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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2018

OR

o **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

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

New York	**16-0468020**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
P.O. Box 4505, 201 Merritt 7 Norwalk, Connecticut	**06851-1056**
(Address of principal executive offices)	**(Zip Code)**

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

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

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 x No o

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	x	Accelerated filer	o	Non-accelerated filer	o	Smaller reporting company	o	Emerging growth company	o

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. o

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

Class	Outstanding at October 31, 2018
Common Stock, $1 par value	238,282,707 shares

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” and similar expressions, as they relate to us, 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; 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; 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 individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; 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; the outcome of our process to evaluate all strategic alternatives to maximize shareholder value, including terminating or restructuring Xerox's relationship with FUJIFILM Holdings Corporation ("Fujifilm"); international trade policies and their impact on the cost of and demand for our products and our competitive position, including the imposition of new tariffs or changes in existing tariff rates; 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, our quarterly reports on Form 10-Q for the quarters ended March 31, 2018 and June 30, 2018 and our 2017 Annual Report on Form 10-K, as well as our Current Reports on Form 8-K filed with the Securities and Exchange Commission (SEC). 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.

Fuji Xerox Co., Ltd. (“Fuji Xerox”) is a joint venture between Xerox and Fujifilm in which Xerox holds a noncontrolling 25% equity interest and Fujifilm holds the remaining equity interest. Given our status as a minority investor, we have limited contractual and other rights to information with respect to Fuji Xerox matters. In April 2017, Fujifilm formed an independent investigation committee (the “IIC”) to primarily conduct a review of the appropriateness of the accounting practices at Fuji Xerox’s New Zealand subsidiary and at other subsidiaries. The IIC completed its review during the second quarter 2017 and identified aggregate adjustments to Fuji Xerox’s financial statements of approximately JPY 40 billion (approximately $360 million) primarily related to misstatements at Fuji Xerox’s New Zealand and Australian subsidiaries. We determined that our share of the total adjustments identified as part of the investigation was approximately $90 million and impacted our fiscal years 2009 through 2017. We revised our previously issued annual and interim consolidated financial statements for 2014, 2015 and 2016 and the first quarter of 2017. Fujifilm and Fuji Xerox continue to review Fujifilm’s oversight and governance of Fuji Xerox as well as Fuji Xerox’s oversight and governance over its businesses in light of the findings of the IIC.

In 2018, in connection with the completion of audits of Fuji Xerox’s fiscal year-end financial statements as of and for the years ended March 31, 2016 and 2017, as well as the review of Fuji Xerox’s unaudited interim financial statements as of and for the nine months ended December 31, 2017 and 2016, additional adjustments and misstatements were identified. These additional adjustments and misstatements were to the Net income of Fuji Xerox for the period from 2010 through 2017 previously revised for the items identified by the IIC noted above. At this time, we can provide no assurances relative to the outcome of any potential governmental investigations or any consequences thereof that may happen as a result of this matter.

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FORM 10-Q
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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 September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenues				
Sales	$ 943	$ 981	$ 2,893	$ 2,927
Services, maintenance and rentals	1,344	1,443	4,200	4,368
Financing	65	73	204	223
Total Revenues	2,352	2,497	7,297	7,518
Costs and Expenses				
Cost of sales	570	593	1,755	1,777
Cost of services, maintenance and rentals	807	870	2,529	2,623
Cost of financing	33	33	100	99
Research, development and engineering expenses	102	105	303	318
Selling, administrative and general expenses	583	630	1,835	1,890
Restructuring and related costs	29	35	91	192
Amortization of intangible assets	12	12	36	41
Transaction and related costs, net	(33)	—	63	—
Other expenses, net	57	52	126	234
Total Costs and Expenses	2,160	2,330	6,838	7,174
Income before Income Taxes and Equity Income	192	167	459	344
Income tax expense	142	18	220	37
Equity in net income (loss) of unconsolidated affiliates	43	30	(6)	90
Income from Continuing Operations	93	179	233	397
Income (loss) from discontinued operations, net of tax	—	3	—	(3)
Net Income	93	182	233	394
Less: Net income attributable to noncontrolling interests	4	3	9	9
Net Income Attributable to Xerox	$ 89	$ 179	$ 224	$ 385
Amounts Attributable to Xerox:				
Net income from continuing operations	$ 89	$ 176	$ 224	$ 388
Net income (loss) from discontinued operations	—	3	—	(3)
Net Income Attributable to Xerox	$ 89	$ 179	$ 224	$ 385
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.34	$ 0.68	$ 0.84	$ 1.49
Discontinued operations	—	0.01	—	(0.01)
Total Basic Earnings per Share	$ 0.34	$ 0.69	$ 0.84	$ 1.48
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.34	$ 0.67	$ 0.83	$ 1.47
Discontinued operations	—	0.01	—	(0.01)
Total Diluted Earnings per Share	$ 0.34	$ 0.68	$ 0.83	$ 1.46

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Net Income	$ 93	$ 182	$ 233	$ 394
Less: Net income attributable to noncontrolling interests	4	3	9	9
Net Income Attributable to Xerox	89	179	224	385
Other Comprehensive (Loss) Income, Net[1]				
Translation adjustments, net	(13)	154	(159)	491
Unrealized (losses) gains, net	(9)	2	5	(4)
Changes in defined benefit plans, net	83	(41)	191	(44)
Other Comprehensive Income, Net	61	115	37	443
Less: Other comprehensive income, net attributable to noncontrolling interests	—	—	—	1
Other Comprehensive Income, Net Attributable to Xerox	61	115	37	442
Comprehensive Income, Net	154	297	270	837
Less: Comprehensive income, net attributable to noncontrolling interests	4	3	9	10
Comprehensive Income, Net Attributable to Xerox	$ 150	$ 294	$ 261	$ 827

(1) Refer to Note 17 - 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)

(in millions, except share data in thousands)	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 1,157	$ 1,293
Accounts receivable, net	1,290	1,357
Billed portion of finance receivables, net	102	112
Finance receivables, net	1,231	1,317
Inventories	958	915
Other current assets	232	236
Total current assets	4,970	5,230
Finance receivables due after one year, net	2,161	2,323
Equipment on operating leases, net	441	454
Land, buildings and equipment, net	527	629
Investments in affiliates, at equity	1,362	1,404
Intangible assets, net	232	268
Goodwill	3,899	3,930
Deferred tax assets	797	1,026
Other long-term assets	964	682
Total Assets	$ 15,353	$ 15,946
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 410	$ 282
Accounts payable	1,121	1,108
Accrued compensation and benefits costs	370	444
Accrued expenses and other current liabilities	835	907
Total current liabilities	2,736	2,741
Long-term debt	4,815	5,235
Pension and other benefit liabilities	1,488	1,595
Post-retirement medical benefits	647	662
Other long-term liabilities	231	206
Total Liabilities	9,917	10,439
Commitments and Contingencies (See Note 19)		
Convertible Preferred Stock	214	214
Common stock	256	255
Additional paid-in capital	3,930	3,893
Treasury stock, at cost	(284)	—
Retained earnings	4,997	4,856
Accumulated other comprehensive loss	(3,711)	(3,748)
Xerox shareholders' equity	5,188	5,256
Noncontrolling interests	34	37
Total Equity	5,222	5,293
Total Liabilities and Equity	$ 15,353	$ 15,946
Shares of common stock issued	255,664	254,613
Treasury stock	(10,502)	—
Shares of Common Stock Outstanding	245,162	254,613

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash Flows from Operating Activities				
Net income	$ 93	$ 182	$ 233	$ 394
(Income) loss from discontinued operations, net of tax	—	(3)	—	3
Income from continuing operations	93	179	233	397
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	120	131	398	399
Provisions	16	24	56	59
Net gain on sales of businesses and assets	(3)	(13)	(35)	(14)
Undistributed equity in net income of unconsolidated affiliates	(43)	(26)	9	(56)
Stock-based compensation	15	14	44	39
Restructuring and asset impairment charges	29	34	91	174
Payments for restructurings	(39)	(41)	(130)	(165)
Defined benefit pension cost	36	34	89	133
Contributions to defined benefit pension plans	(36)	(671)	(111)	(717)
Decrease (increase) in accounts receivable and billed portion of finance receivables	1	(34)	37	(174)
Increase in inventories	(20)	(99)	(91)	(187)
Increase in equipment on operating leases	(63)	(53)	(182)	(155)
Decrease in finance receivables	39	75	181	209
(Increase) decrease in other current and long-term assets	(2)	(5)	17	(48)
(Decrease) increase in accounts payable	(31)	(21)	12	54
Increase (decrease) in accrued compensation	4	17	(97)	(58)
Increase in other current and long-term liabilities	15	46	11	39
Net change in income tax assets and liabilities	124	—	165	(36)
Net change in derivative assets and liabilities	21	(9)	(2)	90
Other operating, net	(2)	(25)	30	(13)
Net cash provided by (used in) operating activities of continuing operations	274	(443)	725	(30)
Net cash used in operating activities of discontinued operations	—	(2)	—	(97)
Net cash provided by (used in) operating activities	274	(445)	725	(127)
Cash Flows from Investing Activities				
Cost of additions to land, buildings, equipment and software	(23)	(23)	(73)	(70)
Proceeds from sales of land, buildings and equipment	—	1	32	2
Proceeds from sale of businesses	—	20	—	20
Acquisitions, net of cash acquired	—	—	—	(76)
Collections of deferred proceeds from sales of receivables	—	58	—	157
Collections on beneficial interest from sales of finance receivables	—	2	—	13
Other investing, net	—	2	1	(27)
Net cash (used in) provided by investing activities	(23)	60	(40)	19
Cash Flows from Financing Activities				
Net (payments) proceeds on short-term debt	(1)	—	(2)	1
Proceeds from issuance of long-term debt	2	1,001	7	1,006
Payments on long-term debt	(1)	(13)	(311)	(1,343)
Dividends	(69)	(68)	(204)	(223)
Payments to acquire treasury stock, including fees	(284)	—	(284)	—
Other financing, net	(6)	(12)	(21)	129
Net cash (used in) provided by financing activities	(359)	908	(815)	(430)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(1)	19	(20)	55
(Decrease) increase in cash, cash equivalents and restricted cash	(109)	542	(150)	(483)
Cash, cash equivalents and restricted cash at beginning of period	1,327	1,377	1,368	2,402
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 1,218	$ 1,919	$ 1,218	$ 1,919

Note: Certain reclassifications and caption combinations have been made for presentation purposes. See Note 5 - Supplementary Financial Information for further details.

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 2017 Annual Report on Form 10-K ("2017 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 2017 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.”

In third quarter 2018, we determined that the Pension Benefit Obligation (PBO) for our UK funded pension plan at December 31, 2017 was overstated by approximately GBP 40 million (approximately USD $53 or $43 after-tax). The error was the result of the plan administrator under reporting benefit payments. The correction of the PBO was recorded as an out-of-period adjustment in the third quarter 2018 with the offset to the balance sheet recorded as a credit to Changes in defined benefit plans, net in Other comprehensive income for the period. We assessed the impact of this error and concluded that it was not material to the financial statements previously issued for any interim or annual period and the correction of the error in the third quarter 2018 is not expected to be material to the annual financial statements for 2018.

Note 2 – Adoption of New Revenue Recognition Standard

Adoption Summary:

On January 1, 2018, we adopted **ASU 2014-09,** *Revenue from Contracts with Customers (ASC Topic 606),* which superseded nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASC Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASC Topic 606 defines a five-step process to recognize revenue and requires more judgment and estimates within the revenue recognition process than required under previous U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.

We adopted this standard using the modified retrospective method of adoption. Under ASC Topic 606, based on the nature of our contracts and consistent with prior practice, we recognize revenue upon invoicing the customer for the large majority of our revenue. Additionally, the unit of accounting, that is, the identification of performance obligations, is consistent with prior revenue recognition practice. Accordingly, the adoption of this standard did not have a material impact for the large majority of our revenues. Lastly, a significant portion of our Equipment sales are either recorded as sales-type leases or through direct sales to distributors and resellers and these revenue streams are not impacted by the adoption of ASC Topic 606. The only change of significance identified in our adoption involves a change in the classification of certain revenues that were previously reported in Services revenues. These revenues relate to certain analyst services performed in connection with the installation of equipment that are being considered part of the equipment sale performance obligation in 2018. Accordingly, in 2018 these revenues are now reported as part of Sales. As a result of this change, $8 and $25 of revenue was recorded, for the three and nine months ended September 30, 2018, respectively, as Sales, which would have been previously recorded as Services revenue in prior periods.

Another change identified upon adoption was with respect to deferred contract costs, which include incremental costs of obtaining a contract and costs to fulfill a contract. Deferred contract costs had been minimal under our prior practices as most costs to obtain a contract and fulfill a contract were expensed as incurred. However, as a result of the contract cost guidance included in ASC Topic 606 and ASC Topic 340-40 "*Contracts with Customers*", upon adoption, we recorded a transition asset of $153, and a net of tax increase of $117 to Retained earnings, related to the incremental cost to obtain contracts. Substantially all of this adjustment is related to the deferral of sales commissions paid to sales people and agents in connection with the placement of equipment with post sale service arrangements.

The impacts of adopting ASC Topic 606 on our Condensed Consolidated Balance Sheets were as follows:

	As of September 30, 2018		
	Superseded Revenue Guidance[(1)]	Adjustments	As Reported
Deferred tax assets	$ 830	$ (33)	$ 797
Other long-term assets	822	142	964
Retained earnings	4,888	109	4,997

(1) *Reflects balance of account under revenue recognition guidance superseded by ASC Topic 606.*

Revenue Recognition Summary:

We generate revenue through the sale of equipment, supplies and maintenance and printing services. Revenue is measured based on consideration specified in a contract with a customer and is recognized when we satisfy a performance obligation by transferring control of a product to a customer or in the period the customer benefits from the service. With the exception of our sales-type lease arrangements, our invoices to the customer, which normally have short-term payment terms, are typically aligned to the transfer of goods or as services are rendered to our customers and therefore in most cases we recognize revenue based on our right to invoice customers. As a result of the application of this practical expedient for the substantial portion of our revenue, the disclosure of the value of unsatisfied performance obligations for our services is not required.

Significant judgments primarily include the identification of performance obligations in our Document management services arrangements as well the pattern of delivery for those services.

More specifically, revenue related to our products and services is generally recognized as follows:

Equipment: Revenues from the sale of equipment directly to end customers, including those from sales-type leases (see below), are recognized when obligations under the terms of a contract with our customer are satisfied and control has been transferred to the customer. For equipment placements that require us to install the product at the customer location, revenue is normally recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenue from the equipment performance obligation also includes certain analyst training services performed in connection with the installation or delivery of the equipment.

Maintenance services: We provide maintenance agreements on our equipment that include service and supplies for which the customer may pay a base minimum plus a price-per-page charge for usage. In arrangements that include minimums, those minimums are normally set below the customer’s estimated page volumes and are not considered substantive. These agreements are sold as part of a bundled lease arrangement or through distributors and resellers. We normally account for these maintenance agreements as a single performance obligation for printing services being delivered in a series with delivery being measured by usage as billed to the customer. Accordingly, revenue on these agreements are normally recognized as billed to the customer over the term of the agreements based on page volumes. A substantial portion of our products are sold with full service maintenance agreements, accordingly, other than the product warranty obligations associated with certain of our entry level products, we do not have any significant warranty obligations, including any obligations under customer satisfaction programs.

Document management services: Revenues associated with our document management services are generally recognized as printing services are rendered, which is generally on the basis of the number of images produced. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed by the customer. We account for these arrangements as a single performance obligation for printing services being delivered in a series with delivery being measured by usage as billed to the customer.

Our services contracts may also include the sale or lease of equipment and software. In these instances, we follow the policies noted for Equipment or Software Revenues and separately report the revenue associated with these performance obligations. Certain document management services arrangements may also include an embedded lease of equipment. In these instances, the revenues associated with the lease are recognized in accordance with the requirements for lease accounting.

Sales to distributors and resellers: We utilize distributors and resellers to sell our equipment, supplies and maintenance services to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Revenues on sales to distributors and resellers are generally recognized when products are shipped to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the Company such that collectability is probable and we have no further obligations related to bringing about the resale, delivery or installation of the product that would impact transfer of control. Revenues associated with maintenance agreements sold through distributors and resellers to end customers are recognized in a consistent manner to maintenance services. Revenue that may be subject to a reversal of revenue due to contractual terms or uncertainties is not recorded as revenue until the contractual provisions lapse or the uncertainties are resolved.

Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we estimate the variable consideration associated with these programs and record those amounts as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end-user customers who purchased equipment we sold to distributors or resellers. We are not obligated to provide financing and we compete with other third-party leasing companies with respect to the lease financing provided to these end-user customers.

Bundled Lease Arrangements: A significant portion of our direct sales of equipment to end customers are made through bundled lease arrangements, which typically include equipment, maintenance and financing components for which 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 contractual page volume minimums, which are often expressed in terms of price-per-page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make (fixed payments) over the lease term. In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract.

Revenues under bundled 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, financing, maintenance and other executory costs, while non-lease deliverables generally consist of the supplies and non-maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and other executory costs plus a profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted below under “Leases”.

Leases: The two primary lease accounting provisions we assess for the classification of transactions as sales-type or operating leases are: (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) 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 equipment at the inception of the lease. Equipment placements included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized as noted above for 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. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value 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 are indicative of fair 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. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the rate last in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

Software: Most of our equipment has both software and non-software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of Equipment sales revenues. Software accessories sold in connection with our Equipment sales, as well as free-standing software sales are accounted for as separate performance obligations if determined to be material in relation to the overall arrangement. Revenue from software is not a significant component of our Total revenues.

Supplies: Supplies revenue is recognized upon transfer of control to the customer, generally upon utilization or shipment to the customer in accordance with the sales contract terms.

Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Primary geographical markets[(1)]:				
United States	$ 1,414	$ 1,500	$ 4,307	$ 4,502
Europe	587	628	1,923	1,942
Canada	133	154	424	449
Other	218	215	643	625
Total Revenues	$ 2,352	$ 2,497	$ 7,297	$ 7,518
Major product and services lines:				
Equipment[(2)]	$ 511	$ 520	$ 1,571	$ 1,569
Supplies, paper and other sales	432	461	1,322	1,358
Maintenance agreements[(3)]	587	624	1,854	1,925
Service arrangements[(4)]	587	637	1,824	1,895
Rental and other	170	182	522	548
Financing	65	73	204	223
Total Revenues	$ 2,352	$ 2,497	$ 7,297	$ 7,518
Sales channels:				
Direct equipment lease[(5)]	$ 175	$ 165	$ 507	$ 488
Distributors & resellers[(6)]	304	331	1,005	1,024
Customer direct	464	485	1,381	1,415
Total Sales	$ 943	$ 981	$ 2,893	$ 2,927

(1) Geographic area data is based upon the location of the subsidiary reporting the revenue.
(2) *For the three and nine months ended September 30, 2017, Equipment sale revenues exclude $11 and $31, respectively, of equipment-related training revenue, which was classified as Services under previous revenue guidance - see "Adoption Summary" above.*
(3) *Includes revenues from maintenance agreements on sold equipment as well as revenues associated with service agreements sold in our small and mid-sized business (SMB) focused channels and through our channel partners as Xerox Partner Print Services (XPPS).*
(4) *Primarily includes revenues from our Managed Document Services (MDS) offerings. Also includes revenues from embedded operating leases, which were not significant.*
(5) *Primarily reflects direct sales through bundled lease arrangements.*
(6) *Primarily reflects sales through our two-tier distribution channels.*

Other Revenue Recognition Policies

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 $108 and $91 at September 30, 2018 and January 1, 2018, respectively. The majority of the balance at September 30, 2018 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 and nine months ended September 30, 2018, the incremental direct costs of obtaining a contract of $22 and $62, respectively, were deferred and the related amortization was $24 and $72, respectively. The balance of deferred incremental direct costs net of accumulated amortization at September 30, 2018 was $174. 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. These costs 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. Amounts deferred associated with contract fulfillment costs and inducements were $10 at September 30, 2018.

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

Revenue-based Taxes: Revenue-based taxes assessed by governmental authorities that are both imposed on and concurrent with specific revenue-producing transactions, and that are collected by the Company from a customer, are excluded from revenue. The primary revenue-based taxes are sales tax and value-added tax (VAT).

Shipping and Handling: Shipping and handling costs are accounted for as a fulfillment cost and are included in Cost of sales in the Condensed Consolidated Statements of Income.

Note 3 – Recent Accounting Pronouncements

Accounting Standard Updates to be Adopted:

Leases

In February 2016, the FASB issued **ASU 2016-02**, *Leases*, with additional amendments being issued in 2018. This update requires the recognition of right-to-use assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Leases will be 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 new revenue recognition guidance in ASU 2014-09. Some of these conforming changes such as those related to the definition of minimum lease payments, may potentially result in certain lease arrangements, which are currently accounted for as operating leases, being classified and accounted for as sales-type leases with a corresponding up-front recognition of equipment sales revenue.

This update is effective for our fiscal year beginning January 1, 2019 and certain practical expedients can be elected upon adoption. On the Lessee side, a cross-functional implementation team has been established which is evaluating the lease portfolio, system, process and policy change requirements. The Company has made progress in gathering the necessary data elements for the lease population and a system provider has been selected, with system configuration and implementation underway. The company is currently evaluating the impact of the new guidance on its consolidated financial results and expects it will have a material impact on the Consolidated Statement of Financial Position primarily related to the recognition of previously off-book operating leases. The Company is currently planning to elect the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and is evaluating the other practical expedients available under the guidance. On the Lessor side, the Company continues to assess the potential impacts of the guidance on its lease agreements with customers, including potential changes in contracting terms, and we also expect to elect the package of practical expedients.

The aggregate undiscounted value of our operating lease commitments at December 31, 2017 was approximately $450 and was primarily related to leases of facilities.

Financial Instruments - Credit Losses and Derivatives

In June 2016, the FASB issued **ASU 2016-13**, *Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments,* which 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 consolidated financial statements.

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, aligns the recognition and presentation of the effects of hedging instruments with the same income statement line item that the hedged item is reported and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. This update is effective for our fiscal year beginning January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2017-12 on our 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 and early adoption is permitted. We are currently evaluating the impact of the adoption of ASU 2018-15 on our consolidated financial statements.

Income Taxes

In February 2018, the FASB issued **ASU No, 2018-02**, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The update allows the reclassification from Accumulated other comprehensive income to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act") enacted in December 2017. Consequently, the update eliminates the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. 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. The update also requires certain disclosures about stranded tax effects. The update is effective for our fiscal year beginning January 1, 2019. Early adoption of this update is permitted, including adoption in any interim period. The update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is currently evaluating the impact of adopting this new guidance.

Accounting Standard Updates Adopted in 2018:

Cash Flows

In August 2016, the FASB issued **ASU 2016-15**, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments.* This update provides specific guidance on eight cash flow classification issues where current guidance is either unclear or does not include specific requirements. We adopted ASU 2016-15 effective for our fiscal year beginning January 1, 2018. This update includes specific guidance, that requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Formerly, those collections were reported in operating cash flows. We reported $60 and $170 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the three and nine months ended September 30, 2017, respectively. Since the update is required to be applied retrospectively, our reported 2017 operating and investing cash flows were revised accordingly in 2018 to report this amount as investing cash flows. There is no expected impact to our 2018 cash flows from this reporting change, due to the termination of all accounts receivable sales arrangements in North America and all but one arrangement in Europe and the final repurchase of previously sold finance receivables during the fourth quarter of 2017. The other seven issues noted in this update did not have a material impact on our financial condition, results of operations or cash flows.

Additionally, in November 2016 the FASB issued **ASU 2016-18**, *Statement of Cash Flows - Restricted Cash*. The update requires that amounts generally described as restricted cash and restricted cash equivalents should be included with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted ASU 2016-18 effective for our fiscal year beginning January 1, 2018 and applied it retrospectively through a revision of previously reported amounts. We held $61 and $75 of restricted cash, currently reported in Other current or long-term assets at September 30, 2018 and December 31, 2017, respectively. The changes in our restricted cash balances were primarily related to our accounts receivable sales programs, which were terminated during the fourth quarter of 2017. Accordingly, this update did not have a material impact on our financial condition, results of operations or cash flows. Refer to Note 5 - Supplementary Financial Information for additional information.

Retirement Benefits

In March 2017, the FASB issued **ASU 2017-07**, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update changes how employers that sponsor defined benefit pension plans and other postretirement plans present net periodic benefit costs in the income statement. An employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the affected employees during the period. Other components of net retirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of Income from operations, if one is presented. We elected to report these costs as a separate item within Other expenses, net. The update also allows only the service cost component to be eligible for capitalization, when applicable. We adopted ASU 2017-07 effective for us beginning January 1, 2018. The presentation requirements of this update were required to be applied retrospectively through a revision of previously reported amounts. The requirement to limit capitalization to the service cost component was required to be applied prospectively. The adoption of this update did not have a material impact on our financial condition, results of operations or cash flows. Refer to Note 14 - Employee Benefit Plans for the service cost component and other components of net retirement benefit cost.

The following table reflects the adjustment of selected lines from our Condensed Consolidated Statements of Income to the recasted amounts as a result of the adoption of this update:

	Three Months Ended September 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	$ 594	$ (1)	$ 593
Cost of services, maintenance and rentals	882	(12)	870
Research, development and engineering expenses	108	(3)	105
Selling, administrative and general expenses	648	(18)	630
Restructuring and related costs	36	(1)	35
Other expenses, net	17	35	52

	Nine Months Ended September 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	$ 1,780	$ (3)	$ 1,777
Cost of services, maintenance and rentals	2,666	(43)	2,623
Research, development and engineering expenses	332	(14)	318
Selling, administrative and general expenses	1,955	(65)	1,890
Restructuring and related costs	196	(4)	192
Other expenses, net	105	129	234

Business Combinations

In January 2017, the FASB issued **ASU 2017-01**, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which clarifies the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted ASU 2017-01 effective for our fiscal year beginning January 1, 2018, and the adoption did not have nor is it expected to have a material impact on our financial condition, results of operations or cash flows.

Income Taxes

In October 2016, the FASB issued **ASU 2016-16**, *Income Taxes - Intra-Entity Transfers of Assets Other than Inventory.* This update requires recognition of the income-tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. Under current GAAP, recognition of the income tax consequences for asset transfers other than inventory could not be recognized until the asset was sold to a third party. We adopted ASU 2016-16 effective for our fiscal year beginning January 1, 2018 and the adoption did not have nor is it expected to have a material impact on our financial condition, results of operations or cash flows.

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 118 (as further clarified by the FASB's **ASU 2018-05**, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*) to provide guidance for companies that may not have completed their accounting for the income tax effects of the Tax Act. SAB No. 118 provides for a provisional one-year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Act. SAB No. 118 provides guidance where: (i) the accounting for the income tax effect of the Tax Act is complete and reported in the Tax Act's enactment period, (ii) the accounting for the income tax effect of the Tax Act is incomplete and reported as provisional amounts based on reasonable estimates (to the extent determinable) subject to adjustments during a limited measurement period until complete, and (iii) accounting for the income tax effect of the Tax Act is not reasonably estimable (no related provisional amounts are reported in the enactment period) and entities would continue to apply accounting based on tax law provisions in effect prior to the Tax Act enactment until provisional amounts are reasonably estimable. SAB No. 118 requires disclosure of the reasons for incomplete accounting additional information or analysis needed, among other relevant information.

During the fourth quarter 2017, we recorded an estimated non-cash charge of $400 reflecting our provisional estimated impact associated with the provisions of the Tax Act based on currently available information. During third quarter 2018, we adjusted our provisional estimate by an additional charge of $95 reflecting certain positions taken on our recently filed 2017 income tax return as well as consideration of additional guidance from the U.S. Treasury and Internal Revenue Service (IRS). The adjustment includes changes to the determination of the one-time deemed repatriation tax as well as additional re-measurement of our U.S. deferred tax assets and liabilities to the lower enacted statutory tax rate. The total charge of $495 related to the Tax Act remains a provisional estimate as we continue to evaluate and consider additional impacts including those related to interpretive guidance from the U.S. Treasury and IRS as well as filing positions we may take on our 2018 U.S. Tax Return. Accordingly, additional adjustments, possibly material, may be recorded in the fourth quarter 2018 as we finalize our estimate related to the Tax Act. Any adjustments to this provisional amount will be reported as a component of Income tax expense.

Other Updates

In 2018, 2017 and 2016, 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:

- ***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).*
- ***Service Concession Arrangements:*** **ASU 2017-10**, *(Topic 853) Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force).* This update is effective for our fiscal year beginning January 1, 2018.
- ***Compensation - Stock Compensation:*** **ASU 2017-09**, *(Topic 718) Scope of Modification Accounting.* This update is effective for our fiscal year beginning January 1, 2018.
- ***Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets:*** **ASU 2017-05**, *(Subtopic 610-20) Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets.* This update is effective for our fiscal year beginning January 1, 2018.
- ***Financial Instruments - Classification and Measurement:*** **ASU 2016-01**, *Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities.* This update is effective for our fiscal year beginning January 1, 2018.

Note 4 – Divestitures

Business Process Outsourcing (BPO)

On December 31, 2016, Xerox completed the Separation of its BPO business through the Distribution of all of the issued and outstanding stock of Conduent to Xerox Corporation stockholders. As a result of the Separation and Distribution, the financial position and results of operations of the BPO business are presented as Discontinued operations and, as such, have been excluded from Continuing operations for all periods presented. The loss from operations for the nine months ended September 30, 2017 primarily reflected changes in estimates of separation-related costs.

Summarized financial information for our Discontinued operations is as follows:

	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Loss from operations	$ 1	$ 9
Loss on disposal	—	—
Net loss before income taxes	(1)	(9)
Income tax benefit	4	6
Income (loss) from discontinued operations, net of tax	$ 3	$ (3)

Note 5 – Supplementary Financial Information

Cash, Cash Equivalents and Restricted Cash

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

	September 30, 2018	December 31, 2017
Cash and cash equivalents	$ 1,157	$ 1,293
Restricted cash		
Tax and labor litigation deposits in Brazil	59	72
Other restricted cash	2	3
Total Restricted cash	61	75
Cash, cash equivalents and restricted cash	$ 1,218	$ 1,368

Restricted cash primarily relates to escrow cash deposits made in Brazil associated with tax and labor litigation. As more fully discussed in Note 19 - 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:

	September 30, 2018	December 31, 2017
Other current assets	$ —	$ 1
Other long-term assets	61	74
Total Restricted cash	$ 61	$ 75

Supplemental Cash Flow Information

Summarized cash flow information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Provision for receivables	$ 11	$ 15	$ 37	$ 38
Provision for inventory	5	9	19	21
Provision for product warranty	3	4	10	11
Depreciation of buildings and equipment	30	35	118	103
Depreciation and obsolescence of equipment on operating leases	62	66	189	201
Amortization of internal use software	18	16	55	47
Amortization of product software	—	1	—	4
Amortization of acquired intangible assets	12	12	36	41
Amortization of customer contract costs[(1)]	25	1	75	3
Cost of additions to land, buildings and equipment	15	15	41	45
Cost of additions to internal use software	8	8	32	25
Common stock dividends	65	65	193	210
Preferred stock dividends	4	3	11	13
Payments to noncontrolling interests	1	5	14	17

(1) Amortization of customer contract costs for the three and nine months ended September 30, 2018 is reported in (Increase) decrease in other current and long-term assets. Refer to Note 2 - Adoption of New Revenue Recognition Standard - Contract Costs for additional information.

Note 6 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	September 30, 2018	December 31, 2017
Invoiced	$ 1,013	$ 1,048
Accrued	334	368
Allowance for doubtful accounts	(57)	(59)
Accounts receivable, net	$ 1,290	$ 1,357

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. During the fourth quarter 2017, we terminated all accounts receivable sales arrangements in North America and all but one arrangement in Europe. The remaining facility in Europe 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, $98 and $161 remained uncollected as of September 30, 2018 and December 31, 2017, respectively.

Accounts receivable sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Accounts receivable sales[(1)]	$ 66	$ 520	$ 297	$ 1,598
Deferred proceeds	—	56	—	164
Loss on sales of accounts receivable	1	3	2	9
Estimated decrease to operating cash flows[(2)]	(34)	(77)	(61)	(83)

(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.

(2) Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter and, (iii) currency. In third quarter 2018, the $34 decrease reflected lower sales consistent with the seasonality of our European operations.

Note 7 - Finance Receivables, Net

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 following table is a rollforward of the allowance for doubtful finance receivables as well as the related investment in finance receivables:

Allowance for Credit Losses:	United States	Canada	Europe	Other(1)	Total
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	$ 56	$ 14	$ 36	$ 2	$ 108
Provision	4	1	4	—	9
Charge-offs	(4)	(1)	(3)	—	(8)
Recoveries and other(2)	—	—	(2)	—	(2)
Balance at June 30, 2018	$ 56	$ 14	$ 35	$ 2	$ 107
Provision	2	—	4	—	6
Charge-offs	(2)	(2)	(4)	—	(8)
Recoveries and other(2)	1	1	—	—	2
Balance at September 30, 2018	$ 57	$ 13	$ 35	$ 2	$ 107
Finance receivables as of September 30, 2018 collectively evaluated for impairment (3)	$ 1,950	$ 352	$ 1,242	$ 57	$ 3,601
Balance at December 31, 2016	$ 55	$ 16	$ 37	$ 2	$ 110
Provision	4	—	5	—	9
Charge-offs	(6)	(2)	(2)	—	(10)
Recoveries and other(2)	—	2	—	—	2
Balance at March 31, 2017	$ 53	$ 16	$ 40	$ 2	$ 111
Provision	4	1	1	—	6
Charge-offs	(10)	(1)	(3)	—	(14)
Recoveries and other(2)	1	—	4	—	5
Balance at June 30, 2017	$ 48	$ 16	$ 42	$ 2	$ 108
Provision	1	—	3	—	4
Charge-offs	(2)	(1)	(3)	—	(6)
Recoveries and other(2)	8	1	1	—	10
Balance at September 30, 2017	$ 55	$ 16	$ 43	$ 2	$ 116
Finance receivables as of September 30, 2017 collectively evaluated for impairment(3)	$ 1,992	$ 391	$ 1,339	$ 66	$ 3,788

(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 $107 and $116 at September 30, 2018 and 2017, respectively.

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%.

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:

	September 30, 2018				December 31, 2017			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	$ 174	$ 331	$ 90	$ 595	$ 199	$ 345	$ 75	$ 619
Government and education	455	67	9	531	490	61	6	557
Graphic arts	83	132	94	309	84	97	141	322
Industrial	80	82	16	178	82	84	14	180
Healthcare	79	51	10	140	88	48	9	145
Other	63	89	45	197	68	98	40	206
Total United States	934	752	264	1,950	1,011	733	285	2,029
Finance and other services	50	36	22	108	54	42	27	123
Government and education	40	4	3	47	48	5	5	58
Graphic arts	26	30	27	83	34	35	27	96
Industrial	17	13	9	39	20	12	11	43
Other	36	22	17	75	36	25	16	77
Total Canada	169	105	78	352	192	119	86	397
France	223	186	18	427	234	226	22	482
U.K./Ireland	117	116	8	241	106	150	10	266
Central(1)	174	141	13	328	189	149	16	354
Southern(2)	43	145	13	201	52	144	13	209
Nordics(3)	26	18	1	45	29	21	1	51
Total Europe	583	606	53	1,242	610	690	62	1,362
Other	34	20	3	57	38	28	6	72
Total	$ 1,720	$ 1,483	$ 398	$ 3,601	$ 1,851	$ 1,570	$ 439	$ 3,860

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(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

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

	September 30, 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	$ 14	$ 3	$ 2	$ 19	$ 576	$ 595	$ 9
Government and education	18	3	2	23	508	531	20
Graphic arts	12	1	—	13	296	309	6
Industrial	5	1	1	7	171	178	5
Healthcare	4	1	1	6	134	140	4
Other	6	1	1	8	189	197	4
Total United States	59	10	7	76	1,874	1,950	48
Canada	7	2	1	10	342	352	21
France	6	—	—	6	421	427	18
U.K./Ireland	2	—	—	2	239	241	1
Central(1)	1	1	1	3	325	328	8
Southern(2)	3	1	1	5	196	201	7
Nordics(3)	1	—	—	1	44	45	—
Total Europe	13	2	2	17	1,225	1,242	34
Other	3	—	—	3	54	57	—
Total	$ 82	$ 14	$ 10	$ 106	$ 3,495	$ 3,601	$ 103

	December 31, 2017						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$ 18	$ 3	$ 1	$ 22	$ 597	$ 619	$ 12
Government and education	18	3	3	24	533	557	21
Graphic arts	12	1	—	13	309	322	6
Industrial	6	1	1	8	172	180	4
Healthcare	5	1	1	7	138	145	5
Other	7	1	1	9	197	206	3
Total United States	66	10	7	83	1,946	2,029	51
Canada	8	2	1	11	386	397	17
France	6	—	—	6	476	482	22
U.K./Ireland	3	—	—	3	263	266	—
Central(1)	1	2	—	3	351	354	6
Southern(2)	4	1	1	6	203	209	6
Nordics(3)	—	—	—	—	51	51	—
Total Europe	14	3	1	18	1,344	1,362	34
Other	3	—	—	3	69	72	—
Total	$ 91	$ 15	$ 9	$ 115	$ 3,745	$ 3,860	$ 102

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

Note 8 – Inventories

The following is a summary of Inventories by major category:

	September 30, 2018	December 31, 2017
Finished goods	$ 817	$ 777
Work-in-process	60	49
Raw materials	81	89
Total Inventories	$ 958	$ 915

Note 9 – Investment in Affiliates, at Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Fuji Xerox	$ 41	$ 26	$ (12)	$ 81
Other	2	4	6	9
Total Equity in net income (loss) of unconsolidated affiliates	$ 43	$ 30	$ (6)	$ 90

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 and nine months ended September 30, 2018 includes after-tax restructuring and other charges of $7 and $90, respectively.

In 2018, in connection with the completion of the audits of Fuji Xerox's fiscal year-end financial statements as of and for the years ended March 31, 2016 and 2017, as well the review of Fuji Xerox's unaudited interim financial statements as of and for the nine months ended December 31, 2017 and 2016, out-of-period adjustments and misstatements were identified. These adjustments and misstatements were to the previously reported Net income of Fuji Xerox for the period from 2010 through 2017 and were incremental to the items that had been identified by the IIC (or Fujifilm's independent investigation committee completed in June 2017). These incremental adjustments primarily relate to Fuji Xerox's Asia Pacific subsidiaries and involve improper revenue recognition, including revenue associated with leasing transactions, additional provisions for bad debt allowances and other asset impairments. In certain instances, some of the adjustments related to inappropriate accounting and reporting practices in the Fuji Xerox Asia Pacific subsidiaries where previous misstatements were identified.

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 these 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. We determined that the impact of the out-of-period misstatements was not material to Xerox's consolidated financial statements for any individual prior quarter or year and the adjustment to correct the misstatements is not expected to be material to our full year 2018 results.

Summarized financial information for Fuji Xerox was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Summary of Operations				
Revenues	$ 2,326	$ 2,508	$ 7,017	$ 7,392
Costs and expenses	2,077	2,383	6,946	6,926
Income before Income Taxes	249	125	71	466
Income tax expense	84	41	95	117
Net Income (Loss)	165	84	(24)	349
Less: Net income attributable to noncontrolling interests	1	1	2	3
Net Income (Loss) – Fuji Xerox	$ 164	$ 83	$ (26)	$ 346
Weighted Average Exchange Rate[(1)]	111.43	110.90	109.50	111.92

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

Note 10 – Restructuring Programs

During the nine months ended September 30, 2018, we recorded net restructuring and asset impairment charges of $91, which included $104 of severance costs related to headcount of approximately 1,850 employees worldwide and $13 of lease cancellation costs. These costs were partially offset by $26 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	Lease Cancellation and Other Costs	Asset Impairments[2]	Total
Balance at December 31, 2017	$ 108	$ 1	$ —	$ 109
Provision	24	12	—	36
Reversals	(8)	—	—	(8)
Net current period charges[1]	16	12	—	28
Charges against reserve and currency	(41)	(11)	—	(52)
Balance at March 31, 2018	$ 83	$ 2	$ —	$ 85
Provision	40	—	—	40
Reversals	(6)	—	—	(6)
Net current period charges[1]	34	—	—	34
Charges against reserve and currency	(39)	(1)	—	(40)
Balance at June 30, 2018	$ 78	$ 1	$ —	$ 79
Provision	40	1	—	41
Reversals	(12)	—	—	(12)
Net current period charges[1]	28	1	—	29
Charges against reserve and currency	(37)	(1)	—	(38)
Balance at September 30, 2018	$ 69	$ 1	$ —	$ 70

(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown for restructuring and asset impairment charges.
(2) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Charges against reserve and currency	$ (38)	$ (38)	$ (130)	$ (154)
Effects of foreign currency and other non-cash items	(1)	(3)	—	(11)
Restructuring cash payments	$ (39)	$ (41)	$ (130)	$ (165)

Note 11 – Debt

Bridge Facility

Refer to Note 20 - Fuji Xerox Transaction and Recent Developments for additional information regarding the bridge loan facility that was terminated during the second quarter of 2018.

Interest Expense and Income

Interest expense and income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest expense(1)	$ 61	$ 62	$ 184	$ 188
Interest income(2)	70	75	216	229

(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 12 – 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 September 30, 2018, pay variable/receive fixed interest rate swaps with notional amounts of $300 and net liability fair value of $6 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 nine months ended September 30, 2018.

The following is a summary of our fair value hedges at September 30, 2018:

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	$ (6)	3.03%	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

At September 30, 2018 and December 31, 2017, we had outstanding forward exchange and purchased option contracts with gross notional values of $1,200 and $1,788 respectively, with terms of less than 12 months. Approximately 78% of the contracts at September 30, 2018 mature within three months, 11% mature in three to six months and 11% in six to twelve months. The associated currency exposures being hedged at September 30, 2018 were materially consistent with our year-end currency exposures, with the exception of our U.S. Dollar/Euro exposure, which decreased $288, and our Euro/U.K. Pound Sterling exposure, which decreased $128. 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 liability fair value of these contracts were $6 and $14 as of September 30, 2018 and December 31, 2017, respectively.

Summary of Derivative Instruments Fair Value

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

Designation of Derivatives	**Balance Sheet Location**	September 30, 2018	December 31, 2017
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 1	$ 1
	Other current liabilities	(8)	(15)
Foreign currency options	Other current assets	1	—
	Other current liabilities	—	—
Interest rate swaps	Other long-term assets	—	1
	Other long-term liabilities	(6)	—
	Net designated derivative liability	$ (12)	$ (13)
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 1	$ 1
	Other current liabilities	(8)	(10)
	Net undesignated derivative liability	$ (7)	$ (9)
Summary of Derivatives	Total Derivative Assets	$ 3	$ 3
	Total Derivative Liabilities	(22)	(25)
	Net Derivative liability	$ (19)	$ (22)

Summary of Derivative Instruments Gains (Losses)

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

Designated Derivative Instruments Gains (Losses)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gain (Loss) on Derivative Instruments	2018	2017	2018	2017
Fair Value Hedges - Interest Rate Contracts				
Derivative (loss) gain recognized in interest expense	$ (1)	$ (1)	$ (7)	$ —
Hedged item gain recognized in interest expense	1	1	7	—
Cash Flow Hedges - Foreign Exchange Forward Contracts and Options				
Derivative loss recognized in OCI (effective portion)	$ (13)	$ (9)	$ (3)	$ (22)
Derivative loss reclassified from AOCL to income - Cost of sales (effective portion)	(1)	(15)	(13)	(23)

During the three and nine months ended September 30, 2018 and 2017, no amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or (loss) were included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

As of September 30, 2018, a net after-tax loss of $7 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 September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Foreign exchange contracts – forwards	Other expense – Currency (loss) gain, net	$ (7)	$ (20)	$ 11	$ (30)

For the three and nine months ended September 30, 2018 currency losses, net were $3 and $2, respectively. For the three and nine months ended September 30, 2017 currency losses, net were $0 and $4, 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 re-measurement of foreign currency-denominated assets and liabilities and are included in Other expenses, net.

Note 13 – Fair Value of Financial Assets and Liabilities

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

	September 30, 2018	December 31, 2017
Assets:		
Foreign exchange contracts - forwards	$ 2	$ 2
Foreign currency options	1	—
Interest rate swaps	—	1
Deferred compensation investments in mutual funds	17	18
Total	$ 20	$ 21
Liabilities:		
Foreign exchange contracts - forwards	$ 16	$ 25
Foreign currency options	—	—
Interest rate swaps	6	—
Deferred compensation plan liabilities	18	19
Total	$ 40	$ 44

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

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

Summary of Other Financial Assets and Liabilities

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

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,157	$ 1,157	$ 1,293	$ 1,293
Accounts receivable, net	1,290	1,290	1,357	1,357
Short-term debt and current portion of long-term debt	410	409	282	283
Long-term debt	4,815	4,770	5,235	5,373

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 14 – Employee Benefit Plans

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

	Three Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2018	2017	2018	2017	2018	2017
Service cost	$ 1	$ —	$ 6	$ 5	$ 2	$ 2
Interest cost	35	31	37	43	5	7
Expected return on plan assets	(35)	(35)	(60)	(57)	—	—
Recognized net actuarial loss	5	5	14	20	—	—
Amortization of prior service credit	—	—	(1)	(1)	(1)	(1)
Recognized settlement loss	34	23	—	—	—	—
Defined benefit plans	40	24	(4)	10	6	8
Defined contribution plans[1]	9	9	8	8	n/a	n/a
Net Periodic Benefit Cost	49	33	4	18	6	8
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial loss (gain)[2]	—	50	(53)	—	—	—
Amortization of net actuarial loss	(39)	(28)	(14)	(21)	—	(1)
Amortization of prior service credit	—	—	1	1	1	1
Total Recognized in Other Comprehensive Income[3]	(39)	22	(66)	(20)	1	—
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$ 10	$ 55	$ (62)	$ (2)	$ 7	$ 8

	Nine Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2018	2017	2018	2017	2018	2017
Service cost	$ 2	$ 2	$ 19	$ 20	$ 4	$ 4
Interest cost	102	97	114	120	18	21
Expected return on plan assets	(105)	(96)	(185)	(164)	—	—
Recognized net actuarial loss	17	16	44	58	—	—
Amortization of prior service credit	(1)	(1)	(3)	(3)	(3)	(3)
Recognized settlement loss	85	84	—	—	—	—
Defined benefit plans	100	102	(11)	31	19	22
Defined contribution plans[1]	28	29	22	22	n/a	n/a
Net Periodic Benefit Cost	128	131	11	53	19	22
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial (gain) loss[2]	(46)	70	(53)	—	10	(11)
Amortization of net actuarial loss	(102)	(100)	(44)	(59)	—	(1)
Amortization of prior service credit	1	1	3	3	3	3
Total Recognized in Other Comprehensive Income[3]	(147)	(29)	(94)	(56)	13	(9)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$ (19)	$ 102	$ (83)	$ (3)	$ 32	$ 13

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

(2) The net actuarial (gain) loss for U.S. Plans primarily reflects (i) the re-measurement of our primary U.S. pension plans as a result of the payment of periodic settlements and (ii) adjustments for the actuarial valuation results based on January 1st plan census data. The non-U.S. plans net actuarial (gain) loss for 2018 reflects an out-of-period adjustment of $(53) to correct an overstated benefit obligation for our U.K. Funded Pension Plan at December 31, 2017. Refer to Note 1 - Basis of Presentation for additional information regarding this adjustment.

(3) Amounts represent the pre-tax effect included within Other Comprehensive Income. Refer to Note 17 - Other Comprehensive Income for related tax effects and the after-tax amounts.

Plan Amendment

Retiree Health Plan

In October 2018, we amended our U.S. Retiree Health Plan effective January 1 2019, to reduce certain benefits for existing non-union retirees through the reduction or elimination of coverage or cost-sharing subsidies for retiree health care and life insurance costs. This negative plan amendment is expected to result in a reduction in the accumulated postretirement benefit obligation of approximately $280, which consists of approximately $215 for the plan amendment and an actuarial gain of approximately $65 related to the required plan remeasurement upon amendment. The amount for the plan amendment is expected to be amortized to future net periodic benefit costs as a prior service credit and is expected to reduce 2019 costs by approximately $70 (approximately $15 for the fourth quarter of 2018). The plan amendment is also expected to reduce 2019 cash contributions from Xerox by approximately $20.

Contributions

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

	Nine Months Ended September 30,		Year Ended December 31,	
	2018	2017	Estimated 2018	2017
U.S. plans	$ 20	$ 668	$ 26	$ 675
Non-U.S. plans	91	49	116	161
Total Pension	$ 111	$ 717	$ 142	$ 836
Retiree Health	$ 42	$ 49	$ 62	$ 64

There are no mandatory contributions required in 2018 for our U.S. tax-qualified defined benefit plans to meet the minimum funding requirements, and our estimated 2018 contributions no longer include $50 of voluntary contributions to these plans.

Note 15 – Stock-Based Compensation

(share data in thousands)

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (RSUs), performance shares (PSs) and/or 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Stock-based compensation expense, pre-tax	$ 15	$ 14	$ 44	$ 39
Income tax benefit recognized in earnings	4	5	11	15

The following is a summary of changes to our program design and performance metrics effective for our April 2018 grant and grants thereafter under our new program, as approved by our board of directors (the "Board"). The Board also approved a change in the timing of our annual grant of awards from July to April, to better align our grant date with other annual incentive compensation payments and the underlying performance period related to PSs. We grant RSUs and PSs to officers, selected executives and middle managers, and SOs to officers and selected executives only.

Restricted Stock Units

Compensation expense for RSUs is based upon the grant date market price and is recognized on a straight-line basis over a three-year graded-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. Prior to the April 2018 grant, RSUs vested on a three-year cliff basis 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 on a pro-rata share of each individual graded-vesting tranche. Shares granted through September 30, 2018 under our new program were 1,130, with a corresponding weighted average grant date fair value of $27.61 per share.

Performance Shares

In connection with the April 2018 grant, the Board approved the following changes to the PS performance goals: the Earnings Per Share (EPS) metric was replaced with a Total Shareholder Return (TSR) metric and the Cash Flow from Operations metric was replaced with a Free Cash Flow metric. The Board retained the Revenue metric as a performance goal as well as the three-year performance period for all measures. The performance metrics are equally weighted; accordingly, each PS grant is two-thirds performance based (revenue and free cash flow) and one-third market-based (TSR). 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 goals for revenue and free cash flow. The fair value of the performance-based component 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 September 30, 2018 under our new program were 693, with a corresponding weighted average grant date fair value of $27.88 per share.

As a result of the change in management in the second quarter 2018, the Board is currently reviewing this plan and has not finalized the performance measures and corresponding weightings and therefore the plan remains discretionary as of the third quarter 2018. Since final performance measures have not been approved as of September 30, 2018, the criteria needed to establish a grant date has not been met and therefore the fair value of the April 2018 grant will continue to be revalued based on the period end stock price for each subsequent reporting period until the grant date criteria has been met.

Market-Based Component

The TSR metric is based on the percentage change in the Company's stock price plus the dividends paid over the three-year measurement period. Payout for this portion of the PS will be determined based on Xerox's percentage change compared to the shareholder returns of the peer group of companies approved by the compensation committee of the Board (as disclosed in the 2018 annual proxy statement). Since the TSR portion of the PS award represents a market condition, a Monte Carlo simulation was used to determine the grant-date fair value. 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 September 30, 2018
Term	3 years
Risk-free interest rate[(1)]	2.39%
Dividend yield[(2)]	3.24%
Xerox's historical volatility[(3)]	29.12%
Weighted average fair value[(4)]	$ 32.03

(1) The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve from the valuation date, with a maturity matched to the TSR 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.
(3) Xerox's historical volatility is calculated from daily stock returns over a three-year look-back term from the valuation date.
(4) The weighted average of fair values used to record compensation expense as determined by the Monte Carlo simulation.

Our TSR compared to the peer group TSR will determine the payout as follows:

Percentile	Payout as a Percent of Target(1)
80th and above	200%
50th	100%
25th	35%
Below 25th	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 September 30, 2018 under our new program were 346.

Stock Options

The Board also approved the granting of SOs as part of the 2018 plan design. Except for the conversion of options relating to our acquisition of Affiliated Computer Systems in 2010, we have not issued any SOs since 2004. Compensation expense associated with SOs is based upon the grant date fair value determined by utilizing the Black-Scholes (BS) option-pricing model and is recorded on a straight-line basis over a three-year graded-vesting period, based on management's estimate of the number of SOs expected to vest. SOs 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. Similar to RSUs, SOs 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, vest based on service provided from the date of grant to separation, on a pro-rata share of each individual vesting tranche.

The weighted average assumptions used in the BS option-pricing model relative to SO awards were as follows:

	Program to Date September 30, 2018
Expected term(1)	6.13 years
Expected volatility(2)	27.25%
Expected dividend yield(3)	3.25%
Risk-free interest rate(4)	2.63%
Weighted average fair value(5)	$ 5.71

(1) Since these SO grants are effectively part of a new program, the expected term was calculated using the "Simplified Method" under the SEC guidance based on the SOs vesting schedule and contractual term. We did not have sufficient historical exercise data to provide a reasonable basis to estimate an expected term.
(2) The expected volatility was calculated based on a combination of Xerox's term-matched historical volatility and implied volatility from traded options.
(3) The dividend yield was calculated as the expected quarterly dividend divided by Xerox's three-month average stock price as of the grant date.
(4) The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve with a maturity matched to the expected term of the SOs.
(5) The weighted average of fair values used to record compensation expense as determined by the BS option-pricing model.

SOs granted through September 30, 2018 under our new program were 1,379.

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 16 – Shareholders' Equity

(share data in thousands)

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[3]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2018	$ 255	$ 3,920	$ —	$ 4,974	$ (3,772)	$ 5,377	$ 31	$ 5,408
Comprehensive income, net	—	—	—	89	61	150	4	154
Cash dividends declared - common[1]	—	—	—	(62)	—	(62)	—	(62)
Cash dividends declared - preferred[2]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	1	10	—	—	—	11	—	11
Payments to acquire treasury stock, including fees	—	—	(284)	—	—	(284)	—	(284)
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
Balance at September 30, 2018	$ 256	$ 3,930	$ (284)	$ 4,997	$ (3,711)	$ 5,188	$ 34	$ 5,222

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[3]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2017	$ 254	$ 3,875	$ —	$ 5,004	$ (4,010)	$ 5,123	$ 35	$ 5,158
Comprehensive income, net	—	—	—	179	115	294	3	297
Cash dividends declared - common[1]	—	—	—	(63)	—	(63)	—	(63)
Cash dividends declared - preferred[2]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	1	6	—	—	—	7	—	7
Distributions and purchase - noncontrolling interests	—	(1)	—	—	—	(1)	(4)	(5)
Balance at September 30, 2017	$ 255	$ 3,880	$ —	$ 5,116	$ (3,895)	$ 5,356	$ 34	$ 5,390

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[3]	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 principles[4]	—	—	—	120	—	120	—	120
Comprehensive income, net	—	—	—	224	37	261	9	270
Cash dividends declared - common[1]	—	—	—	(192)	—	(192)	—	(192)
Cash dividends declared - preferred[2]	—	—	—	(11)	—	(11)	—	(11)
Stock option and incentive plans, net	1	37	—	—	—	38	—	38
Payments to acquire treasury stock, including fees	—	—	(284)	—	—	(284)	—	(284)
Distributions to noncontrolling interests	—	—	—	—	—	—	(12)	(12)
Balance at September 30, 2018	$ 256	$ 3,930	$ (284)	$ 4,997	$ (3,711)	$ 5,188	$ 34	$ 5,222

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[3]		Xerox Shareholders' Equity		Non-controlling Interests		Total Equity
Balance at December 31, 2016	$	254	$	3,858	$	—	$	4,934	$	(4,337)	$	4,709	$	38	$	4,747
Comprehensive income, net		—		—		—		385		442		827		10		837
Cash dividends declared - common[1]		—		—		—		(192)		—		(192)		—		(192)
Cash dividends declared - preferred[2]		—		—		—		(11)		—		(11)		—		(11)
Stock option and incentive plans, net		1		23		—		—		—		24		—		24
Distributions and purchase - noncontrolling interests		—		(1)		—		—		—		(1)		(14)		(15)
Balance at September 30, 2017	$	255	$	3,880	$	—	$	5,116	$	(3,895)	$	5,356	$	34	$	5,390

(1) Cash dividends declared on common stock for the three and nine months ended September 30, 2018 and 2017 were $0.25 per share and $0.75 per share, respectively.
(2) Cash dividends declared on preferred stock for the three and nine months ended September 30, 2018 and 2017 were $20.00 per share and $60.00 per share, respectively.
(3) Refer to Note 17 - Other Comprehensive Income for components of AOCL.
(4) Includes $117 related to the adoptions of the new Revenue Recognition Standard, see Note 2 for additional information, and $3 related to our share of Fuji Xerox's adoption of ASU 2016-01 - Financial Instruments - Classification and Measurement.

Treasury Stock

In July 2018, the Board of Directors authorized a $1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs). This program replaced the $245 of authority remaining under the Company's previously authorized share repurchase program.

There were no repurchases of common stock pursuant to Board authorized share repurchase programs during the first or second quarter of 2018. The following is a summary of the purchases of common stock:

	Shares		Amount
Balance at June 30, 2018	—	$	—
Purchases[1]	10,502		284
Cancellations	—		—
Balance at September 30, 2018	10,502	$	284

	Shares		Amount
Balance at December 31, 2017	—	$	—
Purchases[1]	10,502		284
Cancellations	—		—
Balance at September 30, 2018	10,502	$	284

(1) Includes associated fees.

Note 17 - Other Comprehensive Income

Other Comprehensive Income is comprised of the following:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments (Losses) Gains	$ (13)	$ (13)	$ 152	$ 154	$ (164)	$ (159)	$ 490	$ 491
Unrealized (Losses) Gains								
Changes in fair value of cash flow hedges - losses	(13)	(9)	(9)	(7)	(3)	(2)	(22)	(18)
Changes in cash flow hedges reclassed to earnings[(1)]	1	(1)	15	11	13	9	23	15
Other gains (losses)	1	1	(2)	(2)	(2)	(2)	(1)	(1)
Net unrealized (losses) gains	(11)	(9)	4	2	8	5	—	(4)
Defined Benefit Plans Gains (Losses)								
Net actuarial/prior service gains (losses)	53	44	(50)	(31)	89	71	(59)	(37)
Prior service amortization[(2)]	(2)	(1)	(2)	(2)	(7)	(5)	(7)	(5)
Actuarial loss amortization/settlement[(2)]	53	40	50	35	146	110	160	109
Fuji Xerox changes in defined benefit plans, net[(3)]	6	6	6	6	(18)	(18)	27	27
Other (losses) gains[(4)]	(6)	(6)	(49)	(49)	33	33	(138)	(138)
Changes in defined benefit plans gains (losses)	104	83	(45)	(41)	243	191	(17)	(44)
Other Comprehensive Income	80	61	111	115	87	37	473	443
Less: Other comprehensive income attributable to noncontrolling interests	—	—	—	—	—	—	1	1
Other Comprehensive Income Attributable to Xerox	$ 80	$ 61	$ 111	$ 115	$ 87	$ 37	$ 472	$ 442

(1) Reclassified to Cost of sales - refer to Note 12 - Financial Instruments for additional information regarding our cash flow hedges.
(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 14 - 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:

	September 30, 2018	December 31, 2017
Cumulative translation adjustments	$ (1,940)	$ (1,781)
Other unrealized losses, net	(7)	(12)
Benefit plans net actuarial losses and prior service credits[(1)]	(1,764)	(1,955)
Total Accumulated other comprehensive loss attributable to Xerox	$ (3,711)	$ (3,748)

(1) Includes our share of Fuji Xerox.

Note 18 – Earnings per Share
(share data in thousands)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic Earnings (Loss) per Share:				
Net Income from Continuing Operations Attributable to Xerox	$ 89	$ 176	$ 224	$ 388
Accrued dividends on preferred stock	(4)	(4)	(11)	(11)
Adjusted Net income from continuing operations available to common shareholders	85	172	213	377
Net income (loss) from discontinued operations attributable to Xerox	—	3	—	(3)
Adjusted Net income available to common shareholders	$ 85	$ 175	$ 213	$ 374
Weighted average common shares outstanding	251,290	254,510	253,360	254,259
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.34	$ 0.68	$ 0.84	$ 1.49
Discontinued operations	—	0.01	—	(0.01)
Basic Earnings per Share	$ 0.34	$ 0.69	$ 0.84	$ 1.48
Diluted Earnings (Loss) per Share:				
Net Income from Continuing Operations Attributable to Xerox	$ 89	$ 176	$ 224	$ 388
Accrued dividends on preferred stock	(4)	—	(11)	(11)
Adjusted Net income from continuing operations available to common shareholders	85	176	213	377
Net income (loss) from discontinued operations attributable to Xerox	—	3	—	(3)
Adjusted Net income available to common shareholders	$ 85	$ 179	$ 213	$ 374
Weighted average common shares outstanding	251,290	254,510	253,360	254,259
Common shares issuable with respect to:				
Stock options	—	—	—	—
Restricted stock and performance shares	2,763	2,133	2,875	2,170
Convertible preferred stock	—	6,742	—	—
Adjusted Weighted average common shares outstanding	254,053	263,385	256,235	256,429
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.34	$ 0.67	$ 0.83	$ 1.47
Discontinued operations	—	0.01	—	(0.01)
Diluted Earnings per Share	$ 0.34	$ 0.68	$ 0.83	$ 1.46
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	1,052	—	1,052	—
Restricted stock and performance shares	3,529	3,890	3,417	3,852
Convertible preferred stock	6,742	—	6,742	6,742
Total Anti-Dilutive Securities	11,323	3,890	11,211	10,594
Dividends per Common Share	$ 0.25	$ 0.25	$ 0.75	$ 0.75

Note 19 – 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 Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, 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.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of September 30, 2018, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $490, with the decrease from our December 31, 2017 balance of approximately $600, primarily related to currency and closed cases, partially offset by interest. With respect to the unreserved balance of approximately $490, 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 of September 30, 2018, we had $59 of escrow cash deposits for matters we are disputing and additional surety bonds and letters of credit of $87 and $108, respectively, which include associated indexation. There were no liens on any of our Brazilian assets as of September 30, 2018. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. 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, 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 ("Court") in connection with the proposed transaction to combine Xerox and Fuji Xerox (“Fuji Transaction”) (refer to Note 20 - Fuji Xerox Transaction and Recent Developments). 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 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.

Another complaint filed by Darwin Deason, a Xerox shareholder, against Xerox and its directors in the same Court on March 2, 2018 alleged 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, and 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) enjoin 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) enjoin 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) require 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 "Settlement Agreement") with Carl Icahn and Darwin Deason, among others, that would have resolved the pending proxy contest in connection with Xerox's 2018 Annual Meeting of Shareholders, as well as the ongoing litigation brought by Mr. Deason against Xerox and its directors related to the Fuji Transaction. The 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 settlement agreement with respect to the Deason cases was signed on behalf of plaintiff Deason, the Icahn Group and related parties, 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 the Deason cases. The settling defendants also withdrew their motion to stay in the putative class case. Fujifilm's appeal and motion for a stay of the proceedings in the first Deason case and the putative class case remain pending before the Appellate Division. The Court entered a stipulation of discontinuance as to the settling parties in the second Deason case on May 14, 2018, and agreed on June 22, 2018 to do the same in the first Deason case.

On June 14, 2018, Fujifilm filed answers in the first Deason case 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 class case as against the settling defendants, and entered an order denying Fujifilm's motion to dissolve the injunctions in the class case and the first Deason case 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 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; and (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.

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 May 24, 2018, a shareholder derivative complaint was filed with the Court by Carmen Ribbe against all defendants in the putative class action described above, as well as Centerview Partners, LLC. Plaintiff made no pre-complaint demand. The *Ribbe* complaint contains allegations of breaches of fiduciary duty similar to those in the putative class complaint, and further alleges that Fujifilm and Centerview aided and abetted those breaches, and that the directors breached their fiduciary duties and wasted corporate assets by, among other things, agreeing to releases of claims against them and allowing certain alleged payments in settlement of the *Deason* and putative class cases. It seeks unspecified damages for Xerox, rescission or reformation of the *Deason* and putative class settlements, restitution of funds allegedly paid to the directors, injunctive relief against wrongful practices, costs and attorneys' fees, as well as other relief.

On August 13, 2018, the Xerox defendants and Fujifilm filed motions to dismiss or stay the complaint. The motions are fully briefed.

On or about August 10, 2018, the parties filed a stipulated proposed order of discontinuance without prejudice as to Centerview in light of a recent agreement between Centerview and Xerox. On August 27, 2018, the Court declined to so-order the discontinuance absent Xerox's providing notice thereof to shareholders, and ordered the parties to confer regarding notice publication.

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.

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 the *Deason* litigation 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.

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.

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 alleges 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's contract. The State alleges 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 seeks recovery of actual damages, two times the amount of any overpayments made as a result of unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys' fees. The State references 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 makes substantially similar allegations and seeks 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. The Defendants will continue to vigorously defend themselves in this matter. 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.

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. 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.

Other Contingencies

We have issued or provided approximately $320 of guarantees as of September 30, 2018 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 tax and labor 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.

Note 20 – Fuji Xerox Transaction and Recent Developments

Pending Litigation Relating to the Fuji Transaction

Refer to Note 19 - Contingencies and Litigation for discussion of the Pending Litigation Relating to the Fuji Xerox Transaction.

Fuji Xerox Transaction Overview and Termination of Agreement

On January 31, 2018, Xerox entered into (i) a Redemption Agreement with FUJIFILM Holdings Corporation, a Japanese company (“Fujifilm”), and Fuji Xerox Co., Ltd., a Japanese company, in which Xerox indirectly holds a 25% equity interest while Fujifilm holds the remaining 75% equity interest (“Fuji Xerox”), and (ii) a Subscription Agreement with Fujifilm (collectively, the “Transaction Agreements”). Under the terms of the Transaction Agreements, Fuji Xerox would have become a wholly-owned subsidiary of Xerox, Xerox shareholders would have received a $2.5 billion special cash dividend and Xerox would have become owned 49.9% by Xerox's shareholders as of the closing date for the transaction and 50.1% by Fujifilm.

The terms of the Subscription Agreement provided the Company with certain terminations rights, including (a) if the audited financial statements of FX deviated in any material respect from the unaudited financial statements of FX and its subsidiaries provided to the Company prior to the date of the Subscription Agreement and (b) if Fujifilm or FX failed to perform any covenant or agreement set forth in the Subscription Agreement that would cause certain conditions to the consummation of the transactions contemplated by the Subscription Agreement not to be satisfied, which breach or failure to perform could not be cured or, if capable of cure, had not been cured by the earlier of 30 days following written notice thereof from the Company to Fujifilm.

As a result of the failure by Fujifilm to deliver the audited financial statements of FX by April 15, 2018 and the material deviations reflected in the audited financial statements of FX, when delivered, the Company determined that it was in the best interest of the Company and its shareholders to terminate the Subscription Agreement in accordance with the termination rights set forth therein, taking into account other circumstances limiting the ability of the Company, Fujifilm and FX to consummate a transaction. On May 13, 2018, prior to entry into the Settlement Agreement discussed in Note 19 - Contingencies and Litigation, the Company delivered written notice of termination of the Subscription Agreement to Fujifilm. By virtue of the termination of the Subscription Agreement, the Redemption Agreement terminated automatically. The Company's termination of the Transaction Agreements is the subject of pending litigation.

The Company continues to maintain existing commercial relationships with FX and Fujifilm, including, as part of the following agreements: (i) the Joint Enterprise Contract, between the Company and Fujifilm, dated March 30, 2001, (ii) the Technology Agreement, dated April 1, 2006, by and between the Company and FX and (iii) the Master Program Agreement made and entered into as of September 9, 2013 by and between the Company and FX. On June 25, 2018, the Company disclosed to Fujifilm that it does not currently plan to renew the Technology Agreement when it expires in 2021. In addition, the Company disclosed plans that it may sell products directly into the Asia-Pacific market with sole and exclusive use of the Xerox brand name. Xerox’s goals include sourcing products, parts and supplies from the most competitive suppliers to support the needs of its customers.

Bridge Facility Termination

On January 31, 2018, Xerox entered into a Commitment Letter with Citigroup Global Markets Inc. and Morgan Stanley Senior Funding, Inc., which provided a commitment for a $2.5 billion unsecured bridge loan facility that would have been available for Xerox to pay the special one-time cash dividend of $2.5 billion to existing shareholders of Xerox in connection with the Transaction Agreements, as described above.

Concurrent with the termination of the Transaction Agreements, the commitment to provide the unsecured bridge loan facility was terminated in the second quarter 2018 and, as a result, the remaining unamortized debt issuance costs of $16 were written-off.

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 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 better 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. The constant currency impact for signings growth is calculated on the basis of plan currency rates.

Overview

Fuji Xerox Transaction and Recent Developments

Refer to Note 19 - Contingencies and Litigation and Note 20 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information related to this terminated transaction and related matters.

Fuji Xerox Adjustments

As previously disclosed, in April 2017 Fujifilm publicly announced it had formed an independent investigation committee ("IIC") to conduct a review of the appropriateness of the accounting practices at Fuji Xerox’s New Zealand subsidiary related to the recovery of receivables associated with certain bundled leasing transactions that occurred in, or prior to, Fuji Xerox’s fiscal year ending March 31, 2016. The IIC’s review, completed during the second quarter 2017, identified total aggregate adjustments to Fuji Xerox's financial statements of approximately JPY 40 billion (approximately $360 million based on the Yen/U.S. Dollar spot exchange rate at March 31, 2017 of 111.89). The adjustments identified by the IIC primarily related to misstatements at Fuji Xerox's New Zealand subsidiary as well as their Australian subsidiary and certain other adjustments. We determined that our cumulative share of the total aggregate adjustments identified as part of the investigation was approximately $90 million and affected our fiscal years 2009 through 2017. In the second quarter 2017, we revised our previously issued annual consolidated financial statements for 2015 and 2016 and the first quarter of 2017. As a result of the IIC’s findings and recommendations, Fuji Xerox began the process of implementing improved management controls, an entity level monitoring system for financial statements of subsidiaries, and oversight and governance policies, practices and procedures.

In 2018, in connection with the completion of the audits of Fuji Xerox’s fiscal year-end financial statements as of and for the years ended March 31, 2016 and 2017, as well as the review of Fuji Xerox’s unaudited interim financial statements as of and for the nine months ended December 31, 2017 and 2016, additional adjustments and misstatements were identified. These additional adjustments and misstatements were to the previously reported Net income of Fuji Xerox for the period from 2010 through 2017 and are incremental to the items identified by the IIC noted above. These incremental adjustments primarily relate to Fuji Xerox’s Asia Pacific subsidiaries and involve improper revenue recognition, including revenue associated with leasing transactions, additional provisions for bad debt allowances and other asset impairments. In certain instances, some of the adjustments related to inappropriate accounting and reporting practices in the Fuji Xerox Asia Pacific subsidiaries and are further evidence of inadequate management oversight and an insufficient entity level monitoring system for financial statements of subsidiaries beyond what was previously identified by the IIC. Fuji Xerox is committed to implementing additional measures to remediate these newly identified issues.

Fuji Xerox recorded a cumulative charge of JPY 12 billion (approximately $110 million 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 these additional adjustments and misstatements. Our recognition of 25% of Fuji Xerox's net loss for Xerox's first quarter 2018 included an approximately $28 million charge related to these adjustments and misstatements. We determined that the impact of the out-of-period misstatements was not material to Xerox's consolidated financial statements for any individual prior quarter or year and the adjustment to correct the misstatements is not expected to be material to our full year 2018 results.

Refer to Note 9 - Investments in Affiliates, at Equity in the Condensed Consolidated Financial Statements for additional information.

Third Quarter 2018 Review

Total revenue of $2.35 billion for third quarter 2018 declined 5.8% from third quarter 2017 and included a 1.1-percentage point unfavorable impact from currency. Post sale revenue, which primarily reflects contracted services, equipment maintenance, supplies and financing, was $1.84 billion and represented 78% of total revenue. Post sale revenue declined 6.4% from third quarter 2017 and included a 1.2-percentage point unfavorable impact from currency. The decline in post sale revenue primarily reflected the continuing lower page volume trends, an ongoing competitive price environment, a lower population of devices and lower supplies revenue. The lower population of devices is partly due to the loss of market share for multiple quarters leading up to the ConnectKey launch. These declines were partially offset by higher revenues from our partner print services offering and higher paper sales in developing markets. Total equipment revenue of $511 million decreased 3.8%, including a 1.1-percentage point unfavorable impact from currency. The decline of total equipment revenue primarily reflected the impact of lower high-end sales and price declines of approximately 5%. These declines were partially offset by higher sales of our ConnectKey devices and demand for our recently launched Iridesse production press and higher sales through our Enterprise channel in the U.S.

Total revenue of $7.30 billion for the nine months ended September 30, 2018 declined 2.9% from the prior year period and included a 1.5-percentage point favorable impact from currency. Post sale revenue of $5.73 billion, which represented 78% of total revenue, declined 3.2% and included a 1.6-percentage point favorable impact from currency. The decline in post sale revenue primarily reflected continuing lower page volume trends, an ongoing competitive price environment, a lower population of devices, as well as the higher mix of installs of lower usage devices. These declines were partially offset by higher revenues from our Global Imaging business as well as higher paper sales. Total equipment revenue of $1.57 billion declined 1.8% including a 1.3-percentage point favorable impact from currency. The decline of total equipment revenue reflected the impact of lower OEM sales, lower revenue from our iGen and high-end black-and white systems and price declines of approximately 5%. These declines were partially offset by higher sales of our ConnectKey devices and higher revenues from our Global Imaging business and developing markets.

Net income from continuing operations attributable to Xerox for the three and nine months ended September 30, 2018 and 2017 were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	B/(W)	2018	2017	B/(W)
Net income from continuing operations attributable to Xerox	$ 89	$ 176	$ (87)	$ 224	$ 388	$ (164)
Adjusted[(1)] Net income from continuing operations attributable to Xerox	222	234	(12)	613	634	(21)

The decrease in Net income from continuing operations attributable to Xerox for the three and nine months ended September 30, 2018 as compared to the respective prior year periods was primarily due to lower revenues and higher Income tax expense, which included an additional charge of $95 million in third quarter 2018 related to the impact of the 2017 Tax Cuts and Jobs Act (the "Tax Act"). These impacts were partially offset by the continued benefits of cost savings and productivity improvements and lower non-service retirement-related costs. The decrease in Net income from continuing operations attributable to Xerox for the three months ended September 30, 2018 was also partially offset by lower Transaction and related costs, net, primarily due to recoveries during third quarter 2018. The decrease in Net income from continuing operations attributable to Xerox for the nine months ended September 30, 2018 was negatively impacted by Transaction and related costs, net and lower Equity in net income from unconsolidated affiliates, which included our share of a significant restructuring charge recorded by Fuji Xerox in the first quarter of 2018.

The decrease in adjusted[1] Net income from continuing operations attributable to Xerox for the three and nine months ended September 30, 2018 as compared to the respective prior year periods was primarily related to lower revenues and higher income tax expense, partially offset by the continued benefits of cost savings and productivity improvements. The decrease in adjusted[1] Net income from continuing operations attributable to Xerox for the three months ended September 30, 2018 was partially offset by higher Equity in net income from unconsolidated affiliates, while adjusted[1] Net income from continuing operations attributable to Xerox for the nine months ended September 30, 2018 was negatively impacted by lower Equity in net income from unconsolidated affiliates, which included an out-of-period adjustment recorded during the first quarter of 2018.

Our business, results of operations and financial condition may be negatively impacted by a potential increase in the cost of our products as a result of new or incremental trade protection measures such as, increased import tariffs, import or export restrictions and requirements and the revocation or material modification of trade agreements. We are currently evaluating the impact of potentially new import tariffs on our products, which could significantly increase their cost. We are continuing to monitor developments in this area and will make efforts to mitigate the impact to the extent possible.

Operating cash flow provided by continuing operations attributable to Xerox for the nine months ended September 30, 2018 was $725 million, as compared to a use of cash of $30 million for the prior year period. The increase was primarily due to the prior year voluntary contributions of $500 million to our U.S. defined benefit pension plans and the reclassification of $170 million of collections of deferred proceeds and beneficial interests from the sale of receivables to investing cash flows as a result of an accounting change in the prior year (refer to Note 3 - Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements for additional information). Operating cash flows also increased due to improved working capital[2] as well as lower other pension contributions.

Cash used in investing activities for the nine months ended September 30, 2018 was $40 million and included capital expenditures of $73 million, which were partially offset by proceeds of $32 million from the sale of non-core business assets. Cash used in financing activities was $815 million for the nine months ended September 30, 2018 reflecting $284 million for share repurchases, payments of $265 million on Senior Notes, $25 million related to the termination of a capital lease obligation, $19 million of bridge facility costs and dividend payments of $204 million.

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(1) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.
(2) Working capital reflects Accounts receivable, net, Inventories and Accounts payable and accrued compensation.

Financial Review

Revenues

(in millions)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	% Change	CC % Change	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017	% Change	CC % Change	% of Total Revenue 2018	% of Total Revenue 2017
Equipment sales	$ 511	$ 531	(3.8)%	(2.7)%	$ 1,571	$ 1,600	(1.8)%	(3.1)%	22%	21%
Post sale revenue	1,841	1,966	(6.4)%	(5.2)%	5,726	5,918	(3.2)%	(4.8)%	78%	79%
Total Revenue	$ 2,352	$ 2,497	(5.8)%	(4.7)%	$ 7,297	$ 7,518	(2.9)%	(4.4)%	100%	100%
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$ 943	$ 981	(3.9)%	(2.7)%	$ 2,893	$ 2,927	(1.2)%	(2.1)%		
Less: Supplies, paper and other sales	(432)	(461)	(6.3)%	(4.9)%	(1,322)	(1,358)	(2.7)%	(3.1)%		
Add: Equipment-related training(1)	—	11	NM	NM	—	31	NM	NM		
Equipment sales	$ 511	$ 531	(3.8)%	(2.7)%	$ 1,571	$ 1,600	(1.8)%	(3.1)%		
Services, maintenance and rentals	$ 1,344	$ 1,443	(6.9)%	(5.8)%	$ 4,200	$ 4,368	(3.8)%	(5.0)%		
Add: Supplies, paper and other sales	432	461	(6.3)%	(4.9)%	1,322	1,358	(2.7)%	(3.1)%		
Add: Financing	65	73	(11.0)%	(9.8)%	204	223	(8.5)%	(10.5)%		
Less: Equipment-related training(1)	—	(11)	NM	NM	—	(31)	NM	NM		
Post sale revenue	$ 1,841	$ 1,966	(6.4)%	(5.2)%	$ 5,726	$ 5,918	(3.2)%	(4.8)%		
North America	$ 1,444	$ 1,514	(4.6)%	(4.2)%	$ 4,396	$ 4,521	(2.8)%	(2.9)%	60%	60%
International	814	853	(4.6)%	(2.0)%	2,603	2,600	0.1 %	(3.8)%	36%	35%
Other	94	130	(27.7)%	(27.7)%	298	397	(24.9)%	(24.9)%	4%	5%
Total Revenue(2)	$ 2,352	$ 2,497	(5.8)%	(4.7)%	$ 7,297	$ 7,518	(2.9)%	(4.4)%	100%	100%
Memo:										
Managed Document Services(3)	$ 848	$ 853	(0.6)%	0.9 %	$ 2,581	$ 2,506	3.0 %	1.3 %	35%	33%

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

(1) In 2018, upon adoption of ASU 2014-09 Revenue Recognition, revenue from training related to equipment installation is now included in Equipment sales. In prior periods, this revenue was reported within Services, maintenance and rentals.

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

(3) Excluding Equipment revenue, Managed Document Services (MDS) was $724 million and $744 million for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of 2.7% including a 1.5-percentage point unfavorable impact from currency. For the nine months ended September 30, 2018 and 2017, excluding Equipment revenue, MDS was $2,229 million and $2,194 million, respectively, representing an increase of 1.6% including a 1.6-percentage point favorable impact from currency.

Total revenue for the three months ended September 30, 2018 decreased 5.8% as compared to third quarter 2017, with a 1.1-percentage point unfavorable impact from currency, while total revenue for the nine months ended September 30, 2018 decreased 2.9% as compared to the prior year period, with a 1.5-percentage point favorable impact from currency. Total revenue reflected the following:

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 the page volumes generated by the usage of such devices, and the revenue per printed page. Post sale revenue for the three months ended September 30, 2018 decreased 6.4% as compared to third quarter 2017, with a 1.2-percentage point unfavorable impact from currency, while Post sale revenue for the nine months ended September 30, 2018 decreased 3.2% as compared to the prior year period, with a 1.6-percentage point favorable impact from currency. Post sale revenue reflected the following:

- **Services, maintenance and rentals revenue** includes rental and maintenance revenue (including bundled supplies) as well as the post sale component of the document services revenue from our Managed Document Services (MDS) offerings, and revenues from our Communication and Marketing Solutions (CMS).

- For the three months ended September 30, 2018 Service, maintenance and rentals revenues decreased 6.9% as compared to third quarter 2017, with a 1.1-percentage point unfavorable impact from currency. The decline at constant currency[1] 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 signings and lower installs in prior periods. These declines were partially mitigated by higher revenues from our partner print services offering.
- For the nine months ended September 30, 2018 Service, maintenance and rentals revenues decreased 3.8% as compared to the prior year period, with a 1.2-percentage point favorable impact from currency. The decline at constant currency[1] 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 signings and installs in prior periods. The lower population of devices is partly due to the loss of market share for multiple quarters leading up to the ConnectKey launch. These impacts are partially offset by higher revenues from MDS, our Global Imaging business (inclusive of acquisitions), and our developing markets.

- **Supplies, paper and other sales** includes unbundled supplies and other sales.
  - For the three months ended September 30, 2018 Supplies paper and other sales decreased 6.3% as compared to third quarter 2017, including a 1.4-percentage point unfavorable impact from currency. The decline at constant currency[1] was driven by lower supplies revenues and lower network integration sales, while paper increased as a result of higher sales in developing markets. The decline also included an approximate 1.3-percentage point impact from lower OEM sales.
  - For the nine months ended September 30, 2018 Supplies paper and other sales decreased 2.7% as compared to the prior year period, with a 0.4-percentage point favorable impact from currency. The decline at constant currency[1] was driven by lower supplies and lower network integration and software licensing sales, partially offset by higher paper sales and supplies sales within our Global Imaging business. The decline also included an approximate 1.6-percentage point impact from lower OEM sales.
- **Financing revenue** is generated from financed equipment sale transactions. For the three months ended September 30, 2018 Financing revenue decreased 11.0% compared to third quarter 2017, with a 1.2-percentage point unfavorable impact from currency, while Financing revenue decreased 8.5% for the nine months ended September 30, 2018 as compared to the prior year period, with a 2.0-percentage point favorable impact from currency. The decrease in these revenues reflected a declining finance receivables balance due to lower financed equipment sales in prior periods.

Equipment sales revenue

	Three Months Ended September 30,				Nine Months Ended September 30,				% of Equipment Sales	
(in millions)	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change	2018	2017
Entry(1)	$ 56	$ 52	7.7%	9.1%	$ 171	$ 163	4.9%	2.7%	11%	10%
Mid-range	351	350	0.3%	1.0%	1,075	1,040	3.4%	2.1%	68%	65%
High-end	94	101	(6.9)%	(5.1)%	286	307	(6.8)%	(8.2)%	18%	19%
Other(1)	10	28	(64.3)%	(64.3)%	39	90	(56.7)%	(56.7)%	3%	6%
Equipment sales(2)	$ 511	$ 531	(3.8)%	(2.7)%	$ 1,571	$ 1,600	(1.8)%	(3.1)%	100%	100%

CC - See "Currency Impact" section for a description of Constant Currency.
(1) In 2018, revenues from our OEM business are included in Other, which had historically been reported within Entry. This reclassification was made to provide better transparency to our business results. Prior year amounts have been adjusted to conform to this change.
(2) In 2018, upon adoption of ASU 2014-09 Revenue Recognition, revenue from training related to equipment installation is now included in Equipment sales (previously included in Post sale revenue). Prior year amounts have been adjusted to conform to this change.

Equipment sales revenue decreased 3.8% for the three months ended September 30, 2018 as compared to third quarter 2017, with a 1.1-percentage point unfavorable impact from currency, while equipment sales revenue decreased 1.8% for the nine months ended September 30, 2018 as compared to the prior year period, with a 1.3-percentage point favorable impact from currency. Both periods were impacted by price declines of approximately 5% (which were in-line with our historic declines). For the three and nine months ended September 30, 2018, the decline at constant currency[1] included a 4.5-percentage point and a 3.4-percentage point impact, respectively, from lower OEM equipment sales.

- **Entry** - For the three and nine months ended September 30, 2018, the increase in both periods, compared to their respective prior year periods, reflected higher sales of our ConnectKey devices in developing markets and U.S. indirect channels.

- **Mid-range** - For the three and nine months ended September 30, 2018, the increase in both periods, compared to their respective prior year periods, reflected higher sales through our Enterprise channel in the U.S., as well as higher sales of lower-end devices in developing markets. For the three months ended September 30, 2018, the increase was partially offset by lower revenues from indirect channels and from our Global Imaging business, while for the nine months ended September 30, 2018, the increase was also attributed to higher sales from our Global Imaging business.
- **High-end** - For the three and nine months ended September 30, 2018, the decrease primarily reflected lower revenues from iGen in the U.S. along with lower revenues from black-and-white systems consistent with market decline trends. These declines were only partially mitigated by demand for the recently launched Iridesse production press. For the three months ended September 30, 2018, the decrease was also attributed to lower installs of the Versant systems (partially as a result of lapping the prior year launch).

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 Managed Document Services revenues (which are both reported within our post sale revenues), depending on the terms and conditions of our agreements with customers. Install activity includes Managed Document Services and Xerox-branded products shipped to Global Imaging business. Detail by product group (see *Geographic Sales Channels and Product and Offerings Definitions)* is shown below:

Installs in the third quarter of 2018:

Entry(1)

- 8% decrease in color multifunction devices, reflecting lower sales through our U.S. channels.
- 21% increase in black-and-white multifunction devices, driven largely by higher activity from low-end devices in developing markets as well as higher sales of our ConnectKey devices through indirect channels in the U.S. and Europe.

Mid-Range(2)

- 8% increase in mid-range color installs reflecting higher demand for our ConnectKey products from our U.S. Enterprise channel (primarily from large and public sector accounts) as well as higher sales of lower-end A3 devices in developing markets.
- 19% increase in mid-range black-and-white, reflecting demand for recently launched products across all geographies.

High-End(2)

- 17% decrease in high-end color installs, as demand for our new Iridesse production press was offset by lower installs of iGen and lower-end production systems.
- 3% decrease in high-end black-and-white systems reflecting market trends partially offset by favorable impact from our customers' technology refresh cycles in the U.S.

Installs for the nine months ended September 30, 2018:

Entry(1)

- 5% increase in color multifunction devices, reflecting higher activity for our ConnectKey products in our Global Imaging business and our developing markets.
- 20% increase in black-and-white multifunction devices, driven largely by higher activity from low-end devices in developing markets as well as higher sales of our ConnectKey devices through U.S. and Europe's indirect channels.

Mid-Range(2)

- 18% increase in mid-range color installs, reflecting higher demand from our ConnectKey devices across large enterprise and indirect channels, as well as higher sales of lower-end A3 devices in developing markets.
- 16% increase in mid-range black-and-white, reflecting higher demand for our ConnectKey devices in our indirect U.S. channels and developing markets.

High-End(2)

- 7% decrease in high-end color systems, as demand for our new Iridesse production press and cut-sheet inkjet products was offset by lower installs of iGen and lower-end production systems.
- 10% decrease in high-end black-and-white systems reflecting market trends, partially offset by increased demand in our indirect U.S. channels and our developing markets.

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Our reported signings mostly represent those from our Enterprise deals, as we do not currently include signings from our growing partner print services offerings or those from our Global Imaging business. Total Contract Value (TCV) is the estimated total contractual revenue related to signed contracts; our signings expressed in TCV were as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change
Signings	$ 593	$ 606	(2.1)%	(2.8)%	$ 1,619	$ 1,761	(8.1)%	(9.1)%

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

Signings for the three months ended September 30, 2018 decreased 2.1% from third quarter 2017, including a 0.7-percentage point favorable impact from currency, and signings for the nine months ended September 30, 2018 decreased 8.1% from the prior year period, including a 1.0-percentage point favorable impact from currency. The decrease in both periods reflected a lower renewal rate as a result of ongoing competitive pressure in the market. On a trailing twelve month (TTM) basis, signings decreased 6.5% from the comparable prior year period, with a 1.1-percentage point favorable impact from currency.

New business TCV for the three months ended September 30, 2018 increased 15.7% from third quarter 2017, led by activity in Europe and included a 0.7-percentage point favorable impact from currency. New business TCV for the nine months ended September 30, 2018 increased 5.0% from the prior year period, with a 1.0-percentage point favorable impact from currency. On a TTM basis, new business increased 2.2% at constant currency[1].

Renewal Rate

Renewal rate is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period. Contract renewal rate for the third quarter of 2018 was 79%, compared to our full year 2017 renewal rate of 84%.

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

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

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:

- North America, which includes our sales channels in the U.S. and Canada.
- International, which includes our sales channels in Europe, Eurasia, Latin America, 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+.
- Managed Document Services (MDS) revenue, which includes solutions and services that span from managing print to automating processes to managing content. Our primary offerings within MDS are Managed Print Services (including from Global Imaging Systems), as well as workflow automation services, and Centralized Print Services and Solutions (CPS). MDS excludes Communications and Marketing Solutions (CMS).

(1) Entry installations exclude OEM sales; including OEM sales, Entry color multifunction devices decreased 41% and 18%, respectively, while Entry black-and-white multifunction devices decreased 4% and increased 8%, respectively for the three and nine months ended September 30, 2018 .

(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 increased 8% and 17%, respectively, while High-end color systems decreased 18% and 8%, respectively, for the three and nine months ended September 30, 2018.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

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

(in millions)	Three Months Ended September 30, 2018	2017	B/(W)		Nine Months Ended September 30, 2018	2017	B/(W)	
Gross Profit	$ 942	$ 1,001	$ (59)		$ 2,913	$ 3,019	$ (106)	
RD&E	102	105	3		303	318	15	
SAG	583	630	47		1,835	1,890	55	
Equipment Gross Margin	34.6%	29.5%	5.1	pts.	32.9%	29.6%	3.3	pts.
Post sale Gross Margin	41.7%	42.9%	(1.2)	pts.	41.9%	43.0%	(1.1)	pts.
Total Gross Margin	40.1%	40.1%	—	pts.	39.9%	40.2%	(0.3)	pts.
RD&E as a % of Revenue	4.3%	4.2%	(0.1)	pts.	4.2%	4.2%	—	pts.
SAG as a % of Revenue	24.8%	25.2%	0.4	pts.	25.1%	25.1%	—	pts.
Pre-tax Income	$ 192	$ 167	$ 25		$ 459	$ 344	$ 115	
Pre-tax Income Margin	8.2%	6.7%	1.5	pts.	6.3%	4.6%	1.7	pts.
Adjusted(1) Operating Profit	$ 307	$ 302	$ 5		$ 859	$ 910	$ (51)	
Adjusted(1) Operating Margin	13.1%	12.1%	1.0	pts.	11.8%	12.1%	(0.3)	pts.

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

Pre-tax Income Margin

Third quarter 2018 pre-tax income margin of 8.2% increased 1.5-percentage points as compared to third quarter 2017. The increase was primarily driven by lower Transaction and related costs, net as well as lower Restructuring and related costs and benefits from our business transformation actions which outpaced the revenue declines.

Pre-tax income margin for the nine months ended September 30, 2018 of 6.3% increased 1.7-percentage points as compared to the prior year period. The increase was primarily driven by lower Restructuring and related costs and benefits from our business transformation actions as well as lower Other expenses, net, offset partially by revenue declines and Transaction and related costs, net.

Adjusted[1] Operating Margin

Third quarter 2018 adjusted[1] operating margin of 13.1% increased 1.0-percentage points as compared to third quarter 2017, including a 0.4-percentage point favorable impact from transaction currency. The increase primarily reflects higher equity income and SAG savings and cost productivity associated with our business transformation actions which more than offset the pace of revenue decline.

Adjusted[1] operating margin for the nine months ended September 30, 2018 of 11.8% decreased 0.3-percentage points as compared to the prior year period, including a 0.4-percentage point unfavorable impact within SAG expenses primarily related to the exit of a real estate facility (0.3-percentage point) and the cancellation of certain IT projects (0.1-percentage point). The decline is also associated with lower revenues and equity income which more than offset cost productivity and savings associated with our business transformation actions. Adjusted[1] operating margin includes favorable transaction currency of 0.6-percentage points.

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

Gross Margin

Third quarter 2018 gross margin of 40.1% was flat compared to third quarter 2017, including a 0.4-percentage point favorable impact from transaction currency and also reflecting higher equipment margin partially offset by lower post sale margin and a less profitable mix of our revenue streams.

Gross margin for the nine months ended September 30, 2018 of 39.9% decreased 0.3-percentage points as compared to the prior year period reflecting lower post sale margin, a less profitable mix of revenues and the impact of pricing, partially offset by cost productivity and savings associated with our business transformation actions. Gross margin includes favorable impact from transaction currency of 0.5-percentage points.

Third quarter 2018 equipment gross margin of 34.6% increased 5.1-percentage points as compared to third quarter 2017, reflecting the benefit from lower OEM sales (which carry a negative upfront margin) and favorable transaction currency as well as savings from cost productivity initiatives.

Equipment gross margin for the nine months ended September 30, 2018 of 32.9% increased 3.3-percentage points as compared to the prior year period, reflecting benefits from lower OEM sales, favorable transaction currency as well as savings from cost productivity initiatives, partially offset by the impact of pricing and a less profitable mix of revenues.

Third quarter 2018 post sale gross margin of 41.7% decreased 1.2-percentage points as compared to third quarter 2017 reflecting lower revenues and an unfavorable mix of lower supplies, partially offset by productivity and restructuring savings.

Post sale gross margin for the nine months ended September 30, 2018 of 41.9% decreased 1.1-percentage points as compared to the prior year period reflecting lower revenues and the impact of pricing, partially offset by productivity and restructuring savings and modestly favorable transaction currency.

Research, Development and Engineering Expenses (RD&E)

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2018	2017	Change	2018	2017	Change
R&D	$ 83	$ 84	$ (1)	$ 247	$ 250	$ (3)
Sustaining engineering	19	21	(2)	56	68	(12)
Total RD&E Expenses	$ 102	$ 105	$ (3)	$ 303	$ 318	$ (15)

Third quarter 2018 RD&E as a percentage of revenue of 4.3% was 0.1-percentage points higher compared to third quarter 2017.

RD&E of $102 million decreased $3 million compared to third quarter 2017 and reflected restructuring cost productivity savings as well as lower expenses associated with the sale of a research facility in the prior year, partially offset by modest investments in innovation in complementary market areas.

RD&E as a percentage of revenue for the nine months ended September 30, 2018 of 4.2% was flat compared to the prior year period.

RD&E of $303 million decreased $15 million compared to the prior year period and reflected cost productivity, including restructuring savings and lower expenses from the sale of a business and associated transfers of resources to third parties during the prior year, partially offset by investments in innovation in complementary market areas.

Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 24.8% decreased 0.4-percentage points compared to third quarter 2017, reflecting primarily the benefit from productivity and restructuring associated with our business transformation actions.

SAG of $583 million was $47 million lower than third quarter 2017, including an approximate $5 million favorable impact from currency. The reduction reflected primarily productivity and restructuring savings associated with our business transformation actions, which were partially offset by $5 million of charges related to the cancellation of certain IT projects as we continue to evaluate the returns on our IT investment. Bad debt expense of $10 million was $2 million higher than third quarter 2017.

SAG as a percentage of revenue for the nine months ended September 30, 2018 of 25.1% was flat as compared to the prior year period, reflecting primarily the benefit from productivity and restructuring associated with our business transformation actions. SAG as a percentage of revenue includes a 0.4-percentage point unfavorable impact from the exit of a real estate facility and the cancellation of certain IT projects.

SAG of $1,835 million for the nine months ended September 30, 2018 was $55 million lower than the prior year period, including an approximate $24 million unfavorable impact from currency. The reduction reflected primarily productivity and restructuring savings associated with our business transformation actions. These improvements were partially offset by $34 million of charges related to the accelerated depreciation from the early termination of a capital lease associated with a surplus facility ($22 million) and the cancellation of certain IT projects ($12 million). Bad debt expense of $35 million increased $5 million compared to the prior year period and on a trailing twelve month basis (TTM) remained at less than one percent of receivables.

Restructuring and Related Costs

Third quarter 2018 Restructuring and related costs of $29 million included $40 million of severance costs related to headcount of approximately 900 employees worldwide and $1 million of lease cancellation costs. The average restructuring cost per employee was lower in third quarter 2018 as compared to 2017 primarily due to reductions in our employee severance programs particularly with respect to actions in the U.S. These costs were partially offset by $12 million of net reversals for changes in estimated reserves from prior period initiatives. Third quarter 2018 actions impacted several functional areas, with approximately 30% focused on gross margin improvements, approximately 65% on SAG reductions and the remainder focused on RD&E optimization.

Restructuring and related costs were $91 million for the nine months ended September 30, 2018 and included $104 million of severance costs related to headcount of approximately 1,850 employees worldwide and $13 million of lease cancellation costs partially offset by $26 million of net reversals for changes in estimated reserves from prior period initiatives.

Third quarter 2017 Restructuring and related costs of $35 million included net restructuring and asset impairment charges of $34 million as well as $1 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program. Third quarter 2017 net restructuring and asset impairment charges of $34 million included $39 million of severance costs related to headcount of approximately 600 employees worldwide. These costs were partially offset by $5 million of net reversals for changes in estimated reserves from prior period initiatives. The third quarter 2017 actions impacted several functional areas, with approximately 80% focused on SAG reductions and approximately 20% focused on gross margin improvements.

Restructuring and related costs were $192 million for the nine months ended September 30, 2017 and included net restructuring and asset impairment charges of $174 million as well as $18 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program. Net restructuring and asset impairment charges for the nine months ended September 30, 2017 of $174 million included $196 million of severance costs related to headcount of approximately 2,100 employees worldwide and $3 million of lease cancellation costs partially offset by $25 million of net reversals for changes in estimated reserves from prior period initiatives, which included a $5 million favorable adjustment on the early termination of the lease for the corporate airplane.

The restructuring reserve balance as of September 30, 2018 for all programs was $70 million, of which $67 million is expected to be spent over the next twelve months.

Refer to Note 10 - Restructuring Programs in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Transaction and Related Costs, Net

We recorded $63 million of Transaction and related costs, net for the nine months ended September 30, 2018, which included the following:

- Costs related to the proposed combination transaction with Fuji Xerox, which was terminated in May 2018, primarily for third-party accounting, legal, consulting and other similar types of services.
- Costs related to the settlement agreement reached with certain shareholders in the second quarter of 2018 as well as third-party legal and other related costs associated with on-going litigation resulting from the terminated combination transaction and other related shareholder actions.
- $19 million of costs related to the commitment for a $2.5 billion unsecured bridge loan facility, which was terminated concurrent with the termination of the Fuji Xerox combination transaction.
- Recoveries of approximately $45 million, which included insurance recoveries for litigation and related settlement costs of approximately $30 million and a settlement refund from a financial adviser, associated with the terminated combination transaction, for approximately $13 million. We continue to pursue additional recoveries from insurance carriers and other parties for costs and expenses related to the terminated transaction and 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 nine months ended September 30, 2018 of $36 million was $5 million lower compared to the prior year period.

Worldwide Employment

Worldwide employment was approximately 33,200 as of September 30, 2018 and decreased by approximately 2,100 from December 31, 2017, largely driven by our business transformation. Approximately half of the reduction was associated with restructuring actions, while the remainder resulted from net attrition (attrition net of gross hires), of which a large portion is not expected to be backfilled.

Other Expenses, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Non-financing interest expense	$ 28	$ 29	$ 84	$ 89
Non-service retirement-related costs	33	35	83	129
Interest income	(5)	(2)	(12)	(6)
Gains on sales of businesses and assets	(3)	(13)	(35)	(14)
Currency losses, net	3	—	2	4
Loss on sales of accounts receivable	1	3	2	9
Loss on early extinguishment of debt	—	—	—	13
All other expenses, net	—	—	2	10
Other expenses, net	$ 57	$ 52	$ 126	$ 234

Non-Financing Interest Expense

Non-financing interest expense for the three months ended September 30, 2018 was $28 million and was $1 million lower than third quarter of 2017. When combined with financing interest expense (Cost of financing), total interest expense decreased by $1 million from third quarter of 2017 due to a lower debt balance, partially offset by higher average interest rates.

Non-financing interest expense for the nine months ended September 30, 2018 was $84 million and was $5 million lower as compared to the prior year period. When combined with financing interest expense (Cost of financing), total interest expense decreased by $4 million from the prior year comparable period primarily due to a lower debt balance reflecting debt repayments of approximately $1.3 billion in the first quarter 2017 partially offset by $1.0 billion of new debt issued in the third quarter 2017 to fund, among other things, a $500 million voluntary contribution to our U.S. defined benefit pension plans, partially offset by higher average interest rates.

Non-Service Retirement-Related Costs

Non-service retirement-related costs decreased $2 million and $46 million, respectively, for the three and nine months ended September 30, 2018 compared to the prior year periods. Both period decreases were primarily driven by the favorable impact of higher pension contributions and asset returns in the prior year, with the decrease in third quarter 2018 partially offset by higher losses from pension settlements in the U.S.

Gains on Sales of Businesses and Assets

Gains on sales of businesses and assets decreased $10 million for the three months ended September 30, 2018 as compared to third quarter 2017, reflecting primarily the prior year sale of a research facility in Grenoble, France (which primarily supported the discontinued BPO business).

Gains on the sales of business and assets increased $21 million for the nine months ended September 30, 2018, as compared to the prior year period, reflecting a higher level of sales of non-core business assets in 2018.

Loss on Early Extinguishment of Debt

During the first quarter of 2017, we recorded a $13 million loss associated with the repayment of $300 million in Senior Notes.

Income Taxes

Third quarter 2018 effective tax rate was 74.0% and includes an additional charge of $95 million related to a change in the provisional estimated impact from the 2017 Tax Cuts and Jobs Act (the "Tax Act") as discussed below. On an adjusted[1] basis, third quarter 2018 effective tax rate was 24.5%. This rate was higher than the U.S. statutory tax rate of 21% primarily due to the geographical mix of profits. The adjusted[1] effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net, non-service retirement-related costs and the impact of the Tax Act as discussed below.

The effective tax rate for the nine months ended September 30, 2018 was 47.9% and includes an additional charge of $95 million related to a change in the provisional estimated impact from the 2017 Tax Act as discussed below. On an adjusted[1] basis, the nine months ended September 30, 2018 effective tax rate was 26.5%. This rate was higher than the U.S. statutory tax rate of 21% primarily due to the geographical mix of profits. The adjusted[1] effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net, non-service retirement-related costs and the impact associated with the 2017 Tax Act, as discussed below.

Third quarter 2017 effective tax rate was 10.8%. On an adjusted[1] basis, third quarter 2017 effective tax rate was 19.3%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to the redetermination of certain unrecognized tax positions upon conclusion of several audits. The adjusted[1] effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets and non-service retirement-related costs.

The effective tax rate for the nine months ended September 30, 2017 was 10.8%. On an adjusted[1] basis, the nine months ended September 30, 2017 effective tax rate was 24.3%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to foreign tax credits, the redetermination of certain unrecognized tax positions upon conclusion of several audits and the geographic mix of profits. The adjusted[1] effective tax rate excludes the majority of the benefit from the re-measurement of certain unrecognized tax positions as well as the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, non-service retirement-related costs and other discrete items.

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.

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

Tax Cuts and Jobs Act (the “Tax Act”)

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The Tax Act significantly revises the U.S. corporate income tax system by, among other things, lowering the U.S. statutory corporate income tax rate from 35% to 21% and implementing a territorial tax system that includes a one-time transition tax on deemed repatriated earnings of foreign subsidiaries.

During the fourth quarter 2017, we recorded an estimated non-cash charge of $400 million reflecting our provisional estimated impact associated with the provisions of the Tax Act based on currently available information. Our estimated charge incorporated assumptions based on our current interpretation of the Tax Act as well as information available at that time and was subject to change, possibly materially, as we completed our analysis and received additional clarification and implementation guidance. During third quarter 2018 we adjusted our provisional estimate by an additional charge of $95 million reflecting certain positions taken on our recently filed 2017 income tax return as well as consideration of additional guidance from the U.S. Treasury and Internal Revenue Service (IRS). The adjustment includes changes to the determination of the one-time deemed repatriation tax as well as additional re-measurement of our U.S. deferred tax assets and liabilities to the lower enacted statutory tax rate. The total charge of $495 million related to the Tax Act remains a provisional estimate as we continue to evaluate and consider additional impacts including those related to interpretive guidance from the U.S. Treasury and IRS as well as filing positions we may take on our 2018 U.S. Tax Return. Accordingly, additional adjustments may be recorded, possibly material, in the fourth quarter 2018 as we finalize our estimate related to the Tax Act. Any adjustments to this provisional amount will be reported as a component of Income tax expense.

Effective January 1, 2018, we became subject to several provisions of the Tax Act including computations related to Global Intangible Low Taxed Income ("GILTI"), Foreign Derived Intangible Income ("FDII"), Base Erosion and Anti-Abuse Tax ("BEAT"), and IRC Section 163(j) interest limitation (Interest Limitation). Our current estimate for the GILTI, FDII and Interest Limitation rules was determined to be immaterial, however we currently estimate that we are subject to BEAT. Accordingly, our third quarter and year to date 2018 effective tax rate includes the estimated impact for BEAT, which has also been incorporated into our estimated annual effective tax for 2018. Similar to the provisional charge recorded in the fourth quarter 2017 associated with the enactment of the Tax Act, the estimates for these additional provisions of the Tax Act were made based on our current interpretation of the Tax Act as well as currently available information and may change, as we complete our analysis and receive additional clarification and implementation guidance. Changes in interpretations and assumptions as well as actions we may take as a result of the Tax Act may also impact these estimates.

Equity in Net Income (Loss) of Unconsolidated Affiliates

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Total Equity in net income (loss) of unconsolidated affiliates	$ 43	$ 30	$ (6)	$ 90
Fuji Xerox after-tax restructuring and other charges included in equity income (loss)	7	6	90	9

Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox Net income (loss). For the three months ended September 30, 2018, equity income increased $13 million, while equity income decreased $96 million for the nine months ended September 30, 2018, as compared to the prior year periods. Equity income for the three months ended September 30, 2018 reflected savings from restructuring as well as lower bad debt provisions, while the equity loss for the nine months ended September 30, 2018 included an approximate $28 million charge related to the out-of-period adjustments described in Note 9 - Investments in Affiliates, at Equity, in the Condensed Consolidated Financial Statements and in the "Fuji Xerox Adjustments" section above.

Equity in net income (loss) of unconsolidated affiliates for the three and nine months ended September 30, 2018 included $1 million and $81 million, respectively, of higher year-over-year charges related to our share of Fuji Xerox after-tax restructuring and other charges. Other charges include costs associated with the terminated combination transaction discussed in Note 20 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements.

Net Income from Continuing Operations

Third quarter 2018 Net income from continuing operations attributable to Xerox was $89 million, or $0.34 per diluted share, which included an estimated non-cash charge of $95 million or $0.37 per diluted share associated with the Tax Act. See the "Income Taxes" section for further discussion. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $222 million, or $0.85 per diluted share. Third quarter 2018 adjustments to Net income include Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Net income from continuing operations attributable to Xerox for the nine months ended September 30, 2018 was $224 million, or $0.83 per diluted share, which included an estimated non-cash charge of $95 million or $0.37 per diluted share associated with the Tax Act. See the "Income Taxes" section for further discussion. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $613 million, or $2.33 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 and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Third quarter 2017 Net income from continuing operations attributable to Xerox was $176 million, or $0.67 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $234 million, or $0.89 per diluted share. Third quarter 2017 adjustments to Net income include Restructuring and related costs, Amortization of intangible assets and non-service retirement-related costs as described in our Non-GAAP Financial Measures section.

Net income from continuing operations attributable to Xerox for the nine months ended September 30, 2017 was $388 million, or $1.47 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $634 million, or $2.41 per diluted share and includes adjustments for Restructuring and related costs, Amortization of intangible assets as well as non-service retirement-related costs and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Refer to Note 18 - Earnings per Share in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

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

Discontinued Operations

Discontinued operations relate to our Business Process Outsourcing (BPO) business, which was separated effective December 31, 2016. Refer to Note 4 - Divestitures in the Condensed Consolidated Financial Statements for additional information regarding Discontinued operations.

Net Income

Third quarter 2018 Net income attributable to Xerox was $89 million, or $0.34 per diluted share. Third quarter 2017 Net income attributable to Xerox was $179 million, or $0.68 per diluted share.

Net income attributable to Xerox for the nine months ended September 30, 2018 was $224 million, or $0.83 per diluted share. Net income attributable to Xerox for the nine months ended September 30, 2017 was $385 million, or $1.46 per diluted share.

Other Comprehensive Income

Third quarter 2018 Other Comprehensive Income, Net Attributable to Xerox was $61 million and reflected the following: i) included $83 million of net gains from the changes in defined benefit plans, which included a $43 million out-of-period adjustment related to actuarial gains (refer to Note 1 - Basis of Presentation in the Condensed Consolidated Financial Statements, for additional information related to the out-of-period adjustment); ii) net translation adjustment losses of $13 million reflecting the weakening Japanese Yen against the U.S. Dollar in the third quarter 2018; and iii) $9 million of net unrealized losses. This compares to third quarter 2017 Other Comprehensive Income, Net Attributable to Xerox of $115 million, which reflected the following: i) $41 million of net losses from the changes in defined benefit plans, primarily due to translation impacts; ii) net translation adjustment gains of $154 million, reflecting the strengthening of our major foreign currencies against the U.S. Dollar in the third quarter 2017; and iii) $2 million of net unrealized gains.

Other Comprehensive Income, Net Attributable to Xerox was $37 million for the nine months ended September 30, 2018 and reflected the following: i) $191 million of net gains from the changes in defined benefit plans primarily due to settlements and the currency impacts on net actuarial losses, as well as a $43 million out-of-period adjustment related to actuarial gains (refer to Note 1 - Basis of Presentation in the Condensed Consolidated Financial Statements, for additional information related to the out-of-period adjustment); ii) net translation adjustment losses of $159 million reflecting the weakening of our major foreign currencies against the U.S. Dollar during 2018; and iii) $5 million of net unrealized gains. This compares to Other Comprehensive Income, Net Attributable to Xerox of $443 million for the nine months ended September 30, 2017, which reflected the following: i) $44 million of net losses from the changes in defined benefit plans, primarily due to translation impacts, partially offset by settlements; ii) $491 million of net translation adjustment gains reflecting the strengthening of our major foreign currencies against the U.S. Dollar during 2017; and iii) $4 million of net unrealized losses.

Refer to Note 12 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding unrealized (losses) gains, net, and Note 14 - 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 September 30, 2018 and December 31, 2017, total cash, cash equivalents and restricted cash were $1,218 million and $1,368 million, respectively. There were no borrowings under our Credit Facility or Commercial Paper Program at September 30, 2018 or December 31, 2017, respectively.

We have narrowed our full year guidance range for 2018 operating cash flows from continuing operations to be between $1.0 billion and $1.1 billion, from our original guidance of between $900 million and $1.1 billion, partly due to lower expected pension contributions. Additionally, we have lowered our full year 2018 capital expenditures expectation to be approximately $100 million, from our original expectation of $150 million. We continue to expect dividend payments to common shareholders to be approximately $260 million.

Cash Flow Analysis

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

	Nine Months Ended September 30,		
(in millions)	2018	2017	Change
Net cash provided by (used in) operating activities of continuing operations	$ 725	$ (30)	$ 755
Net cash used in operating activities of discontinued operations	—	(97)	97
Net cash provided by (used in) operating activities	725	(127)	852
Net cash (used in) provided by investing activities	(40)	19	(59)
Net cash used in financing activities	(815)	(430)	(385)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(20)	55	(75)
Decrease in cash, cash equivalents and restricted cash	(150)	(483)	333
Cash, cash equivalents and restricted cash at beginning of period	1,368	2,402	(1,034)
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 1,218	$ 1,919	$ (701)

Cash Flows from Operating Activities

Net cash provided by operating activities of continuing operations was $725 million for the nine months ended September 30, 2018. The $755 million increase in operating cash from the prior year period was primarily due to the following:

- $29 million increase in pre-tax income before Transaction and related costs, net, Depreciation and amortization, Net gain on sales of businesses and assets, Restructuring and asset impairment charges and Defined benefit pension cost.
- $606 million increase due to contributions of $635 million in third quarter 2017 to our domestic tax-qualified defined benefit plans, which includes an incremental voluntary contribution of $500 million.
- $211 million increase from accounts receivable primarily due to the timing of collections and lower revenue, as well as the prior year reclassification of $157 million of collections of deferred proceeds from the sales of accounts receivables to investing.
- $96 million increase from inventory due in part to the timing of the product launch in the prior year.
- $35 million increase from lower restructuring payments.
- $55 million decrease due to lower net run-off of finance receivables of $28 million and higher equipment on operating leases of $27 million.
- $40 million decrease from Accounts payable primarily related to the year-over-year timing of supplier and vendor payments.
- $41 million decrease due to net payments for transaction and related costs.
- $41 million decrease primarily related to the prior year settlements of foreign currency derivative contracts associated with intercompany borrowings.
- $31 million decrease in dividends received from equity investments primarily due to lower income from Fuji Xerox.

Cash Flows from Investing Activities

Net cash used in investing activities was $40 million for the nine months ended September 30, 2018. The $59 million decrease in cash from the prior year period was primarily due to the following:

- $157 million decrease is primarily a result of the termination of certain accounts receivables sales arrangements in fourth quarter 2017.
- $20 million decrease due to the prior year sale of a research facility in Grenoble, France.
- $76 million increase due to no acquisitions in 2018.
- $30 million increase primarily from the sale of non-core business assets in 2018.

Cash Flows from Financing Activities

Net cash used in financing activities was $815 million for the nine months ended September 30, 2018. The $385 million increase in the use of cash from the prior year period was primarily due to the following:

- $284 million increase due to the resumption of share repurchases in 2018.
- $161 million increase resulting from the prior year final cash adjustment with Conduent.
- $30 million decrease from net debt activity. 2018 reflects payments of $265 million on Senior Notes, $25 million related to the termination of a capital lease obligation and $19 million of bridge facility costs. 2017 reflects proceeds of $1.0 billion on Senior Notes offset by payments of $1.0 billion on Senior Notes, net payments of $326 million on the tender and exchange of certain Senior Notes including transaction costs and deferred debt issuance costs of $11 million.
- $19 million decrease from common and preferred stock dividends.

Cash, Cash Equivalents and Restricted Cash

Refer to Note 5 - 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)	September 30, 2018	December 31, 2017
Principal debt balance[1]	$ 5,283	$ 5,579
Net unamortized discount	(28)	(35)
Debt issuance costs	(26)	(32)
Fair value adjustments[2]		
- terminated swaps	2	4
- current swaps	(6)	1
Total Debt	$ 5,225	$ 5,517

(1) Includes Notes Payable of $2 million and $6 million as of September 30, 2018 and December 31, 2017, respectively.
(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)	September 30, 2018	December 31, 2017
Total finance receivables, net[1]	$ 3,494	$ 3,752
Equipment on operating leases, net	441	454
Total Finance Assets, net[2]	$ 3,935	$ 4,206

(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, 2017 includes a decrease of $51 million due to currency.

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

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

(in millions)	September 30, 2018	December 31, 2017
Finance receivables debt[1]	$ 3,057	$ 3,283
Equipment on operating leases debt	386	397
Financing debt	3,443	3,680
Core debt	1,782	1,837
Total Debt	$ 5,225	$ 5,517

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

Debt Activity

Bridge Facility

Refer to Note 20 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information regarding the bridge facility that was terminated during the second quarter of 2018.

Sales of Accounts Receivable

During the fourth quarter of 2017, we terminated all accounts receivable sales arrangements in North America and all but one arrangement in Europe.

Refer to Note 6 - 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
2018 Q4	$ 3
2019	961
2020	1,052
2021	1,064
2022	301
2023 and thereafter	1,902
Total	$ 5,283

Treasury Stock

In July 2018, the Board of Directors authorized a $1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs). This program replaced the $245 million of authority remaining under the Company's previously authorized share repurchase program. In third quarter 2018, the Company increased its expectation for share repurchases in 2018 from an original expectation of up to $500 million of shares to an updated expectation of up to $700 million of shares.

In third quarter 2018, we repurchased 10.5 million shares of our common stock for an aggregate cost of $284 million, including fees. There were no share repurchases in the first or second quarter of 2018. Through October 31, 2018, we repurchased an additional 6.9 million in shares with an aggregate cost of $182 million, including fees, for a cumulative total of 17.4 million shares at a cost of $466 million, including fees.

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 changes in 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. These derivative financial instruments are utilized 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 12 – 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 third quarter 2018 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:

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.

Restructuring and related costs: Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our strategic transformation program 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 strategic transformation program 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.

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 as a result of our adoption of ASU 2017-07 - Reporting of Retirement Related Benefit Costs in 2018. 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.

Transaction and related costs, net: Transaction and related costs, net are expenses incurred in connection with Xerox's planned combination transaction with Fuji Xerox, 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.

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

Other discrete, unusual or infrequent items: In addition, we also excluded the following items given their discrete, unusual or infrequent nature and their impact on our results for the period:

- 2017 - Loss on early extinguishment of debt in the first quarter of 2017.
- 2017 - A benefit from the remeasurement of a tax matter in the first quarter of 2017 that related to a previously adjusted item.
- 2018 - An additional charge in the third quarter of 2018 related to a change in the provisional estimated impact from the 2017 Tax Cuts and Jobs Act (the "Tax Act"). See the "Income Taxes" section in the MD&A for further information.

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 also 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. Adjusted Operating income and margin also include Equity in net income (loss) of unconsolidated affiliates. Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox's Net income (loss). We include this amount in our measure of operating income and margin as Fuji Xerox is our primary product supplier and intermediary to the Asia/Pacific market for distribution of Xerox branded products and services.

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.

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 September 30, 2018 Net Income	2018 EPS	2017 Net Income	2017 EPS	Nine Months Ended September 30, 2018 Net Income	2018 EPS	2017 Net Income	2017 EPS
Reported[1]	$ 89	$ 0.34	$ 176	$ 0.67	$ 224	$ 0.83	$ 388	$ 1.47
Adjustments:								
Restructuring and related costs	29		35		91		192	
Amortization of intangible assets	12		12		36		41	
Transaction and related costs, net	(33)		—		63		—	
Non-service retirement-related costs	33		35		83		129	
Loss on early extinguishment of debt	—		—		—		13	
Income tax on adjustments[2]	(10)		(30)		(69)		(122)	
Tax Act	95		—		95		—	
Remeasurement of unrecognized tax positions	—		—		—		(16)	
Restructuring and other charges - Fuji Xerox[3]	7		6		90		9	
Adjusted	$ 222	$ 0.85	$ 234	$ 0.89	$ 613	$ 2.33	$ 634	$ 2.41
Dividends on preferred stock used in adjusted EPS calculation[4]		$ —		$ —		$ —		$ —
Weighted average shares for adjusted EPS[4]		261		263		263		263
Fully diluted shares at end of period[5]		255						

(1) *Net income and EPS from continuing operations attributable to Xerox.*
(2) *Refer to Effective Tax Rate reconciliation.*
(3) *Other charges in 2018 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 September 30, 2018 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 third quarter 2018.*

Effective Tax Rate reconciliation:

(in millions)	Three Months Ended September 30, 2018 Pre-Tax Income	2018 Income Tax Expense	2018 Effective Tax Rate	2017 Pre-Tax Income	2017 Income Tax Expense	2017 Effective Tax Rate
Reported[1]	$ 192	$ 142	74.0%	$ 167	$ 18	10.8%
Non-GAAP Adjustments[2]	41	10		82	30	
Tax Act	—	(95)		—	—	
Adjusted[3]	$ 233	$ 57	24.5%	$ 249	$ 48	19.3%

(in millions)	Nine Months Ended September 30, 2018 Pre-Tax Income	2018 Income Tax Expense	2018 Effective Tax Rate	2017 Pre-Tax Income	2017 Income Tax Expense	2017 Effective Tax Rate
Reported[1]	$ 459	$ 220	47.9%	$ 344	$ 37	10.8%
Non-GAAP Adjustments[2]	273	69		375	122	
Tax Act	—	(95)		—	—	
Remeasurement of unrecognized tax positions	—	—		—	16	
Adjusted[3]	$ 732	$ 194	26.5%	$ 719	$ 175	24.3%

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

Operating Income and Margin reconciliation:

	Three Months Ended September 30,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 192	$ 2,352	8.2%	$ 167	$ 2,497	6.7%
Adjustments:						
Restructuring and related costs	29			35		
Amortization of intangible assets	12			12		
Transaction and related costs, net	(33)			—		
Non-service retirement-related costs	33			35		
Equity in net income of unconsolidated affiliates	43			30		
Restructuring and other charges - Fuji Xerox[(2)]	7			6		
Other expenses, net	24			17		
Adjusted	$ 307	$ 2,352	13.1%	$ 302	$ 2,497	12.1%

	Nine Months Ended September 30,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 459	$ 7,297	6.3%	$ 344	$ 7,518	4.6%
Adjustments:						
Restructuring and related costs	91			192		
Amortization of intangible assets	36			41		
Transaction and related costs, net	63			—		
Non-service retirement-related costs	83			129		
Equity in net (loss) income of unconsolidated affiliates	(6)			90		
Restructuring and other charges - Fuji Xerox[(2)]	90			9		
Other expenses, net	43			105		
Adjusted	$ 859	$ 7,297	11.8%	$ 910	$ 7,518	12.1%

____
(1) Pre-Tax Income and revenue from continuing operations.
(2) Other charges in 2018 represent costs associated with the terminated combination transaction.

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

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change 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.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 19 – 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 2017 Annual Report. The "Risk Factors Related to the Fujifilm Transactions" are no longer applicable as a result of the termination of the Transaction Agreements. The other Risk Factors remain applicable from our 2017 Annual Report. The information set forth under Note 19 - Contingencies and Litigation - Pending Litigation Relating to the Fuji Transaction, in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, as well as the other risks discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Quarterly Report on Form 10-Q are incorporated by reference in answer to this item.

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

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2018

During the quarter ended September 30, 2018, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Semi-Annual Director Fees:

a. Securities issued on July 13, 2018: Registrant issued 33,144 deferred stock units (DSUs), representing the right to receive shares of Common Stock, par value $1.00 per share, at a future date.

b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Gregory Q. Brown, Jonathan Christodoro, Keith Cozza, Joseph J. Echevarria, Nicholas Graziano, Cheryl Gordon Krongard, Scott Letier and Sara Martinez Tucker.

c. The DSUs were issued at a deemed purchase price of $25.345 per DSU (aggregate price $840,035), based upon the market value on the date of issuance, in payment of the semi-annual Director's fees 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.

Dividend Equivalent:

a. Securities issued on July 31, 2018: Registrant issued 3,196 DSUs, representing the right to receive shares of Common Stock, par value $1.00 per share, at a future date.

b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Gregory Q. Brown, Jonathan Christodoro, Joseph J. Echevarria, William Curt Hunter, Robert J. Keegan, Cheryl Gordon Krongard, Charles Prince, Ann N. Reese, Stephen H. Rusckowski and Sara Martinez Tucker.

c. The DSUs were issued at a deemed purchase price of $24.205 per DSU (aggregate price $77,359), 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 September 30, 2018

Repurchases of Xerox Common Stock, par value $1.00 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]
July 1 through 31	—	$ —	—	$ 1,000,000,000
August 1 through 31	6,421,487	26.57	6,421,487	829,369,558
September 1 through 30	4,080,592	27.62	4,080,592	716,645,157
Total	10,502,079		10,502,079	

(1) Exclusive of fees and costs.

(2) Of the cumulative $1.0 billion of share repurchase authority previously granted by our Board of Directors, exclusive of fees and expenses, approximately $283 million has been used through September 30, 2018. 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.

In July 2018, Registrant’s Board of Directors authorized a $1.0 billion share repurchase program. This program replaces the $245 million of authority remaining under Registrant’s previously authorized share repurchase program.

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
July 1 through 31	290,132	$ 24.02	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	—	—	n/a	n/a
Total	**290,132**			

(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(a)	Amendment to Registrant's Restated Certificate of Incorporation filed with the Department of State of New York on August 1, 2018.
	Incorporated by reference to Exhibit 3.1(A) to Registrant's Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2018. See SEC File Number 001-04471.
3.1(b)	Restated Certificate of Incorporation filed with the Department of State of New York on August 2, 2018, as amended by Certificates of Amendment of Certificate of Incorporation filed with the Department of State of New York on December 23, 2016 and August 1, 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.
10.1	Form of Restricted Stock Award Agreement
12	Computation of Ratio of Earnings to Fixed Charges.
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.

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: November 1, 2018

EXHIBIT INDEX

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3.1(b)	Restated Certificate of Incorporation filed with the Department of State of New York on August 10, 2018, as amended by Certificates of Amendment of Certificate of Incorporation filed with the Department of State of New York on December 23, 2016 and August 1, 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.
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EXHIBIT 3.2

BY-LAWS

of

XEROX CORPORATION

May 14, 2018

ARTICLE I

MEETINGS OF STOCKHOLDERS

SECTION 1. *Annual Meetings*: A meeting of shareholders entitled to vote shall be held for the election of Directors and the transaction of other business each year in such month and on such day (except a Saturday, Sunday, or holiday) as determined by the Board of Directors.

SECTION 2. *Special Meetings*: Special Meetings of the shareholders may be called at any time by the Chairman of the Board or the Board of Directors.

SECTION 3. *Place of Meetings*: Meetings of shareholders shall be held at the principal office of the Company or at such other place, within or without the State of New York, as may be fixed by the Board of Directors.

SECTION 4. *Notice of Meetings:*

(a) Notice of each meeting of shareholders shall be in writing and shall state the place, date and hour of the meeting. Notice of a Special Meeting shall state the purpose or purposes for which it is being called and shall also indicate that it is being issued by or at the direction of the person or persons calling the meeting. If, at any meeting, action is proposed to be taken which would, if taken, entitle shareholders, fulfilling the requirements of Section 623 of the Business Corporation Law to receive payment for their shares, the notice of such meeting shall include a statement of that purpose and to that effect.

(b) A copy of the notice of any meeting shall be given, personally, electronically or by mail, not less than ten nor more than sixty days before the date of the meeting, to each shareholder entitled to vote at such meeting. If mailed, such notice is given when deposited in the United States mail, with postage thereon prepaid, directed to the shareholder at his or her address as it appears on the record of shareholders, or, if he or she shall have filed with the Secretary a written request that notices to him or her be mailed to some other address, then directed to him or her at such other address.

(c) Notice of meeting need not be given to any shareholder who submits a signed waiver of notice, in person or by proxy, whether before or after the meeting. The attendance of any shareholder at a meeting, in person or by proxy, without protesting prior to the conclusion of the meeting the lack of notice of such meeting, shall constitute a waiver of notice by him or her.

SECTION 5. *Quorum and Adjourned Meetings*:

(a) At any Annual or Special Meeting the holders of a majority of the votes of shares entitled to vote thereat, present in person or by proxy, shall constitute a quorum for the transaction of any business, provided that when a specified item of business is required to be voted on by a class or series, voting as a class, the holders of a majority of the votes of shares of such class or series shall constitute a quorum for the transaction of such specified item of business. When a quorum is once present to organize a meeting, it is not broken by the subsequent withdrawal of any shareholders.

(b) Despite the absence of a quorum, the shareholders present may adjourn the meeting to another time and place, and it shall not be necessary to give any notice of the adjourned meeting if the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is taken. At the adjourned meeting any business may be transacted that might have been transacted on the original date of the meeting. If after the adjournment, however, the Board of Directors fixes a new record date for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder on the new record date entitled to notice under Section 4 of this Article I of the By-Laws.

SECTION 6. *Nominations and Business at Meetings:*

At any annual meeting of shareholders, only persons who are nominated or business which is proposed in accordance with the procedures set forth in this Section 6 shall be eligible for election as Directors or considered for action by shareholders. Nominations of persons for election to the Board of Directors of the Company may be made or business proposed at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the Company entitled to vote at the meeting who complies with the notice and other procedures set forth in this Section 6. Such nominations or business proposals, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Company and such business proposals must, under applicable law, be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 120 days nor more than 150 days in advance of the date which is the anniversary of the date the Company's proxy statement was released to security holders in connection with the previous year's annual meeting; provided, that, if the Company did not hold such previous year's annual meeting or if the anniversary date of the current year's annual meeting has been changed by more than 30 days from the date of the previous year's annual meeting, then such shareholder's notice shall be so delivered or mailed and received within a reasonable time before the Company begins to print and mail its proxy statement; provided, further, however, that with respect to the Company's annual meeting to be held during calendar year 2018, to be timely (and notwithstanding anything to the contrary contained in this Section 6), a shareholder's notice of nominations and/or business which is to be proposed, must be delivered to or mailed and received at the principal executive offices of the Company not later than 5:00 p.m. EDT on June 13, 2018 so long as the Company's annual meeting is held before or on the date that is 120 days thereafter.

Such shareholder's notice shall set forth (a) as to each person whom such shareholder proposes to nominate for election or reelection as a Director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected); (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of the business desired to be brought before the annual meeting, the reasons for conducting such business at the annual meeting and any material interest in such business of such person on whose behalf such proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the Company's books and (ii) the class and number of shares of the Company which are beneficially owned by such shareholder. No person shall be eligible for election as a Director of the Company and no business shall be conducted at the annual meeting of shareholders unless nominated or proposed in accordance with the procedures set forth in this Section 6. The Chairman of the meeting may, if the facts warrant, determine and declare to the meeting that a nomination or proposal was not made in accordance with the provisions of this Section 6 and, if he or she should so determine, he or she shall so declare to the meeting and the defective nomination or proposal shall be disregarded.

SECTION 7. *Organization*: At every meeting of the shareholders, the Chairman of the Board, or in his or her absence, the Chief Executive Officer, or in his or her absence, the President, or in his or her absence, a person selected by a majority of the Directors present at the meeting, shall act as chairman of the meeting. The Secretary or, in his or her absence, an Assistant Secretary shall act as secretary of the meeting, and in the absence of both the Secretary and an Assistant Secretary, a person selected by a majority of the Directors present at the meeting shall act as secretary of the meeting.

SECTION 8. *Voting:*

(a) Whenever any corporate action is to be taken by vote of the shareholders, it shall, except as otherwise required by law or by the Certificate of Incorporation be authorized by a majority of the votes cast in favor of or against such action at a meeting of shareholders by the holders of shares entitled to vote thereon. An abstention shall not constitute a vote cast.

(b) In an uncontested election, any incumbent nominees for director who receives a greater number of votes cast against his or her election than in favor of his or her election shall tender his or her resignation promptly after such election. The independent Directors shall then decide, based on the relevant facts and circumstances, whether to accept or reject the resignation. The Board’s explanation of its decision shall be promptly disclosed on Form 8-K filed with the Securities and Exchange Commission.

SECTION 9. *Qualification of Voters*:

(a) Every shareholder of record of Common Stock and Series B Convertible Preferred Stock of the Company shall be entitled at every meeting of such shareholders to one vote for every share of Common Stock and Series B Convertible Preferred Stock, respectively, standing in his or her name on the record of shareholders.

(b) Shares of stock belonging to the Company and shares held by another domestic or foreign corporation of any type or kind, if a majority of the shares entitled to vote in the election of directors of such other corporation is held by the Company, shall not be shares entitled to vote or to be counted in determining the total number of outstanding shares.

(c) Shares held by an administrator, executor, guardian, conservator, committee, or other fiduciary, except a trustee, may be voted by him or her, either in person or by proxy, without transfer of such shares into his or her name. Shares held by a trustee may be voted by him or her, either in person or by proxy, only after the shares have been transferred into his or her name as trustee or into the name of his or her nominee.

(d) Shares standing in the name of another domestic or foreign corporation of any type or kind may be voted by such officer, agent or proxy as the By-Laws of such corporation may provide, or in the absence of such provision, as the Board of Directors of such corporation may provide.

SECTION 10. *Proxies*:

(a) Every shareholder entitled to vote at a meeting of shareholders or to express consent or dissent without a meeting may authorize another person or persons to act for him or her by proxy.

(b) No proxy shall be valid after the expiration of eleven months from the date thereof unless otherwise provided in the proxy. Every proxy shall be revocable at the pleasure of the shareholder executing it, except as otherwise provided by law.

(c) The authority of the holder of a proxy to act shall not be revoked by the incompetence or death of the shareholder who executed the proxy unless, before the authority is exercised, written notice of an adjudication of such incompetence or of such death is received by the Secretary or an Assistant Secretary.

(d) Without limiting the manner in which a shareholder may authorize another person or persons to act for him or her as proxy pursuant to paragraph (a) of this Section, the following shall constitute a valid means by which a shareholder may grant such authority:

(1) A shareholder may execute a writing authorizing another person or persons to act for him or her as proxy. Execution may be accomplished by the shareholder or the shareholder’s authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A shareholder may authorize another person or persons to act for the shareholder as proxy by transmitting or authorizing the transmission of a telegram, cablegram or other means of electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that such telegram, cablegram or other means of electronic transmission must either set forth or be submitted with information from which it can be reasonably determined that the telegram, cablegram or other electronic transmission was authorized by the shareholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors shall specify the nature of the information upon which they relied.

(e) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to paragraph (d) of this Section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile, telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

SECTION 11. *Inspectors of Election*:

(a) The Board of Directors, in advance of any shareholders’ meeting, shall appoint one or more inspectors to act at the meeting or any adjournment thereof. The Board of Directors may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate has been appointed, or if such persons are unable to act at a meeting of shareholders, the person presiding at a shareholders’ meeting shall appoint one or more inspectors. Each inspector, before entering upon the discharge of his or her duties, shall take and sign an oath faithfully to execute the duties of inspector at such meeting with strict impartiality and according to the best of his or her ability.

(b) The inspectors shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, the validity and effect of proxies, and shall receive votes, ballots or consents, hear and determine all challenges and questions arising in connection with the right to vote, count and tabulate all votes, ballots or consents, determine the result, and do such acts as are proper to conduct the election or vote with fairness to all shareholders. On request of the person presiding at the meeting or any shareholder entitled to vote thereat, the inspectors shall make a report in writing of any challenge, question or matter determined by them and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated and of the vote as certified by them.

SECTION 12. *List of Shareholders at Meetings*: A list of shareholders as of the record date, certified by the Secretary or by the transfer agent, shall be produced at any meeting of shareholders upon the request thereat or prior thereto of any shareholder. If the right to vote at any meeting is challenged, the inspectors of election, or person presiding thereat shall require such list of shareholders to be produced as evidence of the right of the persons challenged to vote at such meeting, and all persons who appear from such list to be shareholders entitled to vote thereat may vote at such meeting.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. *Power of Board and Qualification of Directors*: The business of the Company shall be managed under the direction of the Board of Directors, each of whom shall be at least eighteen years of age.

SECTION 2. *Number, Term of Office and Classification*:

(a) The Board of Directors shall consist of not less than five nor more than twenty-one members. The number of Directors shall be determined from time to time by resolution of a majority of the entire Board of Directors then in office, provided that no decrease in the number of Directors shall shorten the term of any incumbent Director. At each Annual Meeting of shareholders Directors shall be elected to hold office until the next annual meeting.

(b) If and whenever six full quarter-yearly dividends (whether or not consecutive) payable on the Cumulative Preferred Stock of any series shall be in arrears, in whole or in part, the number of Directors then constituting the Board of Directors shall be increased by two and the holders of the Cumulative Preferred Stock, voting separately as a class, regardless of series, shall be entitled to elect the two additional Directors at any annual meeting of shareholders or special meeting held in place thereof, or at a special meeting of the holders of the Cumulative Preferred Stock called as hereinafter provided. Whenever all arrears in dividends on the Cumulative Preferred Stock then outstanding shall have been paid and dividends thereon for the current quarter-yearly dividend period shall have been paid or declared and set apart for payment, then the right of the holders of the Cumulative Preferred Stock to elect such additional two Directors shall cease (but subject always to the same provisions for the vesting of such voting rights in the case of any similar future arrearages in dividends), and the terms of office of all persons elected as Directors by the holders of the Cumulative Preferred Stock shall forthwith terminate and the number of the Board of Directors shall be reduced accordingly. At any time after such voting power shall have been so vested in the Cumulative Preferred Stock, the Secretary of the Company may, and upon the written request of any holder of the Cumulative Preferred Stock (addressed to the Secretary at the principal office of the Company) shall, call a special meeting of the holders of the Cumulative Preferred Stock for the election of the two Directors to be elected by them as herein provided, such call to be made by notice similar to that provided in the By-Laws for a special meeting of the shareholders or as required by law. If any such special meeting required to be called as above provided shall not be called by the Secretary within twenty days after receipt of any such request, then any holder of Cumulative Preferred Stock may call such meeting, upon the notice above provided, and for that purpose shall have access to the stock books of the Company. The Directors elected at any such special meeting shall hold office until the next annual meeting of the shareholders or special meeting held in place thereof. In case any vacancy shall occur among the Directors elected by the holders of the Cumulative Preferred Stock, a successor shall be elected to serve until the next annual meeting of the shareholders or special meeting held in place thereof by the then remaining Director elected by the holders of the Cumulative Preferred Stock or the successor of such remaining Director.

(c) All Directors shall have equal voting power.

SECTION 3. *Organization*: At each meeting of the Board of Directors, the Chairman of the Board, or in his or her absence, if the Chief Executive Officer is a Director, the Chief Executive Officer, or if the Chief Executive Officer is not a Director or in his or her absence, if the President is a Director, the President, or if the President is not a Director or in his or her absence, a chairman chosen by a majority of the Directors present at the meeting shall preside. The Secretary shall act as secretary of the Board of Directors. In the event the Secretary shall be absent from any meeting of the Board of Directors, a majority of the Directors present at the meeting shall select the secretary.

SECTION 4. *Resignations*: Any Director of the Company may resign at any time by giving written notice to the Chairman of the Board or to the Secretary of the Company. Such resignation shall take effect at the time specified therein or, if no time be specified, then on delivery.

SECTION 5. *Vacancies:* Newly created directorships resulting from an increase in the number of Directors and vacancies occurring in the Board of Directors for any reason except the removal of Directors without cause may be filled by a vote of a majority of the Directors then in office, although less than a quorum exists. A Director elected to fill a vacancy shall hold office until the next annual meeting.

SECTION 6. *Place of Meeting*: The Board of Directors may hold its meetings at such place or places within or without the State of New York as the Board of Directors may from time to time by resolution determine.

SECTION 7. *First Meeting*: On the day of each annual election of Directors, the Board of Directors shall meet for the purpose of organization and the transaction of other business. Notice of such meeting need not be given. Such first meeting may be held at any other time which shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors.

SECTION 8. *Regular Meetings*: Regular meetings of the Board of Directors may be held at such times as may be fixed from time to time by resolution of the Board of Directors without notice.

SECTION 9. *Special Meetings*: Special meetings of the Board of Directors shall be held whenever called by the Chairman of the Board, or by any two of the Directors. Oral, telegraphic, electronic or written notice shall be given, sent, transmitted or mailed not less than one day before the meeting and shall state, in addition to the purposes, the date, place and hour of such meeting.

SECTION 10. *Waivers of Notice*: Notice of a meeting need not be given to any Director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to him or her.

SECTION 11. *Quorum and Manner of Acting:*

(a) If the number of Directors is twelve or more, seven Directors shall constitute a quorum for the transaction of business or any specified item of business. If the number of Directors is less than twelve, a majority of the entire Board of Directors shall constitute a quorum.

(b) A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting to another time and place without notice to any Director.

SECTION 12. *Written Consents*: Any action required or permitted to be taken by the Board of Directors or any committee thereof may be taken without a meeting if all members of the Board or the committee consent in writing to the adoption of a resolution authorizing the action. The resolution and the written consents thereto by the members of the Board or committee shall be filed with the minutes of the proceedings of the Board or committee.

SECTION 13. *Participation At Meetings By Telephone*: Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

SECTION 14. *Compensation*: The Board of Directors shall have authority to fix the compensation of Directors for services in any capacity.

SECTION 15. *Interested Directors*:

(a) No contract or other transaction between the Company and one or more of its Directors, or between the Company and any other corporation, firm, association or other entity in which one or more of its Directors are directors or officers, or are financially interested, shall be either void or voidable for this reason alone or by reason alone that such Director or Directors are present at the meeting of the Board of Directors, or of a committee thereof, which approves such contract or transaction, or that his or her or their votes are counted for such purpose, provided that the parties to the contract or transaction establish affirmatively that it was fair and reasonable as to the Company at the time it was approved by the Board, a committee, or the shareholders.

(b) Any such contract or transaction may not be avoided by the Company for the reasons set forth in (a) if

(1) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the Board or committee, and the Board or committee approves such contract or transaction by a vote sufficient for such purpose without counting the vote of such interested Director or, if the votes of the disinterested Directors are insufficient for such purpose, by unanimous vote of the disinterested Directors (although common or interested Directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee which approves such contract or transactions), or

(2) the material facts as to such Director's interest in such contract or transaction and as to any such common directorship, officership or financial interest are disclosed in good faith or known to the shareholders entitled to vote thereon, and such contract or transaction is approved by vote of such shareholders.

SECTION 16. *Loans to Directors*: The Company may not lend money to or guarantee the obligation of a Director of the Company unless the particular loan or guarantee is approved by the shareholders, with the holders of a majority of the shares entitled to vote thereon constituting a quorum, but shares held of record or beneficially by Directors who are benefited by such loan or guarantee shall not be entitled to vote or to be included in the determination of a quorum.

ARTICLE III

COMMITTEES

SECTION 1. *How Constituted and Powers*: The Board of Directors by resolution adopted by a majority of the entire Board may designate from among its members committees of the Board, each of which shall consist of one or more Directors and shall have such authority as provided in the resolution designating the committee, except such committees shall have no authority as to the following matters:

(a) The submission to shareholders of any action that needs shareholders' authorization.

(b) The filling of vacancies in the Board or in any committee.

(c) The fixing of compensation of the Directors for serving on the Board or on any committee.

(d) The amendment or repeal of the By-Laws, or the adoption of new By-Laws.

(e) The amendment or repeal of any resolution of the Board which, by its terms, shall not be so amendable or repealable.

(f) The declaration of dividends.

SECTION 2. *Quorum and Manner of Acting*: Unless otherwise provided by resolution of the Board of Directors, a majority of each committee of the Board shall constitute a quorum for the transaction of business and the act of a majority of all of the members of the committee, whether present or not, shall be the act of the committee. The members of the committee shall act only as a committee. The procedure of the committee and its manner of acting shall be subject at all times to the directions of the Board of Directors.

SECTION 3. *Alternate Members*: The Board of Directors may designate one or more eligible Directors as alternate members of any committee of the Board who may replace any absent or disqualified member or members at any meeting of any such committee.

ARTICLE IV

CHAIRMAN OF THE BOARD AND OFFICERS

SECTION 1. *Chairman of the Board*. There shall be a Chairman of the Board. The Chairman of the Board may be, but need not be, an officer or employee of the Company. The Chairman of the Board shall be chosen from among the Directors. The Chairman of the Board shall preside at all meetings of the shareholders at which he or she is present. The Chairman of the Board shall preside at all meetings of the Directors at which he or she is present and may attend any meeting of any committee of the Board, whether or not a member of such committee. The Chairman of the Board shall have such powers and perform such other duties as may be assigned to him or her by the Board.

SECTION 2. *Vice Chairman of the Board*. There may be a Vice Chairman of the Board, who may be, but need not be, an officer or employee of the Company. The Vice Chairman of the Board shall be chosen from among the Directors. The Vice Chairman of the Board shall, in the absence of the Chairman of the Board, preside at all at all meetings of the shareholders and the Directors at which he or she is present and may attend any meeting of any committee of the Board, whether or not a member of such committee. In the absence or inability to act of the Chairman of the Board, or if the office of the Chairman of the Board be vacant, the Vice Chairman of the Board, subject to the right of the Board from time to time to extend or confine such powers and duties or to assign them to others, shall perform all duties and may exercise all powers of the Chairman of the Board. The Vice Chairman of the Board shall also have such powers and perform such other duties as may be assigned to him or her by the Board and the Chairman of the Board.

SECTION 3. *Number*: The Board may elect a Chief Executive Officer, a President, one or more Vice Presidents, a Treasurer, a Secretary, and such other officers as the Board of Directors may in its discretion determine. Any two or more offices may be held by the same person, including by the Chairman of the Board and Vice Chairman of the Board.

SECTION 4. *Term of Offices and Qualifications*: The Chairman of the Board. The Vice Chairman of the Board and those officers elected pursuant to Section 3 of this Article IV shall be chosen by the Board of Directors on the day of the Annual Meeting. Unless a shorter term is provided in the resolution of the Board electing the Chairman of the Board or such officer, the term of office of the Chairman of the Board or such officer, as applicable, shall extend to and expire at the meeting of the Board held on the day of the next Annual Meeting.

SECTION 5. *Additional Officers*: Additional officers other than those elected pursuant to Section 3 of this Article IV shall be elected for such period, have such authority and perform such duties, either in an administrative or subordinate capacity, as the Board of Directors may from time to time determine.

SECTION 6. *Removal of Chairman of the Board and Officers*: The Chairman of the Board, the Vice Chairman of the Board and/or any officer may be removed by the Board of Directors with or without cause, at any time. Removal of the Chairman of the Board and/or an officer without cause shall be without prejudice to his or her contract rights, if any, but his or her election as Chairman of the Board and/or an officer shall not of itself create contract rights.

SECTION 7. *Resignation*: The Chairman of the Board, the Vice Chairman of the Board and/or any officer may resign at any time by giving written notice to the Board of Directors, or to the Chairman of the Board or to the Secretary. Any such resignation shall take effect at the time specified therein, or if no time be specified, then upon delivery.

SECTION 8. *Vacancies*: A vacancy in any office, including Chairman of the Board, shall be filled by the Board of Directors.

SECTION 9. *Chief Executive Officer*: The Chief Executive Officer of the Company shall, subject to the direction of the Board, have general and active control of the affairs and business of the Company and general supervision of its officers, officials, employees and agents. In the absence of the Chairman of the Board and the Vice Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the shareholders and, if he or she is also a Director, meetings of Directors at which he or she is present.

SECTION 10. *President:* The President shall, in the absence of the Chief Executive Officer, exercise the powers and duties of the Chief Executive Officer. The President shall have such powers and perform such other duties as may be assigned to him or her by the Board.

SECTION 11. *The Vice Presidents:* Each Vice President shall have such powers and shall perform such duties as may be assigned to him or her by the Board of Directors or the Chief Executive Officer. With respect to seniority of Vice Presidents, unless the Board determines otherwise, Executive Vice Presidents shall be first in order of priority, Senior Vice Presidents shall be second in order of priority and Vice Presidents shall be third in order of priority.

SECTION 12. *The Treasurer*: The Treasurer shall, if required by the Board of Directors, give a bond for the faithful discharge of his or her duties, in such sum and with such sureties as the Board of Directors shall require. He or she shall have charge and custody of, and be responsible for, all funds and securities of the Company, and deposit all such funds in the name of and to the credit of the Company in such banks, trust companies, or other depositories as shall be selected by the Board of Directors. The Treasurer may sign certificates for stock of the Company authorized by the Board of Directors. He or she shall also perform all other duties customarily incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the Board of Directors.

SECTION 13. *The Secretary*: It shall be the duty of the Secretary to act as secretary of all meetings of the Board of Directors, and of the shareholders, and to keep the minutes of all such meetings at which he or she shall so act in a proper book or books to be provided for that purpose; he or she shall see that all notices required to be given by the Company are duly given and served; he or she may sign and execute in the name of the Company certificates for the stock of the Company, deeds, mortgages, bonds, contracts or other instruments authorized by the Board of Directors; he or she shall prepare, or cause to be prepared, for use at meetings of shareholders the list of shareholders as of the record date referred to in Article I, Section 12 of these By-Laws and shall certify, or cause the transfer agent to certify, such list; he or she shall keep a current list of the Company's Directors and officers and their residence addresses; he or she shall be custodian of the seal of the Company and shall affix the seal, or cause it to be affixed, to all agreements, documents and other papers requiring the same. The Secretary shall have custody of the Minute Book containing the minutes of all meetings of shareholders, Directors, and the committees of the Board which may keep minutes, and of all other contracts and documents which are not in the custody of the Treasurer of the Company, or in the custody of some other person authorized by the Board of Directors to have such custody.

SECTION 14. *Appointed Officers*: The Board of Directors may delegate to any officer or committee the power to appoint and to remove any subordinate officer, agent or employee.

SECTION 15. *Assignment and Transfer of Stocks, Bonds, and Other Securities*: The Chief Executive Officer, the Treasurer, the Secretary, any Assistant Secretary, any Assistant Treasurer, and each of them, shall have power to assign, or to endorse for transfer, under the corporate seal, and to deliver, any stock, bonds, subscription rights, or other securities, or any beneficial interest therein, held or owned by the Company.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS AND BANK ACCOUNTS

SECTION 1. *Execution of Contracts*: The Board of Directors, except as in these By-Laws otherwise provided, may authorize any officer or officers, agent, or agents, in the name of and on behalf of the Company to enter into any contract or execute and deliver any instrument, and such authority may be general or confined to specific instances; but, unless so authorized by the Board of Directors, or expressly authorized by these By-Laws, no officer, agent or employee shall have any power or authority to bind the Company by any contract or engagement or to pledge its credit or to render it liable pecuniarily in any amount for any purpose.

SECTION 2. *Loans*: No loans shall be contracted on behalf of the Company, and no negotiable paper shall be issued in its name unless specifically authorized by the Board of Directors.

SECTION 3. *Checks, Drafts, etc*.: All checks, drafts, and other orders for the payment of money out of the funds of the Company, and all notes or other evidences of indebtedness of the Company, shall be signed on behalf of the Company in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. *Deposits*: All funds of the Company not otherwise employed shall be deposited from time to time to the credit of the Company in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VI

STOCKS AND DIVIDENDS

SECTION 1. *Shares of Stock*: Shares of stock of the Company shall be represented by certificates except to the extent that the Board of Directors of the Company shall provide by resolution that some or all of any or all classes and series of the Company's shares shall be uncertificated shares, provided that such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Company. Except as otherwise expressly provided by law, the rights and obligations of holders of uncertificated shares and the rights and obligations of the holders of certificates representing shares of the same class and series shall be identical.

SECTION 2. *Certificates For Shares:* To the extent that shares of stock of the Company are to be represented by certificates, the certificates therefor shall be in such form as shall be approved by the Board of Directors. The certificates of stock shall be numbered in order of their issue, shall be signed by the Chairman of the Board, the President or a Vice President, and the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer. The signature of the officers upon a certificate may be facsimiles if the certificate is countersigned by a transfer agent or registered by a registrar other than the Company itself or its employee. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the Company with the same effect as if he or she were an officer at the date of issue.

SECTION 3. *Transfer of Stock:* Transfers of stock of the Company shall be made only on the books of the Company by the holder thereof, or by his or her duly authorized attorney, on surrender of the certificate or certificates for stock represented by certificates, properly endorsed, or in the case of shares of stock not represented by certificates, on delivery to the Company of proper transfer instructions. Within a reasonable time after the issuance or transfer of uncertificated stock, the Company shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to the Business Corporation Law of the State of New York. Every certificate surrendered to the Company shall be marked “Canceled”, with the date of cancellation, and no new certificate shall be issued in exchange therefor until the old certificate has been surrendered and canceled. A person in whose name stock of the Company stands on the books of the Company shall be deemed the owner thereof as regards the Company; provided that, whenever any transfer of stock shall be made for collateral security, and not absolutely, such fact, if known to the Secretary of the Company, or to its transfer agent shall be so expressed in the entry of the transfer. No transfer of stock shall be valid as against the Company, or its shareholders for any purpose, until it shall have been entered in the stock records of the Company as specified in these By-Laws by an entry showing from and to whom transferred.

SECTION 4. *Transfer and Registry Agents*: The Company may, from time to time, maintain one or more transfer offices or agencies and/or registry offices at such place or places as may be determined from time to time by the Board of Directors; and the Board of Directors may, from time to time, define the duties of such transfer agents and registrars and make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for stock or uncertificated stock of the Company.

SECTION 5. *Lost, Destroyed and Mutilated Certificates*: The holder of any certificated stock of the Company shall immediately notify the Company of any loss, destruction or mutilation of the certificate therefor. The Company may issue a new certificate or uncertificated stock in place of the lost or destroyed certificate, but as a condition to such issue, the holder of such certificate must make satisfactory proof of the loss or destruction thereof, and must give to the Company a bond of indemnity in form and amount and with one or more sureties satisfactory to the Treasurer, the Secretary or any Assistant Treasurer or Assistant Secretary. Such bond of indemnity shall also name as obligee each of the transfer agents and registrars for the stock the certificate for which has been lost or destroyed.

SECTION 6. *Record Dates for Certain Purposes*: The Board of Directors of the Company shall fix a day and hour not more than sixty days preceding the date of any meeting of shareholders, or the date for payment of any cash or stock dividend, or the date for the allotment of any rights of subscription, or the date when any change or conversion or exchange of capital stock shall go into effect, as a record date for the determination of the shareholders entitled to notice of, and to vote at, any such meeting and any adjournment thereof, or entitled to receive payment of any such dividend, or entitled to receive any such allotment of rights of subscription, or entitled to exercise rights in respect of any such change, conversion or exchange of capital stock, and in such case, such shareholders and only such shareholders as shall be shareholders of record on the day and hour so fixed shall be entitled to such notice of, and to vote at, such meeting or any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights of subscription, or to exercise rights in connection with such change or conversion or exchange of capital stock, as the case may be, notwithstanding any transfer of any stock on the books of the Company after such day and hour fixed as aforesaid.

SECTION 7. *Dividends and Surplus*: Subject to the limitations prescribed by law, the Board of Directors (1) may declare dividends on the stock of the Company whenever and in such amounts as, in its opinion, the condition of the affairs of the Company shall render it advisable, (2) may use and apply, in its discretion, any part or all of the surplus of the Company in purchasing or acquiring any of the shares of stock of the Company, and (3) may set aside from time to time out of such surplus or net profits such sum or sums as it in its absolute discretion, may think proper as a reserve fund to meet contingencies or for equalizing dividends, or for the purpose of maintaining or increasing the property or business of the Company, or for any other purpose it may think conducive to the best interest of the Company.

ARTICLE VII

OFFICES AND BOOKS

SECTION 1. *Offices*: The Company shall maintain an office at such place in the County of Monroe, State of New York, as the Board of Directors may determine. The Board of Directors may from time to time and at any time establish other offices of the Company or branches of its business at whatever place or places seem to it expedient.

SECTION 2. *Books and Records:*

(a) There shall be kept at one or more offices of the Company (1) correct and complete books and records of account, (2) minutes of the proceedings of the shareholders, Board of Directors and the committees of the Board, (3) a current list of the Directors and officers of the Company and their residence addresses, and (4) a copy of these By-Laws.

(b) The stock records may be kept either at the office of the Company or at the office of its transfer agent or registrar in the State of New York, if any, and shall contain the names and addresses of all shareholders, the number and class of shares held by each and the dates when they respectively became the owners of record thereof.

ARTICLE VIII

GENERAL

SECTION 1. *Seal*: The corporate seal shall be in the form of a circle and shall bear the full name of the Company and the words and figures "Incorporated 1906, Rochester, N. Y.".

SECTION 2. *Indemnification of Directors and Officers*: Except to the extent expressly prohibited by law, the Company shall indemnify any person, made or threatened to be made, a party in any civil or criminal action or proceeding, including an action or proceeding by or in the right of the Company to procure a judgment in its favor or by or in the right of any other corporation of any type or kind, domestic or foreign, or any partnership, joint venture, trust, employee benefit plan or other enterprise, which any Director or officer of the Company served in any capacity at the request of the Company, by reason of the fact that he or she, his or her testator or intestate is or was a Director or officer of the Company or serves or served such other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, in any capacity, against judgments, fines, penalties, amounts paid in settlement and reasonable expenses, including attorneys' fees, incurred in connection with such action or proceeding, or any appeal therein, provided that no such indemnification shall be required with respect to any settlement unless the Company shall have given its prior approval thereto. Such indemnification shall include the right to be paid advances of any expenses incurred by such person in connection with such action, suit or proceeding, consistent with the provisions of applicable law. In addition to the foregoing, the Company is authorized to extend rights to indemnification and advancement of expenses to such persons by i) resolution of the shareholders, ii) resolution of the Directors or iii) an agreement, to the extent not expressly prohibited by law.

ARTICLE IX

FISCAL YEAR

SECTION 1. *Fiscal Year*: The fiscal year of the Company shall end on the 31st day of December in each year.

ARTICLE X

AMENDMENTS

SECTION 1. *Amendments*: By-Laws of the Company may be amended, repealed or adopted by a majority of the votes of the shares at the time entitled to vote in the election of any Directors. If, at any meeting of shareholders, action is proposed to be taken to amend, repeal or adopt By-Laws, the notice of such meeting shall include a brief statement or summary of the proposed action. The By-Laws may also be amended, repealed or adopted by the Board of Directors, but any By-Law adopted by the Board may be amended or repealed by shareholders entitled to vote thereon as hereinabove provided. If any By-Law regulating an impending election of Directors is adopted, amended or repealed by the Board of Directors, there shall be set forth in the notice of the next meeting of shareholders for the election of Directors the By-Law so adopted, amended or repealed, together with a concise statement of the changes made.

ARTICLE XI

FORUM

SECTION 1. Unless the Company consents in writing to the selection of an alternative forum, any New York State Supreme Court located in New York County in the State of New York or, if such court lacks jurisdiction, the United States District Court for the Southern District of New York (or if such state and federal courts lack jurisdiction, in any other state or federal court located in the State of New York) (any such court, a "Chosen Court"), shall be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee or shareholder of the Company to the Company or the Company's shareholders, (iii) any action asserting a claim arising pursuant to any provision of the New York Business Corporation Law or the Company's Certificate of Incorporation or these By-Laws (with respect to each, as may be amended from time to time), or (iv) any action asserting a claim governed by the internal affairs doctrine. Any person holding, purchasing or otherwise acquiring any interest in shares of capital stock of the Company shall be (a) deemed to have notice of and consented to the provisions of this Article XI, and (b) deemed to have waived any argument relating to the inconvenience of the Chosen Court in connection with any action or proceeding described in this Article XI. If any action the subject matter of which is within the scope of this Article XI is filed in a court other than a Chosen Court (a "Foreign Action") in the name of any shareholder, such shareholder shall be deemed to have consented to (i) the personal jurisdiction of the Chosen Courts in connection with any action brought in any such court to enforce this Article XI (an "Enforcement Action") and (ii) having service of process made upon such shareholder in any such Enforcement Action by service upon such shareholder's counsel in the Foreign Action as agent for such shareholder.

Omnibus Agreement – 2018: PIP;ELTIP;1 year graded RSUs

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 value (or number of Restricted Stock Units) 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 ”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 Restricted Stock Units. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the Award Summary the number of Restricted Stock Units (individually, the “RSU”) as shown on the Award Summary. 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 effective date of the award as shown on the Award Summary shall be eligible to receive the award.

TERMS OF THE RESTRICTED STOCK UNITS

2. Entitlement to Shares. Upon the vesting date indicated on the Award Summary, or the date of death if sooner, (the “Vesting Date”) in connection with the RSUs, the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested RSUs (subject to reduction for withholding of Employee’s taxes in relation to the award as described in Paragraph 8 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

Upon the occurrence of an event constituting a Change in Control, all RSUs and dividend equivalents on such shares that are outstanding on such date shall be treated pursuant to the terms set forth in the Plan. Upon payment pursuant to the terms of the Plan, such awards shall be cancelled.

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of RSUs covered by this Agreement, that are held by the Employee on the close of business on the business day immediately preceding the Vesting Date, would have been entitled to receive as dividends on such Common Stock during the period commencing on the effective date hereof and ending on the Vesting Date as provided under Paragraph 2. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the

payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Corporate Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents.

OTHER TERMS

4. Rights of a Shareholder. 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.

5. Non-Assignability. This Agreement shall not be assignable or transferable by Employee except by will or by the laws of descent and distribution.

6. Effect of Termination of Employment or Death.

(a) Effect on RSUs. In the event the Employee

(i) voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate (the Company, subsidiary or affiliate, together, the “Employer”) for any reason, including retirement, and the RSUs have not vested in accordance with Paragraph 2, the RSUs shall be cancelled on the date of such voluntary termination of employment;

(ii) involuntarily ceases to be an Employee of the Employer for any reason (including Disability as provided pursuant to Paragraph 6(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, 100% of the RSUs pursuant to this grant shall vest on the date of such termination of employment. Payout shall occur as soon as practicable following the Vesting Date;

(iii) ceases to be an Employee of the Employer by reason of death, 100% of the RSUs pursuant to this grant shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 5 to the personal representatives, heirs or legatees of the deceased Employee; and

(iv) ceases to be an Employee of the Employer due to termination for Cause, the RSUs shall, subject to any Plan provision to the contrary, be cancelled on the date of such termination of employment.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Employer’s long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 6 and, during the continuance of such Employer-sponsored long-term disability plan benefits, the Employee shall be deemed to continue active employment with the Employer. If the Employee is terminated because the Employee has received the maximum coverage under an Employer-provided long-term disability plan, the vesting of RSUs shall be provided pursuant to Paragraph 6(a)(ii) above.

(c) 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.

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 RSUs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of RSUs 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 date of termination of the RSUs.

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 Section 13 of the Plan regarding Plan amendment and termination and, in addition, the RSUs are subject to modification and adjustment under Section 6(b) of the Plan.

(b) the award of the RSUs is voluntary and occasional and does not create any contractual or other right to receive future grants of RSUs, or benefits in lieu of RSUs, even if RSUs have been granted repeatedly in the past;

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

(d) 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 RSU award and Employee's participation in the Plan will not be interpreted to form an employment contract or relationship with the Employer;

(e) Employee is voluntarily participating in the Plan;

(f) the RSUs and the shares of Common Stock subject to the RSUs 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;

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

(h) the RSUs and the shares of Common Stock subject to the RSUs 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;

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

(j) in consideration of the award of the RSUs, no claim or entitlement to compensation or damages shall arise from forfeiture of the RSUs, 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, RSUs 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 an 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 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 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 P.O. Box 4505, Norwalk, Connecticut 06856-4505 or 201 Merritt 7, Norwalk, Connecticut 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. Separability. 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 RSU 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 RSUs 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

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges, the ratio of earnings to combined fixed charges and preferred stock dividends, as well as any deficiency of earnings are determined using the following applicable factors:

Earnings available for fixed charges are calculated first, by determining the sum of: (a) income from continuing operations before income taxes and equity income; (b) distributed equity income; (c) fixed charges, as defined below; and (d) amortization of capitalized interest, if any. From this total, we subtract capitalized interest and net income attributable to noncontrolling interests.

Fixed charges are calculated as the sum of: (a) interest costs (both expensed and capitalized); (b) amortization of debt expense and discount or premium relating to any indebtedness; and (c) that portion of rental expense that is representative of the interest factor.

Preferred stock dividends used in the ratio of earnings to combined fixed charges and preferred stock dividends consists of the amount of pre-tax earnings required to cover dividends paid on our Series B convertible preferred stock.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2018	2017	2018	2017
Fixed Charges:				
Interest expense[(1)]	$ 61	$ 62	$ 187	$ 188
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	9	11	37	39
Total Fixed Charges	$ 70	$ 73	$ 224	$ 227
Earnings Available for Fixed Charges:				
Pre-tax income	$ 192	$ 167	$ 459	$ 344
Add: Distributed equity income of affiliated companies	—	4	3	34
Add: Fixed charges	70	73	224	227
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(4)	(3)	(9)	(9)
Total Earnings Available for Fixed Charges	$ 258	$ 241	$ 677	$ 596
Ratio of Earnings to Fixed Charges	3.69	3.30	3.02	2.63
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:				
Fixed Charges:				
Interest expense[(1)]	$ 61	$ 62	$ 187	$ 188
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	9	11	37	39
Total Fixed charges before preferred stock dividends pre-tax income requirements	70	73	224	227
Preferred stock dividends pre-tax income requirements	4	6	14	18
Total Combined Fixed Charges and Preferred Stock Dividends	$ 74	$ 79	$ 238	$ 245
Earnings Available for Fixed Charges:				
Pre-tax income	$ 192	$ 167	$ 459	$ 344
Add: Distributed equity income of affiliated companies	—	4	3	34
Add: Fixed charges before preferred stock dividends	70	73	224	227
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(4)	(3)	(9)	(9)
Total Earnings Available for Fixed Charges and Preferred Stock Dividends	$ 258	$ 241	$ 677	$ 596
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	3.49	3.05	2.84	2.43

(1) Includes amortization of fees for a bridge facility prior to its termination in May 2018 of $3 million for the nine months ended September 30, 2018. Refer to Note 20 - Fuji Xerox Transaction and Recent Developments in our Condensed Consolidated Financial Statements, which is incorporated by reference, for additional information regarding this terminated bridge facility.

CEO CERTIFICATIONS

I, Giovanni Visentin, certify that:

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

November 1, 2018

/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.

November 1, 2018

/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 ending September 30, 2018, 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

November 1, 2018

/S/ WILLIAM F. OSBOURN, JR.

William F. Osbourn, Jr.
Chief Financial Officer

November 1, 2018

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.