to increased operating profits reflecting the continued benefits of cost savings and productivity improvements, which offset the decline in revenues, as well as higher Equity in net income of unconsolidated affiliates.

Cash flows provided by operating activities for the three months ended March 31, 2019 were \$226 million, as compared to \$216 million in first quarter 2018. The increase reflects improved cash flow from earnings and lower restructuring payments, which were partially offset by a use of cash for working capital² and accrued compensation. Cash used in investing activities for the three months ended March 31, 2019 was \$18 million including capital expenditures of \$15

million and acquisitions of \$4 million. Cash used in financing activities was \$569 million for the three months ended March 31, 2019 reflecting payments of \$406 million on Senior Notes, \$103 million for share repurchases and dividend payments of \$62 million.

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

(2) Working capital, net reflects Accounts receivable, net, Inventories and Accounts payable and accrued compensation.

Financial Review

Revenues

(in millions)	Three Months Ended March 31,		% Change	CC % Change	% of Total Revenue	
	2019	2018			2019	2018
Equipment sales	\$ 448	\$ 499	(10.2)%	(7.6)%	20%	20%
Post sale revenue	1,758	1,936	(9.2)%	(6.8)%	80%	80%
Total Revenue	\$ 2,206	\$ 2,435	(9.4)%	(7.0)%	100%	100%

Reconciliation to Condensed Consolidated Statements of Income:

Sales ⁽¹⁾	\$ 750	\$ 845	(11.2)%	(8.9)%		
Less: Supplies, paper and other sales ⁽¹⁾	(302)	(346)	(12.7)%	(10.7)%		
Equipment sales	\$ 448	\$ 499	(10.2)%	(7.6)%		
Services, maintenance and rentals ⁽¹⁾	\$ 1,393	\$ 1,519	(8.3)%	(5.8)%		
Add: Supplies, paper and other sales ⁽¹⁾	302	346	(12.7)%	(10.7)%		
Add: Financing	63	71	(11.3)%	(9.0)%		
Post sale revenue	\$ 1,758	\$ 1,936	(9.2)%	(6.8)%		
Americas	\$ 1,410	\$ 1,535	(8.1)%	(7.5)%	64%	63%
EMEA	712	795	(10.4)%	(4.3)%	32%	33%
Other	84	105	(20.0)%	(20.0)%	4%	4%
Total Revenue⁽²⁾	\$ 2,206	\$ 2,435	(9.4)%	(7.0)%	100%	100%

Memo:

Xerox Services ⁽³⁾	\$ 853	\$ 908	(6.1)%	(2.9)%	39%	37%
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CC - See "Currency Impact" section for a description of Constant Currency.

(1) Certain prior year amounts have been conformed to the current year presentation. Refer to Note 1 - Basis of Presentation in our Condensed Consolidated Financial Statements for additional information.

(2) Refer to the "Geographic Sales Channels and Product and Offerings Definitions" section.

(3) Excluding Equipment revenue, Xerox Services was \$750 million and \$799 million in the first quarter of 2019 and 2018, respectively, representing a decrease of 6.1% including a 3.1-percentage point unfavorable impact from currency.

Total revenue for the three months ended March 31, 2019 decreased 9.4% as compared to the first quarter 2018, including a 2.4-percentage point unfavorable impact from currency and an approximate 1.0-percentage point unfavorable impact from lower OEM sales. Total revenue 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 is affected by installs and removals, but also by page volumes generated by the usage of such devices, and the revenue per printed page. Post sale revenue decreased 9.2% as compared to the first quarter 2018, including a 2.4-percentage point unfavorable impact from currency and reflected the following:

- **Services, maintenance and rentals revenue** includes rental and maintenance revenue (including bundled supplies) as well as the post sale component of the document services revenue from our Xerox Services offerings. For the three months ended March 31, 2019 these revenues decreased 8.3% as compared to the first quarter 2018, including a 2.5-percentage point unfavorable impact from currency. The decline at constant currency¹ reflected the continuing trends of lower page volumes (including a higher mix of lower usage products), an ongoing competitive price environment and a lower population of devices, which are partially associated with continued lower Enterprise signings and installs in prior periods. These declines were larger in the U.S. where we recently implemented organizational changes as part of our Project Own It transformation actions.

- **Supplies, paper and other sales** includes unbundled supplies and other sales. For the three months ended March 31, 2019 these revenues decreased 12.7% as compared to the first quarter 2018, including a 2.0-percentage point unfavorable impact from currency and a 2.9-percentage point unfavorable impact from lower OEM sales. The decline at constant currency¹ also reflected the impact of lower supplies revenues primarily from our developing market regions and lower transactional IT network integration solutions sales from our XBS sales unit, as well as lower paper sales in Latin America.
- **Financing revenue** is generated from financed equipment sale transactions. For the three months ended March 31, 2019 the revenues declined 11.3% as compared to the first quarter 2018, reflecting a continued decline in the finance receivables balance due to lower equipment sales in prior periods and included a 2.3-percentage point unfavorable impact from currency.

(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 March 31,				% of Equipment Sales	
	2019	2018	% Change	CC % Change	2019	2018
Entry	\$ 53	\$ 53	—%	3.2%	12%	11%
Mid-range	302	334	(9.6)%	(7.2)%	67%	67%
High-end	89	92	(3.3)%	(0.3)%	20%	18%
Other	4	20	(80.0)%	(80.0)%	1%	4%
Equipment sales	\$ 448	\$ 499	(10.2)%	(7.6)%	100%	100%

CC - See "Currency Impact" section for a description of Constant Currency.

Equipment sales revenue decreased 10.2% for the three months ended March 31, 2019 as compared to the first quarter 2018, including a 2.6-percentage point unfavorable impact from currency. These revenues were impacted by price declines of approximately 5% and included a 2.8-percentage point unfavorable impact from the absence of OEM equipment sales in the first quarter 2019. The decline at constant currency¹ was mainly impacted by lower revenues from our mid-range products, and reflected the following:

- **Entry** - For the three months ended March 31, 2019, the increase at constant currency¹, as compared to first quarter 2018, reflected higher installs of our ConnectKey devices in our Americas sales organization, and it also partially benefited from lower U.S. indirect channel sales in the prior year.
- **Mid-range** - For the three months ended March 31, 2019, the decrease, as compared to first quarter 2018, reflected lower sales from our Americas sales organization, including our XBS sales unit which were further affected by the transitional impact associated with recently implemented organizational changes as part of our Project Own It transformation actions (including the transitioning of accounts to implement coverage changes, consolidation of real estate locations and the reduction of management layers), partially offset by higher sales from our European sales operations.
- **High-end** - For the three months ended March 31, 2019, revenue was nearly flat, as compared to first quarter 2018, and was driven by lower sales from our Americas sales organization, mostly offset by growth from our European region. The decline in installs was partially offset by a favorable revenue mix driven by strong demand for the higher-configuration models of our Iridesse production press.

While the rate of our first quarter 2019 revenue decline was greater than the rate we expect for the year as a whole (largely due to the impact of organizational changes implemented in the first quarter 2019), we expect such decline to improve each quarter sequentially on a year-over-year basis, resulting in an overall revenue decline of about 5% for the year as a whole, excluding an approximate 1.0-percentage point unfavorable impact from currency.

Total Installs

Installs reflect new placement of devices only. Revenue associated with equipment installations (discussed below) may be reflected up-front in Equipment sales or over time either through rental income or as part of our Xerox 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 from Xerox Services and Xerox-branded products shipped to our XBS sales unit. Detail by product group (see *Geographic Sales Channels and Product and Offerings Definitions*) is shown below.

Installs in the first quarter of 2019:

Entry⁽¹⁾

- 10% increase in color multifunction devices reflecting higher installs of ConnectKey devices in the higher-value Workteam/Workgroup through our indirect channels in the U.S., partially offset by lower activity from our EMEA organization.
- 2% decrease in black-and-white multifunction devices, driven by lower activity from our EMEA organization, including low-end devices in developing market regions, partially offset by higher installs of ConnectKey devices through our indirect channels in the U.S.

Mid-Range⁽²⁾

- 7% decrease in mid-range color installs reflecting lower installs of ConnectKey devices through our indirect channels in the U.S. and from our XBS sales unit. Higher installs from our EMEA organization provided a partial offset.
- 19% decrease in mid-range black-and-white, reflecting lower installs of ConnectKey devices through our indirect channels in the U.S. and from our XBS sales unit. The decline also reflected market trends, partially offset by higher installs from our EMEA organization.

High-End⁽²⁾

- 14% decrease in high-end color installs, reflecting lower installs of our iGen and lower-end production systems including Versant systems, partially offset by strong demand for the higher-configuration models of our Iridesse production press and higher installs of our inkjet production systems.
- 12% decrease in high-end black-and-white systems reflecting market trends.

(1) When combined with OEM sales, Entry color multifunction devices decreased 32%, while Entry black-and-white multifunction devices decreased 22% for the three months ended March 31, 2019.

(2) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales, Mid-range color devices decreased 7%, while High-end color systems decreased 14% for the three months ended March 31, 2019.

Geographic Sales Channels and Product 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 our OEM business, as well as sales to and royalties from Fuji Xerox, 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+.
- Xerox Services, formerly known as Managed Document Services (MDS), which includes solutions and services that span from managing print to automating processes to managing content. Our primary offerings are Intelligent Workplace Services (IWS), which is our rebranded Managed Print Services, as well as Digital and Cloud Print Services (including centralized print services). Xerox Services also includes Communication and Marketing Solutions that were previously excluded from our former MDS definition.

Prior year amounts have been conformed to the current year presentation as follows:

<i>(in millions)</i>	As Reported	Change	As Revised	As Revised	
				% Change	CC % Change
2018					
First Quarter	\$ 862	\$ 46	\$ 908	4.7 %	(0.2)%
Second Quarter	871	42	913	3.7 %	1.3 %
Third Quarter	848	35	883	(1.6)%	— %
Fourth Quarter	876	41	917	(5.0)%	(2.6)%
Full Year	<u>\$ 3,457</u>	<u>\$ 164</u>	<u>\$ 3,621</u>	0.3 %	0.5 %
	As Reported	Change	As Revised		
2017					
Full Year	<u>\$ 3,419</u>	<u>\$ 191</u>	<u>\$ 3,610</u>		

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 March 31,		
	2019	2018	B/(W)
Gross Profit	\$ 889	\$ 970	\$ (81)
RD&E	92	100	8
SAG	548	628	80
Equipment Gross Margin	35.7%	32.6%	3.1 pts.
Post sale Gross Margin	41.5%	41.7%	(0.2) pts.
Total Gross Margin	40.3%	39.8%	0.5 pts.
RD&E as a % of Revenue	4.2%	4.1%	(0.1) pts.
SAG as a % of Revenue	24.8%	25.8%	1.0 pts.
Pre-tax Income	\$ 83	\$ 134	\$ (51)
Pre-tax Income Margin	3.8%	5.5%	(1.7) pts.
Adjusted ⁽¹⁾ Operating Profit	\$ 249	\$ 242	\$ 7
Adjusted ⁽¹⁾ Operating Margin	11.3%	9.9%	1.4 pts.

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

Pre-tax Income Margin

First quarter 2019 pre-tax income margin of 3.8% decreased 1.7-percentage points as compared to first quarter 2018. The decrease was driven by higher Restructuring and related costs partially offset by lower Transaction related costs as well lower operating expenses (primarily reflecting the net benefit from our Project Own It transformation actions) that offset the impact of lower revenues.

Adjusted¹ Operating Margin

First quarter 2019 adjusted¹ operating margin of 11.3% increased 1.4-percentage points as compared to first quarter 2018 primarily reflecting the impact of SAG reductions and cost productivity associated with our Project Own It transformation actions, which more than offset the pace of revenue decline and an approximate 0.3-percentage point unfavorable impact from transaction currency.

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

Gross Margin

First quarter 2019 gross margin of 40.3% increased 0.5-percentage points as compared to first quarter 2018, reflecting higher equipment margin partially offset by lower post sale margin.

First quarter 2019 equipment gross margin of 35.7% increased 3.1-percentage points as compared to first quarter 2018, reflecting the mix benefit from lower OEM sales (which carry a negative upfront margin) as well as savings from our Project Own It cost productivity initiatives.

First quarter 2019 post sale gross margin of 41.5% decreased 0.2-percentage points as compared to first quarter 2018, driven by a 0.6-percentage point unfavorable impact related to a prior year benefit from a change in estimate for consumables usage by customers. Excluding this item, post sale margin would have increased, reflecting productivity and restructuring savings associated with our Project Own It transformation actions that offset the impact of lower revenues.

Research, Development and Engineering Expenses (RD&E)

(in millions)	Three Months Ended March 31,		
	2019	2018	Change
R&D	\$ 77	\$ 81	\$ (4)
Sustaining engineering	15	19	(4)
Total RD&E Expenses	\$ 92	\$ 100	\$ (8)

First quarter 2019 RD&E as a percentage of revenue of 4.2% was 0.1-percentage points higher as compared to first quarter 2018, as revenue declined at a higher rate than RD&E.

RD&E of \$92 million decreased \$8 million as compared to first quarter 2018 and reflected cost productivity and restructuring savings from our Project Own It transformation actions, including savings in sustaining engineering, partially offset by modest investments in innovation in complementary market areas.

Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 24.8% decreased 1.0-percentage point as compared to first quarter 2018, primarily reflecting the benefit from productivity and restructuring associated with our Project Own It transformation actions.

SAG of \$548 million was \$80 million lower than first quarter 2018, reflecting productivity and restructuring savings associated with our Project Own It transformation actions as well as favorable impacts of approximately \$13 million from translation currency and \$9 million from a prior year accelerated depreciation charge. Bad debt expense of \$13 million was flat as compared to first quarter 2018 and on a trailing twelve month basis (TTM) remained at less than one percent of total receivables.

Restructuring and Related Costs

During the second half of 2018, we started our Project Own It transformation initiative. The primary goal of this initiative is to improve productivity by driving end-to-end transformation of our processes and systems to create greater focus, speed, accountability and effectiveness and to reduce costs. We incurred restructuring and related costs of \$112 million for the first quarter 2019 primarily related to costs to implement initiatives under our business transformation projects including Project Own It. The following is a breakdown of those costs:

(in millions)	Three Months Ended March 31, 2019
Restructuring and severance ⁽¹⁾	\$ 12
Asset impairments ⁽²⁾	36
Other contractual termination costs ⁽³⁾	14
Net reversals ⁽⁴⁾	(8)
Restructuring and asset impairment costs	54
Retention related severance/bonuses ⁽⁵⁾	9
Contractual severance costs ⁽⁶⁾	38
Consulting and other costs ⁽⁷⁾	11
Total	\$ 112

(1) Reflects headcount reductions of approximately 150 employees worldwide.

(2) Primarily related to the exit and abandonment of leased and owned facilities. The charge includes the accelerated write-off of \$26 million for leased right-of-use asset balances and \$10 million for owned asset balances upon exit from the facility net of any potential sublease income and other recoveries.

(3) Primarily includes additional costs incurred upon the exit from our facilities including decommissioning costs and associated contractual termination costs.

(4) 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) Reflects severance costs we are contractually required to pay on employees transferred (approximately 2,200 employees) as part of the shared service arrangement entered into with HCL Technologies.

(7) Represents professional support services associated with our business transformation initiatives.

First quarter 2019 actions impacted several functional areas, with approximately 25% focused on gross margin improvements, approximately 70% focused on SAG reductions, and the remainder focused on RD&E optimization.

First quarter 2018 restructuring and related costs of \$28 million included \$24 million of severance costs related to headcount reductions of approximately 400 employees worldwide and \$12 million of lease cancellation charges

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reflecting continued optimization of our operating locations. These costs were partially offset by \$8 million of net reversals for changes in estimated reserves from prior period initiatives. First quarter 2018 actions impacted several functional areas, with approximately 55% focused on gross margin improvements and approximately 45% on SAG reductions.

The restructuring reserve balance as of March 31, 2019 for all programs was \$80 million, of which \$74 million is expected to be spent 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

There were no Transaction and related costs, net recognized during the first quarter 2019 as compared to \$38 million during first quarter 2018. We continue to pursue additional recoveries from insurance carriers and other parties for costs and expenses related to the terminated Fuji transaction and related shareholder litigation and therefore additional recoveries and adjustments may be recorded in future periods, when finalized.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended March 31, 2019 of \$15 million increased by \$3 million as compared to first quarter 2018. The increase primarily reflected the accelerated write-off of trade names associated with our realignment and consolidation of certain XBS sales units as part of Project Own It transformation actions.

Worldwide Employment

Worldwide employment was approximately 30,900 as of March 31, 2019 and decreased by approximately 1,500 from December 31, 2018. 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.

Other Expenses, Net

(in millions)	Three Months Ended March 31,	
	2019	2018
Non-financing interest expense	\$ 27	\$ 29
Non-service retirement-related costs	13	25
Interest income	(4)	(3)
Gains on sales of businesses and assets	(1)	(16)
Currency losses (gains), net	2	(2)
Loss on sales of accounts receivable	1	1
All other expenses, net	1	(4)
Other expenses, net	\$ 39	\$ 30

Non-Financing Interest Expense

Non-financing interest expense for the three months ended March 31, 2019 of \$27 million was \$2 million lower than first quarter 2018. When combined with financing interest expense (Cost of financing), total interest expense decreased by \$4 million from first quarter 2018 primarily due to a lower debt balance.

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

Non-Service Retirement-Related Costs

Non-service retirement-related costs for the three months ended March 31, 2019 were \$12 million lower than first quarter 2018, primarily driven by the favorable impact of a 2018 amendment to our U.S. Retiree Health Plan partially offset by higher losses from pension settlements in the U.S.

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 for the three months ended March 31, 2019 were \$15 million lower than first quarter 2018, reflecting the prior year sale of non-core business assets.

Income Taxes

First quarter 2019 effective tax rate was (9.6)% and includes a benefit of \$35 million related to the January 2019 finalization of regulations that govern the repatriation tax from the 2017 Tax Cuts and Jobs Act (the "Tax Act"). On an adjusted¹ basis, first quarter 2019 effective tax rate was 26.0%. This rate was higher than the U.S. statutory tax rate of 21% primarily due to the geographical mix of profits. The adjusted¹ effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets and non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section, which includes the impact of the Tax Act.

First quarter 2018 effective tax rate was 29.9%. On an adjusted¹ basis, first quarter 2018 effective tax rate was 28.3%. These rates were higher than the U.S. statutory tax rate of 21% primarily due to impacts associated with the 2017 Tax Act as well as the geographical mix of profits. The adjusted¹ effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net, and non-service retirement-related costs.

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 (Loss) of Unconsolidated Affiliates

(in millions)	Three Months Ended March 31,	
	2019	2018
Total Equity in net income (loss) of unconsolidated affiliates	\$ 45	\$ (68)
Fuji Xerox after-tax restructuring and other charges included in equity income (loss)	12	79

Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox Net income (loss). For the three months ended March 31, 2019, equity income increased \$113 million as compared to the first quarter 2018, primarily reflecting \$67 million of lower year-over-year charges related to our share of Fuji Xerox after-tax restructuring and other changes as well as an approximate \$28 million charge related to an out-of-period charge at Fuji Xerox in the prior year. The increase also reflects savings from restructuring.

Refer to Note 10 - Investments in Affiliates, at Equity in the Condensed Consolidated Financial Statements for additional information regarding our Investment in Fuji Xerox as well as the prior period out-of-period adjustment.

Net Income

First quarter 2019 Net income attributable to Xerox was \$133 million, or \$0.55 per diluted share. On an adjusted¹ basis, Net income attributable to Xerox was \$219 million, or \$0.91 per diluted share and includes adjustments for Restructuring and related costs, Amortization of intangible assets and non-service retirement-related costs, as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

First quarter 2018 Net income attributable to Xerox was \$23 million, or \$0.08 per diluted share. On an adjusted¹ basis, Net income attributable to Xerox was \$178 million, or \$0.68 per diluted share and includes adjustments for Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs.

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.

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

Other Comprehensive Income

First quarter 2019 Other Comprehensive Income, Net Attributable to Xerox was \$40 million and included the following: i) net translation adjustment gains of \$37 million reflecting the strengthening of our major foreign currencies against the U.S. Dollar during 2019; ii) \$2 million of net unrealized gains; and iii) \$1 million of net gains from the changes in defined benefit plans. This compares to Other Comprehensive Income, Net Attributable to Xerox of \$211 million for the three months ended March 31, 2018, which reflected the following: i) \$176 million of net translation adjustment gains, reflecting a greater strengthening of our major foreign currencies against the U.S. Dollar during 2018; ii) \$18 million of net gains from the changes in defined benefit plans, primarily due to higher net actuarial gains, partially offset

by our share of the negative impacts from changes in Fuji Xerox's benefit plans; and iii) \$17 million of net unrealized gains on derivatives.

Refer to Note 18 - Other Comprehensive Income in the Condensed Consolidated Financial Statements, for the components of Other Comprehensive Income, Note 13 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding unrealized 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.

Capital Resources and Liquidity

As of March 31, 2019 and December 31, 2018, total cash, cash equivalents and restricted cash were \$786 million and \$1,148 million, respectively. There were no borrowings under our Credit Facility at March 31, 2019 or December 31, 2018, respectively. The decrease in total cash, cash equivalents and restricted cash primarily reflect the repayment of \$406 million of maturing Senior Notes in first quarter 2019.

We continue to expect operating cash flows from continuing operations to be between \$1,150 million and \$1,250 million in 2019. Additionally, we continue to expect capital expenditures of approximately \$150 million and dividend payments to shareholders of approximately \$250 million. We have increased our full year 2019 expected share repurchases to be at least \$600 million, from our original expectation of at least \$300 million. The incremental repurchases will be weighted to the latter half of 2019.

Cash Flow Analysis

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

(in millions)	Three Months Ended March 31,		
	2019	2018	Change
Net cash provided by operating activities	\$ 226	\$ 216	\$ 10
Net cash used in investing activities	(18)	(2)	(16)
Net cash used in financing activities	(569)	(117)	(452)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1)	9	(10)
(Decrease) increase in cash, cash equivalents and restricted cash	(362)	106	(468)
Cash, cash equivalents and restricted cash at beginning of period	1,148	1,368	(220)
Cash, Cash Equivalents and Restricted Cash at End of Period	\$ 786	\$ 1,474	\$ (688)

Cash Flows from Operating Activities

Net cash provided by operating activities was \$226 million in first quarter 2019. The \$10 million increase in operating cash from first quarter 2018 was primarily due to the following:

- \$37 million increase primarily due to lower levels of non-equipment inventories.
- \$29 million increase due to net insurance proceeds of \$14 million in first quarter 2019 compared to payments of \$15 million in prior year for Transaction and related costs, net.
- \$26 million increase due to lower Equipment on operating leases.
- \$23 million increase primarily related to the prior year settlements of foreign derivative contracts.
- \$21 million increase from lower restructuring payments.
- \$75 million decrease from the change in Accounts payable primarily related to lower inventory and other spending as well as the year-over-year timing of supplier and vendor payments.
- \$41 million decrease from accrued compensation primarily related to the year-over-year timing of employee incentive compensation payments.

Cash Flows from Investing Activities

Net cash used in investing activities was \$18 million in first quarter 2019. The \$16 million change in cash was primarily due to the sale of non-core business assets in 2018.

Cash Flows from Financing Activities

Net cash used in financing activities was \$569 million in first quarter 2019. The \$452 million increase in the use of cash from first quarter 2018 was primarily due to the following:

- \$365 million increase from net debt activity. 2019 reflects payments of \$406 million on Senior Notes compared to prior year payments of \$25 million related to the termination of a capital lease obligation and \$13 million of bridge facility costs.
- \$103 million increase due to share repurchases.

Adoption of New Leasing Standard

On January 1, 2019, we adopted ASU 2016-02, Leases (ASC Topic 842). This update, as well as additional amendments and targeted improvements issued in 2018 and early 2019, supersedes existing lease accounting guidance found under ASC 840, Leases (ASC 840) and requires the recognition of right-of-use (ROU) assets and lease obligations by lessees for those leases originally classified as operating leases under prior lease guidance.

Refer to the following Notes in the Condensed Consolidated Financial Statements for additional information related to the adoption of this standard:

- Note 2 - Recent Accounting Pronouncements
- Note 3 - Adoption of New Leasing Standard - Xerox as a Lessee
- Note 4 - Adoption of New Leasing Standard - Xerox as a Lessor

Potential Customer Financing Transaction

In connection with the Company's initiative to simplify and optimize its operations, the Company is currently exploring the possibility and feasibility of a strategic transaction involving its customer financing business and/or related assets. That process includes discussions of various transaction structures with potential counterparties. No decision or commitment has been made by management or the Company's Board of Directors regarding specific terms nor potential structures of any such transaction, and there can be no assurance that the process will result in a transaction. If such a transaction were to occur, the use of any potential proceeds received as a result of the transaction would not be finally determined until after an agreement is signed.

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.

Debt and Customer Financing Activities

The following summarizes our debt:

(in millions)	March 31, 2019	December 31, 2018
Principal debt balance ⁽¹⁾	\$ 4,868	\$ 5,281
Net unamortized discount	(23)	(25)
Debt issuance costs	(23)	(25)
Fair value adjustments ⁽²⁾		
- terminated swaps	2	2
- current swaps	(1)	(3)
Total Debt	\$ 4,823	\$ 5,230

(1) Includes Notes Payable of \$2 million as of March 31, 2019. There were no notes payable as of December 31, 2018.

(2) Fair value adjustments 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.

Finance Assets and Related Debt

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

(in millions)	March 31, 2019	December 31, 2018
Total finance receivables, net ⁽¹⁾	\$ 3,373	\$ 3,472
Equipment on operating leases, net	414	442
Total Finance Assets, net⁽²⁾	\$ 3,787	\$ 3,914

(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, 2018 includes a decrease of \$6 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. Approximately 35% of our finance receivables, net balance include lease financing provided to end-user customers who purchased equipment we sold to distributors and resellers.

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

(in millions)	March 31, 2019	December 31, 2018
Finance receivables debt ⁽¹⁾	\$ 2,952	\$ 3,038
Equipment on operating leases debt	362	387
Financing debt	3,314	3,425
Core debt	1,509	1,805
Total Debt	\$ 4,823	\$ 5,230

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

Debt Activity

Senior Notes Repayment

In first quarter 2019, we repaid approximately \$406 million of maturing Senior Notes.

Sales of Accounts Receivable

Activity related to sales of Accounts receivable is as follows:

(in millions)	Three Months Ended March 31,	
	2019	2018
Estimated decrease to operating cash flows ⁽¹⁾	\$ (5)	\$ (50)

(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 in line with historical and projected cash flows and are spread over the next five years as follows:

(in millions)	Amount
2019 Q2	\$ 2
2019 Q3	—
2019 Q4	554
2020	1,050
2021	1,062
2022	300
2023	1,000
2024	300
2025 and thereafter	600
Total	\$ 4,868

Treasury Stock

In first quarter 2019, we repurchased 3.3 million shares of our common stock for an aggregate cost of \$103 million, including fees. Through April 30, 2019, we repurchased an additional 2.0 million in shares with an aggregate cost of \$66 million, including fees, for a cumulative total of 5.3 million shares at a cost of \$169 million, including fees. We have increased our full year 2019 expected share repurchases to be at least \$600 million, from our original expectation of at least \$300 million.

Refer to Note 16 - Shareholders' Equity in the Condensed Consolidated Financial Statements for additional information regarding our share repurchase program.

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, 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.

A reconciliation 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 first quarter 2019 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 Earnings per share (EPS)
- Effective tax rate

The above measures were adjusted for the following items:

Restructuring and related costs: Restructuring and related costs 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 expenses incurred in connection with Xerox's planned transaction with Fuji, which was terminated in May 2018, as well as costs and expenses related to the previously disclosed settlement agreement reached with certain shareholders and litigation related to the terminated transaction and other shareholder actions. 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 combination transaction and the related shareholder settlement agreement and litigation. 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 the impacts associated with the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017 given their discrete, unusual or infrequent nature and their impact on our results for the period.

Restructuring and other charges - Fuji Xerox: We adjust our 25% share of Fuji Xerox's net income for similar items noted above such as Restructuring and related costs and Transaction and related costs, net based on the same rationale discussed above.

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 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 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.

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A reconciliation 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:

(in millions, except per share amounts)	Three Months Ended March 31,					
	2019			2018		
	Net Income	EPS		Net Income	EPS	
Reported⁽¹⁾	\$ 133	\$ 0.55		\$ 23	\$ 0.08	
Adjustments:						
Restructuring and related costs	112			28		
Amortization of intangible assets	15			12		
Transaction and related costs, net	—			38		
Non-service retirement-related costs	13			25		
Income tax on adjustments ⁽²⁾	(31)			(27)		
Restructuring and other charges - Fuji Xerox ⁽³⁾	12			79		
Tax Act	(35)			—		
Adjusted	<u>\$ 219</u>	<u>\$ 0.91</u>		<u>\$ 178</u>	<u>\$ 0.68</u>	
Dividends on preferred stock used in adjusted EPS calculation ⁽⁴⁾		\$ —		\$ —		
Weighted average shares for adjusted EPS ⁽⁴⁾		240			264	
Fully diluted shares at end of period ⁽⁵⁾		238				

(1) Net income and EPS attributable to Xerox.

(2) Refer to Effective Tax Rate reconciliation.

(3) Other charges represent costs associated with the terminated combination transaction.

(4) For those periods that exclude the preferred stock dividend, the average shares for the calculations of diluted EPS include 7 million shares associated with our Series B Convertible preferred stock, as applicable.

(5) Represents common shares outstanding at March 31, 2019 as well as shares associated with our Series B Convertible preferred stock plus potential dilutive common shares as used for the calculation of diluted earnings per share for the first quarter 2019.

Effective Tax Rate reconciliation:

(in millions)	Three Months Ended March 31,					
	2019			2018		
	Pre-Tax Income	Income Tax (Benefit) Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported⁽¹⁾	\$ 83	\$ (8)	(9.6)%	\$ 134	\$ 40	29.9%
Non-GAAP Adjustments ⁽²⁾	140	31		103	27	
Tax Act	—	35		—	—	
Adjusted⁽³⁾	<u>\$ 223</u>	<u>\$ 58</u>	<u>26.0 %</u>	<u>\$ 237</u>	<u>\$ 67</u>	<u>28.3%</u>

(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:

(in millions)	Three Months Ended March 31,					
	2019			2018		
	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported⁽¹⁾	\$ 83	\$ 2,206	3.8%	\$ 134	\$ 2,435	5.5%
Adjustments:						
Restructuring and related costs	112			28		
Amortization of intangible assets	15			12		
Transaction and related costs, net	—			38		
Other expenses, net	39			30		
Adjusted	<u>\$ 249</u>	<u>\$ 2,206</u>	<u>11.3%</u>	<u>\$ 242</u>	<u>\$ 2,435</u>	<u>9.9%</u>

(1) Pre-Tax Income and Revenue.

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

The Company’s management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our 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, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit 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 our consolidated subsidiaries, and was accumulated and communicated to the Company’s management, 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

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. During the quarter ended March 31, 2019, we implemented certain internal controls in connection with our adoption of ASC Topic 842, Leases. There were no other changes identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

In March 2019, the Company entered into a shared services arrangement with HCL Technologies (HCL) pursuant to which we are outsourcing certain global administrative and support functions, including, among others, selected information technology, order to collection and finance functions (excluding accounting). The transition of these functions to HCL is expected to take up to 18 months. HCL is expected to make certain up-front and ongoing investments in software, tools and other technology to consolidate, optimize and automate the transferred functions. This arrangement is not in response to any identified deficiency or weakness in the Company’s internal control over financial reporting. In response to this arrangement, the Company has and will continue to align and streamline the design and operation of its financial control environment. Refer to Note 1 - Basis of Presentation in the Condensed Consolidated Financial Statements for additional information.

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 our 2018 Annual Report.

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

(a) Sales of Unregistered Securities during the Quarter ended March 31, 2019

During the quarter ended March 31, 2019, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Dividend Equivalent:

- a. Securities issued on January 31, 2019: Registrant issued 4,479 deferred stock units (DSUs), representing the right to receive shares of Common Stock, par value \$1 per share, at a future date.
- b. No underwriters participated. The shares were issued to each of the non-employee Directors (or former Directors) of Registrant: Gregory Q. Brown, Jonathan Christodoro, Keith Cozza, Joseph J. Echevarria, Nicholas Graziano, William Curt Hunter, Robert J. Keegan, Cheryl Gordon Krongard, Scott Letier, Charles Prince, Ann N. Reese, Stephen H. Rusckowski and Sara Martinez Tucker.
- c. The DSUs were issued at a deemed purchase price of \$19.48 per DSU (aggregate price \$87,251), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.
- d. Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities during the Quarter ended March 31, 2019

Repurchases of Xerox Common Stock, par value \$1 per share include the following:

Board Authorized Share Repurchases 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⁾
January 1 through 31	—	\$ —	—	\$ 1,300,000,002
February 1 through 28	1,225,350	30.52	1,225,350	1,262,602,306
March 1 through 31	2,095,235	31.35	2,095,235	1,196,907,358
Total	3,320,585		3,320,585	

(1) Exclusive of fees and costs.

(2) Of the cumulative \$2.0 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately \$803 million has been used through March 31, 2019. 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 That May Be Purchased under the Plans or Programs
January 1 through 31	68,746	\$ 19.77	n/a	n/a
February 1 through 28	—	—	n/a	n/a
March 1 through 31	—	—	n/a	n/a
Total	68,746			

(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 costs.

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 — OTHER INFORMATION

None.

ITEM 6 — EXHIBITS

3.1	Registrant's Restated Certificate of Incorporation filed with the Department of State of New York on August 2, 2018. Incorporated by reference to Exhibit 3.1(B) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2018. See SEC File Number 001-04471.
3.2	By-Laws of the Registrant as amended through May 14, 2018. Incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018. See SEC File Number 001-04471.
10.1	Amendment No. 1 dated as of February 21, 2019 to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10(d)(5) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. See SEC File Number 001-04471.
10.2	Amendment No. 3 dated January 14, 2019 to Registrant's 2004 Performance Incentive Plan, as amended and restated as of June 30, 2017. Incorporated by reference to Exhibit 10(e)(42) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2018. See SEC File Number 001-04471.
10.3	Form of Omnibus Award Agreement under PIP; ELTIP; Stock Options.
10.4	Amended Letter of Agreement dated April 17, 2019 between Registrant and Giovanni (John) Visentin. Incorporated by reference to Exhibit 10(b) to Registrant's Current Report on Form 8-K dated April 17, 2019. See SEC File Number 001-04471.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of 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.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

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SIGNATURES

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

XEROX CORPORATION
(Registrant)

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

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

Date: May 2, 2019

EXHIBIT INDEX

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101.SCH	XBRL Taxonomy Extension Schema Linkbase.

**AGREEMENT PURSUANT TO
XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN AS AMENDED OR RESTATED TO DATE**

AGREEMENT, by Xerox Corporation, a New York corporation (the "Company"), dated as of the date that appears in the award summary that provides the number of options to purchase shares of common stock of the Company and vesting provisions of the award (the "Award Summary") in favor of the individual whose name appears on the Award Summary, who is an employee of the Company, one of the Company's subsidiaries or one of its affiliates (the "Employee").

In accordance with the provisions of the Xerox Corporation 2004 Performance Incentive Plan and any amendments and/or restatements thereto (the "Plan"), the Compensation Committee of the Board of Directors of the Company (the "Committee") or the Chief Executive Officer of the Company (the "CEO") has authorized the execution and delivery of this Agreement.

Terms used herein that are defined in the Plan or in this Agreement shall have the meanings assigned to them in the Plan or this Agreement, respectively.

The Award Summary contains the details of the awards covered by this Agreement and is incorporated herein in its entirety.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration the Company agrees as follows:

AWARDS

1. Award of Stock Options. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date of agreement and award set forth on the Award Summary (the "Grant Date") options to purchase shares of Common Stock (as defined in the Plan) of the Company, equal to the number of options set forth in the Award Summary (the "Options"), at a price per share equal to the exercise price set forth in the Award Summary (the "Exercise Price"). Each Option entitles the Employee to purchase, on exercise, one share of the Company's Common Stock subject to the conditions of the Plan and this Agreement. The Exercise Price and the number of Options awarded pursuant to this Agreement may be adjusted to the extent provided by the terms of the Plan and such adjusted Exercise Price and number of Option awarded shall be substituted for such terms as set forth in the Award Summary for all purposes of the Plan and this Agreement unless otherwise determined by the Company. Any such adjustment, however, is void and without effect if it would constitute a "modification" as defined in regulations or valid guidance under Section 409A of the Code. No Option pursuant to this Agreement is intended to qualify as an incentive stock option under Section 422 of the Code. No right or feature of any Option under this Agreement is intended to create a deferral of compensation as defined in regulations or valid guidance under Section 409A of the Code, and any such right or feature is void and without effect. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company's Human Resources Policies or similar policies of the Company's subsidiaries or affiliates) on the Grant Date shall be eligible to receive the award.

TERMS OF THE OPTIONS

2. Vesting. The employee's right to exercise Options vests on the vesting dates and according to the conditions set forth in the Award Summary or on any earlier vesting date set forth in this Agreement. No Option may be exercised before the vesting date.

3. Expiration. The Options shall expire on the 10th anniversary of the Grant Date (the "Expiration Date") except as otherwise provided herein. Upon a termination of employment, the Options shall expire on the date provided in the Agreement, but not later than the Expiration Date. No Option may be exercised as of or after the date it expires or is cancelled. The Company may at its discretion amend the Agreement to provide an Expiration Date later than the Expiration Date set forth herein, or amend the date on which the Options will expire as set forth in the Agreement or the Award Summary, except that any amendment of the Agreement or Award Summary is void and without effect if it would constitute an "extension" as defined in regulations or valid guidance under Section 409A of the Code.

(a) Voluntary termination of employment except retirement and voluntary reduction in force. If the Employee voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate (together, the "Employer") for any reason except retirement or the Employee's voluntary termination of employment due to a reduction in the workforce, the total number of Options that will have vested under this Agreement as of termination of employment equals the applicable percentage set forth in the Award Summary multiplied by the number of Options awarded under this Agreement. Non-vested Options will expire on the date of termination of employment. Vested Options will expire on the earlier of the Expiration Date or the date that is three months after the date of termination of employment.

(b) Retirement. If the Employee ceases to be an Employee of the Employer by reason of retirement (which for purposes of this Agreement only, shall mean, for a U.S. employee, termination of employment with the Employer after attaining age 55 and 10 years of service with the Employer, or age 60 and 5 years of service with the Employer) Options will become nonforfeitable on a pro rata basis as set forth in this Paragraph 3(b), which may, at the discretion of the Company, be contingent upon the Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company.

The total number of Options under this Agreement that will have become nonforfeitable as of termination of employment on a pro rata basis pursuant to this Paragraph 3(b) equals (i) a percentage equal to the sum of (a + b + c) multiplied by (ii) the total number of Options awarded under this Agreement where:

$$a = (m/12) \times 25\%$$

$$b = (m/24) \times 25\%$$

$$c = (m/36) \times 50\%$$

and m is the number of actual months of service performed for the Employer as of termination of employment on and after the Grant Date, except that m shall not exceed 12 for purposes of calculating a; m shall not exceed 24 for purposes of calculating b; and m shall not exceed 36 for purposes of calculating c.

Options other than nonforfeitable Options will expire on the date of termination of employment. To the extent nonforfeitable under this paragraph 3(b), Options will vest on the vesting date set forth in the Award Summary. Options that vest on or before termination of employment will expire on the earlier of the Expiration Date or the date that is three months after termination of employment. Options that become nonforfeitable under this paragraph 3(b) and vest after termination of employment will expire on the earlier of the Expiration date or the date that is three months after the applicable vesting date.

(c) Involuntary terminations without Cause and voluntary reductions in force. If the Employee involuntarily ceases to be an Employee of the Employer for any reason (including disability as provided pursuant to Paragraph 3(g) below) other than death or for Cause, or voluntarily ceases to be an Employee of the Employer due to a reduction in workforce, Options will become nonforfeitable on a pro-rata basis, which may, at the discretion of the Company, be contingent upon the Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such Options will become nonforfeitable on a pro-rata basis based on the Employee's actual months of service with the Employer in the same manner as set forth at Paragraph 3(b).

Options other than nonforfeitable Options will expire on the date of termination of employment. To the extent nonforfeitable under this paragraph 3(c), Options will vest on the vesting date set forth in the Award Summary. Options that vest on or before termination of employment will expire on the earlier of the Expiration Date or the date that is three months after termination of employment. Options that become nonforfeitable under this paragraph 3(c) and vest after termination of employment will expire on the earlier of the Expiration date or the date that is three months after the applicable vesting date.

(d) Death. If the Employee ceases to be an Employee of the Employer by reason of death, 100% of the Options pursuant to this grant will vest on the date of death. Vested Options will expire on the earlier of the Expiration Date or the date that is one year after the date of death.

(e) Termination for Cause. If an Employee ceases to be an Employee of the Employer due to termination for Cause as defined in this Agreement, all Options, including vested Options, will expire on the date of termination of employment.

(f) Change in Control. If the employee ceases to be an Employee of the Employer due to Termination for Good Reason, as defined by the Plan, or an involuntary termination of employment either of which such termination occurs after a Change in Control, as defined in the Plan, (other than a termination for Cause, as defined in this Agreement, according to a determination made before the Change in Control) the Options will be 100% vested on the date of such termination of employment. Vested Options will expire on the Expiration Date.

(g) Disability. For purposes of vesting under Paragraph 3(c) of this Agreement, an Employee is deemed involuntarily to cease being an Employee of the Employer when the Employee has received maximum coverage under an Employer-provided short term disability plan.

(h) Cause. "Cause" means (i) a violation of any of the rules, policies, procedures or guidelines of the Employer, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement; (ii) any conduct which qualifies for "immediate discharge" under the Employer's Human Resource Policies as in effect from time to time; (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Employer, or represents a conflict of interest with the interests of the Employer; (iv) conviction of, or entering a guilty plea with respect to, a crime whether or not connected with the Employer; or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Employer.

(i) Recoupment rights. Nothing in this Agreement shall limit the Company's right of recoupment of Options or any shares of Common Stock purchased by exercise of the Option, under the Plan or this Agreement as in effect on the Grant Date or any later date, including recoupment of payments pursuant to the Company's compensation recovery, "clawback" or similar policy, as may be in effect from time to time, including any policy implemented after the Grant Date.

(j) Salary continuance. For purposes of determining the number of Options that are nonforfeitable and the date the Options expire under this Agreement or the Award Summary, the Company may at its discretion, determine that termination of employment means the date on which salary continuance ends, and that "actual months of service" for such purposes include any period of salary continuance.

4. Method of Exercise

(a) Notice. The Participant may exercise part or all of vested Options under this Agreement by giving the Company or its delegate written notice of intent to exercise, specifying the number of shares of Company Stock as to which the Options are to be exercised and such other information as the Company or its delegate may require.

(b) Payment. At such time as the Company shall determine, the Participant shall pay the Exercise Price (i) by personal check, cashier's check or money order, (ii) unless the Company determines otherwise, by delivering shares of Company Common Stock owned by the Participant, (iii) by payment through a broker in accordance with procedures permitted by Regulation T of the Federal Reserve Board, (iv) by surrendering shares of Company Common Stock subject to the exercisable Option for an appreciation distribution payable in shares with a Fair Market Value on the date of exercise equal to the dollar amount by which the then Fair Market Value of the Shares subject to the surrendered portion exceeds the aggregate Exercise Price payable for the Shares ("net exercise"), or (v) by such other method as the Company may approve, to the extent permitted by applicable law. The Company may impose from time to time such limitations as it deems appropriate on the use of shares of Company stock to exercise the Option.

(c) Company rights. The obligation of the Company to deliver shares upon exercise of the Option shall be subject to all applicable laws, rules, and regulations and such approvals by governmental agencies as may be deemed appropriate by the Committee, including such actions as Company counsel shall deem necessary or appropriate to comply with relevant securities laws and regulations.

(d) Taxes. All obligations of the Company under this Agreement shall be subject to the rights of the Employer as set forth in the Plan to withhold shares or other amounts required to be withheld for any taxes. The Participant shall be required to pay to the Employer, or make other arrangements satisfactory to the Employer to provide for the payment of, any federal, state, local or other taxes that the Employer is required to withhold with respect to the Option. The Participant may elect to satisfy any tax withholding obligation of the Employer with respect to the Option by having Shares withheld to satisfy the applicable withholding tax rate for federal (including FICA), state, local and other tax liabilities. Unless the Company determines otherwise, share withholding for taxes shall not exceed the Participant's minimum applicable tax withholding amount. By accepting this Award, the Employee expressly consents to the Company's and/or Employer's rights to take all such actions permitted by the Plan as may be necessary or appropriate to satisfy any such withholding obligations with respect to the Options pursuant to any foreign, federal, state or local taxes.

(e) Restrictions on Exercise. Except as the Committee may otherwise permit pursuant to the Plan, only the Employee may exercise the Option during the Employee lifetime and, after the Employee's death, the Option shall be exercisable (subject to the limitations specified in the Plan) solely by the legal representatives of the Participant, or by the person who acquires the right to exercise the Option by will or by the laws of descent and distribution, to the extent that the Option is exercisable pursuant to this Agreement. An Option shall not be exercisable unless the holder provides to the satisfaction of the Committee that the holder is entitled to exercise the Option.

(f) Termination of Option. Upon exercise, the Option will terminate and cease to be outstanding.

OTHER TERMS

5. Rights of a Shareholder. The Employee shall have no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate to him for such shares. Except as otherwise provided herein, no adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

6. Non-Assignability. An Option shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution.

7. General Restrictions. If at any time the Committee or its authorized delegate, as applicable, shall determine, in its discretion, that the listing, registration or qualification of any shares subject to this Agreement 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 awarding of the Options or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of Option 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 or its authorized delegate, as applicable, and any delay caused thereby shall in no way affect the expiration date of the Options.

8. Responsibility for Taxes. Employee acknowledges that the ultimate responsibility for Employee's Federal, state and municipal individual income taxes, the Employee's portion of social security and other payroll taxes, and any other taxes related to Employee's participation in the Plan and legally applicable to Employee, is and remains his or her responsibility and may exceed the amount actually withheld by the Company or the Employer.

9. Nature of Award. In accepting the award, Employee acknowledges that:

(a) 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 provisions of the Plan regarding Plan amendment and termination and, in addition, the Options are subject to modification and adjustment pursuant to the terms of the Plan, the award of the Options is voluntary and occasional and does not create any contractual or other right to receive future grants of Options, or benefits in lieu of Options, even if Options have been granted repeatedly in the past;

(b) all decisions with respect to future Options awards, if any, will be at the sole discretion of the Committee or its authorized delegate, as applicable;

(c) Employee's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate Employee's employment relationship at any time; further, the Options award and Employee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Employer;

(d) Employee is voluntarily participating in the Plan;

(e) the Options and the shares of Common Stock subject to the Options are an extraordinary item that does not constitute compensation of any kind for services of any kind rendered to the Employer, and which is outside the scope of Employee's employment contract, if any;

(f) the Options and the shares of Common Stock subject to the Options are not intended to replace any pension rights or compensation;

(g) the Options and the shares of Common Stock subject to the Options are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Employer;

(h) the future value of the underlying shares of Common Stock is unknown and cannot be predicted with certainty;

(i) in consideration of the award of the Options, no claim or entitlement to compensation or damages shall arise from forfeiture of the Options, including, but not limited to, forfeiture resulting from termination of Employee's employment with the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and Employee irrevocably releases the Company and the Employer from any such claim that may arise; if, notwithstanding the foregoing, any such claim is found by a court of competent jurisdiction to have arisen, Employee shall be deemed irrevocably to have waived Employee's entitlement to pursue such claim; and

(k) subject to the provisions in the Plan regarding Change in Control, Options and the benefits under the Plan, if any, will not automatically transfer to another company in the case of a merger, take-over or transfer of liability.

10. No Advice Regarding Award. Neither the Company nor the Employer is providing any tax, legal or financial advice, nor is the Company or Employer making any recommendations regarding Employee's participation in the Plan, or his or her acquisition or sale of the underlying shares of Common Stock. Employee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

11. Amendment of This Agreement. With the consent of the Employee, the Committee or its authorized delegate, as applicable, may amend this Agreement in a manner not inconsistent with the Plan.

12. Subsidiary. As used herein the term "subsidiary" shall mean any present or future corporation which would be a "subsidiary corporation" of the Company as the term is defined in Section 425 of the Internal Revenue Code of 1986 on the date of award.

13. Affiliate. As used herein the term "affiliate" shall mean any entity in which the Company has a significant equity interest, as determined by the Committee.

14. Recoupments.

(a) If an Employee or former Employee of the Employer is reasonably deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Employer, any awards granted to such Employee or former Employee shall be cancelled and be of no further force or effect and any payment or delivery of shares of Common Stock or other award from six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee 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 or its authorized delegate, as applicable. Detrimental activity may include:

(i) violating terms of a non-compete agreement with the Employer, if any;

(ii) disclosing confidential or proprietary business information of the Employer to any person or entity including but not limited to a competitor, vendor or customer without appropriate authorization from the Employer;

(iii) violating any rules, policies, procedures or guidelines of the Employer;

(iv) directly or indirectly soliciting any employee of the Employer to terminate employment with the Employer;

(v) directly or indirectly soliciting or accepting business from any customer or potential customer or encouraging any customer, potential customer or supplier of the Employer, to reduce the level of business it does with the Employer; or

(vi) engaging in any other conduct or act that is determined to be injurious, detrimental or prejudicial to any interest of the Employer.

(b) If an accounting restatement by the Company is required in order to correct any material noncompliance with financial reporting requirements under relevant securities laws, the Company will have the authority to recover from executive officers or former executive officers, whether or not still employed by the Employer, any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, provided under this Agreement to executive officers of the Employer, 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. Notwithstanding anything herein to the contrary, 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 Company 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.

15. Cancellation and Rescission of Award. Without limiting the foregoing Paragraph regarding non-engagement in detrimental activity against the Employer, the Company may cancel any award provided hereunder, and rescind and recoup any exercise, award or transfer of shares of Common Stock pursuant to this award, if the Employee is not in compliance with all of the following conditions:

(a) An Employee shall not render services for any organization or engage directly or indirectly in any business which would cause the Employee to breach any of the post-employment prohibitions contained in any agreement between the Employer and the Employee.

(b) An Employee shall not, without prior written authorization from the Employer, disclose to anyone outside the Employer, or use in other than the Employer's business, any confidential information or material, as specified in any agreement between the Employer and the Employee which contains post-employment prohibitions, relating to the business of the Employer acquired by the Employee either during or after employment with the Employer.

Notwithstanding the above, the Employer does not in any manner restrict the Employee from reporting possible violations of federal, state or local laws or regulations to any governmental agency or entity. Similarly, the Employer does not in any manner restrict the Employee from participating in any proceeding or investigation by a federal, state or local government agency or entity responsible for enforcing such laws. The Employee is not required to notify the Employer that he or she has made such report or disclosure, or of his or her participation in an agency investigation or proceeding.

(c) An Employee, pursuant to any agreement between the Employer and the Employee which contains post-employment prohibitions shall disclose promptly and assign to the Employer all right, title and interest in any invention or idea, patentable or not, made or conceived by the Employee during employment with the Employer, relating in any manner to the actual or anticipated business, research or development work of the Employer, and shall do anything reasonably necessary to enable the Employer to secure a patent where appropriate in the United States and in foreign countries.

(d) Failure to comply with the provision of subparagraphs (a), (b) or (c) of this Paragraph 15 prior to, or during the six months after, any payment or delivery of Common Stock pursuant to these Options shall cause such payment or delivery to be rescinded. The Company shall notify the Employee in writing of any such rescission within two years after such payment or delivery. Within ten days after receiving such a notice from the Company, the Employee shall pay to the Company the amount of any payment received as a result of the rescinded payment or delivery pursuant to an award. Such payment to the Company

by the Employee shall be made either in cash or by returning to the Company the number of shares of Common Stock that the Employee received in connection with the rescinded payment or delivery.

16. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at 201 Merritt 7, Norwalk, CT 06851-1056, addressed to the attention of Stock Plan Administrator, and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

17. Language. If Employee has received this Agreement or any other document related to the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

18. Electronic Delivery and Acceptance. The Company will deliver any documents related to current or future participation in the Plan by electronic means. Employee hereby consents to receive such documents by electronic delivery, and agrees to participate in the Plan and be bound by the terms and conditions of this Agreement, through an on-line or electronic system established and maintained by the Company or a third party designated by the Company. Electronic acceptance by the Employee is required and the award will be cancelled for any Employee who fails to comply with the Company's acceptance requirement within six months of the effective date of the award.

19. Interpretation of This Agreement. The Committee or its authorized delegate, as applicable, shall have the authority to interpret the Plan and this Agreement and to take whatever administrative actions, including correction of administrative errors in the awards subject to this Agreement and in this Agreement, as the Committee or its authorized delegate, as applicable, in its sole good faith judgment shall determine to be advisable. All decisions, interpretations and administrative actions made by the Committee or its authorized delegate, as applicable, hereunder or under the Plan shall be binding and conclusive on the Company and the Employee. In the event there is inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

20. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 5 to the personal representatives, legatees and heirs of the Employee.

21. Governing Law and Venue. The validity, construction and effect of the Agreement and any actions taken under or relating to this Agreement shall be determined in accordance with the laws of the state of New York and applicable Federal law.

This grant is made and/or administered in the United States. For purposes of litigating any dispute that arises under this grant or the Agreement the parties hereby submit to and consent to the jurisdiction of the state of New York, agree that such litigation 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.

22. Severability. In case any provision in the Agreement, or in any other instrument referred to herein, shall become invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions in the Agreement, or in any other instrument referred to herein, shall not in any way be affected or impaired thereby.

23. Integration of Terms. Except as otherwise provided in this Agreement, this Agreement contains the entire agreement between the parties relating to the subject matter hereof and supersedes any and all oral statements and prior writings with respect thereto.

24. Appendix for Non-U.S. Countries. Notwithstanding any provisions in this Agreement, the Option award shall be subject to any special terms and conditions set forth in any appendix to this Agreement for Employee's country (the "Appendix"). Moreover, if Employee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Employee, to the extent the Company determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

25. Imposition of Other Requirements. The Committee or its authorized delegate, as applicable, reserves the right to impose other requirements on Employee's participation in the Plan, on the Options and on any shares of Common Stock acquired under the Plan, to the extent the Committee or its authorized delegate, as applicable, determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require Employee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

IN WITNESS WHEREOF, the Company has executed this Agreement as of the day and year set forth on the Award Summary.

XEROX CORPORATION

By: _____
Signature

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.

May 2, 2019

/s/ GIOVANNI VISENTIN

Giovanni Visentin
Principal Executive Officer

CFO CERTIFICATIONS

I, William F. Osbourn, Jr., 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.

May 2, 2019

/s/ WILLIAM F. OSBOURN, JR.

William F. Osbourn, Jr.
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 Corporation, a New York corporation (the "Company"), for the quarter ended March 31, 2019, 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 William F. Osbourn, Jr., 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

May 2, 2019

/s/ WILLIAM F. OSBOURN, JR.

William F. Osbourn, Jr.
Chief Financial Officer

May 2, 2019

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.