XEROX CORP
Form 10-Q
August 02, 2018

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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: June 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if smaller reporting company)	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 June 30, 2018
Common Stock, $1 par value	255,101,733 shares

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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"); 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 report on Form 10-Q for the quarter ended March 31, 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).

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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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.

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PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per-share data)	2018	2017	2018	2017
Revenues				
Sales	$1,017	$1,010	$1,950	$1,946
Services, maintenance and rentals	1,425	1,483	2,856	2,925
Financing	68	74	139	150
Total Revenues	2,510	2,567	4,945	5,021
Costs and Expenses				
Cost of sales	622	619	1,185	1,184
Cost of services, maintenance and rentals	854	872	1,722	1,753
Cost of financing	33	33	67	66
Research, development and engineering expenses	101	102	201	213
Selling, administrative and general expenses	624	626	1,252	1,260
Restructuring and related costs	34	39	62	157
Amortization of intangible assets	12	15	24	29
Transaction and related costs, net	58	—	96	—
Other expenses, net	39	68	69	182
Total Costs and Expenses	2,377	2,374	4,678	4,844
Income before Income Taxes and Equity Income	133	193	267	177
Income tax expense	38	43	78	19
Equity in net income (loss) of unconsolidated affiliates	19	20	(49)	60
Income from Continuing Operations	114	170	140	218
Loss from discontinued operations, net of tax	—	—	—	(6)
Net Income	114	170	140	212
Less: Net income attributable to noncontrolling interests	2	4	5	6
Net Income Attributable to Xerox	$112	$166	$135	$206
Amounts Attributable to Xerox				
Net income from continuing operations	$112	$166	$135	$212
Net loss from discontinued operations	—	—	—	(6)
Net Income Attributable to Xerox	$112	$166	$135	$206
Basic Earnings (Loss) per Share				
Continuing operations	$0.42	$0.64	$0.50	$0.81
Discontinued operations	—	—	—	(0.03)
Total Basic Earnings per Share	$0.42	$0.64	$0.50	$0.78
Diluted Earnings (Loss) per Share				
Continuing operations	$0.42	$0.63	$0.50	$0.80
Discontinued operations	—	—	—	(0.02)
Total Diluted Earnings per Share	$0.42	$0.63	$0.50	$0.78

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Net Income	$114	$170	$140	$212
Less: Net income attributable to noncontrolling interests	2	4	5	6
Net Income Attributable to Xerox	112	166	135	206
Other Comprehensive (Loss) Income, Net[1]				
Translation adjustments, net	(322)	204	(146)	337
Unrealized (losses) gains, net	(3)	(14)	14	(6)
Changes in defined benefit plans, net	90	(29)	108	(3)
Other Comprehensive (Loss) Income, Net	(235)	161	(24)	328
Less: Other comprehensive income, net attributable to noncontrolling interests	—	—	—	1
Other Comprehensive (Loss) Income, Net Attributable to Xerox	(235)	161	(24)	327
Comprehensive (Loss) Income, Net	(121)	331	116	540
Less: Comprehensive income, net attributable to noncontrolling interests	2	4	5	7
Comprehensive (Loss) Income, Net Attributable to Xerox	$(123)	$327	$111	$533

(1) Refer to Note 16 - Other Comprehensive (Loss) Income for gross components of Other Comprehensive (Loss) 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.

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XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$1,263	$ 1,293
Accounts receivable, net	1,297	1,357
Billed portion of finance receivables, net	100	112
Finance receivables, net	1,240	1,317
Inventories	947	915
Other current assets	233	236
Total current assets	5,080	5,230
Finance receivables due after one year, net	2,183	2,323
Equipment on operating leases, net	438	454
Land, buildings and equipment, net	564	629
Investments in affiliates, at equity	1,344	1,404
Intangible assets, net	244	268
Goodwill	3,897	3,930
Deferred tax assets	917	1,026
Other long-term assets	889	682
Total Assets	$15,556	$ 15,946
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$412	$ 282
Accounts payable	1,153	1,108
Accrued compensation and benefits costs	357	444
Accrued expenses and other current liabilities	832	907
Total current liabilities	2,754	2,741
Long-term debt	4,813	5,235
Pension and other benefit liabilities	1,502	1,595
Post-retirement medical benefits	650	662
Other long-term liabilities	215	206
Total Liabilities	9,934	10,439
Commitments and Contingencies (See Note 18)		
Convertible Preferred Stock	214	214
Common stock	255	255
Additional paid-in capital	3,920	3,893
Retained earnings	4,974	4,856
Accumulated other comprehensive loss	(3,772)	(3,748)
Xerox shareholders’ equity	5,377	5,256
Noncontrolling interests	31	37
Total Equity	5,408	5,293
Total Liabilities and Equity	$15,556	$ 15,946
Shares of common stock issued and outstanding	255,102	254,613

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

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XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Cash Flows from Operating Activities				
Net income	$114	$170	$140	$212
Loss from discontinued operations, net of tax	—	—	—	6
Income from continuing operations	114	170	140	218
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	139	135	278	268
Provisions	23	17	40	35
Net gain on sales of businesses and assets	(16)	(1)	(32)	(1)
Undistributed equity in net income of unconsolidated affiliates	(16)	10	52	(30)
Stock-based compensation	13	12	29	25
Restructuring and asset impairment charges	34	32	62	140
Payments for restructurings	(37)	(66)	(91)	(124)
Defined benefit pension cost	26	37	53	99
Contributions to defined benefit pension plans	(37)	(23)	(75)	(46)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(10)	(63)	36	(140)
Decrease (increase) in inventories	16	(30)	(71)	(88)
Increase in equipment on operating leases	(63)	(50)	(119)	(102)
Decrease in finance receivables	57	69	142	134
Decrease (increase) in other current and long-term assets	37	14	19	(43)
Decrease in accounts payable and accrued compensation	(70)	(21)	(58)	—
Decrease in other current and long-term liabilities	(5)	(6)	(4)	(7)
Net change in income tax assets and liabilities	28	5	41	(36)
Net change in derivative assets and liabilities	(17)	44	(23)	99
Other operating, net	19	(4)	32	12
Net cash provided by operating activities of continuing operations	235	281	451	413
Net cash used in operating activities of discontinued operations	—	(15)	—	(95)
Net cash provided by operating activities	235	266	451	318
Cash Flows from Investing Activities				
Cost of additions to land, buildings, equipment and software	(32)	(21)	(50)	(47)
Proceeds from sales of land, buildings and equipment	16	—	32	1
Acquisitions, net of cash acquired	—	(65)	—	(76)
Collections of deferred proceeds from sales of receivables	—	51	—	99
Collections on beneficial interest from sales of finance receivables	—	5	—	11
Other investing, net	1	—	1	(29)
Net cash used in investing activities	(15)	(30)	(17)	(41)
Cash Flows from Financing Activities				
Net (payments) proceeds on short-term debt	—	—	(1)	1
Proceeds from issuance of long-term debt	3	2	5	5
Payments on long-term debt	(272)	(2)	(310)	(1,330)
Dividends	(68)	(68)	(135)	(155)

Other financing, net	(2)	(12)	(15)	141
Net cash used in financing activities	(339)	(80)	(456)	(1,338)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(28)	27	(19)	36
(Decrease) increase in cash, cash equivalents and restricted cash	(147)	183	(41)	(1,025)
Cash, cash equivalents and restricted cash at beginning of period	1,474	1,194	1,368	2,402
Cash, Cash Equivalents and Restricted Cash at End of Period	$1,327	$1,377	$1,327	$1,377

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.

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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 subsidiari
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.”
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, which are approximately $50 annually, 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, $9 and $20 of revenue was recorded, for the three and six months ended June 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.

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

	As of June 30, 2018		
	Superseded Revenue Guidance[(1)]	Adjustments	As Reported
Deferred tax assets	$950	$ (33)	$ 917
Other long-term assets	747	142	889
Retained earnings	4,865	109	4,974

(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

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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.

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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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Primary geographical markets[1]:				
United States	$1,479	$1,533	$2,893	$3,002
Europe	660	674	1,336	1,314
Canada	147	150	291	295
Other	224	210	425	410
Total Revenues	$2,510	$2,567	$4,945	$5,021
Major product and services lines:				
Equipment[2]	$561	$547	$1,060	$1,049
Supplies, paper and other sales	456	463	890	897
Maintenance agreements[3]	634	662	1,267	1,301
Service arrangements[4]	614	634	1,237	1,258
Rental and other	177	187	352	366
Financing	68	74	139	150
Total Revenues	$2,510	$2,567	$4,945	$5,021
Sales channels:				
Direct equipment lease[5]	$172	$163	$332	$323
Distributors & resellers[6]	370	372	701	693
Customer direct	475	475	917	930
Total Sales	$1,017	$1,010	$1,950	$1,946

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(1) Geographic area data is based upon the location of the subsidiary reporting the revenue.
(2) For the three and six months ended June 30, 2017, Equipment sale revenues exclude $9 and $20, 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 $107 and $91 at June 30, 2018 and January 1, 2018, respectively. The majority of the balance at June 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 six months ended June 30, 2018, the incremental direct costs of obtaining a contract of $23 and $40, respectively, were deferred and the related amortization was $24 and $48, respectively. The balance of deferred incremental direct costs net of accumulated amortization at June 30, 2018 was $176. 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

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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 June 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

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 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. There are certain practical expedients that can be elected. 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. 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

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, with early adoption permitted as of January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

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 $56 and $110 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the three and six months ended June 30, 2017, respectively. Accordingly, since the update must be applied retrospectively, our reported 2017 operating and investing cash flows

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were revised 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 most arrangements 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 are not expected to 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 $64 and $75 of restricted cash, currently reported in Other current or long-term assets at June 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 is not expected to 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 is not expected to 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 June 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	$619	$ —	$ 619
Cost of services, maintenance and rentals	884	(12)	872
Research, development and engineering expenses	106	(4)	102
Selling, administrative and general expenses	643	(17)	626
Restructuring and related costs	40	(1)	39
Other expenses, net	34	34	68
	Six Months Ended June 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	$1,186	$ (2)	$ 1,184
Cost of services, maintenance and rentals	1,784	(31)	1,753

Research, development and engineering expenses	224	(11)	213
Selling, administrative and general expenses	1,307	(47)	1,260
Restructuring and related costs	160	(3)	157
Other expenses, net	88	94	182

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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 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.
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 provisional charge of $400 reflecting the impact associated with the provisions of the Tax Act based on currently available information. No further adjustment of that estimated provisional charge was made in the first quarter 2018, however we continue to evaluate impacts from the Tax Act and likely will do so through the expected filing of our 2017 U.S. Tax Return in the third quarter 2018. Any adjustments to these provisional amounts will be reported as a component of Income tax expense in the reporting period in which any such adjustments are determined.
Derivatives
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update expand and refine hedge accounting for both financial and non-financial risk components, 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, with early adoption permitted at any interim period. We are currently evaluating the impact of the adoption of ASU 2017-12 on our consolidated financial statements.

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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:

- 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 six months ended June 30, 2017 primarily reflected changes in estimates of separation-related costs. Summarized financial information for our Discontinued operations is as follows:

	Six Months Ended June 30, 2017
Loss from operations	$ 8
Loss on disposal	—
Net loss before income taxes	(8)
Income tax benefit	2
Loss from discontinued operations, net of tax	$ (6)

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Note 5 – Supplementary Financial Information

Cash, Cash Equivalents and Restricted Cash

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

	June 30, 2018	December 31, 2017
Cash and cash equivalents	$1,263	$ 1,293
Restricted cash		
Tax and labor litigation deposits in Brazil	62	72
Other restricted cash	2	3
Total Restricted cash	64	75
Cash, cash equivalents and restricted cash	$1,327	$ 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 18 - 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:

	June 30, 2018	December 31, 2017
Other current assets	$ 1	$ 1
Other long-term assets	63	74
Total Restricted cash	$ 64	$ 75

Supplemental Cash Flow Information

Summarized cash flow information is as follows:

	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Provision for receivables	$13	$ 10	$26	$ 23
Provision for inventory	10	7	14	12
Provision for product warranty	3	3	7	7
Depreciation of buildings and equipment	44	34	88	68
Depreciation and obsolescence of equipment on operating leases	63	68	127	135
Amortization of internal use software	19	16	37	31
Amortization of product software	—	1	—	3
Amortization of acquired intangible assets	12	15	24	29
Amortization of customer contract costs[(1)]	25	1	50	2
Cost of additions to land, buildings and equipment	17	13	26	30
Cost of additions to internal use software	15	8	24	17
Common stock dividends	64	64	128	145
Preferred stock dividends	4	4	7	10
Payments to noncontrolling interests	1	11	13	12

(1) Amortization of $24 and $48 for the three and six months ended June 30, 2018, respectively, is related to the cost of obtaining a contract and is reported in Decrease (increase) in other current and long-term assets. Refer to Note 2 - Adoption of New Revenue Recognition Standard - Contract Costs for additional information.

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Note 6 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	June 30, 2018	December 31, 2017
Invoiced	$1,001	$ 1,048
Accrued	353	368
Allowance for doubtful accounts	(57)	(59)
Accounts receivable, net	$1,297	$ 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, $131 and $161 remained uncollected as of June 30, 2018 and December 31, 2017, respectively.

Accounts receivable sales were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Accounts receivable sales[(1)]	$128	$567	$231	$1,078
Deferred proceeds	—	56	—	108
Loss on sales of accounts receivable	—	3	1	6
Estimated increase (decrease) to operating cash flows[(2)]	26	54	(25)	(11)

(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.

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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
Finance receivables as of June 30, 2018 collectively evaluated for impairment [(3)]	$ 1,962	$ 356	$ 1,256	$ 56	$ 3,630
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
Finance receivables as of June 30, 2017 collectively evaluated for impairment[(3)]	$ 2,028	$ 383	$ 1,336	$ 64	$ 3,811

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(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 $108 at June 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%.

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

	June 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	$184	$ 331	$ 85	$ 600	$199	$ 345	$ 75	$ 619
Government and education	459	65	7	531	490	61	6	557
Graphic arts	86	133	96	315	84	97	141	322
Industrial	80	81	16	177	82	84	14	180
Healthcare	82	51	9	142	88	48	9	145
Other	61	93	43	197	68	98	40	206
Total United States	952	754	256	1,962	1,011	733	285	2,029
Finance and other services	51	37	24	112	54	42	27	123
Government and education	42	4	4	50	48	5	5	58
Graphic arts	28	30	27	85	34	35	27	96
Industrial	18	11	10	39	20	12	11	43
Other	33	23	14	70	36	25	16	77
Total Canada	172	105	79	356	192	119	86	397
France	227	193	21	441	234	226	22	482
U.K./Ireland	101	127	11	239	106	150	10	266
Central[(1)]	187	128	13	328	189	149	16	354
Southern[(2)]	46	144	13	203	52	144	13	209
Nordics[(3)]	26	18	1	45	29	21	1	51
Total Europe	587	610	59	1,256	610	690	62	1,362
Other	34	20	2	56	38	28	6	72
Total	$1,745	$ 1,489	$ 396	$ 3,630	$1,851	$ 1,570	$ 439	$ 3,860

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

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

	June 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	$ 581	$ 600	$ 10
Government and education	16	3	2	21	510	531	22
Graphic arts	11	1	—	12	303	315	4
Industrial	5	1	1	7	170	177	4
Healthcare	4	1	1	6	136	142	5
Other	6	1	1	8	189	197	5
Total United States	56	10	7	73	1,889	1,962	50
Canada	7	2	1	10	346	356	20
France	7	—	—	7	434	441	17
U.K./Ireland	1	1	—	2	237	239	—
Central(1)	1	1	1	3	325	328	8
Southern(2)	3	1	1	5	198	203	6
Nordics(3)	—	—	—	—	45	45	—
Total Europe	12	3	2	17	1,239	1,256	31
Other	3	—	—	3	53	56	—
Total	$ 78	$ 15	$ 10	$ 103	$ 3,527	$ 3,630	$ 101

	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

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(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:

	June 30, 2018	December 31, 2017
Finished goods	$ 803	$ 777
Work-in-process	52	49
Raw materials	92	89
Total Inventories	$ 947	$ 915

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Note 9 – Investment in Affiliates, at Equity

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Fuji Xerox	$ 17	$ 18	$ (53)	$ 55
Other	2	2	4	5
Total Equity in net income (loss) of unconsolidated affiliates	$ 19	$ 20	$ (49)	$ 60

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 six months ended June 30, 2018 includes after-tax restructuring and other charges of $4 and $83, 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, 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 that had been identified by the IIC (or Fujifilm's independent investigation committee). 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 additional 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Summary of Operations				
Revenues	$ 2,226	$ 2,325	$ 4,691	$ 4,884
Costs and expenses	2,098	2,191	4,869	4,543
Income (Loss) before Income Taxes	128	134	(178)	341
Income tax expense	50	32	11	76
Net Income (Loss)	78	102	(189)	265
Less: Net income attributable to noncontrolling interests	1	1	1	2
Net Income (Loss) – Fuji Xerox	$ 77	$ 101	$ (190)	$ 263
Weighted Average Exchange Rate[(1)]	109.05	111.01	108.54	112.42

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

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Note 10 – Restructuring Programs

During the six months ended June 30, 2018, we recorded net restructuring and asset impairment charges of $62, which included $64 of severance costs related to headcount reductions of approximately 950 employees worldwide and $12 of lease cancellation costs. These costs were partially offset by $14 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

(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown for restructuring and asset impairments 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Charges against reserve and currency	$ (40)	$ (59)	$ (92)	$ (116)
Effects of foreign currency and other non-cash items	3	(7)	1	(8)
Restructuring cash payments	$ (37)	$ (66)	$ (91)	$ (124)

Note 11 – Debt

Bridge Facility

Refer to Note 19 - 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense[(1)]	$ 60	$ 57	$ 123	$ 126
Interest income[(2)]	72	76	146	154

(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.

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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 June 30, 2018, pay variable/receive fixed interest rate swaps with notional amounts of $300 and net liability fair value of $5 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 six months ended June 30, 2018.

The following is a summary of our fair value hedges at June 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	$ (5)	2.95 %	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 June 30, 2018 and December 31, 2017, we had outstanding forward exchange and purchased option contracts with gross notional values of $1,925 and $1,788 respectively, with terms of less than 12 months. Approximately 85% of the contracts at June 30, 2018 mature within three months, 7% mature in three to six months and 8% in six to twelve months. The associated currency exposures being hedged at June 30, 2018 were materially consistent with our year-end currency exposures. There has not been any material change in our hedging strategy.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. The net asset (liability) fair value of these contracts were $4 and $(14) as of June 30, 2018 and December 31, 2017, respectively.

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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	June 30, 2018	December 31, 2017
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 5	$ 1
	Other current liabilities	(2)	(15)
Foreign currency options	Other current assets	2	—
	Other current liabilities	(1)	—
Interest rate swaps	Other long-term assets	—	1
	Other long-term liabilities	(5)	—
	Net designated derivative liability	$ (1)	$ (13)
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 19	$ 1
	Other current liabilities	(4)	(10)
	Net undesignated derivative asset (liability)	$ 15	$ (9)
Summary of Derivatives	Total Derivative Assets	$ 26	$ 3
	Total Derivative Liabilities	(12)	(25)
	Net Derivative asset (liability)	$ 14	$ (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 June 30,		Six Months Ended June 30,	
Gain (Loss) on Derivative Instruments	2018	2017	2018	2017
Fair Value Hedges - Interest Rate Contracts				
Derivative (loss) gain recognized in interest expense	$ (1)	$ 2	$ (6)	$ 1
Hedged item gain (loss) recognized in interest expense	1	(2)	6	(1)
Cash Flow Hedges - Foreign Exchange Forward				

Contracts and Options				
Derivative (loss) gain recognized in OCI (effective portion)	$ (2)	$ (22)	$ 10	$ (13)
Derivative Loss reclassified from AOCL to income - Cost of sales (effective portion)	—	(4)	(12)	(8)

During the three and six months ended June 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 June 30, 2018, a net after-tax gain of $2 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.

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Foreign exchange contracts – forwards	Other expense – Currency gain (loss), net	$18	$(14)	$18	$(10)

For the three and six months ended June 30, 2018 currency (losses) gains, net were $(1) and $1, respectively. For the three and six months ended June 30, 2017 currency losses, net were $(1) 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.

	June 30, 2018	December 31, 2017
Assets:		
Foreign exchange contracts - forwards	$ 24	$ 2
Foreign currency options	2	—
Interest rate swaps	—	1
Deferred compensation investments in mutual funds	19	18
Total	$ 45	$ 21
Liabilities:		
Foreign exchange contracts - forwards	$ 6	$ 25
Foreign currency options	1	—
Interest rate swaps	5	—
Deferred compensation plan liabilities	18	19
Total	$ 30	$ 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:

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$1,263	$1,263	$1,293	$1,293
Accounts receivable, net	1,297	1,297	1,357	1,357
Short-term debt and current portion of long-term debt	412	411	282	283
Long-term debt	4,813	4,815	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.

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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 June 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	$7	$8	$1	$1
Interest cost	34	32	38	38	7	7
Expected return on plan assets	(36)	(30)	(62)	(54)	—	—
Recognized net actuarial loss	6	6	15	19	—	—
Amortization of prior service credit	(1)	(1)	(1)	(1)	(1)	(1)
Recognized settlement loss	26	19	—	—	—	—
Defined benefit plans	29	27	(3)	10	7	7
Defined contribution plans[1]	10	10	7	7	n/a	n/a
Net Periodic Benefit Cost	39	37	4	17	7	7
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:						
Net actuarial loss (gain)[2]	12	12	—	—	10	(11)
Amortization of net actuarial loss	(32)	(25)	(15)	(19)	—	—
Amortization of prior service credit	1	1	1	1	1	1
Total Recognized in Other Comprehensive (Loss) Income[3]	(19)	(12)	(14)	(18)	11	(10)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive (Loss) Income	$20	$25	$(10)	$(1)	$18	$(3)

	Six Months Ended June 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	$2	$13	$15	$2	$2
Interest cost	67	66	77	77	13	14
Expected return on plan assets	(70)	(61)	(125)	(107)	—	—
Recognized net actuarial loss	12	11	30	38	—	—
Amortization of prior service credit	(1)	(1)	(2)	(2)	(2)	(2)
Recognized settlement loss	51	61	—	—	—	—
Defined benefit plans	60	78	(7)	21	13	14
Defined contribution plans[1]	19	20	14	14	n/a	n/a
Net Periodic Benefit Cost	79	98	7	35	13	14
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:						
Net actuarial (gain) loss[2]	(46)	20	—	—	10	(11)
Amortization of net actuarial loss	(63)	(72)	(30)	(38)	—	—
Amortization of prior service credit	1	1	2	2	2	2
Total Recognized in Other Comprehensive (Loss) Income[3]	(108)	(51)	(28)	(36)	12	(9)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive (Loss) Income	$(29)	$47	$(21)	$(1)	$25	$5

(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.

(3) Amounts represent the pre-tax effect included within Other Comprehensive (Loss) Income. Refer to Note 16 - Other Comprehensive (Loss) Income for related tax effects and the after-tax amounts.

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Contributions

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

	Six Months Ended June 30,		Year Ended December 31,	
	2018	2017	Estimated 2018	2017
U.S. plans	$14	$ 12	$76	$675
Non-U.S. plans	61	34	116	161
Total Pension	$75	$ 46	$192	$836
Retiree Health	$29	$ 32	$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, however, our estimated 2018 contributions include $50 of voluntary contributions to these plans.

Note 15 – Shareholders' Equity

(share data in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[4]	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[1]	—	—	120	—	120	—	120
Comprehensive income (loss), net	—	—	135	(24)	111	5	116
Cash dividends declared - common[2]	—	—	(130)	—	(130)	—	(130)
Cash dividends declared - preferred[3]	—	—	(7)	—	(7)	—	(7)
Stock option and incentive plans, net	—	27	—	—	27	—	27
Distributions to noncontrolling interests	—	—	—	—	—	(11)	(11)
Balance at June 30, 2018	$ 255	$ 3,920	$4,974	$(3,772)	$ 5,377	$ 31	$5,408

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[4]	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	—	—	206	327	533	7	540
Cash dividends declared - common[2]	—	—	(129)	—	(129)	—	(129)
Cash dividends declared - preferred[3]	—	—	(7)	—	(7)	—	(7)
Stock option and incentive plans, net	—	17	—	—	17	—	17
Distributions to noncontrolling interests	—	—	—	—	—	(10)	(10)
Balance at June 30, 2017	$ 254	$ 3,875	$5,004	$(4,010)	$ 5,123	$ 35	$5,158

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(1) 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.

(2) Cash dividends declared on common stock of $0.25 per share in each quarter of 2018 and 2017.

(3) Cash dividends declared on preferred stock of $20.00 per share in each quarter of 2018 and 2017.

(4) Refer to Note 16 - Other Comprehensive (Loss) Income for components of AOCL.

Treasury Stock
There were no repurchases of Xerox Common stock pursuant to Board authorized share repurchase programs during the first or second quarter of 2018.

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Stock-Based Compensation

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock-based compensation expense, pre-tax	$ 13	$ 12	$ 29	$ 25
Income tax benefit recognized in earnings	3	3	7	6

The following is a summary of changes to our program design and performance metrics effective for our April 2018 grant, 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 during the three months ended June 30, 2018 were 1,012, with a corresponding weighted average grant date fair value of $28.03 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 during the three months ended June 30, 2018 were 667, with a corresponding weighted average grant date fair value of $28.07 per share.

In connection with the April 2018 grant, the Board only approved the performance measures and corresponding weightings for the 2018 performance year. The performance measures for 2019 and 2020 were expected to be

determined by the Board at a later date in connection with the closing of the Fuji Xerox Transaction, which was terminated in May 2018. The Board is expected to approve measures for the 2019 and 2020 performance periods sometime during the second half of 2018. However, since the 2019 and 2020 performance measures have not been approved as of June 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.

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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:

	Three Months Ended June 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)]	$32.21

(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 3.0-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 during the three months ended June 30, 2018 were 333.
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.

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

	Three Months Ended June 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]	$5.75

(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 during the three months ended June 30, 2018 were 1,317.

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.

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Note 16 - Other Comprehensive (Loss) Income

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

	Three Months Ended June 30,				Six Months Ended June 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	$(335)	$(322)	$204	$204	$(151)	$(146)	$338	$337
Unrealized (Losses) Gains								
Changes in fair value of cash flow hedges - (losses) gains	(2)	(1)	(22)	(17)	10	7	(13)	(11)
Changes in cash flow hedges reclassed to earnings[1]	—	—	4	2	12	10	8	4
Other (losses) gains	(2)	(2)	1	1	(3)	(3)	1	1
Net unrealized (losses) gains	(4)	(3)	(17)	(14)	19	14	(4)	(6)
Defined Benefit Plans (Losses) Gains								
Net actuarial/prior service (losses) gains	(22)	(16)	(1)	(1)	36	27	(9)	(6)
Prior service amortization[2]	(3)	(3)	(3)	(2)	(5)	(4)	(5)	(3)
Actuarial loss amortization/settlement[2]	47	35	44	30	93	70	110	74
Fuji Xerox changes in defined benefit plans, net[3]	(3)	(3)	8	8	(24)	(24)	21	21
Other gains (losses)[4]	77	77	(64)	(64)	39	39	(89)	(89)
Changes in defined benefit plans gains (losses)	96	90	(16)	(29)	139	108	28	(3)
Other Comprehensive (Loss) Income	(243)	(235)	171	161	7	(24)	362	328
Less: Other comprehensive income attributable to noncontrolling interests	—	—	—	—	—	—	1	1
Other Comprehensive (Loss) Income Attributable to Xerox	$(243)	$(235)	$171	$161	$7	$(24)	$361	$327

(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:

	June 30, 2018	December 31, 2017
Cumulative translation adjustments	$(1,927)	$ (1,781)
Other unrealized gains (losses), net	2	(12)
Benefit plans net actuarial losses and prior service credits[1]	(1,847)	(1,955)
Total Accumulated other comprehensive loss attributable to Xerox	$(3,772)	$ (3,748)

(1) Includes our share of Fuji Xerox.

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Note 17 – 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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Basic Earnings (Loss) per Share:				
Net Income from Continuing Operations Attributable to Xerox	$112	$166	$135	$212
Accrued dividends on preferred stock	(3)	(3)	(7)	(7)
Adjusted Net income from continuing operations available to common shareholders	109	163	128	205
Net loss from discontinued operations attributable to Xerox	—	—	—	(6)
Adjusted Net income available to common shareholders	$109	$163	$128	$199
Weighted average common shares outstanding	254,895	254,193	254,791	254,107
Basic Earnings (Loss) per Share:				
Continuing operations	$0.42	$0.64	$0.50	$0.81
Discontinued operations	—	—	—	(0.03)
Basic Earnings per Share	$0.42	$0.64	$0.50	$0.78
Diluted Earnings (Loss) per Share:				
Net Income from Continuing Operations Attributable to Xerox	$112	$166	$135	$212
Accrued dividends on preferred stock	(3)	—	(7)	(7)
Adjusted Net income from continuing operations available to common shareholders	109	166	128	205
Net loss from discontinued operations attributable to Xerox	—	—	—	(6)
Adjusted Net income available to common shareholders	$109	$166	$128	$199
Weighted average common shares outstanding	254,895	254,193	254,791	254,107
Common shares issuable with respect to:				
Stock options	—	—	—	—
Restricted stock and performance shares	3,052	2,275	2,931	2,190
Convertible preferred stock	—	6,742	—	—
Adjusted Weighted average common shares outstanding	257,947	263,210	257,722	256,297
Diluted Earnings (Loss) per Share:				
Continuing operations	$0.42	$0.63	$0.50	$0.80
Discontinued operations	—	—	—	(0.02)
Diluted Earnings per Share	$0.42	$0.63	$0.50	$0.78
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	1,097	—	1,097	—
Restricted stock and performance shares	4,329	2,375	4,450	2,460
Convertible preferred stock	6,742	—	6,742	6,742
Total Anti-Dilutive Securities	12,168	2,375	12,289	9,202
Dividends per Common Share	$0.25	$0.25	$0.50	$0.50

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Note 18 – 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 June 30, 2018, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $510, with the decrease from our December 31, 2017 balance of approximately $600, primarily related to currency, partially offset by new cases and interest. With respect to the unreserved balance of approximately $510, 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 June 30, 2018, we had $62 of escrow cash deposits for matters we are disputing and additional letters of credit and surety bonds of $113 and $91, respectively, which include associated indexation. There were no liens on any of our Brazilian assets as of June 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 19 - 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.

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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. The class has not yet been certified, and preliminary approval has not been granted.

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

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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. Xerox has not yet responded to the complaint. 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. Xerox has not yet responded to the complaint.

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 $328 of guarantees as of June 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 19 – Fuji Xerox Transaction and Recent Developments

Pending Litigation Relating to the Fuji Transaction

Refer to Note 18 - 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.

On May 13, 2018, prior to the entry into the Settlement Agreement discussed in Note 18 - Contingencies and Litigation, the Company delivered a written notice of termination of the Subscription Agreement to Fujifilm in

accordance with the terms of the Subscription Agreement, which provided the Company with certain terminations rights, including (a) if the audited financial statements of FX deviate 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 fails to perform any covenant or agreement set forth in the Subscription Agreement that would cause certain conditions to

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the consummation of the transactions contemplated by the Subscription Agreement not to be satisfied, which breach or failure to perform cannot be cured or, if capable of cure, has not been cured by the earlier of 30 days following written notice thereof from the Company 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.
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 is 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.
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.
Note 20 – Subsequent Event
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 replaces the $245 of authority remaining under the Company's previously authorized share repurchase program.

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.

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Overview

Fuji Xerox Transaction and Recent Developments

Refer to Note 18 - Contingencies and Litigation and Note 19 - 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.

Second Quarter 2018 Review

Total revenue of $2.51 billion for second quarter 2018 declined 2.2% from second quarter 2017 and included a 1.8-percentage point favorable impact from currency. Total revenue in 2018 has not fully benefited from the new product launch in 2017 and further increase in our share of the market is needed to improve the revenue trend. Post sale revenue, which primarily reflects contracted services, equipment maintenance, supplies and financing, was $1.95 billion and represented 78% of total revenue. Post sale revenue declined 3.1% from second quarter 2017 and included a 1.9-percentage point favorable impact from currency. Excluding the impact from currency, the decline in post sale revenues primarily 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. These declines were partially offset by higher revenues from our Managed Document Services (MDS) and Global Imaging business as well as higher paper sales revenue and supplies revenue, excluding original equipment manufacturer (OEM) supplies. Total equipment revenue of $561 million increased 0.9%, including a 1.5-percentage point favorable impact from currency. Excluding the impact from currency, the decline of total equipment revenue primarily reflected the impact of lower OEM equipment

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sales and price declines of approximately 5%, which were partially offset by a favorable comparison to second quarter 2017 due to the timing of our ConnectKey product introduction.

Total revenue of $4.95 billion for the six months ended June 30, 2018 declined 1.5% from the prior year period and included a 2.8-percentage point favorable impact from currency. Post sale revenue of $3.89 billion, which represented 79% of total revenue, declined 1.7% and included a 2.9-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 Managed Document Services and Global Imaging business as well as higher paper sales revenue. Total equipment revenue of $1.06 billion declined 0.8% including a 2.5-percentage point favorable impact from currency. Excluding the impact from currency, the decline of total equipment revenue reflected the impact of lower OEM equipment sales and reflected price declines of approximately 5%. The decline in Equipment sales also reflected the overall market decline trends and unfavorable mix.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	2018	2017	B/(W)	2018	2017	B/(W)
Net income from continuing operations attributable to Xerox	$112	$166	$(54)	$135	$212	$(77)
Adjusted[(1)] Net income from continuing operations attributable to Xerox	213	224	(11)	391	400	(9)

The decrease in Net income from continuing operations attributable to Xerox for the three and six months ended June 30, 2018 as compared to the prior year periods was primarily due to Transaction and related costs, net and lower revenues. These impacts were partially offset by lower Non-service retirement-related costs and gains on the sale of non-core assets. The decrease in Net income from continuing operations attributable to Xerox for the six months ended June 30, 2018 was also negatively impacted by lower Equity in net income from unconsolidated affiliates, which included our share of a significant restructuring charge recorded by Fuji Xerox and Income tax expense.

The decrease in adjusted[1] Net income from continuing operations attributable to Xerox for the three and six months ended June 30, 2018 as compared to the prior year periods was primarily related to lower revenues, partially offset by the continued benefits of cost savings and productivity improvements, as well as gains from the sale of non-core assets. The decrease in adjusted[1] Net income from continuing operations attributable to Xerox for the six months ended June 30, 2018 was also impacted by lower Equity in net income from unconsolidated affiliates, which included an out of period adjustment recorded during the first quarter 2018, as well as higher income taxes.

Operating cash flow from continuing operations attributable to Xerox for the six months ended June 30, 2018 was $451 million, as compared to $413 million for the prior year period. The increase was primarily due to the prior year reclassification of $110 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 (refer to Note 3 - Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements for additional information) and improved working capital[2].

Cash used in investing activities for the six months ended June 30, 2018 was $17 million and included capital expenditures of $50 million, which were partially offset by proceeds of $32 million from the sale of non-core business assets. Cash used in financing activities of $456 million for the six months ended June 30, 2018 primarily reflects 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 $135 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.

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Financial Review

Revenues

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	% Change	CC % Change	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	% Change	CC % Change	% of Total Revenue 2018	% of Total Revenue 2017
Equipment sales	$561	$556	0.9 %	(0.6)%	$1,060	$1,069	(0.8)%	(3.3)%	21 %	21 %
Post sale revenue	1,949	2,011	(3.1)%	(5.0)%	3,885	3,952	(1.7)%	(4.6)%	79 %	79 %
Total Revenue	$2,510	$2,567	(2.2)%	(4.0)%	$4,945	$5,021	(1.5)%	(4.3)%	100%	100 %
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$1,017	$1,010	0.7 %	(0.3)%	$1,950	$1,946	0.2 %	(2.8)%		
Less: Supplies, paper and other sales	(456)	(463)	(1.5)%	(2.0)%	(890)	(897)	(0.8)%	(2.2)%		
Add: Equipment-related training(1)	—	9	NM	NM	—	20	NM	NM		
Equipment sales	$561	$556	0.9 %	(0.6)%	$1,060	$1,069	(0.8)%	(3.3)%		
Services, maintenance and rentals	$1,425	$1,483	(3.9)%	(6.1)%	$2,856	$2,925	(2.4)%	(5.0)%		
Add: Supplies, paper and other sales	456	463	(1.5)%	(2.0)%	890	897	(0.8)%	(2.2)%		
Add: Financing	68	74	(8.1)%	(10.9)%	139	150	(7.3)%	(10.8)%		
Less: Equipment-related training(1)	—	(9)	NM	NM	—	(20)	NM	NM		
Post sale revenue	$1,949	$2,011	(3.1)%	(5.0)%	$3,885	$3,952	(1.7)%	(4.6)%		
North America	$1,514	$1,534	(1.3)%	(1.8)%	$2,952	$3,007	(1.8)%	(2.3)%	60 %	60 %
International	898	895	0.3 %	(3.9)%	1,789	1,747	2.4 %	(4.7)%	36 %	35 %
Other	98	138	(29.0)%	(29.0)%	204	267	(23.6)%	(23.6)%	4 %	5 %
Total Revenue(2)	$2,510	$2,567	(2.2)%	(4.0)%	$4,945	$5,021	(1.5)%	(4.3)%	100%	100 %
Memo:										
Managed Document Services(3)	$871	$833	4.6 %	2.3 %	$1,733	$1,653	4.8 %	1.5 %	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 $752 million and $736 million for the three months ended June 30, 2018 and 2017, respectively, representing an increase of 2.2% including a 2.1-percentage point favorable impact from currency. For the six months ended June 30, 2018 and 2017, excluding equipment revenue, MDS was $1,505 million and $1,450 million, respectively, representing an increase of 3.8%

including a 3.2-percentage point favorable impact from currency.

Total revenue for the three months ended June 30, 2018 decreased 2.2% as compared to second quarter 2017, with a 1.8-percentage point favorable impact from currency, while total revenue for the six months ended June 30, 2018 decreased 1.5% as compared to the prior year period, with a 2.8-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 with the population of devices in the field, which is affected by installs and removals, as well as the page volumes generated by the usage of such devices and the revenue per printed page. Post sale revenue for the three months ended June 30, 2018 decreased 3.1% as compared to second quarter 2017, with a 1.9-percentage point favorable impact from currency, while Post sale revenue for the six months ended June 30, 2018 decreased 1.7% as compared to the prior year period, with a 2.9-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).

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For the three months ended June 30, 2018 Service, maintenance and rentals revenues decreased 3.9% as compared to second quarter 2017, with a 2.2-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 lower signings and installs in prior periods. These impacts are partially offset by higher revenues from MDS, driven by our SMB-focused channels, along with revenues from our Global Imaging business, inclusive of acquisitions.
For the six months ended June 30, 2018 Service, maintenance and rentals revenues decreased 2.4% as compared to the prior year period, with a 2.6-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 lower signings and installs in prior periods. These impacts are partially offset by higher revenues from MDS, driven by our SMB-focused channels, along with revenues from our Global Imaging business, inclusive of acquisitions, and higher revenues from developing markets.

- Supplies, paper and other sales includes unbundled supplies and other sales.

For the three months ended June 30, 2018 Supplies paper and other sales decreased 1.5% as compared to second quarter 2017, with a 0.5-percentage point favorable impact from currency. The decline at constant currency[1] was driven by lower network integration and software licensing sales, while paper and supplies revenues increased, excluding original equipment manufacturer (OEM), supplies primarily from higher sales in developing markets and our Global Imaging business.
For the six months ended June 30, 2018 Supplies paper and other sales decreased 0.8% as compared to the prior year period, with a 1.4-percentage point favorable impact from currency. The decline at constant currency[1] was driven by continued declines in OEM supplies as well as lower supplies demand consistent with a lower population of devices in the field and lower network integration and software licensing sales, partially offset by higher paper sales and supplies sales within our Global Imaging business.

- Financing revenue is generated from financed equipment sale transactions. For the three months ended June 30, 2018 Financing revenue decreased 8.1% compared to second quarter 2017, with a 2.8-percentage point favorable impact from currency, while Financing revenue decreased 7.3% for the six months ended June 30, 2018 as compared to the prior year period, with a 3.5-percentage point favorable impact from currency. The decrease in these revenues reflected a declining finance receivables balance due to lower equipment sales in prior periods.

Equipment sales revenue

	Three Months Ended June 30,				Six Months Ended June 30,				% of Equipment Sales	
(in millions)	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change	2018	2017
Entry[(1)]	$62	$55	12.7%	10.6%	$115	$111	3.6%	(0.3)%	11%	10%
Mid-range	390	358	8.9%	7.4%	724	690	4.9%	2.6%	68%	65%
High-end	100	109	(8.3)%	(9.9)%	192	206	(6.8)%	(9.7)%	18%	19%
Other[(1)]	9	34	(73.5)%	(73.5)%	29	62	(53.2)%	(53.2)%	3%	6%
Equipment sales[(2)]	$561	$556	0.9%	(0.6)%	$1,060	$1,069	(0.8)%	(3.3)%	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 increased 0.9% for the three months ended June 30, 2018 as compared to second quarter 2017, with a 1.5-percentage point favorable impact from currency and was impacted by price declines of approximately 5% (which were in-line with our historic declines). The modest decline at constant currency[1] included an approximate 4.0-percentage point unfavorable impact from lower OEM equipment sales while it also benefited from a favorable comparison as second quarter 2017 was measurably impacted by the timing of our ConnectKey product introductions. The increase in entry reflected higher sales of our ConnectKey devices in developing markets and U.S. indirect channels. The increase in mid-range reflected higher installs of new products across North America including higher large account sales as well as higher revenues from developing markets. The decrease in high-end sales primarily reflected lower revenues from iGen, at the top-end of the portfolio, along with lower revenues from black-and-white systems consistent with market decline trends; these declines were partially mitigated by higher activity from the recently launched Iridesse production press.

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Equipment sales revenue decreased 0.8% for the six months ended June 30, 2018 as compared to the prior year period, with a 2.5-percentage point favorable impact from currency and was impacted by price declines of approximately 5% (which were in-line with our historic declines). The decline at constant currency[1] reflected an approximate 3.0-percentage point unfavorable impact from lower OEM equipment sales. The decrease in entry reflected the follow-on impact of higher sales in fourth quarter 2017 related to the expansion of our U.S. indirect channels, as well as a higher mix of low-end personal devices mainly in our developing markets, partially offset by higher sales of our ConnectKey devices. The increase in mid-range reflected higher installs of new products in all of our go-to-market sales channels, as well as higher revenues from our Global Imaging business and developing markets. The decrease in high-end primarily reflected lower revenues from iGen, as well as lower revenues from black-and-white systems consistent with market decline trends; these declines were partially mitigated by higher activity from the recently launched Iridesse production press and the Versant entry production color systems launched in the second quarter of 2017.

Total Installs

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 second quarter of 2018:

Entry[(1)]

- 21% increase in color multifunction devices, reflecting demand for recently launched products across nearly all 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 through U.S. indirect channels.

Mid-Range[(2)]

- 29% increase in mid-range color installs, reflecting demand across large enterprise and indirect channels as well as a favorable impact due to the timing of our ConnectKey launch in the prior year.
- 13% increase in mid-range black-and-white, reflecting demand for recently launched products as well as a favorable impact due to the timing of our ConnectKey launch in the prior year which more than offset market trends.

High-End[(2)]

- 9% decrease in high-end color installs, as growth from our new Iridesse production press was offset by lower installs of iGen and lower-end production systems.
- 12% decrease in high-end black-and-white systems reflecting market trends.

Installs for the six months ended June 30, 2018:

Entry[(1)]

- 13% increase in color multifunction devices, reflecting demand for recently launched products across nearly all channels.
- 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 through U.S. indirect channels.

Mid-Range[(2)]

- 23% increase in mid-range color installs, demand across large enterprise and indirect channels as well as a favorable impact due to the timing of our ConnectKey launch in the prior year.
- 12% increase in mid-range black-and-white, as demand for recently launched products and a favorable impact due to the timing of our ConnectKey launch in the prior year more than offset market trends.

High-End[(2)]

-

3% decrease in high-end color systems, as growth from Iridesse and Versant products was offset by lower installs of iGen and lower-end production systems.

- 11% decrease in high-end black-and-white systems reflecting market trends.

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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 June 30,				Six Months Ended June 30,			
(in millions)	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change
Signings	$ 517	$ 643	(19.6)%	(20.7)%	$ 1,026	$ 1,155	(11.2)%	(12.4)%

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

Signings for the three months ended June 30, 2018 decreased 19.6% from second quarter 2017, including a 1.1-percentage point favorable impact from currency, and signings for the six months ended June 30, 2018 decreased 11.2% from the prior year period, including a 1.2-percentage point favorable impact from currency. The decrease in both periods reflected a lower renewal rate impacted by fewer large-deal renewal opportunities combined with ongoing competitive pressure in the market. On a trailing twelve month (TTM) basis, signings decreased 3.0% from the comparable prior year period, with a 0.9-percentage point favorable impact from currency.

New business TCV for the three months ended June 30, 2018 increased 2.9% from second quarter 2017, with a 0.9-percentage point favorable impact from currency, led by contracts signed in Europe. New business TCV for the six months ended June 30, 2018 decreased 1.0% from the prior year period, with a 1.1-percentage point favorable impact from currency. On a TTM basis, new business decreased 1.8% 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 second quarter of 2018 was 75%, compared to our full year 2017 renewal rate of 84%.

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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+.
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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).

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(1) Entry installations exclude OEM sales; including OEM sales, for the three and six months ended June 30, 2018 Entry color multifunction devices decreased 20% and 7%,respectively, while Entry black-and-white multifunction devices increased 12% and 14%, respectively.

(2) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales, for the three and six months ended June 30, 2018 Mid-range color devices increased 29% and 23%, respectively and High-end color systems decreased 10% and 3%, respectively.

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Costs, Expenses and Other Income

Summary of Key Financial Ratios

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

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	2018	2017	B/(W)	2018	2017	B/(W)
Gross Profit	$1,001	$1,043	$(42)	$1,971	$2,018	$(47)
RD&E	101	102	1	201	213	12
SAG	624	626	2	1,252	1,260	8
Equipment Gross Margin	31.8 %	28.7 %	3.1 pts.	32.1 %	29.7 %	2.4 pts.
Post sale Gross Margin	42.1 %	43.9 %	(1.8) pts.	42.0 %	43.0 %	(1.0) pts.
Total Gross Margin	39.9 %	40.6 %	(0.7) pts.	39.9 %	40.2 %	(0.3) pts.
RD&E as a % of Revenue	4.0 %	4.0 %	— pts.	4.1 %	4.2 %	0.1 pts.
SAG as a % of Revenue	24.9 %	24.4 %	(0.5) pts.	25.3 %	25.1 %	(0.2) pts.
Pre-tax Income	$133	$193	$(60)	$267	$177	$90
Pre-tax Income Margin	5.3 %	7.5 %	(2.2) pts.	5.4 %	3.5 %	1.9 pts.
Adjusted(1) Operating Profit	$299	$338	$(39)	$552	$608	$(56)
Adjusted(1) Operating Margin	11.9 %	13.2 %	(1.3) pts.	11.2 %	12.1 %	(0.9) pts.

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

Pre-tax Income Margin

Second quarter 2018 pre-tax income margin of 5.3% decreased 2.2-percentage points as compared to second quarter 2017. The decrease was primarily driven by Transaction and related costs, net as well as lower adjusted[1] operating profit, partially offset by lower Other expenses, net.

Pre-tax income margin for the six months ended June 30, 2018 of 5.4% increased 1.9-percentage points as compared to the prior year period. The increase was primarily driven by lower Restructuring and related costs that reflected cost productivity and savings as well as lower Other expenses, net partially offset by Transaction related costs, net.

Adjusted[1] Operating Margin

Second quarter 2018 adjusted[1] operating margin of 11.9% decreased 1.3-percentage points as compared to second quarter 2017, including a 0.8-percentage point unfavorable impact from SAG expenses specifically related to the exit of a real estate facility (0.5-percentage points) and the termination of an IT project (0.3-percentage points). The decline is also associated with lower post sale revenues and gross margins which more than offset cost productivity and savings, including savings from restructuring. Adjusted[1] operating margin includes favorable transaction currency of 0.6-percentage points.

Adjusted[1] operating margin for the six months ended June 30, 2018 of 11.2% decreased 0.9-percentage points as compared to the prior year period, including a 0.5-percentage point unfavorable impact from SAG expenses specifically related to the exit of a real estate facility (0.4-percentage points) and the termination of an IT project (0.1-percentage points). The decline is also associated with lower post sale revenues and gross margins which more than offset cost productivity and savings, including savings from restructuring. Adjusted[1] operating margin includes favorable transaction currency of 0.6-percentage points.

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

Gross Margin

Second quarter 2018 gross margin of 39.9% decreased 0.7-percentage points compared to second quarter 2017, including a 0.6-percentage point favorable impact from transaction currency, and also reflecting lower post sale margin as well as a less profitable mix of revenues.

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Gross margin for the six months ended June 30, 2018 of 39.9% decreased 0.3-percentage points as compared to the prior year period, including a 0.6-percentage points favorable impact from transaction currency, and also reflecting lower post sale margin as well as a less profitable mix of revenues and the impact of pricing, which more than offset cost productivity and savings, including savings from restructuring.
Second quarter 2018 equipment gross margin of 31.8% increased 3.1-percentage points as compared to second quarter 2017, reflecting benefits from transaction currency and cost productivity savings partially offset by an unfavorable mix due to higher sales of lower end devices.
Equipment gross margin for the six months ended June 30, 2018 of 32.1% increased 2.4-percentage points as compared to the prior year period, reflecting benefits from transaction currency and cost productivity savings.
Second quarter 2018 post sale gross margin of 42.1% decreased 1.8-percentage points as compared to second quarter 2017 reflecting a one-time negative impact related to the timing of a manufacturing facility consolidation, as well as lower revenues that were only partially offset by productivity savings and modestly favorable transaction currency.
Post sale gross margin for the six months ended June 30, 2018 of 42.0% decreased 1.0-percentage points as compared to the prior year period reflecting the impact of lower revenues, partially offset by net productivity savings and modestly favorable transaction currency.
Research, Development and Engineering Expenses (RD&E)

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	2018	2017	Change	2018	2017	Change
R&D	$83	$78	$ 5	$164	$166	$ (2)
Sustaining engineering	18	24	(6)	37	47	(10)
Total RD&E Expenses	$101	$102	$ (1)	$201	$213	$ (12)

Second quarter 2018 RD&E as a percentage of revenue of 4.0% was flat compared to second quarter 2017.
RD&E of $101 million decreased $1 million compared to second quarter 2017 and reflected cost reductions, including restructuring savings, and lower expenses from the sale of a business and associated transfers of resources to third parties during the prior year.
RD&E as a percentage of revenue for the six months ended June 30, 2018 of 4.1% was 0.1-percentage points lower compared to the prior year period.
RD&E of $201 million decreased $12 million compared to the prior year period and reflected cost reductions, 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 additional investments in new innovation projects.
Selling, Administrative and General Expenses (SAG)
SAG as a percentage of revenue of 24.9% increased 0.5-percentage points compared to second quarter 2017, including a 0.8-percentage point unfavorable impact from the exit of a real estate facility and the termination of an IT project.
SAG of $624 million was $2 million lower than second quarter 2017, including an approximate $10 million unfavorable impact from currency as well as $20 million of charges related to the accelerated depreciation from the early termination of a capital lease associated with a surplus facility ($13 million) and the write-off of an IT project ($7 million). These adverse impacts were more than offset by cost savings, including restructuring savings, which were partially offset by higher compensation and benefit expense as well as sales incentives. Bad debt expense of $12 million was $3 million higher than second quarter 2017 and remained at less than one percent of receivables.
SAG as a percentage of revenue for the six months ended June 30, 2018 of 25.3% increased 0.2-percentage points compared to the prior year period, including a 0.5-percentage point unfavorable impact from the exit of a real estate facility and the termination of an IT project.
SAG of $1,252 million for the six months ended June 30, 2018 was $8 million lower than the prior year period, including an approximate $29 million unfavorable impact from currency as well as $29 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 write-off of an IT project ($7 million). These adverse impacts were more than offset by cost savings,

including restructuring savings, which were partially offset by higher compensation and benefit expense as well as expenses from Global Imaging acquisitions. Bad debt expense of $25 million increased $3 million compared to the prior year period and remained at less than one percent of receivables.

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Restructuring and Related Costs

Second quarter 2018 Restructuring and related costs of $34 million included $40 million of severance costs related to headcount reductions of approximately 550 employees worldwide. These costs were partially offset by $6 million of net reversals for changes in estimated reserves from prior period initiatives. Second 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 $62 million for the six months ended June 30, 2018 and included $64 million of severance costs related to headcount reductions of approximately 950 employees worldwide and $12 million of lease cancellation costs partially offset by $14 million of net reversals for changes in estimated reserves from prior period initiatives.

Second quarter 2017 Restructuring and related costs of $39 million included net restructuring and asset impairment charges of $32 million as well as $7 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program. Second quarter 2017 net restructuring and asset impairment charges of $32 million included $49 million of severance costs related to headcount reductions of approximately 500 employees worldwide and $1 million of lease cancellation charges. These costs were partially offset by $18 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 second quarter 2017 actions impacted several functional areas, with approximately 35% focused on gross margin improvements, approximately 60% on SAG reductions and the remainder focused on RD&E optimization.

Restructuring and related costs were $157 million for the six months ended June 30, 2017 and included net restructuring and asset impairment charges of $140 million as well as $17 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 six months ended June 30, 2017 of $140 million included $157 million of severance costs related to headcount reductions of approximately 1,500 employees worldwide and $3 million of lease cancellation costs partially offset by $20 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 June 30, 2018 for all programs was $79 million, of which $76 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 $96 million of Transaction and related costs, net for the six months ended June 30, 2018, which included the following:

- Costs related to the previously disclosed settlement agreement reached with certain shareholders 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.
- Insurance recoveries of approximately $15 million for litigation and related settlement costs. 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. As previously disclosed, in July 2018, we reached a settlement with a financial advisor for the refund of approximately $13.5 million, which will be recorded in the third quarter 2018.
- 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.

Amortization of Intangible Assets

Amortization of intangible assets for the six months ended June 30, 2018 of $24 million was $5 million lower compared to the prior year period.

Worldwide Employment

Worldwide employment was approximately 34,300 as of June 30, 2018 and decreased by approximately 1,000 from December 31, 2017. The reduction is primarily due to the impact of restructuring and productivity-related reductions.

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Other Expenses, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Non-financing interest expense	$27	$24	$56	$60
Non-service retirement-related costs	25	34	50	94
Interest income	(4)	(2)	(7)	(4)
Gains on sales of businesses and assets	(16)	(1)	(32)	(1)
Currency losses (gains), net	1	1	(1)	4
Loss on sales of accounts receivable	—	3	1	6
Loss on early extinguishment of debt	—	—	—	13
All other expenses, net	6	9	2	10
Other expenses, net	$39	$68	$69	$182

Non-Financing Interest Expense

Non-financing interest expense for the three months ended June 30, 2018 was $27 million and increased $3 million as compared to the second quarter of 2017. When combined with financing interest expense (Cost of financing), total interest expense increased by $3 million as compared to the second quarter of 2017 due to a higher debt balance reflecting $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 lower average interest rates.

Non-financing interest expense for the six months ended June 30, 2018 was $56 million and decreased $4 million as compared to the prior year period. When combined with financing interest expense (Cost of financing), total interest expense decreased by $3 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; the decline also reflected lower average interest rates.

Non-Service Retirement-Related Costs

Non-service retirement-related costs decreased $9 million and $44 million, respectively, for the three and six months ended June 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. The decrease for the six months ended June 30, 2018 was also driven by lower losses from pension settlements as compared to the prior year period.

Gains on Sales of Businesses and Assets

Gains on sales of businesses and assets for the three and six months ended June 30, 2018 of $16 million and $32 million, respectively, reflected the sale of non-core business assets.

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

Second quarter 2018 effective tax rate was 28.6%. On an adjusted[1] basis, second quarter 2018 effective tax rate was 26.7%. These rates were higher than the U.S. statutory tax rate of 21% primarily due to impacts associated with the 2017 Tax Act, as discussed below, as well as 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 and Non-service retirement-related costs.

The effective tax rate for the six months ended June 30, 2018 was 29.2% and on an adjusted[1] basis, the six months ended June 30, 2018 effective tax rate was 27.5%. Both rates were higher than the U.S. statutory tax rate of 21% primarily due to impacts associated with the 2017 Tax Act, as discussed below, as well as 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 and Non-service retirement-related costs.

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Second quarter 2017 effective tax rate was 22.3%. On an adjusted[1] basis, second quarter 2017 effective tax rate was 27.0%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to foreign tax credits and the geographic 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 and Non-service retirement-related costs. The effective tax rate for the six months ended June 30, 2017 was 10.7% and on an adjusted[1] basis, the six months ended June 30, 2017 effective tax rate was 27.0%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to foreign tax credits 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 the impact associated with the provisions of the Tax Act based on currently available information. Our estimated charge incorporates assumptions made based on our current interpretation of the Tax Act as well as currently available information and may change, possibly materially, 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 this estimated charge. The $400 million estimated provisional charge continues to be our best estimate of the impacts from the Tax Act and no further adjustment of that charge was made in the six months ended June 30, 2018. However, we continue to evaluate the impacts from the Tax Act and likely will do so through the filing of our 2017 U.S. Tax Return in the third quarter 2018. Any adjustments to these provisional amounts will be reported as a component of Income tax expense in the reporting period in which any such adjustments are determined.
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 effective tax rate for the three and six months ended June 30, 2018 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 June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Total Equity in net income (loss) of unconsolidated affiliates	$19	$ 20	$(49)	$ 60

Fuji Xerox after-tax restructuring and other charges included in equity income (loss)	4	3	83	3

Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox Net income (loss). For the three and six months ended June 30, 2018, equity income decreased $1 million and $109 million, respectively, as compared to the prior year periods. The six months ended June 30, 2018 equity loss 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.

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Equity in net income (loss) of unconsolidated affiliates for the three and six months ended June 30, 2018 included $1 million and $80 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 19 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements.

Net Income from Continuing Operations

Second quarter 2018 Net income from continuing operations attributable to Xerox was $112 million, or $0.42 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $213 million, or $0.80 per diluted share. Second quarter 2018 adjustments to Net income include Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net 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 six months ended June 30, 2018 was $135 million, or $0.50 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $391 million, or $1.48 per diluted share and includes Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and Non-service retirement-related costs as described in our Non-GAAP Financial Measures section.

Second quarter 2017 Net income from continuing operations attributable to Xerox was $166 million, or $0.63 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $224 million, or $0.86 per diluted share. Second 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 six months ended June 30, 2017 was $212 million, or $0.80 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox was $400 million, or $1.52 per diluted share and includes Restructuring and related costs, Amortization of intangible assets, and Non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Refer to Note 17 - 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

Second quarter 2018 Net income attributable to Xerox was $112 million, or $0.42 per diluted share. Second quarter 2017 Net income attributable to Xerox was $166 million, or $0.63 per diluted share.

Net income attributable to Xerox for the six months ended June 30, 2018 was $135 million, or $0.50 per diluted share. Net income attributable to Xerox for the six months ended June 30, 2017 was $206 million, or $0.78 per diluted share.

Other Comprehensive (Loss) Income

Second quarter 2018 Other Comprehensive Loss, Net Attributable to Xerox was $235 million and included $322 million of net translation adjustment losses reflecting the weakening of our major foreign currencies against the U.S. Dollar in the second quarter 2018 partially offset by net gains from the changes in defined benefit plans of $90 million primarily due to currency impacts on net actuarial losses. This compares to second quarter 2017 Other Comprehensive Income, Net Attributable to Xerox of $161 million, which included net translation adjustment gains of $204 million reflecting the strengthening of our major foreign currencies against the U.S. Dollar in the second quarter 2017 partially offset by losses from the net changes in defined benefit plans of $29 million primarily due to currency impacts on net actuarial losses.

Other Comprehensive Loss, Net Attributable to Xerox for the six months ended June 30, 2018 was $24 million and included $146 million of net translation adjustment losses reflecting the weakening of our major foreign currencies against the U.S. Dollar in the first half of 2018 partially offset by net gains from the changes in defined benefit plans

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of $108 million primarily due to settlements and the currency impacts on net actuarial losses. This compares to Other Comprehensive Income, Net Attributable to Xerox for the six months ended June 30, 2017 of $327 million, which included net translation adjustment gains of $337 million reflecting the strengthening of our major foreign currencies against the U.S. Dollar in the first half of 2017.

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 June 30, 2018 and December 31, 2017, total cash, cash equivalents and restricted cash were $1,327 million and $1,368 million, respectively. There were no borrowings under our Credit Facility or Commercial Paper Program at June 30, 2018 or December 31, 2017, respectively.

We continue to expect full year 2018 operating cash flows from continuing operations to be between $900 million and $1,100 million, capital expenditures are expected to be approximately $150 million and dividend payments to common shareholders are expected to be approximately $260 million.

Cash Flow Analysis

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

	Six Months Ended June 30,		Change
(in millions)	2018	2017	
Net cash provided by operating activities of continuing operations	$451	$413	$ 38
Net cash used in operating activities of discontinued operations	—	(95)	95
Net cash provided by operating activities	451	318	133
Net cash used in investing activities	(17)	(41)	24
Net cash used in financing activities	(456)	(1,338)	882
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19)	36	(55)
Decrease in cash, cash equivalents and restricted cash	(41)	(1,025)	984
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	$1,327	$1,377	$ (50)

Cash Flows from Operating Activities

Net cash provided by operating activities of continuing operations was $451 million for the six months ended June 30, 2018. The $38 million increase in operating cash from the prior year period was primarily due to the following:

- $41 million increase in pre-tax income before Transaction and related costs, net, Depreciation and amortization, Gain on sales of businesses and assets, Restructuring and asset impairment charges and Defined benefit pension costs.
- $176 million increase from accounts receivable primarily due to the timing of collections and lower revenue, as well as the prior year reclassification of $99 million of collections of deferred proceeds from the sales of accounts receivables to investing.
- $33 million increase from lower restructuring payments.
- $18 million increase due to lower net tax payments.
- $17 million increase from inventory due to timing of the product launch in prior year.
- $98 million decrease primarily related to the prior year settlements of foreign currency derivative contracts.
- $68 million decrease from Accounts payable and accrued compensation primarily related to the year-over-year timing of supplier and vendor payments.
- $38 million decrease due to net payments for Transaction and related costs.
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- $29 million decrease from higher pension contributions primarily in the U.K. Refer to Note 14 - Employee Benefit Plans in the Condensed Consolidated Financial Statements for additional information.
- $27 million decrease in dividends received from equity investments primarily due to lower income from Fuji Xerox.

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Cash Flows from Investing Activities

Net cash used in investing activities was $17 million for the six months ended June 30, 2018. The $24 million change from the prior year period was primarily due to the following:

- $99 million decrease primarily as a result of the termination of certain accounts receivables sales arrangements in fourth quarter 2017.
- $76 million increase due to no acquisitions in 2018.
- $31 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 $456 million for the six months ended June 30, 2018. The $882 million decrease in the use of cash from the prior year period was primarily due to the following:

- $1,018 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 payments of $1.0 billion on Senior Notes and net payments of $326 million on the tender and exchange of certain Senior Notes including transaction costs.
- $20 million decrease from common and preferred stock dividends.
- $161 million increase resulting from the prior year final cash adjustment with Conduent.

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)	June 30, 2018	December 31, 2017
Principal debt balance[(1)]	$5,286	$ 5,579
Net unamortized discount	(30)	(35)
Debt issuance costs	(28)	(32)
Fair value adjustments[(2)]		
- terminated swaps	(8)	4
- current swaps	5	1
Total Debt	$5,225	$ 5,517

(1) Includes Notes Payable of $4 million and $6 million as of June 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)	June 30, 2018	December 31, 2017
Total finance receivables, net[(1)]	$3,523	$ 3,752
Equipment on operating leases, net	438	454
Total Finance Assets, net[(2)]	$3,961	$ 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 $64 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.

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

(in millions)	June 30, 2018	December 31, 2017
Finance receivables debt[1]	$ 3,084	$ 3,283
Equipment on operating leases debt	383	397
Financing debt	3,467	3,680
Core debt	1,758	1,837
Total Debt	$ 5,225	$ 5,517

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(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 19 - 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 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 (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) 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 Q3	$ 5
2018 Q4	—
2019	961
2020	1,052
2021	1,064
2022	302
2023 and thereafter	1,902
Total	$ 5,286

Treasury Stock

There were no share repurchases through the second quarter of 2018.

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 replaces the $245 million of authority remaining under the Company's previously authorized share repurchase program. The Company expects to opportunistically repurchase up to $500 million of shares during the remainder of 2018.

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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.

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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 second 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.

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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.

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:

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Net Income and EPS reconciliation:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
(in millions, except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported[1]	$112	$0.42	$166	$0.63	$135	$0.50	$212	$0.80
Adjustments:								
Restructuring and related costs	34		39		62		157	
Amortization of intangible assets	12		15		24		29	
Transaction and related costs, net	58		—		96		—	
Non-service retirement-related costs	25		34		50		94	
Loss on early extinguishment of debt	—		—		—		13	
Income tax on adjustments[2]	(32)		(33)		(59)		(92)	
Remeasurement of unrecognized tax positions	—		—		—		(16)	
Restructuring and other charges - Fuji Xerox[3]	4		3		83		3	
Adjusted	$213	$0.80	$224	$0.86	$391	$1.48	$400	$1.52
Dividends on preferred stock used in adjusted EPS calculation[4]		$—		$—		$—		$—
Weighted average shares for adjusted EPS[4]		265		263		264		263
Fully diluted shares at end of period[5]		265				—		

(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 June 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 second quarter 2018.

Effective Tax Rate reconciliation:

	Three Months Ended June 30,					
	2018			2017		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[1]	$133	$ 38	28.6 %	$193	$ 43	22.3 %
Non-GAAP Adjustments[2]	129	32		88	33	
Adjusted[3]	$262	$ 70	26.7 %	$281	$ 76	27.0 %

	Six Months Ended June 30,					
	2018			2017		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[1]	$267	$ 78	29.2 %	$177	$ 19	10.7 %
Non-GAAP Adjustments[2]	232	59		293	92	
Remeasurement of unrecognized tax positions	—	—		—	16	
Adjusted[3]	$499	$ 137	27.5 %	$470	$ 127	27.0 %

(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.

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Operating Income and Margin reconciliation:

	Three Months Ended June 30,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[1]	$133	$ 2,510	5.3 %	$193	$ 2,567	7.5 %
Adjustments:						
Restructuring and related costs	34			39		
Amortization of intangible assets	12			15		
Transaction and related costs, net	58			—		
Non-service retirement-related costs	25			34		
Equity in net income of unconsolidated affiliates	19			20		
Restructuring and other charges - Fuji Xerox[2]	4			3		
Other expenses, net	14			34		
Adjusted	$299	$ 2,510	11.9 %	$338	$ 2,567	13.2 %

	Six Months Ended June 30,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[1]	$267	$ 4,945	5.4 %	$177	$ 5,021	3.5 %
Adjustments:						
Restructuring and related costs	62			157		
Amortization of intangible assets	24			29		
Transaction and related costs, net	96			—		
Non-service retirement-related costs	50			94		
Equity in net (loss) income of unconsolidated affiliates	(49)			60		
Restructuring and other charges - Fuji Xerox[2]	83			3		
Other expenses, net	19			88		
Adjusted	$552	$ 4,945	11.2 %	$608	$ 5,021	12.1 %

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(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.

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PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 18 – 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 18 - Contingencies and Litigation - Pending Litigation Relating to the Fuji Transaction, in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, is 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 June 30, 2018

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

Dividend Equivalent:

a. Securities issued on April 30, 2018: Registrant issued 3,118 DSUs, representing the right to receive shares of common stock, par value $1 per share, at a future date.

b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Gregory Q. Brown, Jonathan Christodoro, Joseph J. Echevarria, Richard J. Harrington, 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 $28.86 per DSU (aggregate price $89,985), 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 June 30, 2018

Board Authorized Share Repurchases Program:

There were no repurchases of Xerox Common stock pursuant to Board authorized share repurchase programs during the second quarter of 2018.

In July 2018, Registrant’s Board of Directors authorized a $1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs related thereto). This program replaces the $245 million of authority remaining under Registrant’s previously authorized share repurchase program. Shares of Registrant’s common stock may be repurchased on the open market, or through derivative or negotiated transactions. Open-market repurchases will be made in compliance with the Securities and Exchange Commission’s Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum That May Be Purchased under the Plans or Programs
April 1 through 30	7,764	$ 28.78	n/a	n/a
May 1 through 31	—	—	n/a	n/a

June 1 through 30	—	—	n/a	n/a
Total	7,764			

(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.

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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.
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.
3.2	By-Laws of the Registrant as amended through May 14, 2018.
	Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.
10.1	Director Appointment, Nomination and Settlement Agreement, dated as of May 13, 2018, by and among Registrant, Darwin Deason, the persons and entities listed on Schedule A thereto, William Curt Hunter, Jeffrey Jacobson, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker, Gregory Q. Brown, Joseph J. Echevarria and Cheryl Gordon Krongard.
	Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.
10.2	Memorandum of Understanding, dated May 13, 2018, by and among representatives acting on behalf of Deason, Registrant, the Existing Directors and the other parties thereto.
	Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.
10.3	Notice of termination, dated May 13, 2018.
	Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.
10.4	Letter Agreement dated May 14, 2018 between Registrant and John Visentin.
	Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.
10.5	Registrant’s Amendment No. 2 to the June 30, 2017 Amendment and Restatement of the 2004 Performance Incentive Plan, as amended to date.
10.6	Form of CEO Restricted Stock Award Agreement
10.7	Amendment to the CEO Option and Performance Share/Restricted Stock Unit Award Agreements.
10.8	Officer Severance Program, effective July 18, 2018
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.

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SIGNATURES

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

XEROX CORPORATION
(Registrant)

By: /S/ JOSEPH H. MANCINI, JR.
Joseph H. Mancini, Jr.
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)
Date: August 2, 2018

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